

ISSUE DATE: July 9, 1998

DOCKET NO. E-015/RP-97-1545

ORDER APPROVING RESOURCE PLAN, REQUIRING INTERIM REPORT, REQUIRING
CHANGES IN RESOURCE PLANNING PROCESS, AND SETTING REQUIREMENTS
FOR NEXT FILING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
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Commissioner

In the Matter of Minnesota Power's 1997
Resource Plan

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PROCEDURAL HISTORY

On November 1, 1997 Minnesota Power filed its 1997 integrated resource plan under Minn. Stat. § 216B.2422 and Minn. Rules Chapter 7843. In an earlier Order the Commission had exempted the Company from several data requirements in the resource planning rules, on grounds that little had changed since the Company filed its last resource plan.¹ The 1997 plan therefore relied heavily on excerpts from and references to the Company's last plan.

On November 26, 1997 the Department of Public Service (the Department) filed comments stating it believed the filing was complete, given the terms of the exemption Order.

On March 2, 1998 the Department filed substantive comments, recommending that the Commission approve the plan, require certain changes in the Company's planning process, require specific information in the next resource plan, and require a report on Year 2000 issues.

On June 18, 1998 the matter came before the Commission.

FINDINGS AND CONCLUSIONS

¹In the Matter of Minnesota Power's Petition for an Extension of Time in Which to File its Next Resource Plan, Docket No. E-015/RP-97-990, ORDER DENYING PETITION AND PERMITTING ABBREVIATED FILING (September 23, 1997).

I. Factual Background

A. The Resource Planning Process

The resource planning statute and rules are detailed, but basically require utilities to file biennial reports on (1) the projected energy needs of their service areas over the next 15 years; (2) their plans for meeting projected need; (3) the analytical process they used to develop their plans for meeting projected need; and (4) their reasons for adopting the specific resource mix proposed to meet projected need. Minn. Stat. § 216B.2422 and Minn. Rules Chapter 7843.

These requirements are designed to strengthen utilities' long term planning processes by providing input from the public, other regulatory agencies, and the Commission. They are also designed to ensure that utilities making resource decisions give adequate consideration to factors whose public policy importance has grown in recent years, such as the environmental and socioeconomic impact of different resource mixes.

B. Minnesota Power

Minnesota Power is a diversified utility company incorporated in Minnesota with headquarters in Duluth. It serves approximately 136,000 customers over a 26,000 square mile area in central and northeastern Minnesota and parts of northwestern Wisconsin.

The Company has an unusually heavy industrial load; half of the electricity it produces is sold to its Large Power class, made up of paper mills, taconite producers, and two pipeline companies.

The Company also sells wholesale power to 13 municipal utilities, one private utility, and one wholly owned subsidiary, Superior Water, Light and Power Company. It provides transmission services to two municipal utilities, one electric cooperative, and a large industrial cogeneration facility.

The Company is a long-time member of the Mid-Continent Area Power Pool.

C. Minnesota Power's Resource Plan

The Company explained its resource planning process as follows. First, it develops a load forecast for the planning period, which in this case runs from 1997 to 2011. The forecast includes peak and non-peak usage and forecasts low, high, and expected load levels. Planning focuses on expected load levels, with contingency plans developed for low load and high load scenarios.

At the same time, the Company forecasts the probable impact of demand side management, which it defines to include conservation, peak shaving, load shifting, and valley filling. It subtracts estimated demand side management savings from forecasted load levels to determine its final load forecast(s).

The Company compares the final load forecast(s) with its existing power supply and lists its options for meeting any deficit. It chooses between these options by weighing rate and financial impacts; environmental impacts; customer, shareholder, and other stakeholder needs; reliability; contingency planning to minimize risk; power supply timing and uncertainty; and regulatory guidance.

After completing this process the Company concluded it would be able to meet its load, probably throughout the planning period and certainly through the 1997-2002 period, without adding new generation, adding new long distance transmission, or refurbishing existing facilities. Its first projected deficits appear in 2009 or 2010, and the Company expects to meet them through wholesale purchases.

II. Commission Action

A. Factors to Be Considered

The rules require the Commission to consider at least the following factors in evaluating resource plans:

Resource options and resource plans must be evaluated on their ability to:

- A. maintain or improve the adequacy and reliability of utility service;
- B. keep the customers' bills and the utility's rates as low as practicable, given regulatory and other constraints;
- C. minimize adverse socioeconomic effects and adverse effects upon the environment;
- D. enhance the utility's ability to respond to changes in the financial, social, and technological factors affecting its operations; and
- E. limit the risk of adverse effects on the utility and its customers from financial, social, and technological factors that the utility cannot control.

Minn. Rules, part 7843.0500, subp. 3.

Each factor will be considered in turn.

1. Maintain or Improve the Adequacy and Reliability of Utility Service

Minnesota Power has acted diligently to maintain its ability to provide reliable service to its customers. It has used tested methods to prepare careful forecasts of future need and conservative assessments of available resources. It has acted reasonably in concluding that it has adequate supply until approximately 2009 and that it should be able to meet any shortfall at that point by purchasing power on the wholesale market.

The Commission finds that the course of action outlined in the resource plan can reasonably be expected to maintain or improve the adequacy and reliability of Minnesota Power's service.

2. Keep the Customers' Bills and the Utility's Rates as Low as Practicable, Given Regulatory and Other Constraints

Historically, Minnesota Power has been successful at keeping costs and rates low. Its plans for meeting need during the planning period should allow that trend to continue.

Probably the most common cause of significant cost and rate escalation is new system capacity; since the Company sees no need for new generation or new long distance transmission facilities during the planning period, that is not a risk here.

