BEFORE THE PUBLIC SERVICE COMMISSION
OF THE
STATE OF MISSISSIPPI

MISSISSIPPI POWER COMPANY — DOCKET NO. 2018-AD-145
EC-120-0097-00

RE: MISSISSIPPI POWER COMPANY'S RESERVE MARGIN PLAN

ORDER

THIS CAUSE came on for consideration by the Mississippi Public Service Commission ("Commission"), *sua sponte*, in the above-styled docket, and, being fully apprised in the premises and having considered the documents and record before it, this Commission renders a decision as follows:

I. Background

1. This docket was prompted by the Commission's Order Approving Second Amended and Restated Stipulation issued on February 6, 2018 in Docket No. 2017-AD-112 ("2018 Order"), which ultimately resolved the outstanding regulatory issues concerning Mississippi Power Company's ("MPC" or "Company") Kemper County IGCC Project. The 2018 Order recognized it would be beneficial to analyze MPC's current reserve margin and alternatives that the Company could identify to address these reserves and to allow a fully informed and transparent review of the matter.

2. This docket was designed to proceed in a two-phased approach requiring, first, the assessment of alternatives from MPC's perspective and second, an opportunity for review by the Mississippi Public Utilities Staff ("Staff") and this Commission, with the aid of consultants. The first phase was accomplished with the filing by MPC of its Reserve Margin Plan. The second

phase is now complete with the submission of the final consultant report from Bates White Economic Consulting, being submitted in connection with this Order.

3. Based upon the documents, analysis and other evidence submitted to date, this Commission finds, as follows herein.

II. Procedural History

4. MPC initiated this docket through the filing of its Reserve Margin Plan on August 6, 2018. As required by the 2018 Order, MPC served a copy of the filed Reserve Margin Plan on all parties of record in Docket No. 2017-AD-112. MPC updated its Reserve Margin Plan analysis three times—the first time on April 24, 2019, the second time on September 17, 2019, and the third time on January 29, 2020.

5. Three parties requested and were granted intervener status by order of this Commission: Chevron Products Company, a division of Chevron U.S.A. Inc. ("Chevron") on August 29, 2018; Sierra Club on October 29, 2019; and Cooperative Energy on November 7, 2019.

6. The Commission observes that significant discovery through formal and informal data requests has been conducted by and among various parties, the Staff and outside consultants engaged in this docket.

7. On February 14, 2020, the Sierra Club filed a Motion for Scheduling Order requesting, among other things, that the Commission set a hearing date and establish a schedule for submission of additional evidence. MPC timely objected to the Sierra Club's Motion. For the reasons expressed herein, the Commission finds the present Order renders Sierra Club's pending motion moot, and, the motion is therefore denied. Nevertheless, the Commission notes

this Order does address the focus of the Sierra Club's Motion, which is to establish a definitive timeline for resource decisions concerning MPC's existing generating fleet.

8. Bates White Economic Consulting completed its Review and Assessment of MPC's Reserve Margin Plan Report, a publicly redacted copy of which has been attached to this Order.

III. Discussion

9. The evidence in this docket suggests that MPC's current reserve margin is projected to be higher than targeted reserves and, if MPC's units are left to operate through their remaining projected useful lives, this excess persists for over ten years. Both MPC and Bates White agree that MPC's excess reserves are largely due to decreases in projected load primarily driven by changes in customer usage since the last formal IRP filed with the Commission in 2010. MPC and Bates White also agree that the older, fossil steam units that represent MPC's current excess capacity have very limited marketability in the wholesale market given their marginal energy value. All agree that accelerating the retirement of some combination of Plant Watson Units 4 and 5, Plant Green County Units 1 and 2, and/or Plant Daniel Units 1 and 2 represents the most attractive option for reducing MPC's excess reserve margin.

10. Retiring a generating unit prior to the end of its useful life is not a decision to be taken likely. The variables and considerations to weigh in evaluating whether and which generating units to retire early are both economic and non-economic in nature. Aside from evaluating the comparable economic value (or cost) of each unit's continued operation to MPC's customers, impacts to customer rates, as well as impacts to the reliability and operation of MPC's electric system, are vital considerations to avoid short- or long-term impacts to MPC's ability to reliably serve customers. Other externalities such as impacts to the state or local

economy, employee base, and MPC's overall fuel diversity may also be relevant depending upon the circumstances.

11. MPC's initial Reserve Margin Plan presented evidence concerning some but not all relevant variables. MPC's three updates refined the analysis to some extent and updated assumptions on key economic and system reliability variables, but still did not provide detailed data concerning variables such as impact to the local economy of early unit retirement. Bates White's report thoroughly analyzed MPC's Reserve Margin Plan assumptions, methods and calculations, and provides this Commission with a valuable third-party perspective on several key issues. Similarly, however, Bates White did not address all the variables, such as local economic impact of the various scenarios. The Commission takes note that some additional evidence concerning these other externalities was presented in the recent certificate proceeding authorizing construction of the Plant Daniel Coal Combustion Residual projects.[1]

12. The Commission also recognizes the difficulty that joint ownership with respect to some of MPC's generating units poses to resolving this issue. For example, although the relative economics of the Greene County units highlights their candidacy for early retirement, the Commission acknowledges that neither it nor the Company controls the future of those units, as they fall under the jurisdiction of the Alabama Public Service Commission.

