

Ensuring Most Reasonable and Prudent Portfolio

Purpose: Provide reliable, cost-effective, and environmentally protective electricity supplies that are the most reasonable and prudent portfolio, one that ensures room to adapt to changing market conditions by identifying and approving the most reasonable and prudent portfolio.

Step 1: Set statewide, consistent parameters for contents of required utility integrated resource plans

- Collaborative, non-binding proceeding between MAE/PSC and the DEQ to develop modeling scenarios and assumptions that must be used in the development of all integrated resource plans for the following four years.
 - MAE shall conduct a statewide assessment of energy waste reduction potential that shall identify the technical potential, the economic potential, and the achievable potential.
 - MAE shall prepare uniform parameters for modeling to support the development of Integrated Resource Plans (IRP). To that end:
 - MAE shall request DEQ shall file a statement regarding the environmental requirements that must be met by electric providers or are proposed, as well as the likely allocations. The DEQ may also include discussion of environmental requirements that they believe may come into being that can effect the electric portfolio. To the extent the analysis addresses regulations that are proposed but not finalized, it should include description of how the proposed rule may impact the analysis.
 - MAE, in consultation with PSC, shall identify any reliability requirements that must be met in a certain geography by electric providers.
- MAE will identify parameters that should be included in an IRP that address reliability, affordability, and environmental protection. It shall also set standards that assume all scenarios must meet both reliability standards and the existing environmental regulatory requirements. Scenarios that permit proposed or potential regulatory requirements to be met should also be required, but not some modeling runs may be recommended that would not result in compliance with proposed or potential regulatory requirements.
- The guidance should include parameters for plans that consider investments in distribution, transmission and generation infrastructure. Peak shaving and waste reduction must be considered as potential resources, which may be achieved through both capital and non-capital tools (e.g. rate design).

- The parameters should allow utilities to take into account existing regional infrastructure limitations and market restrictions.
- The parameters shall make provisions for collaboration on a single plan by more than one utility.
- The parameters shall include some information regarding sensitivity analyses that must be provided (e.g. sensitivity to natural gas pricing).
- MAE, PSC or DEQ may invite other agencies to make statements regarding other regulatory requirements that may affect future decision-making which should be considered in any modeling efforts.
- At the conclusion of the process, which shall take no more than three months, MAE shall supply a copy of its modeling recommendations to PSC and DEQ and publish them on its website.
- MAE shall ensure an opportunity for public input prior to finalizing any statewide assessment or modeling parameters.

Planning Horizon:

- 10 years for analysis (may be longer if prudent for compliance or investment considerations).

Step 2: Individual utility compliance plans for the most reasonable and prudent portfolio

- The most reasonable and prudent portfolio represents the best value to the state over the long term, which is cost-effective, complies with applicable reliability standards and environmental regulations, and maximizes adaptability.
- Process provides comprehensive regulatory review of near-term capital investment and resource mix plans with analysis of utility's longer term plans. Must take into account the expected long-term capacity and operational reliability needs for the state and affected utilities.
- Ensure the most reasonable and prudent solutions for regulated utilities in a way that allows cross-comparison and integration across territories for compliance purposes
 - Flexibility will be afforded to multi-state utilities, and the PSC may adjust filing deadlines to align the timing of planning to match on other state's requirements.
- As part of proceedings, the MPSC shall request input from the DEQ regarding:
 - whether the proposed plan can reasonably be expect to achieve compliance with the identified regulations; and.
 - what decreases in particulate matter, acid rain precursors, or would likely be achieved; and
 - At the DEQ's option, it may also give input on alternative methods of compliance, and if known, the costs of such alternatives.
- MPSC evaluates reasonableness and prudence of plan and determines need and cost for the near-term capital investment plans to streamline subsequent rate and power cost recovery proceedings:
 - Approved capital costs applicable to the two-year period covered by plan with certain caveats and exceptions (see detail under Regulatory Treatment/ Link to Ratemaking section below)
 - The MPSC would be able to approve a plan only if it was the "most reasonable and prudent" alternative. The review criteria, listed below, shall include cost effectiveness, reliability, environmental protection and seek to minimize risk. A plan must be reasonably expected to achieve compliance with the identified environmental and reliability regulations in order to be approved.
 - When alternatives are substantially similar in cost (including all of the capital and operational costs) and reliability outcomes, in both the near and long term, the

alternative that leads to increased environmental benefit shall be deemed the most reasonable and prudent alternative.

