- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Analysis of an Integrated Resource Plan for MOUNTAIN FUEL SUPPLY COMPANY.)	DOCKET NO. 91-057-09 FINAL STANDARDS AND GUIDELINES FOR INTEGRATED RESOURCE PLANNING FOR MOUNTAIN FUEL SUPPLY

ISSUED: September 26, 1994

By the Commission:

The Commission's interest in promoting an integrated resource planning process for regulated utilities is ongoing. The process is expected to evolve over time and thus will be revisited periodically. The Commission will require Mountain Fuel Supply (MFS or Company) to pursue the least-cost alternative for the provision of natural gas energy services to its present and future ratepayers that is consistent with safe and reliable service, the fiscal requirements of a financially healthy utility, and the long-run public interest. This alternative should be identified in an Integrated Resource Plan (IRP). The Commission believes that the following Standards and Guidelines for IRP will help MFS obtain this least-cost goal.

PROCEDURAL HISTORY

In Docket No. 89-057-15, MFS's gas planning and purchasing polices were examined and the Commission ordered MFS to develop an IRP. The Company's first IRP was submitted on September 30, 1991. On December 16, 1991, the Commission issued an order on Draft Standards and Guidelines for Integrated Resource Planning for Mountain Fuel Supply Company. Interested parties submitted comments and recommendations for change on February 21, 1992. On October 14, 1992, the Company submitted an updated IRP, and on September 27, 1993, submitted its second IRP. Several public meetings were held to allow the Company to explain the results of the IRP effort. On February 25, 1994, the Commission issued a memorandum that summarized the parties' comments on the Draft Guidelines and reached preliminary conclusions about these comments. The memo requested additional comments and suggestions for change. Submittals were received on March 15, 1994, from the Company, the Division of Public Utilities (Division) and the Committee of Consumer Services (Committee). This Order now sets forth the final Standards and Guidelines for Integrated Resource Planning for MFS.

STATEMENT OF OBJECTIVE AND PURPOSE

Standards and guidelines are intended to insure that the Company's present and future customers are provided natural gas energy services at the lowest cost consistent with safe and reliable service, the fiscal requirements of a financially healthy utility and the long-run public interest. To this end, the Commission desires a regulatory environment that encourages MFS to actively pursue its IRP as part of the Company's business strategy. Mountain Fuel's position in the corporate structure of the Questar Companies, however, must not constrain, in a manner adverse to the interests of ratepayers, the pursuit of the cost-minimizing objective.

In comments filed with the Commission, MFS objected to the language used by the Commission concerning affiliate relations and requested that it be stricken. The Company argued that the Commission appears to presume that any affiliate transaction is biased and against the customers' best interests. The Company maintained that the IRP model does not know the corporate origin of gas supply contracts and selects the appropriate contract based on anticipated costs, physical and contractual constraints and impact on existing obligations.

The Commission, in past proceedings, has articulated its concern about Mountain Fuel's relations with affiliates and the possible constraints that such relations may place on MFS's gas acquisition and planning process. Affiliate relations remain a concern of this Commission. We do not presume that affiliate transactions are biased and not in the customers' best interests. However, the Commission puts the Company on notice that with regard to cost recovery of MFS's expenditures, we will view MFS's customers' interests as primary. Such interests shall not be subordinated to those of corporate affiliates. All planning options that potentially benefit MFS's ratepayers shall be investigated, whether or not they benefit subsidiaries of the Questar Corporation.

PRELIMINARY DECISIONS ON THRESHOLD/PROCEDURAL ISSUES

Several preliminary or threshold issues were identified in the draft order. These issues elicited the majority of comments from the parties. A discussion of our position on each of the identified issues follows below.

1. The Commission has the legal authority to promulgate Standards and Guidelines for Integrated Resource Planning.

   The 1992 National Energy Policy Act requires States to consider new regulatory standards that would: require utilities to undertake integrated resource planning; allow energy efficiency programs to be at least as profitable as new energy supply options and encourage improvements in the supply system efficiency. This Commission held hearings and determined that state policies are currently in concert with the intent of the federal legislation. The Commission has concluded that it has the statutory authority to promulgate IRP standards and guidelines for the utilities under its jurisdiction via §54-1-10, §54-4-1, §54-4-4 and §54-3-1 of the Utah Code. For a more complete explanation of our authority see our September 3, 1991 Order on Draft Standards and Guidelines in Docket No. 90-2035-01. No party has disputed the Commission's authority to establish such guidelines.

2. Information Exchange is the most reasonable method for developing and implementing Integrated Resource Planning in Utah.

