

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. RPU-05-1 TF-05-122
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**ORDER APPROVING SETTLEMENT, CANCELING HEARING, REJECTING  
TARIFF, AND ORDERING COMPLIANCE TARIFF TO BE FILED**

(Issued October 14, 2005)

On April 15, 2005, Interstate Power and Light Company (IPL) filed proposed gas tariffs, identified as TF-05-122 and TF-05-123, with the Utilities Board (Board). In TF-05-122, IPL proposed a permanent annual revenue increase of \$19,071,437, or an overall annual revenue increase of 6.43 percent. In TF-05-123, IPL filed a proposed gas tariff designed to produce additional revenue of approximately \$13,373,757, or 4.5 percent, on a temporary basis. The temporary gas tariff became effective April 25, 2005, as authorized by Iowa Code § 476.6(10).

On May 11, 2005, the Board issued an order opening a formal proceeding to consider the rate increase, suspending the proposed tariff to increase natural gas rates on a permanent basis, establishing a procedural schedule, and approving the corporate undertaking filed by IPL. On June 3, 2005, the Board granted intervention to Cornerstone Energy, Inc. (Cornerstone), the Iowa Consumers Coalition (ICC), and Northern Natural Gas Company (Northern). The Consumer Advocate Division of the Department of Justice (Consumer Advocate) is also a party to this case.

On July 20, 2005, IPL, Consumer Advocate, and ICC (Settlement Parties) filed a non-unanimous settlement agreement in which they agreed that IPL could increase its Iowa natural gas revenues by \$14,011,130 and the total Iowa gas revenue requirement after the increase would be \$303,641,239. The settlement provided that the \$14,011,130 increase is to be adjusted to reflect the actual amount of IPL's rate case expense for this docket plus unrecovered rate case expense from Docket No. RPU-02-7. In addition, the settlement provided that IPL's Iowa natural gas rate base is \$211,874,958 and the return on equity for its rate base is 10.4 percent and its overall rate of return for its rate base is 8.676 percent. The Settlement Parties moved that the Board promptly issue an order approving the settlement agreement in its entirety, without condition or modification.

On August 5, 2005, the Settlement Parties filed an amendment to the non-unanimous settlement agreement. The amendment provided that the Board should allocate the revenue increase of \$14,011,130 to IPL's major customer classes in the manner used by IPL in the initial tariff filing. In addition, the agreement provided that the Board should approve the changes to IPL's gas transportation tariff and gas interruptible tariff as proposed by IPL in the initial tariff filing.

On July 21, 2005, Cornerstone filed a statement indicating it did not object to the terms of the settlement agreement filed July 20, 2005. On August 11, 2005, Cornerstone filed a statement indicating it did not object to the August 5, 2005, amendment.

On August 25, 2005, the Settlement Parties filed a joint motion to terminate the settlement comment period provided for in 199 IAC 7.2(11)"c" and cancel the remainder of the procedural schedule including the hearing. The Settlement Parties stated in the joint motion that a settlement conference was held as required by 199 IAC 7.2(11)"a" and neither Cornerstone nor Northern participated in the conference. The Settlement Parties suggested since Cornerstone had stated it had no objection to the settlement or amendment and Northern did not participate in the settlement conference, no lawful objection to the settlement agreement and amendment would be filed with the Board. The Settlement Parties requested that the Board terminate the 30-day settlement comment period under 199 IAC 7.2(11)"c," cancel the hearing scheduled for October 17, 2005, and approve the settlement agreement, as amended, without condition or modification.

On September 1, 2005, the Board issued an order granting the motion to terminate the settlement comment period provided in 199 IAC 7.2(11)"c" and reserving ruling on the motion to cancel the hearing. Also, in the September 1, 2005, order, the Board directed IPL to file responses to certain questions involving IPL's natural gas pipeline safety compliance program and requested an update of class cost-of-service and revenue verification schedules. The Board stated that the settlement did not address the issue of IPL's management of its gas safety compliance program that the Board specifically required IPL to include in the testimony filed in support of the rate increase. The Board directed IPL to respond to

certain questions designed to provide the Board with additional information concerning IPL's natural gas safety compliance program.

In the "Order Assessing Civil Penalties" issued February 24, 2005, in Docket Nos. PSA-04-1 and PSA-04-2, the Board stated that the number of specific violations and the pattern of violations acknowledged by IPL raised an issue about the management efficiency of IPL's gas pipeline safety compliance. The Board directed IPL to file testimony in the next rate case demonstrating that it had corrected or is correcting the management deficiencies acknowledged in the PSA dockets. Based upon the evidence presented in the rate case, the Board would determine whether it should make an adjustment of IPL's return on equity based upon the inefficient management of its gas safety compliance program.

