

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. EEP-02-38
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FINAL DECISION AND ORDER

(Issued June 3, 2003)

I. PROCEDURAL HISTORY

On May 30, 2002, the Utilities Board (Board) issued an order directing Interstate Power and Light Company (IPL) to file a new energy efficiency plan on or before October 15, 2002. IPL filed its proposed new plan on October 15, 2002, which contained both electric and gas programs. One difference in the new plan was IPL's proposal to include its Nonresidential Load Program (i.e., interruptible program) in its energy efficiency plan. Currently, the costs of the program are recovered in IPL's electric base rates.

The Board docketed the filing, identified as Docket No. EEP-02-38, and established a procedural schedule by order issued November 8, 2002. As part of that order, the Board identified certain additional information for IPL to provide. IPL provided the information identified in the order on December 9, 2002.

In addition to the Consumer Advocate Division of the Department of Justice (Consumer Advocate), MidAmerican Energy Company, Ag Processing Inc (Ag

Processing), and the Iowa Industrial Intervenors (III) were parties to the proceeding. The III is a group consisting of large industrial electric customers of IPL.

The Board issued an order on February 13, 2003, requiring IPL to respond to several questions regarding IPL's prefiled rebuttal testimony and data supplied by IPL. IPL provided written responses to the questions.

On February 27, 2003, the Board granted a joint motion filed by IPL and Consumer Advocate concerning the need, if any, for litigation of the avoided cost issue in the energy efficiency plan docket. IPL and Consumer Advocate said that while they had serious differences in their preferred methodologies of calculating avoided cost, these differences did not impact the nature or content of IPL's energy efficiency plan. IPL and Consumer Advocate asked that the matter not be litigated in this proceeding. The Board granted the motion, stating that there was no need to decide the avoided cost issue in this proceeding because any decision made would have no impact on the proposed plan.

Consumer Advocate and IPL filed a unanimous partial settlement on February 27, 2003. A hearing was held on March 4, 2003, on the proposed partial settlement and the remaining contested issues. The parties had an opportunity to file initial and reply briefs subsequent to the hearing.

The Board notes that on April 3, 2003, the Iowa Department of Natural Resources (IDNR) submitted a letter containing certain recommendations regarding the plan. In particular, the IDNR wanted IPL's plan modified to include a budget and strategy for collaboration with the IDNR relating to the Rebuild Iowa and energy bank programs.

While IDNR's recommendations may have some merit, they came too late in the process for Board consideration in this docket. The recommendations did not come until after the hearing was held and other parties to the proceeding did not have an opportunity to adequately respond to the proposals. In its reply brief, however, IPL said it would continue its past informal relationship with the IDNR, working on the programs cited in the IDNR's letter. (IPL Reply Brief, pp. 13-15).

II. PARTIAL SETTLEMENT AND UNCONTESTED ISSUES

A. Partial Settlement

The partial settlement, which was not opposed by any party, resolves many budget and program issues and will be approved. However, the settlement is somewhat open-ended because in several areas the parties agree to continue discussions on such things as implementation of innovative delivery mechanisms, leverage of energy efficiency participation and savings opportunities through local and federal programs and partnerships, and focusing on delivering energy efficiency to less-penetrated markets such as the residential rental market. IPL has identified numerous initiatives that it hopes to undertake but there is no prioritization of those initiatives.

The energy efficiency plan also does not recognize rate changes that will be implemented in IPL's four electric pricing zones as a result of IPL's recent electric rate case. The Board's final decision and order issued on April 15, 2003, in Docket Nos. RPU-02-3 and RPU-02-8 took significant steps to reduce rate disparities among the four pricing zones. As a result, customers in some pricing zones will experience

greater increases than customers in other zones, but the energy efficiency plan does not target those customers who will experience the greatest increases. The Board will provide direction to IPL in implementing the plan and settlement so that this oversight can be corrected quickly.

