

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. EEP-02-38
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ORDER REQUIRING ADDITIONAL INFORMATION

(Issued October 27, 2005)

On June 3, 2003, the Utilities Board (Board) issued an order in Docket No. EEP-02-38 approving Interstate Power and Light Company's (IPL) energy efficiency plan. The order, among other things, directed IPL to file a proposal to address disparities in the credits provided to customers in IPL's interruptible program. On December 31, 2003, IPL filed a report on its interruptible program, and on January 23, 2004, IPL filed an application to modify the interruptible program.

Objections and comments to the proposal were filed on February 12 and 13, 2004, by the Iowa Consumers Coalition (ICC), Ag Processing Inc (Ag Processing), and the Consumer Advocate Division of the Department of Justice (Consumer Advocate). Among the objections was the alleged lack of detail in IPL's proposal. On February 26, 2004, the Board found the application to be deficient and required IPL to file additional information. The Board set the matter for hearing on July 7, 2004. On March 29, 2004, IPL filed a substitute application and provided additional information.

Several parties actively participated in this proceeding. The parties to this proceeding, in addition to IPL, are Consumer Advocate, the ICC, Ag Processing, the Iowa Industrial Intervenors (III), Swiss Valley Farms, Co. (Swiss Valley), Deere & Company (Deere), the Large Energy Group (LEG), MidAmerican Energy Company (MidAmerican), and the Mason City-Area Employers Group (MCAEG).

Testimony was filed pursuant to the procedural schedule established in the February 26, 2004, order. However, after reviewing the testimony and the additional information filed by IPL, the Board determined that additional information was required from IPL to address issues such as the commencement of the Midwest Independent Transmission System Operator's (MISO) Midwest Market Initiative (MMI). The hearing scheduled for July 7, 2004, was cancelled and additional information was requested by orders issued July 1 and 9, 2004. IPL filed the required information.

Because of the complexity of the issues, the Board issued an order on November 3, 2004, scheduling a technical conference on December 2, 2004. The implications for IPL's interruptible program due to MISO's planned MMI was among the topics discussed at the technical conference. Following the technical conference, the parties engaged in various discussions regarding these issues over a period of time.

On March 14, 2005, IPL filed with the Board a non-unanimous settlement and joint motion for approval of settlement. IPL, Consumer Advocate, the III, the LEG, the ICC, Deere, and Swiss Valley signed the settlement. The motion stated that these parties were authorized to state that MidAmerican, while not a signatory, did

not object to the settlement. The MCAEG filed a response to the settlement on March 21, 2005, indicating it would not oppose the settlement. Ag Processing, which had intervened separately earlier, is part of the MCAEG.

The settlement stated that the parties reached agreement on seven issues. These were: 1) impact of MISO's MMI on IPL's interruptible program; 2) operational issues including, but not limited to, minimum interruptible threshold and non-compliance penalties; 3) number and characteristics of credit options; 4) dollars per kW credit levels and total annual amount; 5) basis for interruptible credits; 6) grandfather clauses and zonal credit differentials; and 7) bidding program.

With respect to the impacts of MISO's MMI on IPL's interruptible program, the settlement signatories agreed that IPL's existing interruptible credit program should be maintained until there is one full year of experience with the MISO MMI, which began on April 1, 2005. The signatories also agreed to jointly develop and file a report by June 30, 2006, on the MISO MMI impacts and any proposed program design changes, including an examination and recommendations regarding whether the interruptible program should continue to be an energy efficiency program in a MISO MMI environment. The signatories included a timetable to guide the process.

The signatories agreed that the June 30, 2006, report should address certain operational provisions in IPL's interruptible tariffs, which may be affected by the MISO MMI, with the goal of achieving consistency and uniformity. Operational issues to be addressed include minimum interruptible threshold, measurement of kW billing demand, hours alert and notice clause, and non-compliance penalties. The signatories also stated that adoption of the three credit options in the Substitute

Application would be premature, but that they would explore a multi-credit option once the effects of the MISO MMI are known.

The signatories committed to engage in a collaborative effort to determine the basis for the interruptible credits, and the settlement provided that the grandfather clause differentials should be reduced and the zonal credit differentials should be phased out over time according to Schedule A attached to the settlement and subject to numbered section 6 of the settlement exhibit 1. At the end of the phase-out period, the settlement stated the interruptible credit level for all interruptible customers will be \$73/kW-year for grandfathered customers and \$58/kW-year for non-grandfathered participants. The signatories recognized this does not eliminate all disparities, but they believed the interruptible program will be changed based on the program review.

The Board approved the settlement by order issued April 27, 2005. The order also required IPL to file information on the impacts of MISO market operations on transmission loading relief incidents on or before June 30, 2006, and to file an energy efficiency plan modification addressing the interruptible program recommendations on or before August 1, 2006.

The Board appreciates that the parties have engaged in, and continue to engage in, discussions regarding changes to IPL's interruptible program. The Board is not seeking to disturb that process. However, the Board is concerned about IPL's implementation of the interruptible program. These concerns also extend to IPL's direct load control program for residential customers' air conditioners. This program is not at issue in the interruptible settlement. These concerns primarily relate to the

costs of the programs and how those programs are used, particularly because the Board understands that no interruptible customers were interrupted during the summer of 2005 and no residential air conditioners were controlled pursuant to the program. In addition, the Board questions whether customers that are never interrupted or cycled may acquire unrealistic expectations of the programs such that they will refuse to interrupt or drop out of the programs if interruption or cycling is required in the future. In other words, the Board must inquire into whether the energy and capacity savings claimed for these programs are going to be there when IPL needs them.

The March 14, 2005, settlement contemplates a process culminating in a report and plan modification filing in June and August 2006. The settlement itself, however, only prohibits changes to the interruptible program prior to April 1, 2006. Changes to the program that are effective after that date are not prohibited.

The Board will require IPL to respond to a number of questions regarding its interruptible and direct load control programs. The questions are being initially asked in this docket because the parties have been engaged in ongoing discussion regarding the interruptible program and some of the parties may want to comment on one or more of the questions asked of IPL. After reviewing the responses and any comments, the Board will determine what, if any, additional action is appropriate, such as a proceeding to consider modification of the interruptible program to be effective after April 1, 2006. Other processes that could be engaged, alone or in combination, include a review of interruptible and direct load control expenditures as part of a prudence review pursuant to Iowa Code § 476.6(16), a rule making to

consider changes to the energy adjustment clause (EAC) because there may be no incentive for IPL to interrupt on an economic basis because both fuel costs and fuel savings flow through the EAC, or an ARC proceeding pursuant to Iowa Code 476.6(13). The statute provides that an ARC proceeding is for the purpose “of evaluating the reasonableness and prudence of a rate-regulated public utility’s procurement and contracting practices related to the acquisition of fuel for use in generating electricity.”

IPL will be required to respond to the following questions within 30 days from the date of this order. Other parties may also file responses, information, and comments, if they desire.

A. Questions on economic parameters relating to the IPL interruptible program.

According to the prefiled direct testimony of IPL witness Dr. Bidwell, one value provided by an interruptible program is avoided energy costs. One limitation is that interruptions could not be made for economic reasons when energy prices were below \$100 per MWh (Bidwell, p. 34, lines 20-21). The Board infers that IPL’s interruptible program allows interruptions for economic reasons when prices exceed \$100/MWh.

1. Is the Board's inference correct as of the time the testimony was filed? If not, please explain.
2. Has IPL changed its rules for economic interruptions since the time Dr. Bidwell filed his prepared testimony? If applicable, provide:
 - a. The new rules;
 - b. The date on which they were adopted internally by IPL;
 - c. A reference of any program change request IPL filed with the Board in order to effectuate any changes to the program.

B. Questions on energy savings relating to the IPL interruptible program.

Interruptions in customers' load, when utilized, saves system peak energy costs. Interruptible capacity, actually decremented for a peak time period, becomes energy savings. Energy savings flow to customers through IPL's Energy Adjustment Clause (EAC). Dr. Bidwell's testimony estimated the avoided energy cost benefit at \$22.11 per kW of interruptible load (Bidwell, P. 33, Figure 6). Assuming a total of 300,000 kW of load interrupted, the resulting value would be approximately \$663,000.

1. In how many hours during 2005 have energy prices exceeded \$100/MWh?
2. In which of those hours has IPL instructed interruptible customers to interrupt load?
3. How many MWh of energy were saved due to curtailments for economic reasons?
4. How many MWh were served at prices above \$100/MWh (net of credits—such as MISO refunds of over-collected losses for those hours, themselves further netted for MISO revenue insufficiency uplifts, and MISO FTR payments related to those hours)?
5. Provide the cost of the MWh served in question 6, by total year-to-date and by hour.

C. Questions on electric sales relating to the IPL interruptible program.

Interruptible Load, when not utilized, results in greater sales volumes to interruptible customers.

1. Provide the average price per kWh charged to interruptible customers during each month of 2005 in which there were hours when prices exceeded \$100/MWh.
2. When calculating average price, exclude any explicit service charges, sales taxes, franchise fees, EAC, and Energy Efficiency Cost Recovery (EECR) charges.

D. Questions on capacity costs relating to the IPL interruptible program.

Using the following assumptions, Dr. Bidwell estimated expected capacity costs to be \$65.63 per kW-year: a) an economic life of 27 years; b) inflation rate of 2.2 percent, and c) technological progress at 0 percent. (Bidwell, p. 30, lines 4-7)

Provide an update for this estimate and any other amounts IPL wishes to update in Dr. Bidwell's Figure 5, p. 30.

E. Questions on MISO regional dispatch and transmission loading relief.

1. What has been the effect of the MISO coordination and scheduling of utility operations on Transmission Loading Relief (TLR) incidents experienced by IPL? State the numbers and types of requests for TLR experienced by IPL in the period from January 2005 through the most recent available month.

2. On page 6 of the Additional Information filed by IPL on July 29, 2004, IPL states that "[A]t this point, IPL has not made any definitive decisions on how each of the instruments, including demand response resources, will be deployed in the market."

a. Does IPL have any information on customers' bidding interruptible capacity into the MISO markets?

b. Has IPL bid interruptible capacity into the MISO markets?

F. Update IPL history of interruptible program results.

1. IPL provided, in its Substitute Application of March 29, 2004, a response to Board question 2 including an Attachment A. Update the table in Attachment A to include the recent history of any interruptions in the cooling season of 2005, through September 30, 2005.

2. Has IPL used its interruptible capacity to protect system reliability at any time in 2005? If so, state the amounts, dates, and times used, and origin of the system problems or potential problems, such as TLR incidents.

3. Provide a table similar to the table requested in F.1 describing the past history of residential load control (cycling of air conditioners and water heaters). Include data from the cooling season of 2005 through September 30, 2005.

G. Information on IPL peak electric load, resources used to meet the load, and costs of resources used to meet the load.

1. Provide dates, times, and amounts of system load for any new historic peaks and any other peaks within 5 percent of historic peaks, during the cooling season of 2005 through September 30, 2005.

2. Describe the resources used to meet these peaks, stating which units and how much of each unit's capacity was committed during the peak hour.

3. Describe the costs to meet the peaks for each of the units committed.
4. Describe whether the Emery power plant ran during the peak periods listed in response to question G.1, and whether the Emery plant ran at full output or what fraction of output was dispatched.
5. Describe what the costs were for the operation of the Emery power plant during the periods listed in response to question G.1.

H. Describe the effect of the most recent cooling season, and any new historic electric peak loads, on IPL's resource planning and on its participation in reliability organizations.

1. Will any new historic electric peaks alter the IPL resource plan in any way? If not, why not?
2. Will any new historic peaks have any impact on IPL's reserve margin? What is the anticipated or expected impact?
3. Will any new historic peaks cause IPL to accelerate plans for constructing additional new capacity?
4. Will any new historic peaks cause any repercussions or penalties from the reliability organization or reserve pool of which IPL is a member? If not, why not?
5. Will IPL be joining a different reliability pool in the next five years? If so, which pool, why will IPL be joining, and what will be the impact on IPL's operations?
6. Why does IPL not face any penalties for not meeting reserve obligations resulting from its participation in the MAIN reliability organization?
7. What types and levels of penalties might IPL face if it participates in a different reliability organization, whether Midwest Reliability Organization (MRO) or some other organization?

I. Operation and validation of IPL's interruptible capacity.

1. In any years in which IPL does not call for customer interruptions, does IPL conduct tests of the interruptible performance of customers? If not, why not?
2. Do tests of customer interruptibility involve actual interruptions and, if so, how are these tests conducted? What happens if a customer fails an interruptible test?

3. If validation of customer interruptibility does not involve actual interruptions, how does IPL verify customer performance?
4. Has IPL determined whether certain customers cannot be interrupted? If not, why not? If yes, what actions has IPL taken with respect to such customers?
5. What actions will IPL take if it determines that a customer is not likely to be able to comply with a request for interruption?
6. What information, written or otherwise, has IPL provided to customers, so that customers can determine their risk of being interrupted? Provide copies of any written information given to customers.

IT IS THEREFORE ORDERED:

Interstate Power and Light Company shall provide the information identified in the body of this order within 30 days of the date of this order. Other parties to Docket No. EEP-02-38 may also provide responses or information regarding the questions.

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 27th day of October, 2005.