IPL filed testimony in this case describing the actions it had taken and was undertaking to ensure compliance with the Board's gas safety regulations. There was no indication in the settlement whether the issue of a management efficiency adjustment was addressed by the Settlement Parties and the prefiled testimony did not provide all of the information the Board considered necessary for determining if IPL was correcting the problems acknowledged in the PSA dockets.

On September 16, 2005, IPL filed the supplemental testimony of Albert C. Langland and James P. Maher containing responses to the questions. Mr. Langland responded to the questions about the gas safety program and Mr. Maher responded with the updated revisions to the revenue verification schedule and class cost-of-service schedule. None of the Settlement Parties objected to Mr. Maher's updated

revised schedules. On September 23, 2005, the Board issued an order requesting additional information about the gas safety program to supplement the responses filed by IPL on September 16, 2005. On September 30, 2005, IPL filed the additional information in the additional supplemental direct testimony of IPL witness Albert C. Langland.

### **SETTLEMENT AND AGREEMENT**

The Board has reviewed the settlement and agreement, as amended, and finds that it is reasonable in light of the whole record, consistent with law, and in the public interest. The annual revenue increase agreed to in the settlement of \$14,011,130 is substantially less than the proposed increase of \$19,071,437 and only \$637,373 above the increase implemented in temporary rates. The capital structure reflects the ratemaking principles the Board has approved in past dockets and the return on equity of 10.40 percent is within the range of reasonableness calculated using accepted methodologies as presented in the prefiled testimony.

The settlement adopts IPL's proposed rate design, which makes no change to the residential customer charge, makes no change to transportation service charges, and otherwise increases IPL's non-gas base rate elements by generally uniform percentages, by customer class. The increases in IPL's customer charges agreed to in the settlement are within the customer cost limits indicated by the settlement class cost-of-service study.

In adopting the rate design proposed by IPL, the settlement does not address whether the parties took into consideration the record high natural gas prices being

experienced by customers and the need for aggressive implementation of energy efficiency programs. One of the few ways a customer will have to reduce high natural gas bills will be through conservation and energy efficiency. The Board supports IPL's efforts to implement a successful energy efficiency program and also understands that the more successful IPL is in reducing energy consumption by its customers, the less non-gas revenue it will generate from those rates that are based upon the volume of gas sold. The Board accepts that IPL is satisfied with the settlement and that it will continue to aggressively pursue energy conservation. The Board wants IPL to be successful in helping its customers cope with the record gas prices and does not want the settlement in this case to be an impediment to that effort.

### **TARIFF ISSUES**

In the amendment to the settlement agreement, the parties agreed that the Board should approve the changes to IPL's gas transportation tariff and gas interruptible tariff as proposed by IPL in the initial filing. The Board has reviewed the proposed tariff changes and finds that they are reasonable and should be adopted except for one of the proposed changes. IPL proposes to modify Original Tariff No.1, Substitute First Revised Sheet No. 54, section IX, entitled "Reconnection/Administrative," by adding two conditions to the tariff that apply when a transportation customer wishes to return to system supply. The proposed tariff language provides that a customer may only return to firm supply service if (1) IPL is able to obtain additional supply and firm pipeline capacity to serve the customer's

firm load and (2) IPL determines that the return of the customer to firm service does not adversely affect existing firm customers.

As proposed, the new conditions would apply to both small and large volume transportation customers as defined in 199 IAC 19.14(1). Application of the two conditions to small volume customers, as defined in 19.14(1), is contrary to the Board's previous position that the utility has an obligation to supply gas to small volume transportation customers who wish to return to system gas; this obligation does not apply to large volume customers.

The Board requires a utility in 199 IAC 19.13(6) to notify large volume customers of the risks associated with electing transportation service and one of those risks is that firm supply may not be available if the customer wishes to return to system gas. The Board stated specifically that these risks do not apply to small volume customers. In re: Revisions to Small Volume Gas Transportation Service Rules, Docket No. RMU-03-6, "Order Adopting Amendments" (issued 4/8/04). In that docket, the Board did not adopt specific language in the rule making reflecting this position since the Board determined that other issues were involved and those issues would not be addressed until after the Small Volume Gas Pilot Project was completed. The Board left no doubt that small volume customers were not subject to the same risks as large volume customers of potentially being unable to return to firm service.