The Company does face unique cost and rate risks due to its heavy dependence on very large industrial customers. Conceivably, an economic downturn idling one or more major industrial plants, or a decision by a single large customer to generate electricity in-house, could raise rates for all remaining customers, who would face paying fixed costs for an over-built system. The Company has minimized this risk, however, by negotiating long term contracts with crucial Large Power customers.

The Commission finds that the resource plan can reasonably be expected to keep costs and rates as low as practicable.

3. Minimize Adverse Socioeconomic Effects and Adverse Effects Upon the Environment

The plan's "no-build" approach to meeting future need and the Company's commitment to further explore the potential for substituting conservation for traditional supply side resources are essentially pro-environment. Since the plan is a low-impact plan, it is extremely unlikely to escalate or intensify any adverse socioeconomic or environmental effects resulting from current operations.

The Commission finds that the course of action outlined in the resource plan can reasonably be expected to minimize adverse socioeconomic and environmental effects.

4. Enhance the Utility's Ability to Respond to Changes in the Financial, Social, and Technological Factors Affecting Its Operations

Perhaps because of its unique dependence on very large and often economically vulnerable customers, Minnesota Power has long recognized the need to position itself to respond to changing financial, social, and technological conditions. Its long term contracts with crucial large customers, for example, should give the Company time for analysis and strategizing, should its Large Power customer base be threatened by financial, social, or technological change.

The plan's finding of no need for major system additions increases the number of options for responding to change, as does the commitment to continue identifying conservation opportunities.

The Commission finds that the course of action outlined in this resource plan will enhance the utility's ability to respond to changes in the financial, social, and technological factors affecting its operations.

5. Limit the Risk of Adverse Effects on the Utility and Its Customers from Financial, Social, and Technological Factors that the Utility Cannot Control

This factor is closely related to the preceding one, but speaks only to the risk management part of responding to change. Here, too, the resource plan passes muster. Its no-build strategy reduces the risks posed by contingencies such as economic downturns, electric industry restructuring, self-generation by large customers, and technological advances making existing technology obsolete. Its reliance on cost-effective conservation, too, is a nearly no-fail approach to reducing risk.

The Commission finds that the course of action outlined in the resource plan limits the risk of adverse effects on the utility and its customers from financial, social, and technological factors beyond the utility's control.

B. Plan Approved

The Commission concludes, for the reasons set forth above, that Minnesota Power's plan meets the requirements of the rule and the statute. It will be approved.

C. Process Improvements Required

The Department recommended the following changes to strengthen Minnesota Power's resource planning process:

- (a) treating demand side resources and supply side resources similarly, i.e., including all demand side and supply side resources on one list of potential resources and using that list to select the final resource mix; and
- (b) examining demand side management goals for the commercial and industrial sectors using the Department's three-step method.

The Company did not oppose these changes. The Commission finds them reasonable and likely to lead to greater precision in evaluating the potential contribution to the resource mix of demand side management. The Commission will require the Company to adopt these changes to its process.

D. Filing Requirements for Next Resource Plan

The Department identified five items it believed should be included in Minnesota Power's next resource plan:

- (a) a sector-specific forecast, if available;
- (b) a detailed discussion of Company transmission planning activities, any new or upgraded transmission facilities, and Company efforts to participate in regional transmission planning;
- (c) a detailed discussion of the possibility of significant deratings or shutdowns of older units during the planning period;
- (d) a report on the reason for the sudden change in projected residential demand side management savings in 2001; and
- (e) a report on the status of Company compliance with the federal Clean Air Act Amendments and other environmental requirements.

The Company did not object to including these items in its next resource plan. The Commission agrees these items would be helpful and will require their inclusion.

E. "Year 2000" Report Required

The Department recommended requiring an interim report on the Company's Year 2000 preparedness, stating responses to information requests indicated the Company did not have a contingency plan for dealing with Year 2000-related system failures. The Department suggested asking the Company to report on current levels of investment to mitigate Year 2000 problems, internal corporate procedures and time lines to certify systems as Year 2000 compliant, and any contingency plans to address potential system failures upon the arrival of the year 2000.

The Company did not oppose filing an interim report. The Commission agrees it would be useful and will require it.

F. Next Filing Date Set

The Company's biennial filing schedule has been disrupted by the time extensions granted in this case. To avoid confusion in the future, the Commission clarifies that the Company's next resource plan shall be filed on or before November 1, 1999.

ORDER

1. Minnesota Power's 1997 integrated resource plan is hereby accepted and approved.
2. Minnesota Power shall make the following revisions in its resource planning process:
 - (a) it shall treat demand side resources and supply side resources similarly, by including all demand side and supply side resources on one list of potential resources and using that list to select the final resource mix; and
 - (b) it shall examine demand side management goals for the commercial and industrial sectors using the Department's three-step method.
3. Minnesota Power's next resource plan filing shall include the following items:
 - (a) a sector-specific forecast, if available;
 - (b) a detailed discussion of Company transmission planning activities, any new or upgraded transmission facilities, and Company efforts to participate in regional transmission planning;
 - (c) a detailed discussion of the possibility of significant deratings or shutdowns of older units during the planning period;
 - (d) a report on the reason for the sudden change in projected residential demand side management savings in 2001; and

- (e) a report on the status of Company compliance with the federal Clean Air Act Amendments and other environmental requirements.
4. Within six months of the date of this Order, Minnesota Power shall file a report on its Year 2000 preparedness, including but not necessarily limited to, the following items:
- (a) current levels of investment to mitigate Year 2000 problems;
 - (b) internal corporate procedures and time lines to certify systems as Year 2000 compliant;
 - (c) any contingency plans to address potential system failures upon the arrival of the year 2000.
5. Minnesota Power's next integrated resource plan shall be filed on or before November 1, 1999.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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