

Issues Confronting the Iowa Utilities Board

Chuck Seel - Bill Smith

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New Generating Plants

SITUATION

- No large plants have been installed in Iowa early 1980's.
- Existing generation cannot meet new customer demand.
- Utilities were not able to invest under traditional ratemaking.
- 2001 legislature required pre-approval of ratemaking principles to stimulate investment.

Drawbacks of Traditional Ratemaking

- Utility made investment before Board approved cost total.
- Board could change earnings rate.
- Board could change depreciation period.
- Unpredictable earnings made investment expensive.

“Ratemaking Principles”

- 2001 legislation requires Board to approve ratemaking principles before utility commits to build plant.
- First principles were approved in May 2002. The decision can be found at:
http://www.state.ia.us/government/com/util/_private/Orders/2002/0529_rpu019.pdf
- A second decision was made in September 2002.
http://www.state.ia.us/government/com/util/_private/Orders/2002/0917_rpu026.pdf

Conditions

- To be eligible for advance ratemaking determination, a utility must meet two conditions:
- It must have an energy efficiency plan approved by the Board.
- The proposed plant must be reasonable when compared to other possible alternative sources of supply.

MidAmerican's 8 Proposed Principles

- Four were not contested:
- Capital structure and cost of debt and preferred securities
- Jurisdictional allocation
- Other investment and plant expense
- Impact of settlement

Contested principles

- Depreciable life – How many years can the utility recover the investment? Board decided 27.6 years.
- Excess Capacity – Utility continues to earn on this plant even if it has excess capacity.
- Capital cost recovery – Board will not review \$357 million base plant cost.
- Cost of Capital – Board allowed utility to earn 12.23% on equity investment in plant.

Interstate Power principles

- A settlement was reached based on the principles approved in the MidAmerican case.

Questions

- Will these principles encourage the utility to build the plant?
- Will this decision hold up for the life of the plant?
- Is this process fair for non-utility generators?

Rate Equalization

SITUATION

- Iowa had 7 electric utilities in 1988. In 2002 there are two.
- The mergers of the companies did not merge the rate schedules.
- Rates in neighboring towns can vary by 50%.

The Interstate Power case

- Proposed increase of 9.6%
- Proposed rate equalization

Example

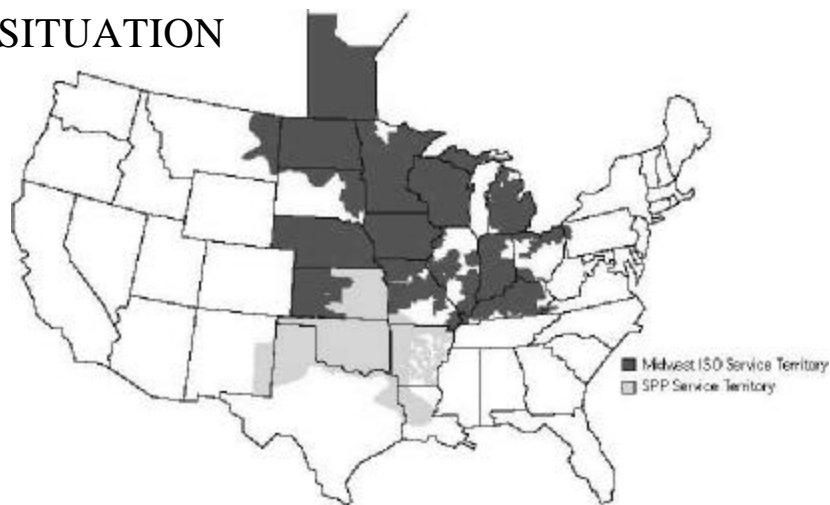
	Zone A	Zone B	Zone C
Monthly:	\$5.49	9.00	7.00
Per kWh: (summer)	\$.07337	.0896	.0469
Per kWh: (winter)	\$.06615	.0706	.0364

Questions

- Can the customers understand different increases?
- How many steps should we take to equalize these rates?
- Can industrial and residential customers absorb the changes?

Regional Transmission Issues

SITUATION



Federal Policy

- Regional Transmission Organizations should have efficient scope and configuration.
- Utilities should make **voluntary** choice of RTO.
- “Seams” between regions should be invisible to customers.

Standard Market Design

- In July, the FERC proposed a rule that would require independent management of all transmission systems.
- States are preparing comments due November 15 and January 15.
- Congress may enact new electricity legislation.