BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN THE CONSIDERATION OF THE NEW PURPA STANDARDS

Docket No. EL08-028

DIRECT TESTIMONY OF BRIAN ROUNDS ON BEHALF OF COMMISSION STAFF

Introduction

The Energy Independence and Security Act (EISA) of 2007 added a new standard to the Public Utility Regulatory Policies Act (PURPA) that requires the consideration of an Integrated Resource Planning (IRP) requirement for electric utilities. The Reference Manual and Procedures for Implementation of the "PURPA" Standards in the Energy Independence and Security Act of 2007 (Reference Manual) defines IRP as "a comprehensive planning process intended to systematically consider appropriate supply and demand resources to meet current and future load requirements within the context of local, state, and federal policy goals and objectives." The EISA of 2007 specifically requires that energy efficiency resources are considered in such processes. In South Dakota's case, the standard must be either adopted or rejected. Based on the review of the Reference Manual, utility testimony, and the history of such matters in South Dakota, Staff offers the following testimony, analysis and recommendation.

Background

Originating in the 1980's, IRP was implemented by vertically integrated utilities and their regulators to ensure that all resources (including demand-side) were considered without bias. The objective process created an open and participatory planning process, allowing for public participation in the beginning stages of planning, rather than as a last step. A typical IRP begins with the utility and other stakeholders setting IRP objectives. Next, historical energy demand data is gathered, and forecasting is done for future demand. Once a target demand is calculated, the parties investigate different ways to meet that demand. Different supply technologies and demand-side

management options are studied and evaluated in order to come up with a number of "candidate" plans. The stakeholder group then chooses one of the plans, and it is put into place. Although simplified here, the process is very complex and requires a large investment of both time and capital from all stakeholders.

Although many states chose to implement IRP processes in the 1980's and 1990's, South Dakota did not. Prior to IRP, a state law was passed in 1977 requiring utilities to file a ten-year plan (SDCL 49-41B-3) with the commission biannually. In addition, the commission does not have need authority in building supply resources, and four of the six utilities regulated by the commission have a small minority of their load in this state. These issues combined with current adequate commission authority and South Dakota's small load growth have precluded the need for such a formal planning process as of yet.

SDCL 49-41B-3 requires all utilities to file a ten-year plan biannually. The plan must include the following:

> *(1) A description of the general location, size, and type of energy conversion facilities or transmission facilities of two hundred fifty kilovolts or more to be owned or operated by the utility during the ensuing ten years, as well as those facilities to be removed from service during the planning period;*
>
> *(2) A description of the efforts by the utility to coordinate the plan with other utilities so as to provide a coordinated regional plan for meeting the utility needs of the region;*
>
> *(3) A statement of the projected demand for the service rendered by the utility for the ensuing ten years and the underlying assumptions for the projection, with such information being as geographically specific as possible and a description of the manner and extent to which the utility will meet the projected demand; and*
>
> *(4) Any other relevant information as may be requested by the commission.*

Although this requirement falls far short of an IRP process, it does provide the commission and other stakeholders some oversight of the utility's planning process.

Of the six utilities regulated by the commission, four are currently required to file an IRP in other states. Xcel Energy has been filing biannually in Minnesota since 1991;

NorthWestern Energy in Montana has been filing biannually since 1992; Otter Tail Power has been filing approximately biannually in Minnesota since 1992; and Montana-Dakota Utilities has been filing an IRP in North Dakota since 1989 in addition to filing in Montana and Wyoming. These plans are also presented to the South Dakota commission for review.

Not only are most utilities serving South Dakota required to go through an IRP process in other states, but they also serve a disproportionate amount of load in those states. The following table shows the amount of retail sales each utility has in South Dakota as of 2008:

Utility	**2008 Retail Sales (MWh)**	**2008 Retail Sales in SD (MWh)**	**% in SD**
Black Hills Power	2,330,870	1,466,468	62.92%
MidAmerican Energy	20,928,958	200,793	0.96%
Montana-Dakota Utilities	2,388,413	140,357	5.88%
NorthWestern Energy	7,374,249	1,404,547	19.05%
Otter Tail Power	4,215,442	426,079	10.11%
Xcel Energy	42,563,508	1,942,545	4.56%

The small amount of load in South Dakota creates a vast number of jurisdictional issues when bearing in mind that the IRP process must be implemented system-wide. For instance, which plan would Xcel follow if South Dakota and Minnesota approved two separate plans? One would postulate that the company would follow the plan that allows the best chance of cost recovery and the least amount of risk, or in this case the plan that has the largest amount of load. Additionally, with the advent of RTOs, these plans become even more regional, giving a small load state even less significance in a system-wide IRP process.

Although the commission does not have need authority, it does have rate authority. This is one tool that is already used to make sure that utilities are making prudent supply and demand-side resource decisions. The resource the EISA of 2007 specifically attempts to include in utility resource planning is energy efficiency. In South Dakota, the commission has been providing rate incentives to utilities willing to provide cost-effective energy efficiency programs for a number of years now. These tools, as well as the ten-year plan filing and the commission's chance to review other states' IRP filings, are just a couple of ways that the commission currently influences utility planning.

Benefits

Even though IRP has never been implemented in South Dakota, there are a couple of key benefits that would come from such a process. The Tellus Institute asserts that IRP can meet, among others, the following twelve objectives:

- Reliable electric service
- Electrification
- Minimized environmental impacts
- Energy security
- Use of local resources
- Diversified supply
- Increased efficiency
- Minimized costs
- Increased social benefits
- Increased local employment
- Acquiring technology and expertise
- Retaining flexibility

In South Dakota, IRP would definitely give the commission more direct and formal oversight of utility fuel supply planning, including the role of demand-side management and energy efficiency. Utilities could also reduce regulatory risk in the supply decisions they have made when asking to recover costs for those decisions in rate cases. Finally, the commission could place a greater emphasis on supply diversity for reduced fuel supply risk, rather than simply least cost generation sources. This of course assumes the utilities are not already properly weighing fuel supply risk while planning independently.

Detriments

Should South Dakota decide to require utilities to go through an IRP process, there are also a number of costs involved. The most obvious cost is the expense of the formal process. The administrative and legal costs involved on the utility side have been estimated to be as high as $500,000 for a single filing. On the commission side, a typical consulting contract for a rate case typically runs above $50,000. This does not include commission staff time. As IRPs are based on estimated demand forecasts, they must be updated frequently to remain valid. Surrounding states have decided that they should be updated every two years. At this rate, regulatory costs on both the utility and commission side could be as much as doubled in South Dakota.

As mentioned in the background section, most utilities serving South Dakota have a small proportion of their load in South Dakota. Thus, when planning in other states, they run into jurisdictional issues with decisions typically defaulting in favor of the state with a larger proportion of load. Were IRP required in South Dakota, the final plan approved by the commission could end up being immediately discarded. Not only might the creation of an IRP in South Dakota be useless, but it would also be a duplication of the ten-year plan process that is already in place.

Conclusions

When asked whether South Dakota should adopt an IRP process, the unanimous answer from utilities was "no". Of the six utilities, not one could point to a benefit of such a policy. Although Staff does not completely agree with this stance, we do believe that the high costs outweigh the small number of benefits gained by the adoption of an IRP process. The current regulatory authority held by this commission adequately monitors and influences utility planning decisions. The ten-year plan requirement gives the commission a view of utility supply plans, and rate authority gives the commission the tools needed to keep those decisions in check. Furthermore, energy efficiency has been established as a priority resource by South Dakota utilities in recent years and continues to gain momentum as supply resources become more and more expensive. Finally, most utilities are already going through an IRP process in another state and giving this commission a chance to review it. If they are not, it is already in their best interest to do so independently because they will need to prove that their decisions were prudent when asking for rate recovery.

Recommendation

Staff's recommendation is to reject the adoption of an integrated resource planning process.