IPL asked that it be allowed to delay implementation of the new energy efficiency plan until January 1, 2004. The Board will reject this request. Because of the ramifications of the rate case decision, it is imperative that the new plan be implemented immediately. While the Board understands that all of the initiatives and pilots discussed in this order will not be ready at the start of the plan, the Board will establish July 1, 2003, as the effective date of the new plan and will direct IPL to file tariffs in a timely manner to revise cost-recovery factors consistent with the plan and this order. It is necessary to establish a date for the new plan so that expenditures under the current plan cease at a certain date and expenditures under the new plan begin. The Board understands that IPL is pursuing various new initiatives and that these will not be in place by July 1, 2003. However, as discussed below, the Board expects several of these initiatives to be in place by September 1, 2003.

Table 1 attached to the Settlement lists various energy efficiency and load management programs. Those programs in the list that are not implemented as pilot programs shall be actively promoted and available to customers by September 1, 2003. During July and August 2003, the Board's staff will meet with IPL and parties to this proceeding to discuss progress towards implementation of the new plan. These meetings will be held on July 10 and August 14, 2003.

IPL has an ambitious list of initiatives that it plans to pursue. The Board is concerned that without prioritizing these initiatives, development of some of the most important programs or pilots might be delayed. It is especially important to begin some of these initiatives in a timely manner because of the impacts of the recent rate case decision. Some of IPL's pricing zones have not been receiving the most accurate price signals because of past rate disparities. It may take additional time and effort to promote energy efficiency in these pricing zones.

The Board directs IPL to include the following new initiatives as top priorities for development: community based energy efficiency pilots (Settlement item IX), commercial and industrial total assessment audits in conjunction with the Iowa Energy Center (Settlement item IV), rental market development and assistance to emergency institutional housing (Settlement item X), farm audits and leveraging of federal funding for farm energy efficiency (Settlement item IX), and upstream incentives and assistance to trade allies, including training and support for stocking of equipment, as needed (Plan, chapter 7, pp. 10-11). These initiatives should be initiated as pilot projects and should be targeted first at the IPL pricing zones that are most affected by the recent rate case decision, to the extent possible. The Board expects IPL to use its best efforts to initiate these pilots on or before September 1, 2003. If it is not possible to initiate a particular pilot by this date, IPL shall notify the Board as soon as it is apparent that the date cannot be met. No additional Board action or order is required to initiate these pilots and, to the extent necessary, the Board will waive 199 IAC 35.8(10).

B. Low-Income Programs

The Board is concerned that the amount included in IPL's plan for low-income programs is not sufficient. The Board believes that low-income weatherization programs, in particular, can be enhanced. The Board will require IPL to submit a report on or before September 1, 2003, that addresses the following items:

1. An estimate of funds needed by weatherization agencies to substantially complete all reasonably feasible energy efficiency improvements for all eligible IPL low-income residential customers by June 1, 2013.
2. An estimate of the ancillary funding that may be needed by weatherization agencies to address health and safety issues related to low-income weatherization.
3. The need for low-income weatherization in the southern pricing zone.
4. An investigation on the saturation and use of electric space heating in the southern zone by low-income and other residential customers.
5. The types and amounts of special assistance that may be needed by public and private agencies to improve energy efficiency for low-income residents in rental properties, emergency shelters, or other dwellings owned by third parties.

Depending on what the report shows, the Board by subsequent order may direct IPL to provide some electric customers in certain pricing zones analysis and assistance in determining the costs of possible changes in or alternatives to their heating systems. The assistance provided to customers would also likely be required

to include information about any programs that may be available to help customers pay for the improvements or alterations.

While the report should provide information with respect to the level of funding appropriate for low-income programs, it is apparent that the level proposed in IPL's plan, \$1.25 million, is inadequate. Therefore, the Board will require IPL to increase its total plan funding for low-income energy efficiency programs by 100 percent. This increase will be effective on the starting date of the new plan, July 1, 2003. This increased funding will have minimal bill impacts. For example, for an average residential customer that takes both electric and gas service from IPL, the increase will be approximately \$0.00005/kWh and \$0.0058/therm. The Board may order additional funding, depending on the results of the report, but implementing an increase on July 1 will allow funds to be built up so that some funds are available to immediately start addressing additional needs that are likely to be identified in the report.

C. Reporting of Plan Results

In order to monitor the effectiveness of the new energy efficiency plan, the Board will direct IPL to file a comprehensive annual report, which will be due either at the time of IPL's annual reconciliation of expenditures or on May 1 of each year, whichever occurs first. However, the report for calendar year 2002, which must also include results from 1999 through 2001, will be due on or before November 1, 2003. The informal update meetings between IPL, the Board's staff, and interested parties that were instituted after the prudence review in 2000 will continue.

III. CONTESTED ISSUES

A. Non-Residential Custom Rebates

Ag Processing is concerned that in the new energy efficiency plan, IPL has shifted funding and emphasis from the custom rebate program to the performance contracting program and has increased the payback period from two to three years. Ag Processing also alleges that IPL may have a conflict of interest in the performance contracting program because one of its affiliates, Alliant Energy Services, is one of the participating contractors.

The Board notes that there are three other nonaffiliated contractors that participate in the performance contracting program. The Board shares Ag Processing's concern, however, about the shift in emphasis and the reduction in the incentives for custom rebates. Consumer Advocate maintained that the performance contracting program costs twice as much per unit of electric savings as the custom rebate program. (Murphy Direct, p. 15). While the Board does not generally become involved in the detailed design of incentives, the Board believes that there is insufficient evidence to justify the increase in the payback period from two to three years, particularly given the concerns regarding the performance contracting program. The Board will, therefore, direct IPL to provide incentives for the custom rebate program to reduce the payback period to two years.

In addition, the Board will require IPL to provide, on or before November 1, 2003, more complete information on the performance contracting program so that the Board and the parties can determine whether any program modifications are appropriate. This information must include at least the following:

1. A description of meetings of the advisory committee, including (but not limited to) dates, attendees, subjects discussed, and decisions made.
2. A list of the contractors approved for participation in Iowa and a list of the contractors approved for participation in a similar program in Wisconsin.
3. A list of all customer projects which are actively underway or under consideration, including the status of the project, type of customer facility, general description of the project and technology, name of the performance contractor if the customer has chosen one, estimated annual savings in capacity, energy, and dollars, estimated overall life of the installed improvements, estimated cost of the energy efficiency measures and installation, and estimated annual repayment cost for the length of the contract.

B. Interruptible Programs

The issue here is whether to adopt IPL's proposal to transfer cost recovery for interruptible credits from base rates to the energy efficiency cost recovery clause. For the reasons contained in its April 15, 2003, order in Docket Nos. RPU-02-3 and RPU-02-8, the Board reaffirms its decision to allow this transfer to take place. IPL will be required to file tariffs for Board review to implement this change in a timely manner consistent with the decision in the electric rate case dockets.

This Board previously ruled, and was affirmed by the Iowa District Court, that load management programs are legitimate energy efficiency programs, the costs of which are recoverable like other energy efficiency programs, through the energy

efficiency cost recovery mechanism. Office of Consumer Advocate v. Iowa Utilities Board, AA No. 2442, "Amended Ruling on Petition for Judicial Review" (Polk County District Court, 9/13/95). The Board's decision does not change the amounts to be recovered, but only shifts the costs of the interruptible credits from base rates to the energy efficiency cost recovery clause.

C. Level of Interruptible Credits

There was much testimony presented regarding the level of interruptible credits. Consumer Advocate argued the current program has varying levels of credits that do not appear to be based on any identifiable formula. While it is apparent to the Board that the level of interruptible credits may need to be revised to make the credits received by each customer more consistent, the Board is not satisfied that the record is adequate to determine whether such a change should take place and, if so, what the appropriate level or levels of credits should be. The Board is also reluctant to make changes in the program right before or during the summer season because businesses have relied on the current levels in making their plans for this summer.

The Board will, therefore, not order the level of credits changed immediately, but will require IPL to file a report, on or before September 1, 2003, that contains a proposal for addressing the disparities and apparent inconsistencies in the current customer incentives. The report will also be required to contain the following information.

1. How much interruptible capacity is needed.

2. What types of interruptibility are technically feasible and what are the advantages and disadvantages of each.

3. Whether some form of competitive bidding would help to establish the appropriate price for the customer incentive, and what form and procedures should be used if competitive bidding is used.

4. Absent a bidding procedure, an explanation of how incentives can be revised to provide consistent incentives for similar amounts of peak capacity subscribed for interruption.

