

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. RPU-2017-0001 (TF-2017-0034, TF-2017-0035)
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FINAL DECISION AND ORDER

(Issued February 2, 2018)

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I. INTRODUCTION AND PROCEDURAL HISTORY

On April 3, 2017, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) an Application for Revision of Rates (Application) and proposed electric tariffs, identified as TF-2017-0034 and TF-2017-0035, pursuant to Iowa Code chapter 476 and the Board's administrative rules at 199 Iowa Administrative Code chapter 26. In TF-2017-0034, IPL proposed final Iowa electric rates that would produce a permanent annual jurisdictional revenue increase of approximately \$176 million over test year operating revenues. The requested increase would go into effect in early 2018. IPL said the increase is necessary to recover costs associated with investments to modernize and strengthen the power grid and advance clean energy. (Application Executive Summary, pp. 1-2.)

In TF-2017-0035, IPL provided tariffs implementing a temporary annual increase in its Iowa electric revenue of approximately \$101,833,613. In lieu of a bond, IPL submitted a corporate undertaking in the amount of \$101,833,613, an amount equal to the anticipated annual increase in revenues under the temporary rates. Pursuant to Iowa Code § 476.6(9)(b), IPL implemented the temporary rates on April 13, 2017, ten days after its April 3, 2017, filing. The temporary rates are subject to refund, with interest. IPL subsequently reduced its requested increase to approximately \$168 million, an amount which includes the interim increase of approximately \$102 million.

In support of the increase requested in this proceeding, IPL described investments since its last rate case¹ in distribution and customer service (\$952 million); the Marshalltown Generating Station (MGS) (\$726 million); Franklin County Wind and Dubuque Solar Project (\$47 million); environmental projects (\$425 million); and other projects (\$212 million), totaling \$2.362 billion, all as part of IPL's strategy to modernize the power grid, advance cleaner energy, provide innovative solutions for customers, and strengthen communities. (Schmidt Direct, p. 14, Table 4.)

IPL also proposed several rate design changes, new rate options for customers (which IPL says respond to customer expectations to have more control and options in their use of energy), and the continuation of its regional transmission service rider, known as Rider RTS. IPL's rate design strategy focuses on creating

¹ IPL's last general rate case, Docket No. RPU-2010-0001, determined final rates that went into effect in 2011.

customer options (including an enhanced time-of-day tariff, a small customer demand rate pilot, and an arrearage management pilot for low-income customers); giving customers access to renewable energy; and creating a pricing structure that will accommodate new generation technologies and the growth of customer-owned options. (IPL Ex. Penticoff Direct, pp. 8-9.)

By order issued April 26, 2017, the Board approved IPL's corporate undertaking in lieu of bond, docketed IPL's Application as Docket No. RPU-2017-0001, and established a procedural schedule.

OCA filed an appearance in the docket on April 6, 2017. The Board granted requests to intervene filed by the following parties: the Large Energy Group (LEG), a group of 20 major electric service customers of IPL; ITC Midwest LLC (ITC), an independent transmission operator; the Iowa Business Energy Coalition (IBEC), an association of large employers; Archer Daniels Midland Company (ADM), an agribusiness that receives Standby and Supplementary Power Service (SSPS) from IPL; Winneshiek Energy District (WED), a non-profit corporation that promotes energy efficiency; MidAmerican Energy Company (MidAmerican); the Large General Service Group (LGSG), a group of industrial electric customers that receive service under IPL's Large General Service (LGS) rate schedule; the Environmental Law & Policy Center (ELPC), a non-profit corporation that advocates for policies that encourage energy efficiency and renewable energy, and the Iowa Environmental Council (IEC), a non-profit corporation that focuses on environmental and

sustainability issues (collectively, the Environmental Intervenors);² and Walmart Stores, Inc. (Walmart).

The Board held eight customer comment meetings in May and June of 2017 at locations throughout IPL's service territory.

On June 14, 2017, the Board issued an order requiring IPL to provide additional information in response to questions about 12 topics specified in the order. IPL filed responses to the questions on July 14, 2017. The June 14, 2017, order required IPL to file monthly operating reports regarding MGS until the date of the hearing. The reports provided information regarding generation levels, availability, curtailed operations due to limited interconnection capability (if any), and fuel and operating costs.

Pursuant to the procedural schedule modified by order issued on May 4, 2017, testimony was filed by IPL, OCA, the Environmental Intervenors, LEG, IBEC, ADM, LGSG, Walmart, and WED.

On September 15, 2017, the Board issued an order requesting that ITC file testimony responding to the Board's questions about what information ITC requires from IPL to design ITC's transmission system and how ITC has incorporated ADM's load, generation, and contract demand into ITC's plan for its transmission system. The Board asked ITC to make a witness available at the hearing to answer questions

² On August 17, 2017, the Board issued an order granting the request of the Environmental Intervenors to update their intervention group to include the Solar Energy Industries Association (SEIA), Vote Solar, and the Natural Resources Defense Council (NRDC).

about the requested testimony. On September 25, 2017, ITC filed the direct testimony of Jeffrey Eddy addressing the Board's questions.

On September 21, 2017, IPL, OCA, IBEC, and LEG filed a Non-unanimous Partial Settlement Agreement and Motion for Joint Approval of Agreement (Settlement). The terms of the Settlement are discussed below. On September 26, 2017, the Board issued an order shortening the time for comments contesting the Settlement and requesting additional information about several issues, including the effect of the Settlement on the riders proposed by IPL and whether the settling parties intended to preclude the use of a rider to recover rate case expense. The Board directed each settling party proposing cost of service or revenue allocation results to provide an updated cost of service study and other related information.

On October 2, 2017, the Environmental Intervenors and WED objected to the Settlement. The Environmental Intervenors objected to the settled residential and general service customer charges (\$11.50 and \$19.00, respectively). WED objected to the settled residential customer charge.

A hearing was held on October 4 and 5, 2017, for purposes of allowing cross-examination of all witnesses who had not been excused by Board order issued October 2, 2017.

Initial post-hearing briefs were filed on October 25, 2017, by IPL, OCA, LGSG, ADM, Walmart, IBEC, the Environmental Intervenors, and WED. Reply briefs were

filed on November 8, 2017, by ITC, Walmart, IBEC, LGSG, LEG, ADM, the Environmental Intervenors, IPL, and OCA.

II. MOTION TO REOPEN THE RECORD

On December 29, 2017, OCA filed a motion to reopen the record. OCA asks the Board to require IPL to file a recomputed revenue requirement based on the net effect of all adjustments resulting from the federal tax reform legislation of 2017, which was signed into law on December 22, 2017. (Public Law No. 115-97, Tax Cuts and Jobs Act of 2017 (the Act).) OCA says that the Act, in part, provides a substantial reduction in corporate income tax rates. OCA asserts that failure to adjust for the changes in the tax laws, the magnitude of which was not known during this proceeding, will result in excessive and unjust rates for IPL's customers. OCA says that if the Board cannot address the recomputed revenue requirement in the time that remains to issue a decision in this rate case, the Board could indicate in its final order that the rates are subject to change to produce just and reasonable rates, including a possible refund.

On January 5, 2018, IBEC and LEG each filed a joinder in OCA's motion to reopen the record to add a recomputed revenue requirement.

Also on January 5, 2018, IPL filed a response asking the Board to deny the motion. IPL says reopening the record would be risky because more time is needed to study and understand the Act to ensure compliance with IRS requirements. IPL says reopening the record to consider the forward-looking effects of the Act is not

appropriate in this case, which was based on a 2016 test year. IPL cites the Board's rules at 199 IAC 26.11(1) and 26.11(2), which describe the use of a historical test period, and argues that the existence and effect of tax reform were neither verifiable nor known and measurable as of April 3, 2017, the date this rate case was filed, nor were they verifiable when the record closed in this case. IPL says the effects of the Act are not known currently and will not be known for some time.

IPL also argues that reopening the record to apply the forward-looking tax changes to the historical test year implicates many consequences of the Act that are still unknown. As one example, IPL says it is not clear if the depreciation rules that applied to the 2016 test year will change in a way to be consistent with the Act and whether that may affect IPL's election of bonus depreciation. IPL also says OCA's request for relief is not clear and does not address how reopening the record would affect the Settlement's revenue requirement.

IPL proposes an alternative it says offers both a balanced short- and long-term approach to evaluating the effects of the Act. For the long-term, IPL says it would welcome a broad discussion of the Act with the Board and other interested parties in a workshop setting or an investigation docket. For a more immediate response to the Act, and as an alternative to reopening the record, IPL proposes to develop an estimate of the effect of the Act's reduction in corporate income tax rates on IPL's current taxes in 2018 and return that amount to IPL's electric customers through the Tax Benefit Rider (TBR) mechanism most recently approved in Docket No. ARU-

2017-0001, timed to coincide with final rates approved in this proceeding. The estimate would be subject to a true-up once actual effects of the Act are known.

On January 10, 2018, OCA replied to IPL's response. OCA says that the Act's changes to the federal corporate income tax went into effect on January 1, 2018, and the Board must consider the income tax rates that are in effect at the time the Board makes a decision about just and reasonable rates in this proceeding. OCA attaches the affidavit of OCA witness Turner, who testified about income tax issues in this proceeding. Witness Turner attests that in this case, IPL's revenue requirement was based on calculating all current, deferred, and accumulated deferred income taxes using a 35 percent federal tax rate; and that because the Act lowered the corporate rate to 21 percent, the revenue requirement calculated using the 35 percent federal tax rate will result in IPL's over-collection of current tax expense. Witness Turner also states that because IPL deferred tax expense at the 35 percent federal tax rate but will pay that back at the 21 percent rate, IPL will realize excess deferred taxes. Finally, witness Turner says that IPL is in the best position to recalculate rates based on the current federal income tax laws and that the excess deferred income taxes should be returned to ratepayers.

On January 12, 2018, LEG replied to IPL's response to the motion to reopen the record. LEG concurs in the arguments OCA made in its January 10, 2018, reply and says that IPL's proposal lacks specific information about how correct rates can be set.

IPL filed a reply on January 17, 2018, providing more detail about its proposal to return to customers the estimated benefits of the reduction in corporate tax rates using the TBR mechanism. IPL explains that it would add a second rate element calculation to the TBR tariff when it files its compliance tariffs in this proceeding. In the confidential version of its January 17, 2018, filing, IPL specifies an estimated range of the benefits from the reduction in corporate tax rates that would be included in the TBR factor. IPL says the TBR factor in the tariff for each class would consist of the addition of the first rate element (TBR III and true-ups for TBR I and TBR II, as approved in Docket No. ARU-2017-0001) and the new rate element resulting from the Act. With respect to the proposed true-up, IPL says that the estimated 2018 benefits delivered to customers through the TBR would be trued up in 2019 once IPL's 2018 final financial results are known. Treatment of any remaining benefits could be discussed in the broader docket IPL proposed as a long-term approach to considering the results of the Act.

IPL also says it plans to file another electric rate case in the spring of 2019, once its Wind I projects are placed into service. IPL says that case will address the effects of the Act, even after customers will have received millions of dollars of estimated benefits of tax reform through the TBR mechanism. IPL says it could address the effects of tax reform on its gas business in a broader proceeding to consider the effects of the Act. IPL also notes that it is planning to file a gas rate case in the second quarter of 2018, using a 2017 test year.

IPL discusses other aspects of tax reform, including excess deferred taxes and 2018 transmission rates. IPL says it has identified certain excess deferred taxes that could be delivered to customers without the risk of violating IRS rules, and the Board would have the discretion to determine how to return this one-time benefit to customers. IPL proposes to defer all excess deferred taxes relating to the Act until they are discussed in a future proceeding, in which all effects of tax reform could be fully addressed and determined with greater accuracy than the present rate case would allow.

Board Discussion

This proceeding was based on IPL's 2016 test year. Passage of the Act was not something that could be verified when IPL filed its rate case on April 3, 2017. The effects of the Act were not known within nine months of the end of the test year nor are they likely to be fully understood within the 12-month period after the commencement of this case. (See Iowa Code § 476.33(4).) Moreover, the Board is to decide rate cases within ten months (subject to certain extensions not relevant here). (See Iowa Code § 476.33(1) and 199 IAC 26.8.) Thus, the Board's decision is due on or before February 3, 2018. Because the Act went into effect with so little time remaining in this case and where determining the effects of the Act on IPL's retail rates could take a significant amount of time, reopening the record now is not appropriate when other options are available.

In this docket, the Board has considered IPL's proposal to use its tax benefit rider to deliver estimated benefits of the Act to its customers. While the proposal may have some merit, approving it in this proceeding would be premature. The Board has opened an investigation identified as Docket No. INU-2018-0001 in which the Board is gathering information about the effect of the Act on rate-regulated utilities in Iowa. That docket and any associated proceedings that arise from the Board's investigation are more appropriate proceedings in which to consider IPL's proposal. Accordingly, the Board will deny the motion to reopen this record.

III. SETTLEMENT

The settling parties (IPL, OCA, IBEC, and LEG) represent that the Settlement resolves all issues in the proceeding relating to the revenue requirement, return on equity, the application of the double leverage adjustment,³ and capital structure. (Settlement, Article 1, p. 2.) The Settlement also addresses miscellaneous issues relating to capacity accreditation for the MGS and tax benefit rider refunds, and rate design issues relating to fixed customer charges for residential and general service customer classes and IPL's proposed arrearage management program. (However, objections were filed regarding the fixed charges for residential and general service customer classes.)

³ The settling parties agree that double leverage does not apply to IPL for purposes of the Settlement. (Settlement, p. 4, Article VI.)

The settling parties attached schedules to the Settlement showing the data used to develop the Settlement's provisions on rate base and return (Settlement, Article VI) and revenue increase and revenue requirement (Settlement, Article VII).

The Settlement addresses the following issues:

A. Revenue Requirement

IPL reduced its requested increase from approximately \$175.5 million to approximately \$168 million. (IPL Ex. Wheatley Rebuttal, p. 11.) OCA had proposed an increase of approximately \$90 million. (OCA Ex. Kruger Revised Direct, p. 4.) The Settlement calls for an overall increase of \$130 million, based on a revenue requirement of \$1,796,475,125. The adjustments made to reach the Settlement's \$130 million base rate increase can be summarized as follows:

1. Uncollectible Accounts

IPL proposed to adjust uncollectible expenses to the latest five-year average (2012-2016). Normally, this is the practice for determining a representative level of uncollectible expenses in a rate case. However, in 2016 IPL had significantly higher levels of uncollectible expenses due to implementation of a new billing system. Uncollectibles in 2016 were 61 percent higher than the latest five-year average, including 2016, and 92 percent higher than the five-year average from 2011-2015. The Settlement incorporates OCA's proposal, which uses a five-year average from 2011-2015. This reduces the original proposed rate increase by approximately \$1.4 million.