- Preference shall be given to proposed plans that limit future risk or provide additional adaptability to changing conditions.
- The MPSC may condition approval on resolution of any legal challenges or assess the risk of not proceeding at that time.
- If the MPSC cannot approve the plan, but would do so if certain changes were made, the MPSC may approve with conditions that the utility can accept without formally amending the plan. Acceptance of the conditions would deem the plan approved.

Utility Compliance Plan Contents:

Plans filed by providers shall include any information the MPSC requests to be able to determine most reasonable and prudent option, including, but not limited to, the costs and benefits of the following:

- Description of the stakeholder and public input process to formulate plan, including notice to electric customers and potential resource suppliers of the proposed plan and their standing to participate in the proceeding
- Forecasts of energy usage and peak demand, including sensitivities under range of economic and market conditions; detailed explanation of methodologies and uncertainties and how they affect load forecast and viability of resource needs and options
- Planning criteria including reserve margin requirements or targets,
- Non-capital tools that may impact reserve margin requirements or overall system costs shall be considered and included in a most prudent and reasonable alternative as appropriate
- Identification of method of satisfying all existing and proposed state and federal environmental or reliability regulations (including impacts on existing facilities and new resource options)
- Assessment of near, mid- and long-term capacity and energy needs and all present and future resources (both demand-side and supply- side) to meet those needs on a consistent and comparable basis, including assessment of:
 - All feasible opportunities to eliminate energy waste and reduce peak demand (demand and supply side). Plans that do not provide reasonable progress toward the reduction of energy waste cannot be considered the “most reasonable and prudent” option. Evaluation of risk shall include both reliability aspects and future cost risks (e.g. fuel costs).

- All feasible generating technologies including but not limited to: renewable resources, cogeneration and other distributed resources, and power purchases from other sources
- All feasible changes to existing generation capacity, including but not limited to: retirements, suspensions, capacity upratings or deratings, plant life extensions, repowering, and refurbishment and associated costs
- When available, information regarding economic transmission system upgrades to the extent they provide greater access to energy or capacity resources, lower overall cost of delivered energy, or provide other benefits
- Energy storage applications and other emerging technologies
- Detailed fuel procurement plans, including analysis of fuel costs and risks
- Projected costs of resources, considering associated risks and uncertainty
- Cost-effectiveness of resource assessments from the perspective of the provider and its customers, including projected impacts on customer rates and bills
- Other relevant information requested by the MPSC.

A utility plan may include, but is not required to include, additional scenarios or model results.

Trigger and Frequency:

Step One: Within 60 days of enactment of new law and thereafter every 4 years or upon statement by MPSC or the DEQ that there may be need for substantial new investment to meet reliability requirements or new environmental rules or to address conditions that have changed substantially in the industry.

Step Two: MPSC may require filing no more often than every 2 years

Step Three: Statewide and individual proceedings can be initiated by a regulated entity or by either agency.

Following the initial round of statewide and individual plans, the MPSC may elect to alter the filing schedule have plans staggered in order to manage workload

Standard of review:

MPSC may approve a compliance plan only if it:

- Addresses the review criteria listed below;
- Is the “most reasonable and prudent” option; and
- Would be reasonably expected to achieve compliance with the identified regulations

Review criteria:

- Cost effectiveness
- Reliability
- Environmental impact, particularly solutions that reduce mercury, SO_x, NO_x, and particulate matter (including fine particulate subset of particulate matter)
- Adaptability, which shall be defined as reducing risk to any of the above criteria.

Commission approval authority: Approve, approve subject to modifications (utility may reject modifications and refile), deny

Regulatory treatment / link to ratemaking: Pre-approval of need for investment and capital costs (don't revisit questions of need or capital costs in rate cases, nor resource mix in PSCR proceedings).