D. Monitoring and Evaluation Costs

Ag Processing argued that the funding for monitoring and evaluation of the energy efficiency plan should be reduced. The Board will not reduce funding because there were past problems when funds for monitoring and evaluation were inadequate. The Board believes the level proposed by IPL is adequate for these purposes. The amount proposed is based on widely-adopted industry standards. (Tr. 87). Monitoring and evaluation are critical in providing information IPL will need to make any adjustments to its programs and to strengthen its plan, particularly given the many new delivery mechanisms proposed. The flexibility built into the plan will be of little use if detailed and accurate information cannot be obtained to gauge the programs' performance. (Tr. 56).

In approving the budgeted amount, the Board expects to see results from the funds used for monitoring and evaluation purposes. If there are program aberrations, IPL will be expected to do follow-up work to find out why. If changes in programs are proposed, reasons must be given. If programs are not performing as projected, IPL

should be in a position to find and offer explanations. In short, the Board expects answers when questions arise, not hypothetical explanations for why a program does or does not work as expected.

V. FINDINGS OF FACT

Based on a thorough review of the entire record in these proceedings, the Board makes the following findings of fact:

1. The partial settlement filed on February 27, 2003, is reasonable in light of the whole record, consistent with law, and in the public interest, when modified as follows.
2. It is reasonable to require the new plan to be implemented on July 1, 2003, although the Board recognizes that some of the new initiatives contained in the energy efficiency plan will not be ready by that date.
3. It is reasonable to require that the programs listed in Table 1, to the extent they are not implemented as pilot programs, be actively promoted and available to customers by September 1, 2003.
4. It is reasonable for the Board to prioritize IPL's new initiatives.
5. It is reasonable to increase the amount of funding available to the low-income program by 100 percent.
6. It is reasonable to set the payback period for the custom rebate program to two years.
7. It is reasonable to transfer cost recovery for interruptible credits from base rates to the energy efficiency cost recovery clause.

8. It is reasonable to leave unchanged the level of interruptible credits pending the receipt of additional information addressing the issue.

9. It is unreasonable to reduce the amount contained in the proposed plan for monitoring and evaluation.

VI. CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code ch. 476 (2003).

VII. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The partial settlement filed on February 27, 2003, in Docket No. EEP-02-38 is approved, as modified by the Board. Interstate Power and Light Company shall implement its new energy efficiency plan, pursuant to the settlement and the discussion contained in this order, on July 1, 2003. Interstate Power and Light Company shall file tariffs in a timely manner to revise cost-recovery factors consistent with the plan and this order. Compliance tariffs shall be effective upon approval by the Board.

2. The energy efficiency and load management programs listed in Table 1 that are not implemented as pilot projects shall be actively promoted and available to customers by September 1, 2003.

3. On July 10 and August 14, 2003, Interstate Power and Light Company shall meet with the Board's staff and Consumer Advocate to discuss progress towards implementation of the new plan. The meetings shall begin at 9:30 a.m. and

shall be held in Conference Room 3 at the Board's offices at 350 Maple Street, Des Moines, Iowa. Other parties to this proceeding are also invited to attend these meetings.

4. Interstate Power and Light Company shall use its best efforts to begin pilot projects on new initiatives identified in this order on or before September 1, 2003. If it is not possible to begin a particular pilot or pilots by this date, Interstate Power and Light Company shall notify the Board.

5. Interstate Power and Light Company shall provide, on or before September 1, 2003, the information regarding low-income weatherization programs identified in this order.

7. Interstate Power and Light Company shall file a comprehensive annual report for calendar year 2002, including results from 1999 through 2001, on or before November 1, 2003. Annual reports for subsequent calendar years shall be filed at the time of the annual reconciliation of expenditures or May 1 of each year, whichever occurs first.

8. Interstate Power and Light Company shall file a report on or before November 1, 2003, containing information identified in this order regarding the performance contracting program.

9. Interstate Power and Light Company shall file a report on or before September 1, 2003, containing information regarding the level of interruptible credits identified in this order.

10. 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 comments.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Sharon Mayer
Executive Secretary, Assistant to

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 3rd day of June, 2003.