The Commission envisions an informal collaborative IRP process that allows a free exchange of information among all interested parties during the planning process. For example, this approach requires that parties discuss the model and its relevant inputs as part of the planning process. The Commission does not find acceptable an approach where the Company performs the IRP analysis in isolation and then presents and documents the final results.

The Company stated that it has attempted to facilitate this information-exchange process to the extent reasonably possible, as exemplified by the public meetings held since the issuance of the Commission's draft IRP guidelines. No meetings were held, however, between the October 14, 1992 interim update and the Company's September 27, 1993 IRP submittal. To increase the level of public participation, the Commission issued a Scheduling Notice on June 2, 1994 establishing a public meeting schedule for the next IRP filing.

The Division agreed with the information-exchange process but cautioned that issues may arise that would necessitate a prudence review. This would require a more formal process for resolution. The IRP process should aid formal prudence reviews. The Committee also embraced the information-exchange approach to IRP and recommended that a more formal technical advisory group be established to provide critical input at various planning stages.

In its comments, the Company proposed that the information-exchange process be adopted in a manner that better suits the gas industry's operational intensive nature and protects its confidential market-sensitive gas purchase agreements. The Company also requested that its annual operating plan span a May through April time period and that the IRP submittal date be changed from September 30th to April 30th. This would allow the Company to use the most current information on gas contract prices and conditions. The Company maintained that most gas supply contracts are signed in early summer.

The Commission finds that the Company's requested planning period with a submittal date on April 30th will produce better gas acquisition strategies because it more closely corresponds to the contract negotiation period and thus would present more current information. The Commission agrees with the Division's proposition that certain issues that arise during the IRP process might require formal resolution. The Commission will determine the merit of more formal hearings on a case-by-case basis. The Committee's recommendation for a technical advisory group is discussed in a following section.

3. <u>Prudence Reviews of resource acquisitions will occur during ratemaking proceedings.</u>

The Company agreed with the Commission's position that gas acquisition decisions should be judged on the basis of information available at the time such decisions are made. Such information will obviously include the IRP itself. However, the Company expressed concern that the informal and cooperative exchange of information during the review process could be used against the Company in litigated proceedings. The Committee recommended that the Company file monthly reports documenting differences between planned and actual gas supply options selected to meet demand, thus providing a reasonable method to gauge the prudence of the Company's gas acquisitions.

The Commission has stated in previous IRP orders that prudence will be judged in rate proceedings. Acknowledgement of the IRP means only that an IRP appeared to be a reasonable course of action at the time it was submitted. As the IRP one-year action plan is being implemented, market conditions, weather and other conditions may change. The Company is expected to respond appropriately to such changes to insure the provision of low cost natural gas energy service while meeting the condition of reliability and safety. In order to better monitor actual gas acquisitions, the Company will file with the Commission quarterly reports which describe its actual purchases and compare them with planned purchases.

4. <u>The IRP process will be open to the public in all of its stages of development.</u>

The Company expressed concern that its bargaining position might be compromised during the IRP process. Analyses that detail the value of particular resources to the Company can give potential gas marketers a competitive advantage when bargaining for prices and terms of gas supplies. This could result in higher costs for gas resources and thus higher rates to core customers. The Committee recommended that the Commission establish a technical advisory group, comprised of representatives of the Utah (and perhaps Wyoming) public/regulatory agencies in order to provide critical comments and information at important points during the IRP process.

The Commission is concerned about any loss of bargaining power which is detrimental to MFS's core customers and acknowledges that a more competitive market for gas supplies might require some protection of information divulged by the Company during the IRP process. The IRP process should not allow marketers and competitors to obtain information that compromises the Company's bargaining position. However, the Commission desires that the Company's planning process be as open as possible. The Commission will address the issue of the dissemination of competitively sensitive information on a case-by-case basis and will restrict access to such information when appropriate. The Commission believes that the Committee's recommendation to establish a technical advisory group is an appropriate way to insure public involvement. It may also be the vehicle by which market-sensitive information can be protected. Therefore, we direct the Division to establish an advisory committee to insure that there is public review of these competitively sensitive inputs into the model.