2. Performance Pay Plan

The Settlement removes IPL's adjustment of \$12,000,690 for its performance pay plan from its cost of service. IPL had proposed to include the performance pay plan in the test year revenue requirement. IPL noted in its testimony that in Docket No. RPU-2009-0002, the Board did not approve recovery of performance pay plan costs. In that case, IPL did not have performance pay plan costs in its test year or certainty about an expected payout in the 2009 post-test year period. The Board indicated that the issue could be revisited in a future rate case. IPL also noted that performance pay has been awarded in each of the last seven years. IPL argued in this case that the performance pay plan allows IPL to attract and retain a quality workforce, is driven by the company's overall performance, and allows the company to align employees to the areas that are critical to the company's performance. (IPL Ex. Stock Rebuttal, pp. 3-4.)

OCA's position on the issue of performance pay is that IPL's executives, directors, and non-bargaining employees receive wage increases every year and receive competitive pay and benefits that IPL customers pay for through base rates. OCA contends that IPL's customers should not pay extra for what IPL's employees are required to do, i.e., provide safe, reliable, and environmentally responsible utility service at a reasonable price. OCA also pointed out that stockholders are not allocated any of the costs of the plan. (OCA Ex. Kebede Direct, p. 14.)

3. Asset Retirement Obligation Costs

IPL proposed an adjustment relating to cost recovery of post-2008 Asset Retirement Obligations (AROs) for asbestos and ash pond closure at the Sixth Street Generating Station and reclamation costs at Cedar Lake. (IPL Ex. Fields Rebuttal, p. 6.) LEG recommended that 100 percent of the ARO costs be eliminated. (LEG Ex. Latham Rebuttal, p. 5.) The Settlement incorporates LEG's proposal, resulting in a reduction to expenses of approximately \$650,000.

4. Retirement of Sutherland Generating Units 1 & 3

IPL proposed to recover its remaining investment in the Sutherland Generating Station (SGS) over ten years. OCA agreed that test year operations and maintenance and depreciation should be removed from the income statement and plant in service and accumulated depreciation should be removed from rate base. OCA did not agree that IPL should be able to recover the remaining rate base as a regulatory asset since it is no longer used and useful. Under the Settlement, SGS Units 1 and 3 are removed from rate base, which eliminates the return component, but IPL will still be able to recover its investment. This reduces the original proposed rate increase by approximately \$5.0 million.

5. Return on Equity and Capital Structure

The settling parties agreed to a 9.6 percent return on equity (ROE) to apply to that portion of IPL's rate base that is not associated with advanced ratemaking principles. The settling parties assert this is a reasonable compromise based on the

evidence provided by the witnesses in their written testimony. IPL witness Morin determined that a reasonable ROE would fall within the range of 9.9 percent to 10.7 percent; IPL requested 10.3 percent, the midpoint of that range. OCA witness Munoz recommended an ROE of 8.5 percent, and IBEC witness Gorman recommended an ROE of 9.0 percent. The overall ROE range for the ROE witnesses was therefore 8.5 percent to 10.3 percent, with a midpoint of 9.4 percent.

IPL witness Morin testified that OCA's proposed ROE of 8.5 percent is among the lowest authorized returns in the utility industry, if not the lowest. (IPL Ex. Morin Rebuttal, p. 2.)

The Settlement includes IPL's requested capital structure (49.0 percent equity and 46.8 percent debt) based on thirteen-month average balances ending September 30, 2017. It appears this capital structure was updated to reflect actual numbers since there is a slight difference between IPL's proposed capital structure in its confidential rebuttal testimony and what was included in the Settlement. OCA proposed a capital structure with balances ending April 30, 2017, noting it would update the capital structure at a later date. The Settlement was reached before OCA was able to update the capital structure.

B. Other Settled Issues

1. Arrearage Management Pilot

IPL had proposed an Arrearage Management Program (AMP) pilot, which was intended to be a financial assistance program that would be available to limited-

income customers with past-due utility bills. OCA witness Kruger testified that the AMP was not a good solution for helping low-income customers that may have trouble paying their bills. (OCA Ex. Kruger Direct, p. 23.) As part of the Settlement, IPL agreed to withdraw the proposed AMP pilot.

2. Customer Charges

The settling parties agreed to set monthly customer charges at \$11.50 for residential customers and \$19.00 for general service customers. Environmental Intervenor objected to this portion of the Settlement. WED objected to the fixed customer charge for residential customers.

IPL says the Settlement's increase in the residential and general service customer charges is consistent with a gradual move to full-cost pricing. IPL explains that 90 percent of the settled rate increase will flow through the energy component of rates, which it says sends a price signal to customers to reduce usage.

IPL asserts the increase in the customer charge helps balance the scale in favor of full-requirements customers, who subsidize partial-requirements customers when the full customer cost is not included in the customer charge.

IPL says the customer charges comply with Board rule 199 IAC 20.10(2) because they are supported by IPL's class cost of service study (CCOSS), which identified differences in cost-incurrence, as required by the rule. IPL also states that the customer costs were allocated to the customer function, consistent with Board rule 199 IAC 20.10(2)(e) and Board precedent. (IPL Reply Brief, p. 25.) IPL

contends the customer charges are just and reasonable, a standard that does not depend on customer impact, and that IPL's CCOSS would support much larger increases than those in the Settlement. IPL also says it considered the impact of the increase on energy efficiency and determined it would be minimal. IPL also concluded the increase was equitable with respect to distributed generation (DG). (IPL Reply Brief, p. 26.)

OCA says that the Settlement properly balances the various positions regarding the customer charges and results in rates that are just and reasonable and consistent with the public interest. According to OCA, the Settlement's customer charge rates are modestly higher than OCA's recommendations and much lower than IPL's proposed increases; therefore, the Settlement's customer charge rates are more closely aligned with the appropriate application of Board rule 199 IAC 20.10(2)(e), consistent with OCA's recommended customer charges. (OCA Initial Brief, p. 9.)

Environmental Intervenors recommend that the Board reject the settled increase in the residential and general service customer charges. Environmental Intervenors argue that the settled customer charges include costs which are outside of the charges allowed by Board rule 199 IAC 20.10(2)(e) and are not just and reasonable as required by Iowa Code § 476.4(1). They also argue that IPL has not analyzed the impact of the customer charges to determine whether they are just and reasonable; and IPL has not evaluated the impact the increased customer charges

would have on energy efficiency, conservation, and renewable energy.

(Environmental Intervenors' Initial Brief, pp. 25-27.)

WED urges the Board to keep the residential fixed customer charge at its current level. WED argues that low-income customers will be hurt by any increase in the fixed monthly customer charge. (WED Brief, p. 10.)

According to LEG, the objections from Environmental Intervenors and WED lack merit and should be rejected. LEG asserts that income should not be used as a basis for determining the residential customer charge, as was suggested by WED witness Osterberg. Also, LEG says that WED's suggestion that customers with DG facilities should receive preferential treatment because DG facilities provide environmental and fuel savings benefits is not supported by the CCOSS results. According to LEG, the witnesses for Environmental Intervenors and WED mischaracterize the relationship between income and kWh usage. LEG asserts that income does not impact residential kWh usage and the household/electric kWh usage relationship contributes little to determining the appropriate amount of the residential customer charge. (LEG Initial Brief, p. 24.)

Walmart supports the LGS rate design proposed by IPL. Walmart states that IPL's proposed rate design is consistent with how the underlying costs are incurred. (Walmart Initial Brief, p. 10.)

3. Tax Benefit Rider

The Settlement provides that IPL will return to customers the estimated electric portion of the proceeds of the tax benefit filing, as described in Docket No. ARU-2017-0001, over a 12-month period, when final rates are determined in this case. (Settlement, Article XI.) In Docket No. ARU-2017-0001, IPL asked the Board for an accounting ruling that would allow IPL to change its accounting practice regarding capitalized interest. IPL said the change in practice would result in tax savings that would be returned to customers. IPL's initial request for the accounting ruling did not include a specific proposal for when it would provide the tax savings benefits to customers. In a filing in Docket No. ARU-2017-0001 dated October 17, 2017, IPL explained that if the Board approves the Settlement proposed in Docket No. RPU-2017-0001, IPL will use its TBR tariff as the mechanism to return the potential tax savings to customers. IPL said it would include a revised TBR tariff in its final compliance tariff filings submitted after the Board issues a final order in this case. On October 27, 2017, IPL filed a statement in Docket No. ARU-2017-0001 explaining how it would treat the natural gas portion of the potential tax savings. OCA did not object to IPL's requested accounting ruling, the proposed use of the TBR tariff, or IPL's proposed treatment of the natural gas portion of the tax savings. The Board issued an Accounting Ruling in Docket No. ARU-2017-0001 on November 17, 2017, approving IPL's requested change in accounting practice.

4. MGS Capacity Shortfall

The MGS is a 650 MW nominal capacity natural gas-fired combined cycle generating unit located in Marshalltown, Iowa. (IPL Kouba Direct, pp. 13-14.) MGS is currently limited to a net output of 500 MW of its tested 663 MW capacity until a new transmission line is completed. After completion of the line, IPL will be able to claim 630 MW of capacity and energy.⁴ LEG argued that until that occurs, customers could end up paying for costs related to a capacity shortfall due to MGS not receiving full capacity accreditation.

The Settlement provides that if IPL fails to receive full accreditation of the MGS capacity under the Midcontinent Independent System Operator, Inc. (MISO), Resource Adequacy process for the relevant planning year, beginning with 2018-2019 and continuing through 2021-2022, IPL will credit to customers the cost of service impact of the capacity shortfall. That cost will be determined in IPL's next rate case.

C. Board Discussion and Analysis of Overall Settlement

In reviewing a settlement, the Board considers the entire settlement and will not approve the settlement "unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest." 199 IAC 7.18. The Board examines the individual issues in the settlement that are contested, but in ruling on a settlement, all of the settlement's terms and conditions are factored into the Board's

⁴ See "Additional Information" filed on October 2, 2017, in response to the Board's "Order Shortening Time for Comments Contesting Proposed Settlement, Requesting Additional Information, and Requiring Filing from Intervenor," issued September 26, 2017.

decision. A settlement generally represents compromise on various issues and therefore must be considered as a whole.

In this case, no party objected to the Settlement's treatment of the revenue requirement issues. The revenue adjustments made in the Settlement produce a revenue requirement increase roughly midway between the initial positions advocated by IPL and OCA. In light of the record as a whole, the Board concludes that the Settlement's revenue requirement increase of \$130 million is reasonable as part of the overall Settlement.

With respect to ROE, using IBEC witness Gorman's ROE of 9.0 as the low end of the range would produce a midpoint of 9.65 percent, slightly higher than the settled ROE of 9.6 percent. In 2017, the Board approved a 9.6 percent ROE for Iowa-American Water Company in Docket No. RPU-2016-0002 and a settled 9.5 percent ROE for Liberty Utilities in Docket No. RPU-2016-0003. Also, as noted by IBEC witness Gorman, recent authorized ROEs for electric utilities have declined to about 9.6 percent for 2016 and that trend continues in 2017. (IBEC Ex. Gorman Direct, p. 4.) The Board finds there is sufficient evidence in the record to support a finding that the settled ROE of 9.6 percent is reasonable.

The Board also finds that the Settlement's use of IPL's capital structure is reasonable and consistent with Board precedent. IPL's capital structure represents the most current capital structure in the record, was determined using the Board's

traditional method for capital cost rates, and was based on 13-month averages, consistent with Board precedent.

The Board also concludes the Settlement reasonably resolves the issues relating to IPL's proposed AMP pilot, MGS capacity shortfall, and the TBR.

The only issue that was the subject of any objections was the rate design issue relating to the fixed customer charges for the residential and general service customer classes. The table below shows the range of customer charges considered in this case and the percentage increase versus current rates for residential and general service customers.

	Residential		General Service	
	Rate	% Inc.	Rate	% Inc.
Current	\$10.50		\$17.80	
Settled⁵	\$11.50	9.5%	\$19.00	6.7%
CCOS ⁶	\$16.95	61.4%	\$24.98	40.3%
IPL Proposed	\$13.50	28.6%	\$24.00	34.8%

As shown in the table, IPL's CCOS would support customer charge increases that are significantly higher than the customer charges agreed to in the Settlement.

Overall, the Settlement increases residential and general service customer charges by \$1 (9.5 percent) and \$1.20 (6.7 percent), respectively.

The customer charge rates in the Settlement are relatively close to OCA's initial recommendations, lower than interim customer charges currently in effect, and much lower than the increase first requested by IPL. The Board finds IPL's customer

⁵ Settlement, Article X, p. 6.

⁶ IPL Exhibit Vognsen Rebuttal, Schedule D.

charges have not increased in 13 years and the Board concludes that the settled customer charges are reasonable.

Viewing the Settlement as a whole, the Board concludes that the Settlement is "reasonable in light of the whole record, consistent with law, and in the public interest." 199 IAC 7.18. The Board will approve the Settlement, clarified to provide that IPL will be allowed to collect its reasonable and just rate case expense through the use of a rate case expense rider, as will be explained in Section IX of this order.

IV. CLASS COST OF SERVICE

IPL asserts its CCOSS is consistent with Board rules and precedent and appropriately guides the allocation of costs in this case. IPL's CCOSS looked at nine retail classes, including new partial requirements classes. IPL developed its CCOSS using a three-step process: (1) functionalization (separating costs into functional categories based on utility characteristics); (2) classification (further separation of costs into customer, demand, and energy categories); and (3) cost allocation (assigning costs to each customer class or rate class based on customer, demand, or energy allocation factors). According to IPL, because utilities are integrated systems and customers take service from common facilities, it is necessary to allocate portions of the system among the customer classes. IPL asserts its approach to developing its CCOSS is consistent with methodologies approved by the Board. (IPL Initial Brief, pp. 21-22, citing IPL Exhibit Vognsen Direct, Schedule J.)

Specific features of IPL's CCOSS and its proposed allocation of costs that will be discussed throughout this order include IPL's allocation of generation and transmission costs on the basis of average and excess demand (A&E); IPL's use of non-coincident peak (NCP) customer class demands (including for the partial requirements classes); IPL's proposal to allocate the costs of the NextEra Duane Arnold Energy Center (DAEC) power purchase agreement (PPA) on a 75/25 split between demand and energy; and IPL's assignment of administrative and general (A&G) expenses as customer-related for inclusion in the customer charge. Ultimately, rather than implement the results of its proposed CCOSS, IPL proposes to allocate the revenue requirement responsibility to customer classes using an 80/20 weighting of test year revenues and the CCOSS results.

Generally, the Board observes that IPL's CCOSS is consistent with previously-approved methodologies. Specific objections to the CCOSS and IPL's proposed allocation of the revenue requirement are discussed below.