- **Pre-approval** - Pre-approval of costs limited to capital investments and expenditures up to the applicable approved amount and within the life of the asset. The MPSC may approve capitalization of energy waste reduction expenses or otherwise pre-approve compensation for energy waste reduction in order to equalize the financial incentives for energy waste reduction and alternatives, as well as cost-sharing mechanisms to incentivize participation. Projects that are approved for the life of the project (not limited to 2-year period applicable to other expenditures). Costs that exceed the threshold + 10% presumed to be imprudent in subsequent rate proceeding (utility would be able to request recovery but would be subject to higher burden, consistent with current CON law).
- **Post-approval** – at the conclusion of a project for which capital costs were pre-approved, the MPSC may review the project to determine whether gross mismanagement, concealment, or lack of quality controls has occurred, resulting in an unreasonable increase in costs to consumers, and may disallow further recovery of those pre-approved costs and require refunds of collected costs in the event of such a finding.
- **Off-ramp** - Given long lead time for certain qualifying projects and associated risks given changing conditions, the MPSC may commence, or a utility may request, a review of such projects previously approved in an MRPPP to determine whether the public convenience and necessity continues to require the facility under construction. If the commission finds that completion of the facility under construction is no longer in the public interest, the commission may modify or revoke the approval. If revoked or modified, costs already incurred shall remain approved and recoverable in rates absent a finding of fraud, concealment, gross mismanagement, or lack of quality controls amounting to gross mismanagement.

Step 3: for non-IOUs/rate regulated entities in the event an environmental or reliability regulation requires a statewide or region-specific enforceable plan be submitted.

- Upon notice from the DEQ that an environmental regulation requires a statewide requirement be met, or upon notice from the MPSC that a reliability regulation needs to be met in a specific geography, MAE shall be required to convene all non-rate-regulated entities that may have a compliance obligation under the regulation to develop a proposed default reasonable and prudent portfolio plan for such entities. DEQ or PSC shall provide information regarding the collective requirement the applicable entities must meet.
- Such plan must follow the same format and constraints as those submitted directly to the MPSC by rate-regulated utilities.
- Upon development, such plan would be submitted to the PSC, and all entities would then make a filing accepting the default plan, or submitting an alternative for evaluation that would move through the same process as that for rate-regulated utilities, except that the PSC would be required to approve any plan that is reasonably expected to meet the identified environmental and reliability requirements. The PSC shall have no ability to approve costs or evaluate rate impacts for non-rate regulated entities.
- The Default Most Reasonable and Prudent Portfolio Plan shall offer alternatives for multi-entity cooperation.

Applicable to Step 2 and 3:

Amendments/Updates: Allow utility to file an amendment to an approved plan if conditions or assumptions change materially, in that one of the elements that are required to be modeled are outside the modeled ranges (e.g. load growth much higher than maximum model level). MPSC also permitted to initiate proceeding to consider potential amendments if needed to ensure compliance with laws and reliability standards. (also see off-ramp provision in section above entitled, Regulatory Treatment/ Links to Ratemaking)

Transition Issues:

- **Kickoff of MRPPP process:** Step 1 begins as needed; no filing with the PSC shall occur (e.g. no start to Step 2) until a new law goes into effect.
- **CON:** grandfathered (already approved costs remain approved), and should be sunsetted for new filings on December 31, 2018.
- **Energy Optimization:** Maintain current energy optimization standard in PA 295 (including off-ramps) through the sooner of: (a) December 31, 2018, or (b) pre-approval of costs for waste reduction has been gained via an approved Most Reasonable and Prudent Portfolio Plan or (c) a rate case including costs necessary to fulfill waste

elimination activities in an approved MRPPP is concluded. Would suggest grandfathering of any costs already approved for recovery.

- **RPS:** Efforts to sunset or repeal RPS provisions must not jeopardize existing PPAs that have elements re renewable energy contracts, credit tracking tied to contracts, and cost recovery.