Alabama Environmental Council

Planning for Alabama's Energy Future

Who makes the plans that shape Alabama's energy future?

Alabama's economic well-being and the comfort and mobility of our citizens depend in part on electricity, natural gas, oil and gasoline. Alabama's electricity is provided by two large suppliers, Tennessee Valley Authority (TVA) in the northern third of the state and Alabama Power (APCo) in the southern two-thirds. Electric cooperatives[1] and municipal utilities[2] round out our electricity providers. TVA[3] and APCo[4] each create a twenty-year plan every two or three years, called an Integrated Resource Plan (IRP), but TVA and APCo differ on who participates and the transparency of the planning process.

What things are considered when making electric energy plans?

In states like Alabama where utilities have a monopoly, the market doesn't work to provide the least cost result for customers. Regulation by a government body is required to strike a balance. 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, the 1970's brought an energy crisis and cost overruns for nuclear construction perpetuated through the 70's and 80's. In response, the Public Utilities Regulatory Policies Act of 1978[5] 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?

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 good IRP process tends to focus on reducing bills and not just rates, because energy efficiency is one of the tools for meeting demand.[6] Energy efficiency is getting the same energy services while using less energy, which lowers demand as well as the customers' bills.

Why have an IRP?

According to the State and Local Energy Efficiency Action Network, "*An IRP can be a powerful impetus for energy efficiency and other demand management alternatives to new supply, especially where the planning process is mandatory and overseen by a PUC, because the IRP may require utilities to consider demand side resources that benefit ratepayers even if those resources do not benefit utility shareholders. The availability of energy efficiency and other demand side resources at very low costs and in significant quantities was often ignored in traditional planning processes that focused exclusively on supply side resources.*"[7]

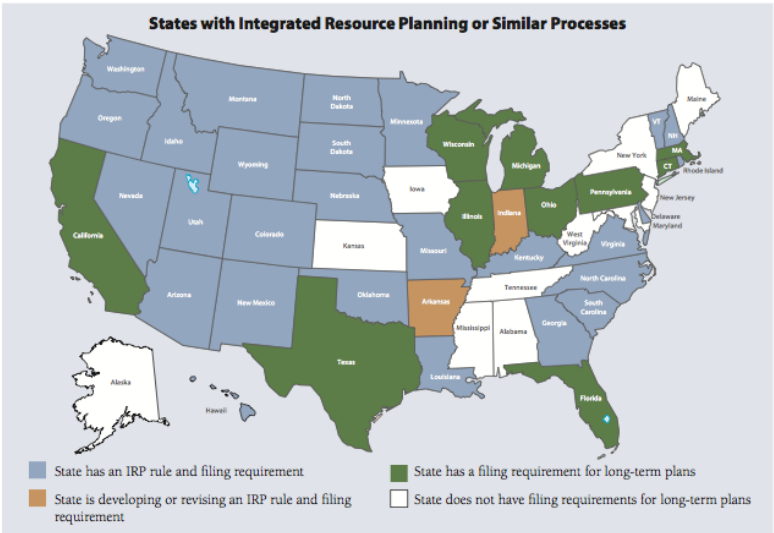
Why should the public be interested in an IRP?

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. By being able to participate in the IRP process, the public can weigh in on issues germane to utility energy planning that might not otherwise be addressed by the utility or the regulator. "*For an IRP process to be deemed successful, it should include both a meaningful stakeholder process and oversight from an engaged public utilities commission.*"[8]

Who has publicly available IRPs?

As shown in the map[9] below, 39 states rely on IRPs or a similar process, but the manner in which they do so varies. For example, Georgia law requires the state's regulated utility to file an IRP with the Public Service Commission every three years. This IRP is publicly available and part of a formal process where interested stakeholders can intervene.[10] Louisiana's new process spells out specific steps for involving interested parties.[11]

Figure 2



What does an IRP look like in Alabama?