To comply with the Board's position that a utility must allow a small volume transportation customer to return to firm service without the conditions proposed in

IPL's tariff, IPL will have to modify the proposed conditions and limit them to large volume transportation customers. The Board suggests language similar to the following:

IX. **Reconnection/Administrative:** Transportation customers electing to return to Company's General Service rates are subject to a \$500 charge for the associated contractual or administrative services. Large volume customers, as defined in 199 IAC 19.14(1), may only return to firm supply service subject to the Company's ability to obtain additional supply and firm pipeline capacity to serve the firm load, and as long as the Large Volume customer's return to firm service does not adversely impact existing customers. Customers may return to interruptible service if they meet the qualifications for the rate. A Gas Service Agreement must be completed for any customer who is returning to system supply service.

IPL also proposes to change Original Tariff No.1, Substitute First Revised Sheet Nos. 49-50, sections III-IV, entitled "Pipeline Firm Transportation," that establishes specific provisions for "Backup Supply Service" and "Pipeline Firm Transportation Service" for transportation customers. IPL proposes to remove the specific provisions in the current tariff and provide the specific provisions of the service through contract negotiations with customers. IPL indicates that it has only one customer taking each of the services and is currently negotiating with those customers regarding the service.

The Board will approve the proposed change to sections III-IV. The small number of customers taking the service makes it less imperative to have the specifics in the tariff. The Board will require IPL to file the contracts once they are executed in case questions about the specifics of the contracts arise.

### **NATURAL GAS SAFETY COMPLIANCE PROGRAM**

After reviewing the initial responses and the additional information provided by IPL, the Board is satisfied that IPL is making sufficient progress in completing the changes to its safety compliance program. The responses show that IPL continues to move tracking of compliance programs and training to electronic format with the intent of improving efficiency. The Compliance and Operational Performance Group (COPG) is now responsible for Operation Qualification (OQ) training. The training positions eliminated in the most recent employee reductions appear to be support personnel, not primary trainers. Use of subject matter experts to perform training appears to be a reasonable approach. IPL appears to be taking the actions necessary to address the pattern of safety violations acknowledged in Docket Nos. PSA-04-1 and PSA-04-2. Based upon IPL's responses, the Board finds that no management efficiency adjustment related to the natural gas safety compliance program should be made in this case.

The Board will continue to have its staff monitor IPL's compliance with the safety and training requirements of the natural gas pipeline safety regulations adopted by the Board. The Board expects IPL to continue with its gas safety compliance program so that it remains in substantial compliance with Board and federal safety regulations.

From the responses provided by IPL to the Board's questions, it appears that IPL has made changes to the OQ training program. It was not clear from the responses whether the changes will require IPL to revise the OQ Program required

by federal regulations. The Board will direct IPL to provide any changes made to the OQ Program to the Board's Safety and Engineering staff. Board staff will continue to monitor IPL's compliance with Board safety rules.

### **ORDERING CLAUSES**

#### **IT IS THEREFORE ORDERED:**

1. The proposed tariff filed by Interstate Power and Light Company on April 15, 2005, identified as TF-05-122, and made subject to investigation as part of this proceeding, is rejected as unjust, unreasonable, and unlawful.
2. The non-unanimous "Settlement Agreement" filed by Interstate Power and Light Company, the Consumer Advocate Division of the Department of Justice, and Iowa Consumers Coalition on July 20, 2005, as amended on August 5, 2005, is approved, subject to the changes ordered in Ordering Clause 4.
3. On or before 20 days from the date of this order, Interstate Power and Light Company shall file revised tariff sheets that produce total revenue, including a permanent rate increase of \$14,011,130, not to exceed \$303,641,239.
4. On or before 20 days from the date of this order, Interstate Power and Light Company shall file compliance tariffs consistent with the Settlement Agreement approved in this order, including the revisions to the Second Revised Sheet No. 54 as described in this order.
5. Interstate Power and Light Company shall file copies of the contracts entered into under the provisions of Gas Tariff, Original Tariff No.1, Second Revised Sheet Nos. 49-50, sections III-IV, within 30 days of the execution of each contract.

6. All motions or objections not specifically ruled on by the Utilities Board in this order or a previous order are overruled and denied.

7. The hearing scheduled for October 17, 2005, is cancelled.

8. Interstate Power and Light Company shall provide any changes in the Operation Qualification Program to the Board's Safety and Engineering staff.

9. This order constitutes the final decision of the Utilities Board in Docket No. RPU-05-1.

**UTILITIES BOARD**

/s/ John R. Norris

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

/s/ Curtis W. Stamp

Dated at Des Moines, Iowa, this 14<sup>th</sup> day of October, 2005.