A. Allocation of Generation Costs

The parties generally agree that generation costs should be allocated among customers based on the A&E allocation methodology as proposed by IPL. (IPL Initial Brief, p. 34; LEG Initial Brief, p. 7; IBEC Initial Brief, p. 1; LGSG Initial Brief, pp. 8-9, 13; Walmart Initial Brief, pp. 1-10.) In testimony prior to the hearing, IBEC proposed that the A&E should either be based on coincident peaks during the peak summer months or on class non-coincident peak loads occurring during the summer. (IBEC

Ex. Brubaker Direct, p. 5.) In response to the Board's September 26, 2017, order requesting additional information, IBEC and ADM provided a joint response on October 2, 2017, which included an updated CCROSS and revenue allocation. The updated CCROSS reflects IBEC and ADM's overall position including an alternative A&E allocation factor for generation costs using summer non-coincident peaks.

Board Discussion

The Board has compared IPL's allocation factors with the alternative factors proposed by IBEC and ADM (including their proposed effective forced outage rate approach to allocating generation costs and their proposed A&E methodology using summer NCP). IBEC and ADM have not established that it is more appropriate to allocate generation costs based only on the summer season when at least some generation is used year-round. The generation allocation factors provided on October 2, 2017, by IBEC and ADM would result in increased cost allocations for each class except the standby class. The Board will not make the adjustments proposed by IBEC and ADM.

The Board concludes that IPL's proposed A&E methodology for allocating generation costs more appropriately balances the interests of all customer classes and produces rates that are just and reasonable. The Board will approve IPL's proposed A&E methodology for allocating generation costs among customer classes.

B. Allocation of Transmission Costs

Historically, transmission costs have been allocated based on the A&E methodology as IPL proposes. IPL proposes to allocate transmission costs using the A&E methodology in order to reflect use of the transmission system throughout the year, including at peak system usage. LEG and LGSG support IPL's proposed allocation based on A&E. ADM and IBEC propose allocating transmission costs based on 12 monthly coincident peaks (12 CP) with costs allocated in proportion to the class's use of the system at the time of each monthly peak. ADM argues this approach is consistent with how ITC bills IPL for transmission costs.

Board Discussion

The Board will address the issue of allocation of transmission costs more fully later in this order when discussing IPL's request to continue use of its transmission rider, Rider RTS.

C. Allocation of Customer Costs

1. A&G Expenses

IPL asserts it has appropriately classified certain expenses (including A&G expenses) as customer-related to be included in the customer charge. IPL says its proposed allocations are consistent with the industry-standard National Association of Regulatory Utility Commissioners (NARUC) Electric Utility Cost Allocation Manual (NARUC Manual), which endorses use of a labor allocator. (IPL Initial Brief, pp. 26-27.)

IPL further allocates each customer class's share of A&G expense based on the net plant balances allocated to each customer class to functionalize A&G expense into its production, transmission, distribution, and customer-related distribution components. In this way, only a portion of each customer class's A&G expense is considered customer-related and the remainder is recovered through either energy or demand and energy rates. IPL asserts this is an appropriate and balanced way to recover these costs. (IPL Initial Brief, p. 27.)

Environmental Intervenors argue that IPL has included impermissible costs in calculating the customer cost category, contrary to the Board's rule at 199 IAC 20.10(2)(e), which provides "[c]ustomer cost component estimates or allocations shall include only costs of the distribution system from and including transformers, meters and associated customer service expenses." (Environmental Intervenors Initial Brief, pp. 25-26.)

In response, IPL says the labor component of A&G that it assigns to the customer cost is directly related to the labor associated with serving customers, and is consistent with past practice accepted by the Board. (IPL Initial Brief, p. 27, citing IPL Ex. Vognsen Direct, Schedule J.)

Board Discussion

The Board does not agree with the assertion of Environmental Intervenors that IPL has improperly assigned the labor component of A&G expenses to the customer

cost category. The Board finds that IPL's proposed allocation of customer costs is reasonable and consistent with the Board's rule at 199 IAC 20.10(2)(e).

2. Uncollectible Expenses

IPL explains that in its rebuttal testimony it changed its proposed allocation of uncollectible expense from a customer count basis to a revenues basis after considering OCA's testimony. This had the effect of moving costs from the residential class to other classes. (IPL Reply Brief, p. 22, citing IPL Exhibit Vognsen Rebuttal at 12, 38.)

Although IBEC was a party to the Settlement, which resolves the issues of the level of uncollectible expenses and the customer charges, IBEC objects to IPL's allocation of uncollectible expenses on the basis of revenues. IBEC argues that allocating uncollectible expenses on the basis of class revenue contradicts the concept of cost of service. The amount of uncollectible expenses associated with a customer class is a cost of serving that class. IBEC says that uncollectible expenses vary substantially across customer categories, with the lowest amounts associated with large customers and the largest amounts associated with residential and small commercial customers. IBEC asserts test year costs should be assigned to the classes actually responsible for them. (IBEC Initial Brief, p. 8.)

IBEC explains that uncollectible expenses are typically handled by a specific assignment based on the write-off experienced by customers in each class or by an allocation based on the number of customers, number of accounts, weighted number

of customers, or weighted number of accounts. Companies comparable to IPL use these methods, and there is no accepted methodology by which uncollectible expenses are allocated to all customer classes on the basis of class revenue. (*Id.*)

IPL says that its approach to allocating uncollectible expenses is reasonable and consistent with the NARUC Manual, which provides that uncollectible accounts "may be directly assigned to customer classes. Some analysts prefer to regard uncollectible accounts as a general cost of performing business by the utility, and would classify and allocate these costs based upon an overall allocation scheme, such as class revenue responsibility." (IPL Reply Brief, p. 22, citing NARUC Manual, p. 103.)

IPL agrees with IBEC that direct class assignment of these costs is also an appropriate approach, but says it does not have the necessary information by customer class. IPL says that in this case the Board should approve IPL's proposed allocation of uncollectible expenses based on revenue. However, IPL would not object to gathering information about uncollectible expenses on a class basis for possible use in its next rate case as a basis for allocating these costs. (*Id.*)

Board Discussion

The Board will approve IPL's proposed allocation of uncollectible expenses on the basis of revenues. The Board understands that IPL will collect the data that would be needed to analyze direct assignment of uncollectible expenses for use in its next rate case.

D. Allocation of DAEC PPA

IPL proposes to allocate the costs of the DAEC PPA on a split of 75 percent to demand and 25 percent to energy.⁷ IPL's position is that because customers receive capacity and energy value from the DAEC PPA, the costs should be allocated on both a capacity and energy basis. OCA argues the allocation should be 100 percent to energy, leading to fewer costs of the contract being assigned to the residential class. (OCA Initial Brief, p. 15, citing OCA Ex. Bodine Direct, pp. 5-6.) IBEC, LEG, and LGSG support IPL's proposed allocation.

IPL explains that the new DAEC PPA became effective in 2014 and reduced the overall power purchase costs to the benefit of customers. (IPL Initial Brief, p. 25, citing IPL Ex. Vognsen Rebuttal, p. 11.) The new PPA provides IPL's customers both energy and capacity (MISO zonal resource credit) benefits and is billed solely on a kWh energy basis, with all of its costs currently being recovered from customers through the energy adjustment clause (EAC). Under the previous PPA, capacity costs were recovered through base rates rather than through the EAC. The intent of the new PPA was to allocate costs to all IPL customers consistent with the energy and capacity values of the PPA, and not to allocate more costs to one customer class versus another. To balance the costs of the new PPA among customer classes, IPL

⁷ IPL initially had a 70 percent ownership interest in DAEC, a 615 MW nuclear generating facility. DAEC began operations in 1975. When considering whether to relicense the facility to extend its lifetime, IPL decided it did not want to own the facility and executed a transaction with an affiliate of Florida Power and Light Company (FPL) to sell its ownership of the facility and enter into a PPA to secure the benefits of the facility for IPL's customers until 2014. In 2012, IPL and NextEra, FPL's successor, filed a reorganization application with the Board seeking, in part, to extend the length of the term of the PPA. The initial PPA had separate capacity and energy charges. The new PPA is priced using an energy charge only. (IBEC Initial Brief, pp. 1-3.)

split the purchase power costs into capacity and energy components, as had been done in the past. The imputed capacity costs are allocated among the customer classes on an A&E basis consistent with past precedent and the energy costs are allocated on the basis of kWh usage.

IPL says it receives capacity credit for the DAEC PPA and would have to pay for that credited capacity without the PPA. (IPL Initial Brief, pp. 25-26.) According to IPL, the value of that credit is real because most of the costs of a nuclear plant are fixed. IPL also argues that the value of that capacity credit is not related to the billing mechanism by which IPL pays NextEra. According to IPL, NextEra's generation fixed costs have not become variable simply because the billing units established by NextEra and IPL are based on variable units. IPL also points to the NARUC Manual, which acknowledges that it is value (demand, in this instance) that should drive allocation, not structure, such as a PPA. (IPL Reply Brief, p. 13.)

OCA says that the costs associated with the DAEC PPA are billed to IPL on an energy (kWh) basis and IPL collects those costs from its customers on an energy basis. According to OCA, it is appropriate for the CCOSS to reflect the fact that the DAEC PPA cost is incurred on a kWh basis and is recovered on a kWh basis by allocating all DAEC PPA costs to energy. OCA says this allocation would be consistent with the NARUC Manual. (OCA Initial Brief, p. 15.)

OCA argues that IPL's proposal is inconsistent with prior Board orders concerning the new DAEC PPA and inconsistent with IPL's earlier positions.

According to OCA, IPL argued, and the Board accepted, that the new energy-only DAEC PPA qualified for EAC recovery under Board rule 199 IAC 20.9. Opposing a proposal by LEG that the new DAEC PPA charges should be split into separate capacity and energy charge components, IPL argued "that the relationship of capacity costs to energy costs in the new DAEC PPA is not obvious and not necessarily the same as in the current PPA." (OCA Initial Brief, p. 16, citing *In re: Interstate Power and Light Company and FPL Energy Duane Arnold, LLC*, Docket Nos. SPU-2005-0015, TF-2012-0577, "Order," issued January 31, 2013, p. 21.)

OCA says it was recognized that IPL would receive credit for DAEC capacity within MISO even though there are no capacity charges associated with the new DAEC PPA; the Board accepted IPL's arguments, concluding that this issue would be appropriately determined in the context of a general rate case. (OCA Initial Brief, p. 16, citing January 31, 2013, Order at 35-36.) More recently, the order approving the settlement in Docket No. RPU-2014-0001 allowed recovery of DAEC costs through the EAC. (OCA Initial Brief, p. 16.)

OCA says that the present case offers the first opportunity for the Board to consider and determine the appropriate cost allocation for the new DAEC PPA when all aspects of the utility's costs and class pricing structure can be considered. Although IPL previously asserted that the relationship of capacity costs to energy costs in the new DAEC PPA is not obvious and not necessarily the same as in the

old PPA, IPL now proposes to rely on historic cost allocations to allocate DAEC PPA capacity costs in this case.

The Board's approval of IPL's new kWh-based DAEC contract and recovery of these costs through the EAC in the 2013 order was predicated on IPL's assertion that the relationship of capacity costs to energy costs in the new DAEC PPA is not obvious and should be determined based on a study of this new relationship, not historic contract terms. OCA argues that the Board should reject IPL's recommended capacity allocator, which is based solely on historic pre-2014 PPA capacity allocations and is not the difficult-to-determine component IPL was alluding to when it obtained approval to recover these costs through its EAC.

OCA also argues that IPL's proposed DAEC capacity allocation cannot be justified under its proposed class pricing structure. OCA says that IPL's proposed DAEC capacity allocator shifts a greater portion of DAEC PPA costs to the residential and nonresidential general service classes in its CCOSS. IPL exacerbates this treatment by seeking to impose an 80/20 CCOSS that would require its residential and general service customers to bear even more costs while shielding LGS customers from their full share of cost-justified revenue requirement responsibility.

OCA suggests that the appropriate resolution of the DAEC capacity cost allocation and allocation of revenue requirements among classes must not lose sight of the cost-based increases indicated by IPL's CCOSS. OCA says that its proposed

DAEC kWh allocation and 50 percent CCOSS adjustment is the only proposal that appropriately considers and balances the CCOSS results. (OCA Initial Brief, p. 19.)

IBEC urges the Board to reject OCA's proposed treatment of the DAEC facility. IBEC concurs in IPL witness Vognsen's description of the nature of the PPA. (IBEC Initial Brief, p. 3, citing Vognsen Direct, p. 56.) IBEC does not agree with OCA's interpretation of prior orders regarding the DAEC PPA. IBEC contends the Board never found that the new pricing structure would change the fact that the product being purchased was both capacity and energy, or that the basis for allocation should change as a result of the new pricing structure. IBEC also disputes OCA's reliance on the NARUC Manual, pointing out that wholesale power markets have evolved significantly since the manual was published in 1992. According to IBEC, many contracts that provide firm power, i.e., contracts that provide both capacity and energy, are priced on an energy-only basis. (IBEC Reply Brief, p. 2.) IBEC says the Board should approve IPL's proposal because it accounts for the real nature of the capacity and energy products purchased in the DAEC PPA.

LEG supports IPL's proposed allocation of the DAEC PPA costs. LEG says there is a generation capacity demand component to the power supply services that IPL receives under the DAEC PPA. LEG observes that during the hearing in this case, IPL confirmed that the historical split between demand and energy was indeed 75 percent / 25 percent. (LEG Initial Brief, p. 9, citing Tr. 150-151.) LEG presumes that NextEra continues to invest significant amounts of capital into DAEC and asserts

the 75 percent allocation of PPA costs to demand component costs is reasonable.
(LEG Initial Brief, p. 9.)

Likewise, LGSG urges the Board to reject OCA's proposal, asserting that NextEra's recent billing method change does not change the underlying nature of cost causation. The new energy-based billing method includes fixed cost recovery, which is properly classified as a demand cost. Cost collection is not necessarily the same as cost causation. (LGSG Initial Brief, p. 9.)

Board Discussion

Under the new DAEC PPA, IPL is billed on an energy (kWh) basis rather than a demand (kW) and energy basis. IPL's CCOSS allocates the DAEC PPA costs based on a 75/25 demand/energy split. In support of that allocation, IPL states that its customers receive both energy and capacity benefits, noting that IPL receives capacity credit for the PPA to meet its MISO resource adequacy requirements. If the PPA did not exist, IPL would have to replace that capacity to meet its obligations. IPL's imputed capacity costs are allocated among the customer classes based on A&E demand and the energy costs are allocated based on kWh usage. Alternatively, OCA would allocate the DAEC PPA costs based on energy only because that is how IPL is billed. OCA's approach reduces the costs allocated to the residential class. OCA acknowledges IPL's current estimates of capacity/energy splits of 51/49 and 44/56, but still argues for a capacity/energy split of 0/100. (OCA Initial Brief, p. 17.) All of the other parties who commented on this issue support IPL's allocation.