13. More importantly, at least two significant changes in circumstance have occurred since the initiation of this docket that influence the Commission's decision in the Order. First, on November 27, 2019, this Commission issued its Final Order Amending Rule 29 to Establish Integrated Resource Planning and Annual Energy Delivery Reporting Requirements in Docket No. 2018-AD-064. This Order established for the first time in Mississippi a detailed regulatory

[1] Order Approving Petition for Facility Certificate, Docket No. 2019-UA-116, (Oct. 28, 2019).

procedure and schedule requiring frequent and detailed integrated resource planning filings and proceedings for regulated electric and gas public utilities. Managing capacity reserves is among the types of issues designed to be addressed by this newly established Rule and its resulting procedure. Second, in January 2019, Gulf Power Company, the co-owner with MPC of Plant Daniel Units 1 and 2 notified MPC of Gulf Power's intent to retire their 50% undivided interest in these units on January 15, 2024.

IV. Findings

14. This docket was ultimately born out of a settlement compromised among over a dozen stakeholders, the Staff and this Commission. As the evidence before this Commission demonstrates, legitimate concerns exist with respect to MPC's excess reserves, but the Commission finds that the present docket is now a less ideal forum for the Commission, Staff, MPC and other interested parties to present evidence and evaluate alternatives in detail, given the existence of the newly established resource planning rule and docket applicable to specifically MPC. Upon review of the record and evidence before the Commission, including the Bates White Report, MPC is hereby ordered and directed to propose a detailed planning scenario in its initial IRP filing to be made in April 2021 consistent with the findings and guidance expressed in this Order.

15. Based upon the evidence already presented, this Commission finds that some measure of capacity reduction would likely be in the best long-term interest of customers. Indeed, no party appears to disagree with this assertion. At the same time, the Commission is cognizant of the impacts to local government and communities, the employee base and broader policy concerns, such as economic development and fuel diversity. A transition period is important to address these concerns. To this end, MPC's upcoming IRP filing should include the

schedule of early or anticipated retirement of approximately 950 megawatts of generating capacity by year-end 2027 or show cause with detailed evidence why the continued operation of some or all of MPC's existing fossil steam generation is in the best interest of customers and MPC. To be clear, while there may be real and important operational constraints that could convince this Commission to alter its findings in this Order, the economic evidence available to the Commission to date makes a compelling case for early retirement of some portion of MPC's aging fossil steam generating fleet.

16. The Commission also wants to make clear that at this stage it is not rendering a finding concerning how many and which combination of generating units can best meet the above directive. In all cases, MPC bears the burden of prudent management, which includes decisions regarding the retirement of generating plants. The Commission expects and anticipates that prudent management will be exercised in the Company's resource planning and that such will be reflected in MPC's submission in the upcoming IRP docket, including compliance with the findings contained in this Order.

17. A detailed review and discussion of the accounting and rate impacts that unit retirement decisions impose is not contained in this record, but we are generally familiar with the issues presented based upon prior cases before the Commission.[2] Under Generally Accepted Accounting Principles ("GAAP"), if a unit or portions of a unit are designated for retirement, the Company would be required to recognize certain expenses associated with that decision. First, GAAP would require accelerated recognition of the expense related to unrecovered investment cost associated with any such retirement, including the unrecovered plant asset balance and cost associated with dismantlement and asset retirement obligations. Second, GAAP would require

[2] MPSC Order, Docket No. 1992-UN-059, (Dec. 6, 2011).

all retirement related costs, such as the unused fuel and obsolete materials, and supplies, to be immediately expensed. In addition, other cost, such as cost incurred to study alternatives, regulatory cost, and other cost incurred as a result of retirement decisions, would also be expensed immediately under GAAP. This accounting treatment could result in sudden and significant rate impacts for customers.

18. Therefore, while no retirement decision has been made as of the issuance of this Order, to avoid unintended negative impacts to both MPC and customers, MPC is hereby authorized to defer all plant retirement related cost into one or more regulatory asset accounts for future recovery and place the unamortized balance of these regulatory asset accounts in PEP or ECO rate base, as applicable. MPC will be required to make a filing with the Commission when the ultimate impact is known so that the Commission can review and approve the cost and designate the amortization period as the remaining life of the assets that were deferred as defined prior to retirement, or other appropriate amortization period as required by the Commission. The Commission finds that granting MPC this accounting treatment will assist in the efficient resolution of the issues that are the subject of this Order while also mitigating any undue rate impacts to customers that may otherwise result absent Commission action now.

19. Finally, given the IRP planning scenario required by this Order, the Commission expects that any subsequent budget filings made by the Company will be developed consistent with the expectations set forth in the accelerated retirement planning scenario, as such costs arise in due course (e.g. dismantlement costs, employee transition costs, job training, etc.).

IT IS THEREFORE, ORDERED, that MPC propose a resource selection scenario in its initial IRP filing to be made in April 2021 in Docket No. 2019-UA-231 consistent with the findings and guidance expressed in this Order.

IT IS FURTHER, ORDERED, that the present Order renders Sierra Club's pending Motion moot, and, the Sierra Club's Motion for Scheduling Order is therefore denied.

IT IS FURTHER, ORDERED, that MPC be authorized to defer all plant retirement related cost into one or more regulatory asset accounts for future recovery and place the unamortized balance of the regulatory asset accounts in PEP or ECO rate base.

IT IS FURTHER, ORDERED, that with the issuance of this Order this docket is deemed completed and shall be closed.

This Order shall be deemed issued on the day it is served upon the parties herein by the Executive Secretary of the Commission who shall note the service date in the file of this docket.

COMMISSION VOTE

Chairman Dane Maxwell	Aye X	Nay ______
Commissioner Brent Bailey	Aye X	Nay ______
Commissioner Brandon Presley	Aye X	Nay ______

SO ORDERED, this the 17th day of December 2020.

MISSISSIPPI PUBLIC SERVICE COMMISSION

DANE MAXWELL, CHAIRMAN

BRENT BAILEY, COMMISSIONER

BRANDON PRESLEY, COMMISSIONER

ATTEST: A True Copy

KATHERINE COLLIER, EXECUTIVE SECRETARY

Effective this the 17th day of December 2020.