

**RECOMMENDATION OF THE INTEGRATED RESOURCE PLANNING  
COMMITTEE OF THE NEW ORLEANS ENERGY POLICY TASK FORCE  
July 6, 2007**

**Abstract**

The New Orleans City Council (the “Council”) should enact Integrated Resource Planning (“IRP”) rules to require Entergy New Orleans (“ENO”) to undertake a regular comprehensive and systematic IRP process. The IRP process would require ENO to undertake a resource planning process that is open to the public, regulators and stakeholders to plan what resources, including demand-side management (“DSM”) measures, will supply New Orleans’ electric energy needs now and into the future. The objective of the IRP process should be to determine those resources that will provide electricity at the lowest reasonable cost and achieve the public policy goals of increasing efficiency and incorporating renewable energy and distributed energy into the supply portfolio. The IRP rules should prescribe how the IRP should be conducted and define, either internally or by reference to other Council enactments, the public policy goals the IRP should strive to achieve.

**Issue the Recommendation Addresses**

Currently ENO’s resource planning process focuses on the employment and addition of traditional supply-side generating resources to meet customers’ electric needs, with little or no consideration of environmental, conservation or efficiency goals. In addition, it does not provide for public input and meaningful regulatory oversight in the resource planning process. The recommendation would allow for public, regulatory, and stakeholder input into ENO’s resource planning process and would require ENO to integrate efficiency measures, demand-side management measures, renewable generation and distributed generation into the resource portfolio.

**Basic of the Recommendation**

*Background* -- Integrated resource planning was a concept first developed in the 1970s in response to the oil crises as a perceived means of increasing energy diversity and decreasing dependence on foreign oil. Integrated resource planning and investigation of demand-side management measures was required by the Public Utilities Regulatory Policies Act (“PURPA”), but those requirements went largely unfilled when the immediate oil crises dissipated and deregulation of the electric industry began to take hold in the United States. Integrated resource planning has recently been reinvigorated in the United States amid growing environmental, energy security, and scarcity of supply concerns. Several state and local regulatory authorities have adopted IRP requirements and several electric utilities have internally implemented IRPs in their resource planning processes. The Louisiana Public Service Commission recently opened a docket to

consider IRP rules for its jurisdictional electric utilities. The IRP committee of the Energy Policy Task Force of the City of New Orleans recommends that the City of New Orleans monitor the LPSC's process and initiate its own proceeding to implement IRP rules that would govern ENO.

*What Integrated Resource Planning Is* – The overriding objective of an IRP is to assure, on a long-term basis, that the utility will be able to adequately and reliably supply electricity at the lowest reasonable cost and in a manner consistent with the public interest. The main role of the IRP is to serve as a roadmap of a process for determining and implementing the utility's long-term supply and demand-side resource strategy, and the utility's transmission upgrade strategy as a means of filling resource needs.

*Benefits of an IRP* -- The main benefit of a properly designed IRP process in achieving a sustainable energy system is to put on equal footing with supply-side resource development the development of demand-side management measures. Demand side management ("DSM") measures are those measures that focus on reducing the demand for electric energy as a means of meeting resource needs. Many utilities' resource planning, including that of ENO, focus almost exclusively on employing, acquiring or developing supply-side resources to meet need. The utility has a logical incentive to do this, since the utility's revenues increase as it sells more electricity. But this has the consequence of spurring the development of more generating resources thereby increasing negative environmental consequences and raising customer utility bills. DSM measures decrease customer consumption of electricity with conservation and efficiency. Examples of DSM measures are (1) time-of-day rates and smart metering, which provide customers price signals by which they can control their use of energy at peak times and save money and obviate the need for expensive and inefficient peak load generating resources, and (2) programs to increase efficiency of appliances, homes, and buildings.