The Board will approve IPL's proposed allocation of the costs of the DAEC PPA. The evidence in this record does not establish that the manner in which IPL is billed must dictate the manner in which IPL allocates its costs to customers.

Because customers receive both demand and capacity benefits from the PPA, the Board concludes IPL's proposed allocation of the costs of the DAEC PPA on a split of demand and energy is reasonable.

E. Revenue Allocation

IPL says it strongly supports cost-based rates and that its CCOSS provides the basis for reaching a fully cost-based allocation. IPL points out, however, that its rates have not been strictly based on the results of a CCOSS since the merger of IES Utilities, Inc., and Interstate Power Company, some of the predecessor utilities of IPL. Rather than fully implementing the results of its CCOSS in this proceeding, IPL proposes to allocate the revenue requirement among customer classes on the basis of an 80/20 split, with 80 percent based on a uniform percentage of test year base revenues and 20 percent based on the CCOSS results. According to IPL, the Board has explained that a CCOSS is helpful in setting rates, but is not the only consideration in setting just and reasonable rates. (IPL Brief, p. 23, citing *In re: Interstate Power and Light Company*, Docket No. RPU-04-1, "Final Decision and Order," p. 17, issued January 14, 2005.) IPL contends its 80/20 proposed allocation achieves just and reasonable rates in this case.

IPL explains this is the first time in approximately 13 years it is using a CCROSS to allocate costs. With stakeholder approval, IPL waited until it had equalized rates among its merged service territories before using the results of its CCROSS. IPL says that going beyond its 80/20 approach in this case is inequitable and could lead to rate shock, particularly to the LGS class. (IPL Initial Brief, pp. 22-23; IPL Reply Brief, p. 12.)

OCA proposes that the revenue requirement be allocated based on an equal weighting (50/50) between the overall percentage increase and the percentage increase from OCA's CCROSS results. OCA contends its approach achieves rates that are better aligned with IPL's CCROSS results and mitigate potential rate shock resulting from strict application of IPL's CCROSS.

OCA observes that movement toward cost-based rates was delayed during the process of equalizing rates among IPL's merged service territories and says there is no need or justification for continuing to delay movement toward cost-based rates. Failure to make progress toward implementing CCROSS results means that one or more customer classes will continue to subsidize other customer classes.

OCA says that IPL's comparison of its rates to those of other utilities shows that IPL's residential rates are among the highest in the state and region, while its industrial rates are among the lowest. OCA claims this indicates IPL's residential, commercial, and industrial rates are out of alignment. (OCA Initial Brief, p. 13, citing OCA Ex. Bodine Rebuttal, p. 3.)

OCA argues that IPL's proposed revenue requirement allocation will exacerbate this situation by allocating a larger-than-warranted revenue requirement and rate increase to residential and small general service customer classes and allocating a smaller-than warranted increase to IPL's large commercial customer classes. Approximately 25 percent of IPL's residential customers have household incomes of less than \$25,000, while 50 percent have incomes less than \$50,000. OCA contends it would be inequitable for IPL's residential and general service customers to continue subsidizing the rates of IPL's larger commercial customers as IPL proposes. The approximately 200,000 lower income households in IPL's service territory cannot afford to subsidize the rates of large commercial customers. OCA says its proposed CCROSS and revenue allocation achieve the important purpose of moving toward cost-based rates.

WED suggests that the allocation should be based on a comparison with rates of other utilities. (WED Ex. Johnson Direct, pp. 6-7.)

Walmart, IBEC, LEG, ADM, and LGSG support IPL's proposed revenue allocation. Walmart suggests that while the results of IPL's CCROSS provide guidance on the appropriate allocation of the utility's revenue requirement to the customer classes, other factors must also be considered. Walmart argues IPL's approach results in a more reasonable revenue allocation than if the CCROSS results were fully implemented. (Walmart Reply Brief, p. 5.) Walmart contends that OCA's proposal favors residential customers at the expense of commercial and industrial customers.

OCA's proposal would reduce the residential rate increase to 5.22 percent, while increasing the LGS rate increase from 10.88 percent to 13.98 percent, imposing greater rate shock on commercial and industrial customers. (Walmart Reply Brief, pp. 6-7.)

IBEC urges the Board to approve IPL's revenue increase allocation in order to mitigate significant cost increases to certain classes. According to IBEC, any reliance on OCA's revised CCOSS is inappropriate. Even with IPL's 80/20 approach, the increases in base rates are substantially higher for the LGS and High Load Factor Large Volume/Bulk (HLFLV/B) customer classes than for the average customer or for residential customers.

IBEC argues that OCA's proposed increases are too drastic. Under OCA's proposal, and based on IPL's initial requested increase of \$175 million, the LGS and HLFLV/B classes would experience 40 and 44 percent increases in base rates, respectively, while the residential class would see an increase of 16 percent as compared to overall average increase of 23 percent. The sheer magnitude of the increases applied to the HLFLV/B and LGS classes renders the methodology proposed by OCA unreasonable. IBEC acknowledges that the impacts at the \$130 million settled increase level are smaller, but asserts they are still disproportionate. (IBEC Initial Brief, p. 5.)

LEG asserts IPL's proposed revenue allocation is consistent with the gradual-change precedent established by the Board in previous IPL rate cases, particularly

those cases involving rate equalization among IPL zonal customer classes over a five-year period. LEG also points out that even with IPL's 80/20 approach, the increase in base rates is substantially higher for LGS and HLFLV/B customer classes than for the average residential customer and can reasonably be described as rate shock. (LEG Initial Brief, p. 8.)

ADM supports IPL's proposed revenue allocation and says OCA's alternative would unfairly punish standby customers. (ADM Initial Brief, pp. 23-24.)

LGSG urges the Board to reject OCA's proposed 50/50 revenue requirement allocation. LGSG describes IPL's proposal as a significant movement toward a CCROSS-based revenue requirement allocation. LGSG points out that no party argues that a movement towards CCROSS-based cost allocation is inappropriate. LGSG argues that OCA's proposal would allocate a larger portion of the total revenue requirement increase to the LGS customer class and take the already significant increase in LGS demand and energy rates even higher, contrary to the Board's stated preference for a gradual transition to a CCROSS-based revenue requirement allocation. (LGSG Initial Brief, p. 7, citing IPL Exhibit Vognsen Rebuttal, pp. 6-7.)

IPL says that adopting OCA's proposal would result in a substantial reduction in the increase to the residential and general service classes and an increase well above what IPL proposed for the LGS and HLFLV/B classes and would also reduce the decrease proposed for the Standby class. IPL points out that the Board has expressed concern about moving too abruptly to CCROSS results when that would

have a substantial effect on certain classes, stating that: "[i]n addition to CCS studies, the Board looks at such things as rate shock; changes indicated by a CCS study can be adopted on a gradual basis so customers in particular classes do not experience dramatic changes in rates." (IPL Initial Brief, pp. 23-24, citing *Interstate Power and Light Company*, Docket No. RPU-2010-0001, "Final Decision and Order," p. 101, issued January 10, 2011.)

IPL disputes OCA's assertion that OCA's approach is more closely aligned with the results of IPL's CCOSS. According to IPL, OCA's proposed increase to the HLFLV/B class is \$12.268 million, which is 34 percent higher than the increase supported by the IPL CCOSS, at \$9.152 million. The increase proposed by OCA for the LGS class (\$72.428 million) is 28 percent higher than the increase proposed by IPL (\$56.378 million.) IPL argues that increases of that magnitude could result in rate shock. IPL disputes OCA's claim that approving the 80/20 allocation will fail to make meaningful progress toward cost-based rates. (IPL Reply Brief, p. 14.)

IPL argues that adopting WED's suggestion to allocate costs to the residential class based on a comparison to rates of other utilities would not be sound ratemaking because each utility is unique. (IPL Initial Brief, p. 24.)

Board Discussion

IPL's rates have not been based on the results of a CCOSS for approximately 13 years. While IPL's rates were being equalized among its merged service

territories, movement toward cost-based rates was delayed out of concern that implementing CCROSS results would impede the equalization process.

IPL now proposes a gradual movement toward cost-based rates given the significant impacts some customer classes would experience if IPL were to strictly adhere to the CCROSS results. For example, if the results of IPL's CCROSS were applied in full, the percentage increase for the LGS customer class would be more than double the overall percentage revenue increase. In order to achieve a more balanced result, IPL proposes allocating 80 percent of the cost of service on a uniform percentage of test year base revenues and 20 percent based on the CCROSS results. All parties except OCA support this approach. OCA urges the Board to move more aggressively toward cost-based rates.

The Board's subrule at 199 IAC 20.10(2) requires electric utility rates to reasonably reflect the costs of providing electric service, to the maximum extent practicable. Each rate case presents an opportunity for the utility to consider the degree to which the CCROSS will be implemented, for OCA and other stakeholders to propose alternative approaches to revenue allocation, and for the Board to consider whether the utility is making sufficient progress toward the goal of cost-based rates.

The Board concludes that the results of IPL's CCROSS should not be fully implemented at this time. The Board has considered the options presented by the parties and will approve IPL's approach to allocating the settled revenue requirement based on an 80/20 split. IPL is taking a reasonable first step toward fully cost-based

rates and its proposed allocation methodology represents the most reasonable approach presented in this case for moving forward toward fully cost-based rates without causing excessive disruptions.

Going forward, the Board encourages IPL to continue moving to cost-based rates. The Board is interested in seeing proposals from IPL in its next rate case for moving closer to fully cost-based rates, such as options for phasing in the transition in steps to be implemented between rate cases. The Board notes that any automatic phase-in proposal would require adequate customer notice, as discussed in *Office of Consumer Advocate v. Utilities Board*, 452 N.W.2d 588 (Iowa 1990).

F. Partial Requirements Classes

IPL asks the Board to approve the establishment of partial requirements customer classes in the CCOSS. IPL explains it has experienced substantial growth in the number of customers installing their own DG facilities since IPL's last litigated rate case and the load characteristics of these customers are different than those of full requirements customers. IPL seeks to evaluate DG customers because of the growth in the number of such customers, the risk of system impact, and the potential for cost shifting. IPL says it will use the partial requirements classes to gather information to evaluate any shifting of costs that may be occurring.

IPL explains that only the proposed rates for the LGS partial requirements class were based on the partial requirements customer class rate grouping. IPL described the partial requirements classes for residential and general service classes

for informational purposes only and does not propose to implement the classes at this time.

According to IPL, the proposed rates are not discriminatory and are based on the hourly test year load data IPL collected for all partial requirements customers for its CCROSS, the result of which shows the costs to serve the partial requirement classes, satisfying the requirements in Board rule 199 IAC 35.9(2) for load research data. (IPL Reply Brief, pp. 27-28, citing Additional Information, October 2, 2017, Attachment A, Response to Question 5(b).) IPL emphasizes that the proposed partial requirements class is based on data that show distinct differences in the cost to serve the classes, particularly the classes' ratio of average demand to peak demand. (IPL Reply Brief, p. 29, citing IPL Exhibit Vognsen Rebuttal, p. 28.)

Environmental Intervenors urge the Board to reject IPL's proposed partial requirements customer classes for customers that own DG facilities. According to Environmental Intervenors, because IPL serves so few customers with DG (approximately 1,143 residential customers and 909 general service customers), IPL's proposal to create a new customer class is inefficient, not statistically supported, and unjustified. (Environmental Intervenors' Ex. Rabago Direct, pp. 35-36.)

Environmental Intervenors say that even though IPL is offering the residential and general service partial requirement customer classes in the CCROSS for informational purposes only, the end result will be discriminatory rates that deny

customers with DG facilities the benefits of their investment and ignore benefits offered by DG. Environmental Intervenors argue that IPL's discriminatory intent is apparent because it did not focus on other larger subclasses of residential customers that share reasonably similar usage patterns, potentially including night shift workers, or customers with chilled air conditioning, electric heating, in-ground swimming pools, and the like.

Environmental Intervenors argue that IPL's strategy to group customers that own DG facilities into a separate rate class is flawed because it does not: (1) account for the geographic diversity of the DG facilities that likely provides benefits to IPL's system as a whole; (2) consider other customer groups that have usage patterns that differ from the class average, such as customers that work a night shift; (3) acknowledge the cost reductions and grid benefits related to DG; (4) align with the Board's data-driven approach outlined in Docket No. NOI-2014-0001; or (5) demonstrate that customers with a different load shape from the class as a whole materially impact the utility's cost to serve those customers. (Environmental Intervenors' Initial Brief, pp. 6-11.)

OCA says that the Board should make no finding on possible rate design classes that are not proposed for adoption in this case. However, IPL should continue to study other rate design classes for consideration in future rate cases. It is premature to argue or determine the merits of rate classes that are not being advocated for adoption in this case. If IPL held stakeholder dialogue meetings on

these issues in advance of rate case proceedings, many difficult and complex rate design issues could be more thoroughly considered and addressed in IPL's next rate case. (OCA Initial Brief, p. 20.)

Board Discussion

IPL provided CCROSS results for its proposed new partial requirements (residential and general service) customer classes but explained that this information is for informational purposes only, is not being used to design rates in this proceeding, and is intended to help IPL gather information to evaluate any cost-shifting related to these customers. IPL's request in this case for the Board to approve the proposed new partial requirements customer classes is premature because IPL has not provided a plan for implementing rates that would apply to the partial requirements classes. IPL can continue to gather and analyze data about its proposed customer classes without Board approval of that effort in this proceeding. In a future proceeding, IPL can submit the data and its analysis along with a plan for implementing rates that would apply to the proposed new classes, if the data support that proposal. Because the Board concludes that IPL's request for approval of the proposed customer classes is premature, at this time the Board need not address the arguments against the proposal, including the assertion that the proposed classes would result in discriminatory rates.

G. Alternative Cost of Service Methodologies

OCA witness Bodine testified that because IPL does not propose to incorporate new wind generation from recent wind projects into base rates, he is not recommending the adoption in this case of an Hourly Cost Model (HCM) for generation costs as was approved in MidAmerican's 2013 rate case, in Docket No. RPU-2013-0004. However, OCA says that IPL should continue to study other allocation methodologies for consideration in future rate cases. OCA says that when IPL proposes to add the costs of new wind developments approved in Docket No. RPU-2016-0005 and the pending proceeding identified as Docket No. RPU-2017-0002, IPL should evaluate alternative costing methodologies. (OCA Initial Brief, p. 20, citing OCA Ex. Bodine Direct Testimony, p. 4.)

According to OCA, although IPL indicated it could not commit to what it will do in future proceedings regarding CCROSS methodology, IPL witness Vognsen expressed a preference for simple cost of service methodologies that do not distinguish generation resources or a resource portfolio increasingly composed of low-cost energy generation resources. OCA suggests that in effect, witness Vognsen committed not to consider an HCM. OCA says that where a generation resource portfolio contains large amounts of wind resources, the added accuracy of an HCM can outweigh the more simplistic A&E generation cost allocation methodology. (OCA Initial Brief, pp. 20-21.)