1) Tennessee Valley Authority: "The purpose of the Integrated Resource Plan (IRP) is to identify the portfolio most likely to help TVA lead the region and the nation toward a cleaner and more secure energy future, relying more on nuclear power and energy efficiency and relying less on coal." In 2013, two public meetings in October and November were held to gather input on the scope of the planning process and associated Environmental Impact Statement. The presentation given at those meetings is available for viewing and download on TVA's website.[12]

2) Alabama Power: Alabama Power has an IRP, but only a brief summary is made available to the public, nor is it subject to a formal review. Every three years, Alabama Power submits to the Public Service Commission (PSC) a 20 year plan that is reviewed by PSC staff. There is no formal review process for this IRP, which means groups cannot intervene or weigh in on the plan. Annually the PSC hosts an 'informal public hearing' at which APCo describes its compliance with EPA regulations and presents its economic outlook. Questions are allowed; however, the PSC has already issued orders on these subjects and there is no public input, review of alternative options, or weighing of environmental costs.

What could an IRP look like in Alabama?

There are many places to look for best IRP practices that serve to balance the needs of the utility and the customers' interests in low cost electricity. The Georgia, Louisiana and TVA processes are only a few of the many state IRP processes that include citizen participation. There are also recommendations from the Regulatory Assistance Project (RAP), the State and Local Energy Efficiency Network, and Ceres, an organization involving one hundred very large investors with over $10 trillion in assets. Included in Ceres' recommendations for robust analysis to produce utility portfolios that are lower risk and lower cost, is the following: "In a transparent public process, the regulator examines competing portfolios, considering the utility's analysis as well as input from other interested parties." (p. 40)[13] Florida PSC includes RAP's best practices document in Appendix A of its "Review of The 2013 Ten-Year Site Plans For Florida's Electric Utilities". RAP 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" (p. 2)[14] Finally, from the State and Local Energy Efficiency Action Network "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."[15]

Conclusion

Alabama has the opportunity to improve low-cost, low-risk electricity planning 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 adequate opportunities for knowledgeable and effective representation in the planning as well as the rate-setting process overseen by our Public Service Commission.[16]

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[1] See http://www.areapower.coop/

[2] For some of these municipal utilities see http://www.amea.com/

[3] TVA's 2010 Integrated Resource Plan: http://www.tva.com/irp/pdf/irp_complete.pdf. The 2013 planning process has begun. See http://www.tva.gov/environment/reports/irp/index.htm for a description of that process, which involves public and stakeholder participation.

[4] http://issuu.com/consolidatedpublishing/docs/tim_lockette_letter_with_attachment?e=1195007/6348213#search

[5] PURPA http://energy.gov/oe/services/electricity-policy-coordination-and-implementation/other-regulatory-efforts/public

[6] 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.raponline.org/document/download/id/6608)

[7] State and Local Energy Efficiency Action Network. 2011. Using Integrated Resource Planning to Encourage Investment in Cost-Effective Energy Efficiency Measures. Prepared by John Shenot, Regulatory Assistance Project, p. vi. http://www1.eere.energy.gov/seeaction/pdfs/ratepayer_efficiency_irpportfoliomanagement.pdf

[8] Wilson & Biewald (note 4), p. 2.

[9] Wilson & Biewald (note4), p. 5.

[10] See http://aceee.org/sector/state-policy/georgia

[11] See http://www.lpsc.org/_docs/_Orders/General%20Order%2004-18-2012%20R-30021%20Corrected.pdf

[12] See http://www.tva.gov/environment/reports/irp/index.htm

[13] Practicing Risk-Aware Electricity Regulation: What Every State Regulator Needs to Know, (April 2012) http://www.ceres.org/resources/reports/practicing-risk-aware-electricity-regulation

[14] See http://www.psc.state.fl.us/publications/pdf/electricgas/TYSP2013-AppendixA.pdf ."*A successful utility's resource plan should include consideration in detail of the following elements: a load forecast, reserves and reliability, demand-side management, supply options, fuel prices, environmental costs and constraints, evaluation of existing resources, integrated analysis, time frame, uncertainty, valuing and selecting plans, action plan, and documentation. (p. 2).*

[15] ibid, note 5, p.

[16] See Alabamians deserve a staunch advocate before the Public Service Commission (Our view) http://www.al.com/opinion/index.ssf/2013/06/alabamians_deserve_a_staunch_a.html