A properly designed IRP can also help to achieve a more sustainable energy system by requiring a utility to incorporate renewable generating resources and distributed generating resources (decentralized generating resources located close to the site of energy demand) into the supply portfolio. The IRP rules would accomplish this by setting a standard for the incorporation of such resources, i.e., a particular percentage of generating resources must come from renewable or distributed supply. This would be akin to a renewable portfolio standard ("RPS") and could work in conjunction with such a standard by requiring the utility to adhere to the RPS in the IRP. Alternatively, the IRP could require the utility to perform a cost-benefit analysis to determine whether renewable energy and/or distributed energy is cost effective versus more traditional supply resources and require the utility to incorporate the renewable/distributed energy only if it cost competitive. The problem with the latter approach is that renewable and distributed energy would almost certainly fail any such cost-benefit analysis under current cost metrics, which do not incorporate the true environmental cost of traditional gas, coal and nuclear resources (also called "externalities"). This approach thus would not likely result in any significant increase in renewable and distributed generation in New Orleans unless some instruction were given on how such a cost-benefit analysis were to be performed to incorporate all externalities of generating resources.

Another benefit of a properly designed IRP process is to provide an opportunity for public input and meaningful regulatory oversight of the resource planning process. The utility is the only entity with a load-serving obligation and it has exclusive access to the information and tools necessary to evaluate supply and demand resources. Currently, resource planning is done within the utility without input from the public and without regular regulatory scrutiny. Public input and regulatory scrutiny now come only when the utility applies for certification of new generating resource, a juncture too late for meaningful input. It also does not provide for a comprehensive consideration of resource planning. A transparent resource planning process with appropriate opportunities for input from the public, including stakeholders having an interest in renewable energy, conservation and efficiency, and regular regulatory oversight, would help to ensure that sustainable energy policies are fairly incorporated into the process.

*Important Features of an IRP for New Orleans* – The City Council should open a proceeding to develop IRP rules for New Orleans. It is beyond the scope of this Committee’s recommendation to propose specific rules, and any such rules would have to be publicly vetted before adoption. But the Committee recommends that the City Council consider the IRP process employed by PacifiCorp, attached as Attachment A, and the rules adopted by the Georgia Public Service Commission, attached as Attachment B, as instructive. Other possible models include IRP processes in Oregon, Utah, Wyoming, and Austin, Texas. The City Council previously adopted a Least Cost Planning ordinance, akin to an IRP. That ordinance was never enforced because of the now defunct move to deregulate the electric utility in New Orleans. The Least Cost Planning Ordinance, attached at Attachment C, should be evaluated to determine if it can serve as a basis for an IRP that would serve current needs and meet current policy goals.

In addition, the Committee recommends that the IRP rules adopted by the Council provide the following:

1. Transparency in the process consistent with the utility’s legitimate needs to keep certain information confidential to protect ratepayers.
2. Establishment of working groups to integrate regular and systematic public and stakeholder input into the IRP process.
3. Demand side management measures to increase conservation and efficiency of energy use should be considered on equal footing with supply side resources.
4. Account for the current state of the planning environment and capture all environmental policy requirements as defined by the City Council. Those policy requirements may include efficiency standards and/or incorporation of renewable resources and distributed resources into the resource portfolio.

5. Provide instruction as to what resources are to be evaluated and how they should be evaluated. The utility should have to perform a life-cycle cost evaluation of various resources.
6. Disclosure of all analyses that the utility will use to make resource decisions. The utility should provide complete and detailed information on how they evaluated and screened resources and why they have screened out certain resources and chosen others.
7. Early reporting requirements so that the utility will have to report resource evaluations and selections in time to allow meaningful public and stakeholder input.
8. A requirement that the utility consider not only the lowest cost resources under a static set of conditions, but that it also consider potential known uncertainties, such as carbon limits or other potential environmental requirements, and the possibility of another significant storm, that could ultimately impact costs that customers will have to pay for various resources.
9. The development of a robust plan under a wide range of potential futures, rather than focusing on a single expected future. The preferred portfolio is not intended to be a static result, but one that is constantly monitored, and potentially changed, as more current information is obtained.
10. The creation of an action plan that sets out the critical tasks that the utility must follow in the short term that will ultimately lead to the procurement or development of resources.
11. Consider transmission upgrades as a means of meeting resource needs.

*Complementary Recommendations* – There are several measures that should be considered by the Council in conjunction with the IRP that would enhance the ability of the IRP to achieve the public policy goals described here. The Committee considered these measures beyond the scope of its charge but expects recommendations for the institution of these measures to come from the Energy Efficiency and Renewable Energy Committees. The IRP Committee would welcome the opportunity to provide additional input on these measures if it would be helpful to the Task Force.