OCA understands that IPL might not be able to commit to a position on CCROSS methodology issues for future rate cases, but argues that the company should not foreclose consideration of valid alternative CCROSS approaches. Instead, IPL should study and engage its stakeholders in dialogue on CCROSS methodology. OCA asserts that if IPL would hold stakeholder dialogue meetings on rate design and CCROSS methodology in advance of rate case proceedings, many difficult and complex issues could be more thoroughly considered in IPL's next rate case. (OCA Initial Brief, p. 20-21.)

Walmart says that given the unnecessary complexity of the HCM, its reliance on surrogate energy and capacity costs, as well as the Board's express refusal to expand its use beyond the 2013 MidAmerican rate case, the Board should refuse OCA's request to order IPL to use the HCM methodology in future rate cases. (Walmart Reply Brief, pp. 3-4.)

Board Discussion

The Board's subrule at 199 IAC 20.10(2) requires electric utility rates to reasonably reflect the costs of providing electric service, to the maximum extent practicable. The driver behind MidAmerican's use of the HCM methodology was the quantity of MidAmerican's wind generation. Current technology made it practicable for MidAmerican to design a more complex cost allocation model to address that particular situation. Likewise, IPL would be obligated under subrule 20.10(2) to address a situation presenting different cost issues.

The Board agrees with OCA that it can be helpful to address complex issues relating to cost allocation methodology and rate design through a collaborative dialogue between the utility and stakeholders. At this time, the Board will not order IPL to study or propose in its next rate case a specific alternative COS methodology such as the HCM. Instead, as will be explained more thoroughly later in this order, the Board will require IPL to file a stakeholder engagement plan in which IPL explains how it will actively engage with OCA and other stakeholders on these and other issues that may benefit from collaboration in advance of rate case proceedings.

V. RATE DESIGN ISSUES

A. Allocation of Transmission Costs

IPL says that the A&E methodology is the only allocation methodology proposed in this proceeding that is consistent with the reality that the transmission system and transmission service are available every hour of the year for IPL's customers, as seen in the methodology's recognition of each customer class's average and maximum load. (IPL Reply Brief, p. 17, citing IPL Workpaper Vognsen Direct, WP-K11a.) According to IPL, adopting ADM's proposed 12 CP methodology would shift more than \$6 million to the LGS class and over \$3 million to the HLFLV/B class. (IPL Reply Brief, p. 18, citing IPL Exhibit Vognsen Rebuttal, p. at 19.) IPL contends ADM's proposal is not a reasonable approach for allocating costs to a large customer that uses the IPL system on nearly every hour of every day. IPL summarizes the dispute as whether customers should be responsible for the costs of

the transmission service solely on the basis of how IPL gets billed for that service or based on how they actually use the transmission system. IPL asserts that to be fair to all customers, customers should pay for how they use the system.

IPL disputes ADM's assertion that IPL's only basis for an A&E allocation is history and how ITC designs the system. IPL says that history supports IPL's allocation, but the Board has also repeatedly validated IPL's approach because the A&E method more accurately captures how customers use the transmission system throughout the year, including peak system usage. IPL says the Board acknowledged this when it said that a "transmission system is designed to serve all customers including the non-coincident loads." (IPL Reply Brief, p. 14, citing IPL Exhibit Vognsen Rebuttal at 17; *IES Utilities, Inc.*, Docket No. RPU-94-2, "Final Decision and Order," pp. 29-30, issued May 12, 1995.)

IPL disputes ADM's argument that ITC designs the transmission system only for system peak, without consideration of contract demand. IPL points out that the evidence ADM cites in its brief shows the contrary:

ITC designs its transmission system to be both reliable and cost-effective for its stakeholders while being consistent with generally accepted utility practices. Constructing a transmission system **for forecasted demands** is consistent with generally accepted utility practices.

ITC designs its system to up to 100 percent of forecasted peak system loading and all system load levels below that.

(IPL Reply Brief, p. 16, citing ADM Initial Brief, p. 10, citing ADM Hearing Exhibit Nos. 518 and 519, emphasis in ADM's brief.)

According to IPL, the language from Hearing Exhibit 519 highlighted by ADM supports a conclusion that ITC designs its system for *all* forecasted demand, not just peak, and that conclusion is affirmed in Hearing Exhibit 518, which reflects a system designed for both peak "and all system load levels below that." At the hearing, ADM's expert witness testified to the same, stating that "[t]he transmission system was built to serve all customers, including ADM." (IPL Reply Brief, p. 17, citing Tr. 176.)

IPL clarified the difference between its position in the last rate case (where it examined its openness to a 12 CP approach) and its opposition to 12 CP in this case. IPL says that in the last rate case, transmission cost responsibility of the standby customer class was not allocated based on A&E or 12 CP because the 2009 test year included partial use by two of the standby customers, which made those calculations impossible. (IPL Reply Brief, p. 15, citing IPL Exhibit Vogensen Rebuttal, pp. 20-21.) Therefore, transmission reservation rates for the standby class in that docket were increased on the basis of the overall percentage increase in transmission costs. (IPL Reply Brief, p. 16, citing ADM Exhibit Stephens Direct, p. 9.)

IPL says it is willing to implement a "true" 12 CP allocation if that allocation were properly calculated with direct assignment of transmission costs for standby customers. That calculation results in an allocation of 5.10 percent of transmission

costs to the standby class (and lower transmission costs for virtually all other classes), compared with IPL's proposed A&E allocation, which assigns 2.38 percent of transmission costs to the standby class. (IPL Reply Brief, p. 16, citing IPL Exhibit Vognsen Rebuttal, p. 20, Table 3.)

IPL says the Board would not be alone in rejecting the 12 CP method. IPL points to *Cogeneration Assn. of California v. FERC*, 525 F.3d 1279 (D.C. Cir. 2008), a case in which the D.C. Circuit upheld FERC's decision rejecting a 12 CP approach for allocating costs to standby customers, finding that "the unpredictability of standby customer demand imposes costs not captured by measuring that class's contribution to system peak. . . . Assigning cost responsibility to the standby class on the basis of its share of system peak – in most months quite low – would not capture all the costs that class imposes." (IPL Reply Brief, pp. 17-18, citing *Cogeneration Assn.*, 525 F.3d at 1284-85.)

According to ADM, standby customers pay a disproportionate level of transmission charges. The overpayment results from the improper allocation of transmission expense caused by IPL's use of the A&E methodology. ADM argues the expense should instead be allocated using 12 CP, which is how IPL is billed for transmission service. Because IPL passes these MISO charges through to customers under Rider RTS based on 15-minute peak demands (subject to a 12-month demand ratchet), and without regard to whether the loads occur at system peak hours, ADM says there is a mismatch between the MISO billing determinants

and IPL's charges to standby customers for transmission. ADM contends IPL's method does not reflect how IPL incurs transmission costs, nor does it adhere to cost-causation principles. ADM asserts that no party has demonstrated why IPL should not be required to align its charges for the transmission component of standby service with how IPL incurs the costs of transmission service. (ADM Reply Brief, p. 1.)

ADM acknowledges that IPL's use of the A&E allocator, which cuts ADM's transmission cost in half, is a step in the right direction. However, IPL does not correct the mismatch between how IPL incurs its costs and how it allocates them among its customer classes. (ADM Initial Brief, p. 29.)

ADM describes the two objections that were raised to allocating transmission costs using 12 CP. The first is that IPL has always used the A&E methodology and the second is that 12 CP does not reflect how ITC designs its system. In its last litigated rate case, Docket No. RPU-2010-0001, IPL did not object to using the 12 CP methodology to allocate transmission expense, but asked the Board to defer adopting it so that IPL could "stage" the implementation of its rate increase. OCA also supported use of 12 CP because transmission costs to IPL are caused by 12 CP loads and using the A&E method to allocate costs produced results that did not match with cost causation. The Board found that the 12 CP allocation method was reasonable but chose to defer adopting that method until transmission rates were

unbundled, which ADM says has now happened in the form of Rider RTS. (ADM Initial Brief, p. 9.)

According to ADM, IPL confuses the use of the transmission system with how costs are incurred by IPL. IPL ignores the fact that it is billed for network transmission service based on the 12 monthly CP loads (*i.e.*, load ratio share), not the use "during all hours of the year" or on the "actual non-coincident load." IPL also ignores the fact that it incurs its transmission costs based on the loads that occur at the ITC system peak hour each month, not the actual non-coincident load of the standby customers or their (or any other customer's) use of the system during hours other than the monthly peak hour. IPL incorrectly relies on the fact that it supplies standby contract demand information to ITC.

ADM says IPL relies on "extreme hypotheticals" and selective citation of evidence, which does not reflect how standby customers contribute to IPL's costs, how transmission costs should be allocated, or how standby customers should be billed for transmission service. ADM says the discussion about the hypothetical has caused a great deal of confusion. ADM recommends that the Board focus on actual data in the case. ADM says that it is unrealistic for standby customers to undertake the kind of gaming IPL suggests is possible. (ADM Reply Brief, pp. 2-3.)

ADM says IPL has not supported its claim that contract demand contributes to ITC transmission costs. ADM says that IPL allocates transmission costs to the standby class based on the standby customers' actual non-coincident peak loads, not

contract demands. According to ADM, its use of the transmission system, if needed, is not limited by its contract demand levels. ADM characterizes the contract demand information as a vestige of the time when IPL owned the transmission system.

ADM asserts that ITC's testimony debunked the notion that 12 CP is inconsistent with ITC's transmission planning. ITC stated that "ITC Midwest designs its system to up to 100% of forecasted peak system loading and all system load levels below that." (ADM Initial Brief, pp. 9-10, quoting ADM Hearing Exhibit No. 519.) ITC does not "plan, design and construct its transmission system to be able to meet the non-coincident peak demands of **all** IPL customers on the system, as if such non-coincident demands were to occur at the same time." (ADM Initial Brief, p. 10, quoting ADM Hearing Exhibit No. 518 (emphasis in original).)

Instead, ADM says that ITC relies on transmission models developed by MISO to design ITC's transmission system and there is no expectation that ITC design the system as if all maximum potential load were on at the same time. Neither IPL nor LGSG provided evidence that ITC makes any investment to meet standby contract demands in excess of forecasted peak load. Nor does IPL demonstrate that ITC incurs cost or makes investment in the transmission system based on the A&E methodology. (ADM Initial Brief, pp. 11-12.)

ADM says its proposal is purely demand-based as required by Board rules. ADM acknowledges that implementing the 12 CP methodology would result in increased transmission costs for other customer classes but says those increases

are not cost shifts. Instead, those increases would signify the end of the subsidy currently paid by standby customers. (ADM Reply Brief, p. 17.) ADM reiterates its support for a mitigation measure such as a three-year phase-in of the allocation changes under its proposed 12 CP allocation methodology if the Board directs that 12 CP be adopted in full at the end of any approved phase-in.⁸ (ADM Reply Brief, p. 19.)

Finally, ADM says that OCA's request for additional study and stakeholder proceedings should be rejected. According to ADM, OCA has known since at least 2010 that use of the 12 CP methodology for allocating transmission expense was an important issue to standby customers. ADM argues there is no reason to wait any longer to reform IPL's transmission cost allocation to align it with how it incurs its transmission costs. ADM says that the necessary reform is a change in rate design, which will happen only in the context of a rate case. ADM asserts that now is the time to make that change. (ADM Reply Brief, p. 23.)

IBEC argues that the Board should set the Rider RTS transmission rates based on a 12 CP allocation. IBEC says the methodology used by IPL is unfair with respect to how transmission service is billed, and does not adequately reflect how IPL is charged for transmission service. (IBEC Initial Brief, pp. 7-8.)

LGSG says that the Board should reject the modifications to the transmission cost allocation methodology proposed by IBEC and ADM. Those modifications would

⁸ For example for example, under current cost estimates, the cost allocation would move from IPL's as-filed \$4.05 per kW (contract / ratchet) under the A&E methodology, to \$1.69 per kW (contract / ratchet) under 12 CP over a 3-year period, with equal adjustments each year.

increase the LGS customers' share of the revenue requirement. LGSG says that the Board's questioning of ADM witness Stephens at hearing revealed the fundamental problem with ADM's proposed transmission cost allocation method. (LGSG Initial Brief, pp. 11-12, quoting Tr. 174-175.)

According to LGSG, ADM confuses cost causation with cost collection. Like generation fixed cost causation, transmission fixed costs are caused at the time an investment is made in new facilities and the transmission investment decision driver is the amount of capacity necessary to meet customer demand. (LGSG Initial Brief, p. 11, citing LGSG Ex. Inge Rebuttal, p. 7.) LGSG also points to the testimony of IPL witnesses Vognsen and Alva confirming that standby customer transmission contract demands are included in the data IPL provides to MISO and ITC to establish IPL's transmission capacity requirements. (LGSG Initial Brief, p. 11.)

Board Discussion

There is a difference between how a transmission company allocates its costs to a utility and how the utility allocates costs to customer classes for purposes of recovering costs from customers. ADM and IBEC have not offered persuasive evidence that the way ITC bills IPL must dictate how IPL allocates costs to its customers. The utility has a responsibility to charge cost-based rates. Retail rates based on an allocation methodology that reflects only 12 hours of the year may not adequately represent the costs of a transmission system that serves customers all hours of the year.

ADM's proposed 12 CP method was explored at hearing during the exchange between Board Member Wagner and ADM witness Stephens. (Tr. 174-180.) That discussion revealed that under ADM's proposal, it would be possible for a standby customer with zero usage at the time of the system's monthly peak to pay nothing in transmission costs for the entire month. ADM characterizes the example discussed at hearing as extreme. However, there is evidence in this record showing that the example is not as farfetched as ADM suggests. (IPL Confidential Reply Brief, p. 23; IPL Confidential Initial Brief, p. 38, citing IPL Ex. Vognsen Supplemental Rebuttal Confidential Schedule P, p. 11.)

In contrast, IPL's proposed A&E methodology accounts for its customers' use of the transmission system during all hours of the year and allocates costs based on each class's actual use of the transmission system. The Board concludes that IPL's proposed allocation of transmission costs using the A&E method more accurately reflects IPL's costs to serve customers and more reasonably balances the competing customer interests. The Board will approve IPL's proposed methodology for allocating transmission costs and reject ADM's proposed 12 CP method.

B. Transmission Rider

IPL asks the Board to approve the continuation of the transmission rider (Rider RTS) first approved in Docket No. RPU-2010-0001. IPL has used Rider RTS to recover FERC-approved transmission costs since 2011 and says the evidence in this case supports its continued use. IPL asserts that its recovery of transmission costs

through Rider RTS continues to meet the Board's criteria for an automatic adjustment clause. IPL also says it has met all of the requirements imposed by the Board when it first approved the rider by collaborating with stakeholders and filing detailed reports on advocacy, cost information, and updates on key projects. (IPL Initial Brief, p. 9.)

