

Private Planning: The Forces Behind Your Power Bill

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People don't have a choice about whether to buy electricity. Quite simply, it's one of the things we've got to have to survive in the modern world. Your only real choice is how much you use – and even that amount can't reasonably go below a certain threshold.

The necessity of electricity means the utilities that produce it are overseen by the government in ways that other companies are not. In Alabama, most people in the state's northernmost counties get their electricity from the **Tennessee Valley Authority (TVA)**, a federally owned, self-financed company. Meanwhile, much of the southern two-thirds of the state buys its electricity from Alabama Power. About one-fourth of the state is served by one of 23 electrical cooperatives, most of which simply transmit electricity they purchase from one of the power-generating utilities.

Alabama is not a state with competitive retail electricity markets. Consumers generally don't get to shop for which company they want to generate (and transmit) their electricity. The companies producing electrical power essentially have a total monopoly in their service areas – and that's arguably a good thing. It's hard to imagine competing power plants on every corner, hustling for the dollar of the electricity-buying public. Instead, the state has a market situation where the federal government oversees the TVA, while Alabama Power is regulated by a state entity called the **Public Service Commission (PSC)**.

What do we want to know?

Setting electricity prices is a complicated process, but it's one that is too important to leave solely to insiders. In particular, many Alabamians could “check the math” on their power bills if they could access a document called an **Integrated Resource Plan (IRP)**.

An IRP is a long-range plan that a utility uses to help meet its forecasted electricity demand. An IRP

identifies the mix of fuels needed to generate that electricity and minimize costs to the energy system. IRPs involve informed predictions about how much electricity Alabama will need over a 20-year timeframe, and the plans usually are updated and revised every two or three years. These plans can be useful for internal corporate planning. But they also can have a big impact on household power bills.

Levels of public input into IRPs can vary greatly, depending on where in Alabama you live. If you're a TVA customer, you may have multiple public meetings during the IRP-writing process. The results

of the latest round of planning are available on the TVA website, which highlights opportunities for input from consumers, investors and all sorts of stakeholders. The TVA asks the public, customers and government regulators about a number of factors: sources used to generate power; how to reduce demand (through energy efficiency programs, time-of-use pricing, environmental impact, etc.); and delivery of power (transmission, environmental impact, pricing, etc.). It then uses this information to develop various scenarios, outline potential future events and evaluate costs and benefits for

responses to these possibilities.

Alabama Power, on the other hand, has been more reserved about its IRP process. The company submits a complete plan to the PSC every three years, but it releases only a brief general summary of the plan to the public. The PSC's annual informal meeting each December in Montgomery is often more of an Alabama Power presentation to the PSC detailing the company's various environmental compliance initiatives than any truly meaningful opportunity for customers to provide input into the company's plans for the next 20 years.

The disclosure gap

Thirty-four states require an IRP process for electric utilities, but Alabama does not. Alabama

Consumer input matters!

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SOURCE: State and Local Energy Efficiency Advocacy Network

Power's public summary of its internal IRP process lacks the details and citizen input seen in neighboring states like Florida and Georgia. TVA customers also are offered details on how their IRP process promotes low-cost, reliable power; good environmental stewardship; and economic development.

Stakeholder participation is one of the best practices for coming up with an IRP, experts say. "The best IRP processes provide opportunities for consumer advocates and other stakeholders to review the modeling assumptions and the list of scenarios to be modeled and suggest changes or additions," the State and Local Energy Efficiency Action Network writes. "These stakeholders frequently identify problems and opportunities that planners may have overlooked."

Good government needs a well-informed public

Electricity production is happening in a quickly changing world. The sources of power production have begun to diversify nationwide as market forces have led to lower prices for natural gas and as solar power has become more widespread. Many utilities also point to new federal environmental regulations as changing the rules for power generation – and the prices that consumers will pay for electricity.

With so many variables in play, Alabama Power's consumers deserve to know more about the company's plans for producing and delivering the electricity that is the lifeblood for modern living. Trade secrets certainly should be protected, but there seems to be no real reason to foreclose robust public discussion of economic variables, possible scenarios for energy demands, and mechanisms for keeping rates and bills as low as possible. Such discussions wouldn't erode the company's competitive advantage, but they would bring the regulatory environment in Alabama more in line with those in neighboring states.

These changes would require a more active role for the PSC. The commission should do more than simply acknowledge that it has received an IRP before releasing only a generalized summary and broadly assuring everyone that it is ensuring that every utility expense is necessary and prudent. Consumers would benefit from a series of opportunities for stakeholders across the state to provide meaningful input. The PSC also should work diligently to inform the public about how closely Alabama Power holds to its outlined

Keywords

Integrated Resource Plan (IRP) – a long-range plan that an electric utility uses to forecast demand for electricity, the mix of fuels needed to generate that amount of electricity, and ways to minimize costs to the electrical system.

Public Service Commission (PSC) – an elected three-person panel tasked with overseeing the state's electric utilities other than the Tennessee Valley Authority.

Tennessee Valley Authority (TVA) – a federally owned, self-financed company, founded in 1933, that provides electricity to roughly the northern one-third of Alabama.

plans. Even if the IRP is only a guideline for actual utility investments, an informed public conversation about electricity prices in Alabama requires a greater degree of disclosure than what is provided now.

Bottom line: Alabamians deserve to know more

Alabama Power successfully petitioned for an increase in electricity rates in December 2014. The 5 percent rate hike starting Jan. 1, 2015, is projected to cost a typical residential customer nearly \$7 more per month.

PSC President Twinkle Cavanaugh explained the commission's decision-making process with a football analogy. When advocates complained that the rate increase was approved without public input, Cavanaugh compared consumers to football fans, saying postgame questions are unlikely to influence the decisions that coaches make during the game.

This analogy ignores the role of the PSC as a watchdog, as well as the importance of citizen participation in the rate-making process. Consumers are not armchair quarterbacks second-guessing the calls made during a game. When a company sets rates without a public IRP process, consumers don't get to see the game being played at all. Alabamians wouldn't stand for that when it comes to the Iron Bowl, and our leaders shouldn't stand for it when it comes to important decisions that affect millions of families.

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