1. Decoupling. The Council should adopt a revenue decoupling mechanism that would decouple a utility's revenue stream from the consumption of electricity. The current regulatory regime encourages the utility to generate and sell more electricity, rather than help to provide customers the means to conserve energy and to use it more efficiently. The Committee understands that Vermont and Minnesota have revenue decoupling mechanisms in place and those should be investigated. The Council should also examine whether there are other ratemaking treatments that encourage the deployment of particular generating

resources over others, for example fuel clause recovery that provides an immediate pass through of fuel costs to ratepayers. This allows the utility to collect those costs immediately, whereas other costs may be subject to delayed base ratemaking treatment.

2. Renewable Portfolio Standard. A Renewable Portfolio Standard (“RPS”) would require a certain percentage of ENO’s generating resources to come from renewable resources within a given time frame. The Council should set an RPS, which would then be incorporated into the resource planning done by ENO under the IRP.
  
3. Energy Efficiency Portfolio Standard. An Energy Efficiency Portfolio Standard (“EEPS” or “EPS”) would require ENO to reduce energy use by a set amount within a given time frame. The Council should set an EPS, which would then be incorporated into the resource planning done by ENO under the IRP.

### **Implementation of the Recommendation**

To implement IRP rules, the Council should institute a public proceeding and obtain appropriate advisors to assist the Council in developing IRP rules. The proceeding should provide for publication of proposed rules and an opportunity for public comment on the proposed rules. A final version of the rules should then be submitted for a vote of the Council. Once the Council votes to adopt the rules, ENO will have to comply with them

The Council should also monitor the IRP rule proceedings at the Louisiana Public Service Commission (“LPSC”). ENO’s resource planning is done on an Entergy System basis. Because two LPSC-jurisdictional utilities (Entergy Louisiana and Entergy Gulf States) are also in the Entergy System, the resource planning of the Entergy System will have to incorporate the IRP requirements established by the LPSC. The Council should monitor the proceeding at the LPSC to keep informed, but should also develop its own IRP rules because that is the only way of ensuring that ENO, a Council-jurisdictional utility, will have to comply with IRP rules and will ensure that the IRP rules to which ENO is bound will achieve the goals desired by the Council for the benefit of the ratepayers of New Orleans.

### **Expected Benefits of the Recommendation**

Discussed in “Basic of the Recommendation.”

## **Expected Cost of the Recommendation**

The cost of developing IRP rules should not be more than \$50,000, including the cost of necessary Council advisors and administrative costs. The Committee is unable to obtain the exact cost of the utility to implement the IRP rules, but believes the incremental cost of implementing an IRP beyond the costs already expended for ENO's resource planning would not be significant, and would be outweighed by the expected benefits of the IRP. The cost of implementing an RPS and EPS may be significant and would need to be the subject of a cost-benefit analysis.

The Committee understands that ENO committed to spend \$6.9 million on energy efficiency if it were approved to receive a Community Development Block Grant "CBDG." (See Council Resolution attached as Attachment D.) ENO received a significant CBDG, on the order of \$200 million. The Council should ensure that ENO adheres to its commitment and spends the \$6.9 million on appropriate energy efficiency measures.

## **Role of the Market**

ENO is a regulated utility with a monopoly franchise obligating it to serve the load in New Orleans and giving it the opportunity to recover its expenses and earn a fair rate of return on its investment in exchange for doing so. The IRP rules recommended here are a tool of regulation and do not rely on market mechanisms per se. However, by requiring a transparent process with the opportunity for stakeholder input, the rules would allow other market players – renewable energy providers, independent power producers, consumers – to provide input on how resources are evaluated and selected and thereby promote market interests. In addition, the rules would encourage the institution of DSM measures, which would give consumers accurate price signals about the cost of the electricity they are consuming, allowing consumers to make choices about when to consume energy and how much energy to consume at various times. This would help to unleash the traditional market forces of supply and demand into the provision of electric energy, helping to control costs.