IPL argues that Rider RTS is an efficient and transparent mechanism to flow through costs that are largely outside of IPL's control and Board jurisdiction and it also serves as an efficient means to implement FERC-ordered rate refunds. IPL proposes that the rider continue with certain modifications that would move some fixed costs into base rates. IPL proposes moving several line item costs to base rates including all non-MISO transmission expenses (which represent two percent of total transmission expenditures) and MISO Schedule 10 administrative costs which are not booked to FERC account 565. (IPL Initial Brief, pp. 10-11.)

IPL says it has demonstrated that it has saved millions of dollars for customers by advocating at FERC, MISO, and ITC. IPL has filed over 60 comments at MISO since 2014 and successfully advocated issues relating to interconnection costs for Marshalltown Generating Station and treatment of bonus depreciation. (IPL Reply, pp. 2-12, 14-18.)

OCA says there is no statutory obligation for the Board to allow Rider RTS. To the contrary, the Board may determine rates based on test year expenses, including the transmission expenses, and if costs increase significantly the utility may make subsequent rate filings. The rider authorized in Docket No. RPU-2010-0001 was

granted on a pilot basis out of concern about IPL's ability to effectively manage transmission costs if the rider were approved. (OCA Initial Brief, pp. 3-4.) OCA argues that IPL has not done a good job of advocating on behalf of its customers with respect to transmission costs. (OCA Reply Brief, p. 3.)

OCA does not recommend that the Board discontinue the rider, but asks that it be modified in ways OCA says will improve IPL's advocacy for customers. OCA witness Turner testified the rider could be limited to 50 percent of the transmission costs charged to IPL over and above test year levels. The rider could be drafted similarly to the rider approved for MidAmerican and include recovery of non-ITC transmission costs included in MISO Schedules 9,10, and 26, and all transmission costs in Schedule 26a. OCA says this would encourage IPL to be as diligent as possible to keep transmission costs low and places the burden of transmission costs on both customers and IPL. (OCA Reply Brief, p. 2, citing OCA Ex. Turner Direct, pp. 15-16.)

According to OCA, in some instances IPL has advocated for its customers, but its performance has been mixed. Many times it has been up to the Board, OCA, and individual customers to represent IPL's customers at FERC. (OCA Reply Brief, p. 3.) OCA asks the Board to continue to require IPL to file semi-annual reports on its advocacy efforts in order to provide notice to stakeholders and allow the stakeholders to evaluate whether IPL is being sufficiently aggressive in its advocacy

LEG recommends that the Board reject IPL's proposal to continue Rider RTS. LEG disagrees with IPL's assessment that IPL effectively manages relationships with ITC, FERC, and MISO. (LEG Reply Brief, pp. 4-5.) LEG also disputes that Rider RTS complies with Iowa Code § 476.6(8), which allows an Iowa public utility to pass through costs to ratepayers through an automatic adjustment mechanism approved by the Board. (LEG Initial Brief, p. 11.) LEG asserts that the rider is not necessary to administer refunds; alternatively, the Board can order refunds be issued based upon the allocation among classes by which the rates were determined. (LEG Reply Brief, pp. 6-7.)

Board Discussion

Iowa Code § 476.6(8) allows a utility to pass through costs to ratepayers using an automatic adjustment clause, if the Board approves. The Board has adopted rules in 199 IAC 20.9 providing that a rate-regulated electric utility can use an automatic adjustment clause to recover only those costs which are: (1) incurred in supplying energy, (2) beyond the direct control of management, (3) subject to sudden important change in level, (4) an important factor in determining the total cost to serve, and (5) readily, precisely, and continuously segregated in the accounts of the utility.

When the Board approved Rider RTS in Docket No. RPU-2010-0001, the Board concluded that the rider met the five criteria set forth in 199 IAC 20.9. See *Interstate Power and Light Company*, Docket No. RPU-2010-0001, "Final Decision

and Order," p. 74. After reviewing the evidence in this record, the Board concludes Rider RTS continues to satisfy the five guidelines in 199 IAC 20.9. That alone, however, does not mean that the Board must approve the continuation of the rider.

IPL's forecasts show that IPL transmission costs are expected to continue to increase. Doing away with the Rider and incorporating transmission costs into base rates would be problematic at this time considering the expected costs to IPL associated with ITC's on-going program for upgrading transmission infrastructure. Discontinuing Rider RTS could drive more frequent rate cases, caused by cost increases that are beyond the reasonable control of IPL management. The Board concludes that allowing IPL to continue to use Rider RTS, with IPL's proposed modifications, is reasonable.

Much of the opposition to continuing Rider RTS focuses on questions about the effectiveness of IPL's advocacy on behalf of its customers regarding transmission cost issues with ITC, FERC, and MISO. The Board cannot precisely quantify the results of IPL's advocacy, but finds sufficient evidence in this record to support a finding that IPL's advocacy has been effective in some cases. IPL's efforts to influence transmission cost and policy have resulted in savings to IPL's customers. IPL's engagement with MISO and ITC on the MGS generator interconnection process helped to reduce the plant's transmission costs by approximately \$178 million; successful challenges at FERC of both ITC's treatment of bonus depreciation and its interconnection policies resulted in over \$100 million of net present value savings to

IPL customers; and IPL has filed over 60 sets of comments at MISO since 2014. (IPL Exhibit McGovern Direct p. 29; IPL Exhibit Guelker Direct, pp. 6-13 and Schedule A. IPL Exhibit Guelker Direct pp. 18-23 and Schedule B; IPL Exhibit McGovern Direct, pp. 22-26.)

That said, there is more that IPL could do in this context. IPL must continue to work with stakeholders to identify FERC and MISO-related issues that could result in lower costs and other benefits to IPL and its customers. IPL should actively seek opportunities to communicate with its stakeholders about its advocacy efforts. To that end, the Board will require IPL to continue filing: (1) monthly cost information specifying the transmission costs that are passed through the rider; (2) semi-annual transmission reports describing IPL's efforts regarding FERC, ITC, and MISO-related issues; and (3) an annual filing in which IPL calculates a revised Rider RTS factor for the next year. Also, IPL's plans for providing information to stakeholders about transmission costs and other transmission-related issues will be an important part of the Stakeholder Engagement Plan the Board will require IPL to submit to the Board, which will be discussed in Section VII of this order.

The Board finds that on this record, allowing IPL to continue to use Rider RTS is reasonable. The Board will reject LEG's proposal that Rider RTS be discontinued and OCA's proposal to modify Rider RTS. The Board will approve the rider, as modified by IPL.

C. Standby and Supplementary Rates

Currently, both the standby and supplementary service customers are billed under Rider SSPS. IPL proposes to separate standby service from supplementary service and create two distinct customer classes. IPL explains that standby service is provided when a customer's generation is in outage mode, while supplementary service is provided to augment energy and capacity needs of customers whose own generation is not large enough to serve their loads. IPL says that each of these services results in different cost causation based upon how the customers use IPL's system.

According to IPL, the supplementary service classification will reflect the true nature of the costs associated with this partial requirements class. Standby customers will contract for the replacement capacity level that will be required during their generation outages, for either firm or non-firm service. They will be billed for that capacity plus standby usage charges when they actually use backup power. Standby usage includes a daily demand charge plus energy charges, based upon MISO's local node real time locational marginal prices (LMP). Up to 964 hours per year can be taken as unscheduled energy. (IPL Initial Brief, p. 31.) IPL says that limiting the number of hours of operation limits downside exposure to all customers through the increased EAC charges that could result from an unlimited approach. IPL also points out that no standby customer has exceeded the 964 hour limit. (IPL Initial Brief, p. 32.)

For the unscheduled energy rate, IPL proposes that the customer pay the higher of the real-time LMP plus 10 percent, or the average monthly energy adjustment clause (EAC) price. IPL argues this requirement is necessary to prevent a knowledgeable customer from using arbitrage to pick the best pricing. IPL says this is possible because the EAC is known in advance and a customer could monitor the LMP prices to make generation decisions, i.e., take an unscheduled outage when that would be cheaper than self-generation to the detriment of IPL and its other customers.

IPL explains that its Standby tariff allows customers to specify the amount of standby capacity they want to reserve for the winter and summer seasons. (IPL Initial Brief, p. 33, citing IPL Exhibit Vognsen Rebuttal, p. 57.) IPL urges the Board to reject the proposal of the Environmental Intervenors that IPL should vary the reservation charge by season.

IPL does not agree with ADM's proposal to expand the power factor range for standby service. Allowing a tolerance band of plus or minus 10 percent from a unity power factor would violate an existing tariff and is generally not good customer-side practice. IPL's proposed tariff says that the standby billing kilovar shall be adjusted for the supplementary reactive demand supplied during that same hour if the customer also elects supplementary service; otherwise the provision is unchanged. Customers that can affect IPL's system in this way should be responsible to install

appropriate equipment to prevent adverse voltage variation on IPL's distribution system. (IPL Reply Brief, citing Second Revised Sheet No. 221, section 5.11.)

With respect to standby rates, IPL proposes to update the A&E allocator for transmission costs based upon 2016 load data, which would result in an approximately 50 percent reduction in transmission costs allocated to the standby class and an overall 27 percent reduction in total revenue responsibility for the standby class based on IPL's proposed revenue allocation. IPL points out that no party has objected to this aspect of its proposal. Ultimately, the Rider RTS rate for the standby class will be reduced by approximately 50 percent based on the settled revenue requirement in this case. (IPL Initial Brief, pp. 28-29, citing October 2, 2016, Response to Board Order for Additional Information, Attachment A, Question E.) IPL points out that the standby class is the only customer class with a proposed rate reduction in this case.

According to LEG, IPL has justified its proposal to provide separate rates for standby and supplementary service customers. LEG does not object to treating LGS customers receiving supplementary service as a separate class because the basic structure in the proposed supplementary service tariff will be the same as the LGS tariff service, with minor CCOS-based allocation differences. (LEG Initial Brief, pp. 9-10.)

ADM objects to IPL's proposed requirement that standby customers taking unscheduled usage must pay the higher of real-time LMP plus 10 percent. Instead, ADM says IPL should use LMP plus 10 percent for the unscheduled energy rate. ADM also says that IPL has failed to justify its proposed unscheduled energy rate. According to ADM, onsite generation exists to serve the host customer's industrial needs and the gaming opportunity described by IPL would be contrary to the customer's interests. (ADM Reply Brief, p. 23.)

ADM also proposes that IPL expand the power factor range for standby service. (ADM Initial Brief, p. 22.) ADM says the tariff for standby service should include the tolerance band around a unity, i.e., 100 percent, power factor, allowing for variances of plus or minus ten percent. (ADM Initial Brief, p. 23.) ADM says that IPL has not explained why it did not include this provision (which had been included in the current Rider SSPS) in the proposed tariff for standby service. According to ADM, it is almost impossible for customers to maintain 100 percent power factor. Further, IPL does not specify the consequences for failing to meet the standard. (ADM Initial Brief, p. 23.)

Environmental Intervenors object to IPL's proposed rates for large customers with generating facilities. Environmental Intervenors assert that IPL's standby rates fail to follow cost causation principles and impose unreasonable barriers for large customers who have or want to add generating facilities such as combined heat and power (CHP). (Environmental Intervenors' Initial Brief, pp. 27-28.) Environmental

Intervenors object to IPL's definitions of standby and supplementary power and to IPL's proposal to limit unscheduled standby service to 964 hours per year. They urge the Board to reject IPL's proposed rates for these customers and require IPL to improve the design for these rates.

Environmental Intervenors argue that adding seasonal variations would improve IPL's standby rates. The Environmental Intervenors say that IPL allows "seasonal variation" in the proposed rates by allowing the customer to set different capacity reserve amounts for summer and winter, but this does not allow for changes other customers receive in demand and energy charges that vary by season. Environmental Intervenors say IPL's proposed rate design is not aligned with cost causation and results in disparate treatment of standby customers compared to others. The rate should include differences in price by season and not just allow customers to change contract capacity by season. (Environmental Intervenors' Reply Brief, pp. 10-11.)

Board Discussion

IPL proposes to separate standby service from supplementary service. IPL justifies this separation because the two services have different cost causation bases. Environmental Intervenors oppose the change, arguing that separating the tariffs would discourage the installation of CHP. The Board concludes IPL's rationale for separating standby service from supplementary service is reasonable. The Board will approve IPL's proposal to create two separate classes.

Other parties address several other issues relating to the proposed standby tariff, including the basis of the demand charges, the continuation of the demand ratchet, the power factor requirement, and seasonal contract demand elections.

The Board will approve IPL's proposal for setting standby rates. The Board concludes that IPL's proposed standby rates best represent the costs incurred to serve the standby customers. The IPL methodology of billing standby transmission costs based on contract demand has been in place since 2011 and no party has persuaded the Board to depart from that methodology in this case.

The Board will not require IPL to eliminate the limit of 964 hours per year for unscheduled energy. The Board concludes that IPL's limit is reasonable. However, the Board notes that the 964-hour limit does not appear in IPL's proposed tariff. If IPL intends to maintain the limit, it should include the provision in its compliance tariff filing.

At this time, the Board will not adopt the proposals to remove the demand ratchet provision from the standby tariff.

With respect to the power factor provisions in the standby tariff, the Board concludes it is reasonable that standby customers choosing the standby rate option should have the same responsibility for power factor as other classes do. Maintaining a near unity power factor protects other customers from the cost of providing the deficit of reactive power. The Board will approve IPL's proposed power factor provisions.

Finally, the Board agrees with IPL's position regarding seasonal standby usage rates. Standby customers are able to establish different contract demand quantities on a seasonal basis. The Board will not require IPL to offer seasonal standby usage rates.

D. Declining Block Rates

OCA states that because IPL failed to provide load research data and analysis, OCA recommended that the Board increase the block rates as necessary but retain the pricing differentials for the residential and general service classes at their current levels. IPL's rebuttal filing accepted OCA's position regarding the declining rate block structure for the residential and nonresidential rate classes. (OCA Initial Brief, p. 22; See IPL Ex. Vognsen Rebuttal, p. 37.) OCA recommends the Board increase the block rates but retain the pricing differentials for residential and general service customers.

OCA points out that in Docket No. RPU-2010-0001, the Board allowed IPL to continue using the declining block rate structure for residential and general service customers but noted that IPL should periodically examine rate design to determine its impact on energy efficiency. OCA says that the Board accepted IPL's suggestion in Docket No. RPU-2010-0001 that IPL would begin a discussion of rate design issues with the parties. According to OCA, that discussion did not occur. OCA recommends the Board direct IPL to collaborate with the parties on rate design issues, including declining block rates and CCROSS methodologies. (OCA Initial Brief, p. 22.)

Board Discussion

OCA asks the Board to direct IPL to begin a dialog with stakeholders on several issues including declining block rates. The Board will address this issue below in discussing the Stakeholder Engagement Plan filing the Board will require from IPL. The Board finds that it is appropriate to retain the pricing differentials to the extent possible in the block rates for the residential and general service classes. The Board will require IPL to demonstrate in its compliance tariff filing how it has retained the pricing differentials in the block rates for the residential and general services classes.

E. Optional Demand Pilot

IPL proposes to implement an optional residential and small general service demand pilot program which IPL says will appeal to customers with good load factors, i.e., customers whose peak demand use is closer to their average demand use. The rate is intended to be revenue-neutral for residential customers with a 35 percent summer load factor and a 30 percent winter load factor and for small general service customers with a 40 percent load factor for summer and winter. A total of 125 new customers would be allowed to join the pilot each month (100 residential customers and 25 small general service customers). (IPL Exhibit Vognsen Direct, pp. 19-20.)

IPL explains that the Optional Demand Pilot is designed to encourage high load factor customers to control their demand and use energy more efficiently. The

rates are not meant to benefit all customers. The rates are also meant to address an intra-class subsidy based on load factor differences. (Tr. 141-142.) IPL proposed a lower customer charge for customers participating in the pilot. (IPL Exhibit Nielsen Direct, p. 9.)

IPL explains that before opting into the pilot, interested customers will have their meter replaced so that they will have their maximum monthly demand printed on their bill before participating in the pilot. This allows the customers an opportunity to determine whether the pilot would be a viable option for them. IPL is also planning to provide customers with support, tools, and education about how the demand rate works. (IPL Ex. Vognsen Direct, pp. 19-20.)

OCA does not oppose the pilot but recommends the Board require IPL to file a report showing the number of customers taking service under this pilot and the impact these new rates have on IPL's cost of service. (OCA Initial Brief, p. 23.)

LEG says that IPL did not provide justification for the proposed customer charge discounts for customers who participate in the pilot. With that exception, LEG supports the pilot and says the pilot is revenue-neutral for customers in the 30 to 40-percent monthly load factor range. The participants' bills will reflect their monthly load factors, and their usage may limit on-peak demand for generation, transmission, and distribution system capacity.

Environmental Intervenors recommend that the Board reject the proposed pilot and direct IPL to consider alternative pilot programs that would be more effective in

helping customers reduce their peak demand. Environmental Intervenors find many faults with the proposed pilot. They say it is unlikely to benefit customers or reduce rates. (Environmental Intervenors' Ex. Chernick Direct, p. 3.) They view demand charges as outdated tools which do not provide useful price signals, are difficult for customers to control, and encourage customers to shift load into IPL's high-cost hours. They suggest that customers that hit their high level of demand do not have an incentive to avoid additional load up to that point for the rest of the month. Moreover, IPL is not planning to monitor customer hourly load shapes and the pilot does not have a control group. No metrics have been developed to evaluate the pilot rates, and IPL has not presented a plan for customer education. (Environmental Intervenors' Ex. Chernick Rebuttal, pp. 26-27.)

Environmental Intervenors suggest instead of allowing a poorly designed pilot to go forward, the Board should direct IPL to work with stakeholders to design an alternative rate design pilot that has clearly defined goals and metrics that encourage reduction in usage during hours that drive IPL's costs. (Environmental Intervenors Initial Brief, p. 20.)

In its reply brief, IPL says it has no objection to reporting the number of customers taking service under the pilots in both kW and kWh hours, as OCA requested. IPL also does not object to eliminating the proposed customer charge discount, as was recommended by LEG. (IPL Reply Brief, p. 30, n.13.)

Board Discussion

IPL's proposed pilot focuses on recovering costs in a way that is similar to how IPL recovers costs from its larger commercial and industrial customers, through demand charges. The Board will approve IPL's proposed Optional Demand Pilot for both the residential and small general service customers, with certain modifications discussed below. Because the pilot is optional and designed to be revenue neutral for customers with high load factors, specific customers may be able to adjust their usage in order to reduce their bills. If customers shift load to IPL's on-peak periods, thus increasing the overall cost of the system, the pilot would show that this rate design is not beneficial to IPL and its other customers and should not be implemented on a permanent basis. The Board does not agree with Environmental Intervenors that the pilot is not worthwhile. The purpose of pilots is to implement a new process or design in a limited manner to gain knowledge before making a permanent change.

The Board will require the following modifications. First, IPL has agreed to eliminate the proposed reduced customer charge for participating customers. The Board approves that modification. Second, the Board will require IPL to include a table in its pilot tariffs showing the time-of day rates for the energy charges to avoid confusion for participating customers. IPL agreed to this modification at hearing. (Tr. 143.) Third, as recommended by OCA and agreed to by IPL, the Board will require IPL to provide an annual report specifying the number of customers participating in

the pilot each month and their use of kW and kWh units. IPL's compliance filing should show those tariff changes.

F. Economic Development Infill Rate

IPL proposes an Economic Development Infill Rate intended to encourage new customers to locate to existing facilities within IPL's service territory that are un- or under-served. The proposed rate is a five-year incentive with reductions based on demand charges. IPL says its current Economic Development Rider encourages customers to locate within IPL's territory, but does not encourage them to locate to existing facilities.

IPL states that 199 IAC 20.14(2) does not require the same discount be applied to directly competing customers. IPL does not believe the rate is discriminatory or that it violates the Board's rules because the rule does not require that the *same* discount be applied to directly competing customers. IPL offers two different rates to competing customers which serve different purposes to meet different customer needs.

OCA does not oppose the proposed Economic Development Infill Rate as long as it is administered in a manner that avoids inappropriate discrimination among customers. The standards and reporting requirements outlined in 199 IAC 20.14 help assure IPL administers the rate in a non-discriminatory manner.

Board Discussion

Using existing unused or underused facilities to the fullest extent possible would appear to serve the interests of both IPL and its customers. The Board will approve IPL's proposed Economic Development Infill Rate with the following modifications. First, to ensure that customers will have the information they need to take service under the proposed Economic Development Infill Rate, IPL shall include in its compliance filing a plan for publicly identifying the facilities that are currently eligible for the rate. Second, the Economic Development Infill tariff must include information explaining how customers can access publicly available information identifying eligible facilities. One approach might be for IPL to maintain a listing of eligible facilities on its website and to include a reference to that website location in its compliance tariff.

G. Second Meter Rate (Electric Vehicle Rate)

IPL initially proposed a time-of-use rate for a second meter for electric vehicle recharging but revised the proposal to be end-use neutral. Customers under this rate would be able to use energy at a discounted rate during the off-peak periods and would pay more during the on-peak periods. IPL asserts that the rate would be beneficial for all customers because it would improve IPL's overall system load factor.

OCA does not oppose IPL's proposed rate but suggests that the Board should require IPL to provide regular updates of its overall load profile to track whether off-peak load has increased as a result of the proposed rate. OCA also recommends

that the updates include a cost analysis to monitor whether changes need to be made to the incentive levels or cost recovery methodology.

LEG does not support IPL's second meter rate as initially proposed and suggests that the proposal is not cost-based. LEG notes that at hearing IPL indicated it would update the proposal, but LEG says it is not clear what changes IPL has made to the proposed rate.

Board Discussion

The Board agrees with LEG that the specifics of IPL's proposal are unclear. At the hearing, IPL's witness Iano indicated IPL would be updating the tariff. (Tr. 246.) Presumably, IPL intended to update the tariff as part of its compliance filing in this case. In light of the many changes to the proposed tariff already made in the course of this proceeding, the Board does not believe that IPL's compliance filing is the best way to clarify the specific details of this proposal. At this time, the Board will reject IPL's proposal.

If IPL decides it wants to advance this proposal, it could propose a pilot at a later date. If IPL pursues a time-of-day second meter tariff pilot program, IPL should include a comparison showing the following for each class eligible for the proposed pilot: (1) the tariff provisions and rates under the proposed pilot tariff; (2) the tariff provisions and rates under the standard time-of-use tariff applicable to that class, and (3) a detailed rationale explaining the differences between the two.

H. Interruptible Credits

OCA contends that IPL has subsidized rates for its largest customers through excessive interruptible credit levels. According to OCA, when the Board approved IPL's energy efficiency plan in Docket No. EEP-2012-0001, the Board encouraged IPL to address the interruptible credit levels with energy efficiency stakeholders. OCA witness Bodine testified at the hearing that IPL's interruptible credits are not cost-based. Witness Bodine proposed that until IPL justifies the interruptible credit level, IPL shareholders should be required to bear half the cost of the interruptible credits; collection of the other half would continue through the energy efficiency cost recovery mechanism. OCA says that the fact that MidAmerican is proposing a significant reduction in its interruptible credit levels supports its assertion that IPL's credits are too high.

OCA contends that under the Board's rule at 199 IAC 20.10(6), the burden is on IPL to demonstrate that the level of interruptible credits is cost-justified. According to OCA, IPL has refused to show in either the current energy efficiency plan or in this rate case that its interruptible credits are justified. OCA urges the Board to require IPL to bear some financial responsibility for the likely subsidy that has occurred as a consequence of its refusal to evaluate the cost basis for its interruptible credits. (OCA Initial Brief, pp. 24-25, citing Bodine Direct, p. 22; Tr. 274-275.)

According to IPL, the upcoming energy efficiency filing is the appropriate forum to discuss the interruptible credits. IPL plans to file its next five-year energy

efficiency plan in February 2018. IPL says that the level of MidAmerican's credits is immaterial. IPL says that the Board has made it clear that the five-year energy efficiency plan filing is the appropriate forum for this debate. (IPL Initial Brief, p. 47, citing Docket No. RPU-2004-0001, "Final Decision and Order," issued January 14, 2005, p. 37; IPL Reply Brief, pp 30-31.)

LEG agrees with IPL that interruptible credits are distinct from base rates and that the appropriate forum to address this issue is in IPL's upcoming Five-Year Energy Efficiency Plan Filing. (LEG Reply Brief, pp. 10-11.)

Board Discussion

The Board agrees with IPL and LEG that the appropriate forum for addressing IPL's interruptible credits is IPL's upcoming five-year energy efficiency plan filing. The Board will not adopt in this proceeding OCA's proposed modification to IPL's recovery of its costs to serve interruptible customers.

VI. MANAGEMENT EFFICIENCY

The OCA did not recommend any specific adjustments to ROE based on IPL's management efficiency. However, OCA says that its witnesses have identified a number of areas which warrant greater consideration of ratepayer interests and where IPL's management efficiency should improve. (OCA Initial Brief, p. 26.) OCA recommends the following:

1. The Board should require IPL to conduct the independent review of the accuracy of its billing, as IPL offered to do in Docket No. FCU-2016-0011, the

proceeding in which the Board considered multiple complaints about IPL's billing system. OCA explains that as part of the settlement in Docket No. RPU-2016-0011, IPL agreed to conduct an independent review of the accuracy of billing under the customer care and billing system (CC&B) at the request of the Board and at no cost to IPL customers. (Joint Motion and Settlement Agreement, Docket No. FCU-2016-0011, December 15, 2016.) IPL said at hearing that it would honor that agreement. (Tr. 40.)

2. To ensure that IPL improves its customer satisfaction level, OCA says the Board should monitor customer satisfaction issues resulting from implementation of IPL's new CC&B system. The Board should monitor customer satisfaction metrics and require IPL to file reports regarding those metrics.

3. The Board should require IPL to collaborate with customers and other stakeholders to arrive at solutions to what OCA identifies as long-term problems, including implementation of AMI and other smart grid initiatives; rate design and interruptible credit; and on-bill financing of energy efficiency. OCA asks the Board to require IPL to propose, as part of its compliance filing in this case, a process and timeline for engaging stakeholders on these subjects. (OCA Initial Brief, pp. 26-31.)

No other party commented on management efficiency.

Board Discussion

The Board will accept IPL's agreement to conduct an independent review of its billing accuracy. Because there were many complaints relating to billings and the

new billing system, a comprehensive review is warranted. As part of its compliance filing in this docket, IPL shall explain steps it will take to ensure that an independent review of its billing accuracy will be conducted and the timeline for that review. The Board will not make any decisions in this docket about reports regarding customer satisfaction metrics. Docket No. FCU-2016-0011 is the appropriate proceeding in which to consider the duration of any reports regarding customer satisfaction metrics.

As will be described below, the Board will require IPL to file a stakeholder engagement plan in which IPL should specify ways in which it will collaborate with customers and other stakeholders on issues raised in this proceeding and others for which collaboration with customers and stakeholders is beneficial.

VII. STAKEHOLDER ENGAGEMENT PLAN

OCA and various Intervenors said that IPL did not offer sufficient or meaningful opportunities outside of this rate case for engagement in developing proposals IPL made in this case.

Board Discussion

The Board has considered the various requests in this case to require IPL to engage more actively with its customers and stakeholders. The Board will require IPL to file a Stakeholder Engagement Plan as a compliance filing in this docket in which IPL identifies ways in which it commits to more active engagement with its customers and stakeholders on particular issues in this case and other emerging issues, including but not limited to, allocation issues such as appropriate CCOS

methodologies for a utility with significant wind generation; rate design issues such as the creation of new customer classes, other new approaches to rate design, demand ratchets, the effect of declining block rates on energy efficiency, or demand rates for residential customers; and anticipated transmission costs and other transmission-related issues.

IPL expressed a willingness to engage and collaborate with stakeholders and acknowledged that collaboration and engagement can be beneficial. For example, IPL testified at hearing that it is open to having a forum to discuss transmission issues, but said it would like to consider what particular format for such collaboration would be appropriate. (Tr. 260-261.) The Board anticipates that IPL could use the Stakeholder Engagement Plan to make a more formal and specific commitment to communicating with stakeholders regarding transmission issues and other issues raised in this proceeding. At this time, the Board will require IPL to file the Stakeholder Engagement Plan in this docket for informational purposes only. IPL shall file the plan within 60 days of the date of this order.

VIII. GRID MODERNIZATION

IPL says its investment of \$293 million in its electric distribution grid in 2017, which focused on grid modernization, was driven by industry technology advances and changing customer expectations, including expectations of customer-owned DG, more customer-facing information, and new rate options. Specific steps IPL is taking to accommodate DG include increasing the operating voltage of the distribution

system to 24.9 kV; implementing an online DG Generation Interconnection Application tool; installing line sensors and Supervisory Control and Data Acquisition components; resolving backflow issues with the transmission system and initiating various technology pilots. According to IPL, DG is a growing and permanent part of its system, and the company is taking action in related areas including distribution automation, storage, and AMI. (IPL Initial Brief, pp. 48-49, citing IPL Ex. McGovern Rebuttal at 2-3; Tr. 28, 46-47, 63-66.)

IPL says it is taking a reasonable approach to grid modernization, is proceeding at the appropriate pace, is attentive to costs, and is committed to stakeholder engagement. In response to the request of the Environmental Intervenors that the Board require a more inclusive and transparent planning process for IPL's grid modernization activities, IPL says costs for such an effort can be significant. IPL suggests that the Environmental Intervenors are attempting to usurp the role and authority of the Board. IPL argues that agreement from all stakeholders is not a prerequisite for recovery of capital expense. (IPL Reply Brief, p. 33.) IPL urges the Board to deny the request of the Environmental Intervenors for the Board to require IPL to revise and expand its present approach to grid modernization. (IPL Initial Brief, pp. 47-48, citing Environmental Intervenors' Ex. Rabago Direct at 51.)

According to Environmental Intervenors, from 2010 to 2016, IPL's capital investments in the distribution grid ranged from \$126 million to \$182 million. IPL expected to invest \$293 million in its electric distribution infrastructure in 2017 and an

approximately equal amount in each of the next several years. Environmental Intervenor say IPL has not provided details about how its grid modernization plan will be developed to implement strategies to reduce costs, increase reliability, and deliver efficient markets for energy products and services. Environmental Intervenor ask the Board to require IPL to develop a detailed grid modernization plan including metrics to measure success of the programs. Environmental Intervenor urge the Board to indicate that it will evaluate future rate recovery of these grid modernization investments based on IPL's success in engaging stakeholders and capturing the additional benefits that Environmental Intervenor say are currently being missed. (Environmental Intervenor Initial Brief, pp. 20-21.)

WED argues that IPL is spending large amounts of capital on grid modernization without having allowed for stakeholder input. Based on Electric Power Research Institute cost projections, WED says that IPL customers are paying \$107 per customer each year to upgrade the system from a "non-smart-grid" to a fully realized "Cadillac." This equates to approximately \$52 million annually for IPL customers. (WED Brief, p. 4.) WED contends that IPL customers have no say in the process of deciding where these funds are directed. WED says that without a clear plan, developed and presented in collaboration with all stakeholders, the Board cannot thoroughly assess the cost-effectiveness and value to customers of IPL's planned \$150 million annual increase in grid investments. (WED Brief, p. 5.)

WED says it would be useful for IPL to learn what level of grid modernization investments other Iowa utilities are making. WED is concerned that major increases in infrastructure spending represent a new investment paradigm for IPL. With little or no load growth, new generation is difficult to justify, but grid modernization can represent an attractive area for capital investment and returns, and may become the dominant investment category going forward. Without a forum to evaluate plans and measure performance, WED suggests these investments become "black boxes" that guarantee profits for shareholders without guaranteeing value for customers. (WED Brief, p. 6.) WED encourages the Board to be cautious about approving what WED says could be a blank check for endless capital investments in grid infrastructure without meaningful stakeholder input, metrics for measuring performance, or demonstration of value to customers. (WED Brief, p. 7.)

WED encourages the Board to consider opening a docket similar to the Minnesota Public Utilities Commission's 2015 inquiry that focused on grid modernization and asked stakeholders about future distribution system needs and the alignment of planning and investment. (WED Brief, p. 6, citing MPUC Staff Report on Grid Modernization, March 2016.)

With respect to IPL's capital investment in distribution assets, OCA proposes the Board should require IPL, in future rate cases, to include only the normal amount of capital spending IPL has invested in its distribution grid and in other operations in the post-test year capital additions. OCA says the amount allowed should be capped

at the average amount of investments during the past few years, with some allowance for future growth, unless the company can show a reason for a larger increase. (OCA Ex. Shi Direct, p. 16.) IPL urges the Board to reject this proposal, but argues in any case that the company's post-test year distribution investments of approximately \$199 million would satisfy OCA's proposed criteria. (IPL Initial Brief, p. 49.)

Board Discussion

The term "grid modernization" encompasses a number of different actions and investments that can improve system reliability, expand customer choices, incorporate more renewable sources, and help to control certain costs. The record in this case shows a level of dissatisfaction among Intervenor with IPL's efforts to involve stakeholders in the planning for grid modernization investments and evaluation of the benefits to customers of such investments. For example, Environmental Intervenor's witness Rabago identifies the lack of detail regarding how IPL's grid modernization efforts will benefit IPL's customers as a "major shortcoming" of IPL's approach. Witness Rabago points to IPL's implementation of AMI as an example of an initiative that did not focus on customer interests. (Environmental Intervenor's Initial Brief, p. 21, citing Ex. Rabago Direct, p. 21.)

IPL says no further Board action is necessary because the company is committed to communicating with stakeholders. IPL testified at hearing that it intends

to collaborate on grid modernization, AMI, and DG mapping tools. (IPL Reply Brief, p. 33, citing Tr. 27-28, 66; 46, 49; and 60.)

On the basis of this record, it is difficult for the Board to specify a process for IPL to meaningfully engage its stakeholders on planning investments to modernize its infrastructure. The Board will not adopt OCA's proposed treatment of post-test year investments in distribution assets, nor the proposals regarding stakeholder engagement from Environmental Intervenors and WED. Instead, because of the concerns of several parties in this case that IPL has not done enough to engage stakeholders regarding grid modernization planning, and because of the Board's own interest in IPL's efforts to modernize its infrastructure, the Board will require IPL to file a Grid Modernization Plan. In the plan, IPL should, at a minimum, identify its plans and timelines for specific grid modernization activities, the projected cost of these activities, estimates for resulting distribution efficiencies, and anticipated customer benefits. The plan should also specify how IPL will inform stakeholders about the company's grid modernization efforts. It may be appropriate for IPL to identify in the plan specific areas where stakeholder involvement is particularly important to the success of an initiative, so that IPL can target stakeholder engagement.

The Board will require IPL to file its Grid Modernization Plan in this docket for informational purposes only. IPL shall file the plan within 60 days of the date of this order.

IX. RATE CASE EXPENSE

On August 1, 2017, OCA filed a motion asking the Board to require IPL to justify its outside counsel costs. On August 9, 2017, the Board issued an order granting OCA's motion and directing IPL to include in its rebuttal testimony information addressing the reasonableness of its estimated cost of using outside counsel in this proceeding. IPL witness Schmidt addressed the issue in rebuttal testimony filed on August 25, 2017. No further testimony, pleadings, or objections addressing this issue were filed.

IPL filed its actual rate case expenses on December 1, 2017. IPL's rate case expenses totaled \$1,251,568. Through September 2017, actual expenses were \$88,757 less than what was estimated. IPL notes several factors contributing to the variance, including the fact that a settlement was reached before the hearing.

IPL's total rate case expense of \$1,251,568 includes the Board's and OCA's expenses through September 30, 2017. IPL asks the Board to update Board and OCA expenses to include all costs through the date of the Board's final decision. In support of that request, IPL cites an order of the Board issued July 19, 1989, in Docket No. RPU-1988-0010, in which the Board stated that:

rate case expense is to be computed up to the date of the Board's final decision... The rules improperly identify the cut-off as the filing date of the utility's reply brief. The filing of the utility's reply brief is the cut-off date for allowable utility expenses. Additional recoverable Board expenses are incurred after the reply brief for review of the briefs and record in preparation for the final decision.

Board Discussion

The statement of the prior Board in Docket No. RPU-1988-0010 notwithstanding, the Board's current rule establishes a bright-line cut-off date for recovery of expenses incurred by the Board and OCA. The rule at 199 IAC 26.4(4) provides that the total allowable rate case expense includes expenses incurred by the Board and OCA through the utility's reply brief, the time period specified in subrule 26.4(1). The Board will not depart from that rule in this case.

Expenses for the Board and OCA from October 1, 2017, through November 8, 2017, the date allowed by subrule 26.4(4), total \$136,336. Adding that amount to IPL's total of actual expenses reported on December 1, 2017, produces a total of \$1,387,904.⁹ Pursuant to Iowa Code § 476.6(5), the Board finds that amount to be reasonable and just.

The Settlement provides that the settling parties agree that the settled revenue requirement will be adjusted to account for IPL's reasonable and just rate case expense amounts and the costs of the Board and OCA. By order issued on September 26, 2017, the Board asked the settling parties to clarify if they intended to preclude the use of a rider to recover just and reasonable rate case expense. The settling parties responded to the Board's questions on October 2, 2017, indicating they did not intend to preclude the use of a rider for this purpose.

⁹ The total rate case expense of \$1,387,903 includes IPL's outside counsel expense. Based on IPL's testimony explaining the basis for that expense, the Board finds the expense was reasonable.

Consistent with the Board's recent decisions regarding the recovery of rate case expense through a separate rider,¹⁰ the Board concludes that IPL's approved rate case expense shall likewise be recovered through a rate case expense rider. This will allow dollar-for-dollar recovery of rate case expense without risking over-recovery from ratepayers. The Board has historically used a three-year amortization for rate case expense. In its compliance tariff filing, IPL should include a proposed tariff implementing a rider for rate case expense that reflects the approved rate case expense, a three-year amortization period, and recovery through a volumetric rate; and that indicates that recovery will be subject to a true-up or reconciliation if it is not altered in the next rate case.

X. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The Motion to Reopen the Record filed in this docket on December 29, 2017, by the Office of Consumer Advocate, a division of the Iowa Department of Justice, is denied.
2. The proposed final electric tariff filed by Interstate Power and Light Company on April 3, 2017, identified as TF-2017-0034, and made subject to

¹⁰ See *In re: Iowa-American Water Company*, Docket No. RPU-2016-0002, "Final Decision and Order," issued February 27, 2017, pp. 57-58; *In re: Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities*, Docket No. RPU-2016-0003, "Order Approving Settlement with Reporting Requirement, Denying Motion to Strike, and Addressing Rate Case Expense," issued April 28, 2017, pp. 35-36.

investigation as part of this proceeding, is declared to be unjust, unreasonable, and unlawful.

3. The temporary electric tariff identified as TF-2017-0035, filed on April 3, 2017, and placed into effect on April 13, 2017, by Interstate Power and Light Company shall remain in effect until the Utilities Board approves the compliance tariffs required by this order.

4. The Settlement Agreement filed on September 21, 2017, by Interstate Power and Light Company; the Office of Consumer Advocate, a division of the Iowa Department of Justice; the Large Energy Group; and the Iowa Business Energy Coalition, as modified by this order, is reasonable in light of the whole record, consistent with law, in the public interest and, therefore, is approved.

5. As discussed in the body of this order, the methodologies proposed in this proceeding by Interstate Power and Light Company for the allocation of generation costs, transmission costs, customer costs, the costs of the Duane Arnold Energy Center Power Purchase Agreement, and the allocation of the settled revenue requirement based on an 80/20 split, are reasonable and are approved.

6. As discussed in the body of this order, Interstate Power and Light Company's proposal to establish partial requirements customer classes in its class cost-of-service study is not approved.

7. Interstate Power and Light Company's proposal to continue use of the regional transmission rider identified as Rider RTS, as modified by Interstate Power

and Light Company in this proceeding, is approved, subject to the monthly cost information filing requirement, the semi-annual transmission reporting requirement, and the annual compliance filing requirement described in the body of this order.

8. As discussed in the body of this order, Interstate Power and Light Company's proposals regarding the separation of and rates for the Standby and Supplementary customers are approved. If Interstate Power and Light Company intends to maintain the 964-hour limit on unscheduled generation, it should include that provision in its compliance tariff filing.

9. Within 20 days of the date of this order, Interstate Power and Light Company shall file tariffs in compliance with this order and the attached revised settlement schedules A through E, filed on November 3, 2017, which are incorporated into this order by reference. At the time Interstate Power and Light Company files its compliance tariffs, it shall also file an updated cost-of-service study based on the approved customer classes and revenue requirement. Interstate Power and Light Company's compliance filing shall also include schedules showing how its proposed compliance rates are calculated, and an updated proof of revenue exhibit demonstrating that its proposed compliance rates will produce no more than the approved revenue requirement. All documentation supporting Interstate Power and Light Company's compliance filing (except the tariffs themselves) shall be provided in Excel format, including formulas for each calculation. The compliance tariffs will become effective upon approval by the Utilities Board.

10. In its compliance tariff filing, Interstate Power and Light Company shall demonstrate how it has retained the pricing differentials to the extent possible in the block rates for the residential and general service classes.

11. The Optional Demand Pilot for residential and small general service customers proposed in this proceeding by Interstate Power and Light Company is approved as discussed in the body of this order. As part of its compliance filing, Interstate Power and Light Company shall submit proposed tariffs for the pilot which do not include a reduced customer charge for participating customers and which include tables showing the time-of-day rates for the energy charges. Interstate Power and Light Company shall also file an annual report in this docket which, at a minimum, specifies the number of customers participating in the pilot each month and their use of kW and kWh units. The annual reports shall be filed on a calendar year basis, with the first report covering the time period from the date the tariff is implemented through December 31, 2018.

12. The Economic Development Infill Rate proposed in this proceeding by Interstate Power and Light Company is approved as discussed in the body of this order and subject to the following modifications:

a. Interstate Power and Light Company shall include in its compliance filing a plan for how it will publicly identify the facilities that are currently eligible for the rate.

b. Interstate Power and Light Company shall include in the Economic Development Infill tariff information explaining how customers can access publicly available information identifying eligible facilities.

13. The time-of-use Second Meter pilot program proposed in this proceeding by Interstate Power and Light Company is not approved for the reasons discussed in the body of this order.

14. As discussed in the body of this order, Interstate Power and Light Company's agreement to provide for an independent review of its billing accuracy is accepted. As part of its compliance filing in this docket, Interstate Power and Light Company shall file a statement explaining how it will ensure that an independent review will be conducted and a timeframe for the review.

15. Within 60 days of the date of this order, Interstate Power and Light Company shall file in this docket a Stakeholder Engagement Plan as described in the body of this order.

16. Within 60 days of the date of this order, Interstate Power and Light Company shall file in this docket a Grid Modernization Plan as described in the body of this order.

17. As discussed in the body of this order, the Utilities Board concludes that recovery through a rider by Interstate Power and Light Company of its rate case expense in an amount of \$1,387,904, amortized over three years, is reasonable and just. In its compliance tariff filing, Interstate Power and Light Company shall include a

proposed tariff implementing a rider for rate case expense that reflects the approved rate case expense, a three-year amortization period, recovery through a volumetric rate, and that indicates that recovery will be subject to a true-up or reconciliation if it is not altered in the next rate case.

18. Motions and objections not previously granted or sustained are denied or overruled. Any argument in the briefs not specifically addressed in this order is rejected either as not supported by the evidence or as not being of sufficient persuasiveness to warrant discussion in this order.

19. This order constitutes the final decision of the Utilities Board in Docket No. RPU-2017-0001.

UTILITIES BOARD

/s/ Geri D. Huser

/s/ Nick Wagner

ATTEST:

/s/ Bradley Nielsen
Executive Secretary, Designee

/s/ Richard W. Lozier Jr.

Dated at Des Moines, Iowa, this 2nd day of February, 2018.