5. Environmental Externalities must be considered in the planning process.

Environmental externalities arise when society incurs uncompensated damages, i.e., external costs, that result from the production or consumption of some product or activity, such as the use of natural gas. Federal and state environmental regulations are attempting to internalize these "external costs" through emission standards, emission taxation or other measures. These regulations have forced industry to accept the financial responsibility for environmental costs formerly borne only by society. Future environmental regulations may continue this process of internalization. Utilities that acquire resources with high external costs could be forced to pay costs that result from stricter environmental regulations. The question is who should bear the risk of these potential costs, ratepayers or stockholders? In order to circumvent these potential costs, strategies should be analyzed to mitigate this risk. Although, it is generally recognized that for gas utilities (unlike electric utilities) there are not significant differences in emissions among supply-side alternatives, incorporating external costs could affect the balance between gas supply and demand-side resources. The Company recommended that a task force be established to investigate environmental externalities, demand-side resources and the determination of avoided costs and determine whether such issues should be included in the IRP process. The Commission through these guidelines directs that such analyses should be part of the IRP process. Only a thorough investigation of these issues within the IRP process can determine the extent that consideration of environmental externalities and demand-side resources affect resource acquisitions and strategies. What is needed is the capacity to show how reasonable estimates of environmental costs may affect the choice of resources.

6. <u>IRP must evaluate supply-side and demand-side resources on a consistent and comparable basis.</u>

Previous IRPs have not evaluated demand-side resources adequately. The cost of saving a therm of gas must be compared to the cost of producing and delivering an additional therm. The IRP process provides a mechanism in which to evaluate both supply-side and demand-side resources. Each should be compared on a total resource cost basis; that is, the total cost incurred by the utility and the ratepayer to acquire a particular resource. The Commission is aware that comparing demand-side resources with supply-side resources is difficult. The two are dissimilar in dispatchability, reliability and risks associated with environmental externalities. However, for planning, acquisition and ratemaking purposes, decision-making should be consistent and comparable while acknowledging the differences between the resources.

7. <u>The IRP will be used to help calculate avoided gas costs.</u>

In order to provide an objective cost-effectiveness measure for demand-side resources, the costs of gas avoided through conservation and energy efficiency measures must be calculated. Although there is no commonly accepted method for calculating avoided gas costs for a natural gas utility, the IRP is the appropriate vehicle to develop such a method. The Commission instructs the Division to work within the public IRP process to develop a method for determining such costs. The determination of avoided gas costs should be consistent with the Company's IRP.

8. Coordination with other regulatory agencies is important but the IRP should meet the needs of the Utah ratepayer. Though MFS is regulated by the Utah, Wyoming and FERC jurisdictions, this Commission's first concern is for the Utah ratepayer. Nonetheless, we want to insure consistency of regulatory treatment across jurisdictions as it affects system planning and operations whenever possible.

9. Questar Corporation's strategic planning should not unduly influence the development or implementation of MFS's IRP.

MFS's planning and acquisition policies, as well as, its investigation of supply and transmission options should not be inhibited by the consideration of affiliate financial interests. MFS has the responsibility to put its ratepayers' interests first in the planning and implementation of its IRP.

GUIDELINES

1. Definition.

Integrated resource planning for Mountain Fuel is a planning process in which all known resources are evaluated on a consistent and comparable basis, in order to meet current and future natural gas energy service needs at the lowest total resource cost to MFS and its ratepayers, and in a manner consistent with the long-run public interest. The process should result in the selection of the optimal set of resources given the expected combination of costs, risk and uncertainty.

2. The Company will submit its IRP biennially and will provide an annual update of its operating plan.

The Company submitted an update of its September 27, 1993 IRP on June 8, 1994. On April 30, 1995, the Company will submit a new IRP that includes an analysis of demand-side resources. An update of the 1995 IRP will be submitted the following April, thus restarting the biennial cycle.

3. The Integrated Resource Plan will be developed in consultation with the Commission, its staff, the Division of Public Utilities, the Committee of Consumer Services, appropriate Utah State agencies and other interested parties that obtain Commission approval to intervene. Mountain Fuel will provide ample opportunity for public participation during the development of its Plan. Public meetings and consultation with regulatory bodies will take place on a regular basis during the year preceding the submittal of the plan.

In its comments, the Company recommends a specific time line for public input into the IRP process. This includes two meetings prior to its submittal of the IRP, one in January to review procedures and methods and another in March to review specific modeling assumptions and inputs. Soon after its submittal at the end of April, the Company suggests that a third public meeting be held to review final results. Acknowledgement would take place in May.

The Commission finds that the Company's recommended public meeting schedule is inadequate. It is essential that public and regulatory involvement take place, at regular intervals, prior to the submittal of the Company's IRP. Such involvement is particularly important given the contemplated time period for regulatory review. Such an expedited process requires that the parties have a full understanding of the procedures and methods used by the model as well as its specific assumptions and inputs. Two meetings prior to the submission of the IRP will not achieve such an understanding. Therefore, the Commission will require at least quarterly public meetings for the years preceding the

April submittal of the IRP, with a tentative meeting schedule published in the preceding IRP.

4. <u>MFS's future integrated resource plan will include:</u>

   a. A description of the Plan's objectives and goals.

   b. A range of estimates or forecasts of load growth, which include firm customer peak-day requirements, winter season requirements and annual requirements.

   c. A range of weather conditions and their attendant gas supply strategies to meet such conditions.

   d. An analysis of how various economic and demographic factors, including the prices of natural gas and alternative energy sources, will affect the consumption of energy services, and how changes in the number, type and efficiency of end-uses will affect future loads.

   e. An evaluation of all present and future resources, including future market opportunities (both demand-side and supply-side), on a consistent and comparable basis. This includes but is not limited to:

(1) An assessment of all technically feasible improvements in the efficient use of natural gas, including load management and conservation.

(2) An assessment of all technically feasible delivery and gas supply options including but not limited to: WexPro gas, new gas development and production by MFS, independent producer contracts, on both a short-and long-term basis, pipeline sales to the extent they still offer such service, and spot market purchases. In addition, contract and Company-owned storage service, 5-cent waiver supplies, peak shaving alternatives, and other possible options will be explored. A variety of transportation alternatives will be considered including firm and interruptible contracts, tapping other pipelines such as Kern River, and any other transportation options that are available.

f. An analysis of system capability and constraints including: the transmission system, the storage reservoirs and the distribution system.

g. A planning horizon that can appropriately model long-term Company-owned production as well as energy conservation and efficiency measures, and an IRP model meeting these requirements.

h. An analysis of how changes in the regulatory environment may affect resource options available to MFS.

i. A one-year action plan, plus a second one-year plan in the off-year, outlining the specific resource decisions necessary to implement the Integrated Resource Plan in a manner consistent with the Company's strategic business plan.

j. Load forecasts integrated with resource options in a manner which rationalizes the choice of resources under a variety of economic and weather circumstances.

k. An evaluation of the cost-effectiveness of the resource options from a variety of perspectives. For demand-side resources, the Company will construct the total resource cost test, the ratepayer impact test, the utility cost test and the participant cost test as defined by the California Standard Practice Manual.

l. An evaluation of the risks associated with various resource options and how the one-year action plan addresses these risks in the context of both the Company Business Plan and the Integrated Resource Plan.

m. Considerations permitting flexibility in the planning process so that the Company can take advantage of opportunities and can prevent the premature foreclosure of options.

n. An analysis of tradeoffs; for example, between such conditions of service as reliability and the acquisition of lowest cost resources.

o. A range, rather than attempts at precise quantification, of estimated external costs, in order to show how explicit consideration of such costs might affect the selection of resources.

5. <u>MFS will submit its IRP for public comment, review and acknowledgement.</u>

The public, state agencies and other interested parties will have the opportunity to comment on the adequacy of the Plan to the Commission. Outside expertise might be required to evaluate the Company's IRP; if needed the Commission will so order. The Commission will review the Plan for adherence to the standards and guidelines stated herein (and as may be hereafter modified), and will respond to comments received from the public. If the Plan needs further work, the Commission will notify the Company accordingly. This process should lead more quickly to the Commission's acknowledgement of an acceptable Integrated Resource Plan. Formal hearings and acknowledgement of the IRP may be appropriate. "Acknowledgement" of the Plan means the Commission deems the planning process and the Plan itself reasonable at the time the Plan is presented.

6. Acknowledgement of an acceptable Plan will not guarantee favorable ratemaking treatment of future resource acquisitions.

Ratemaking treatment of future resource acquisitions will be assessed by the Commission through a rate case or pass-through proceeding. Strict conformance to the Plan does not relieve the Company of its burden of proof to show that its expenditures are prudent. The Commission's evaluation of prudence will be based on the reasonableness of the Company's decision-making process given the information available at the time the decision is made. The Plan will provide one basis for assessing the Company's decision-making process.

7. The Integrated Resource Plan will be used in rate and pass-through cases to evaluate the performance of the utility.

The IRP will be used by the Commission to evaluate the Company's requests for recovery of gas costs in pass-through proceedings as well as recovery of non-gas costs in general rate cases.

DATED at Salt Lake City, Utah, this 26th day of September, 1994.

/s/ Stephen F. Mecham, Chairman

(SEAL) /s/ James M. Byrne, Commissioner

/s/ Stephen C. Hewlett, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary