

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. TF-05-259
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**ORDER APPROVING PROPOSED TARIFF WITH MODIFICATIONS
AND REJECTING MASTER INTERCONNECTION
AGREEMENT, WITHOUT PREJUDICE**

(Issued March 20, 2006)

On August 30, 2005, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) proposed tariff changes, identified as TF-05-259. The proposed changes would consolidate and increase IPL's standard avoided cost rates offered to small qualifying facilities (QF) and alternate energy production (AEP) facilities, with capacities of 100 kW or less, and replace IPL's current tariff schedule of AEP contract provisions required by 199 IAC 15.11(4) with a new master interconnection agreement applicable to AEPs and QFs. Among other changes, the new master interconnection agreement establishes insurance requirements for interconnecting customers.

In order to allow the Board and interested persons, particularly AEP customers, an opportunity to fully review the proposed changes, the Board on September 27, 2005, suspended the proposed tariff and set a comment period. The order also required IPL to file additional information regarding its avoided costs and

the insurance requirements in the proposed master interconnection agreement. IPL filed the required information on October 17, 2005.

On October 28, 2005, the Iowa Renewable Energy Association (I-RENEW), the Iowa Farmers Union (IFU), and Midwest Renewable Energy Projects LLC (MREP) filed written comments. Comments via e-mail were received from the Iowa Environmental Council (IEC) and Jim Martin-Schramm on behalf of Luther College (Luther). No commenter requested a hearing.

The Board will first address IPL's proposal to consolidate and increase avoided cost rates for small QFs (100 kW or smaller). Pursuant to 199 IAC 15.5(3), each rate-regulated electric utility is required to file and maintain tariffs specifying standard avoided cost rates for utility purchases from QFs with a design (nameplate) capacity of 100 kW or less. The tariffs are required to differentiate capacity and energy rates, provide seasonal rate differentials, and offer optional rates on a time-of-day basis.

IPL proposes to consolidate its standard Public Utility Regulatory Policies Act of 1978 (PURPA) avoided cost tariffs for QFs that have a design capacity of 100 kW or less. Currently, IPL has different QF tariffs for its IES and IPC pricing zones, developed separately by IPL's predecessor companies. Under the proposed consolidation, IPL will initially offer the same QF tariff provisions in the form of two separate tariffs for the IES and IPC rate zones. IPL will then replace the two separate identical tariffs with one consolidated tariff at the conclusion of its pending electric rate design case, Docket No. RPU-05-3.

As part of this tariff consolidation, IPL is also proposing to increase its standard QF tariff rates to reflect updated avoided cost information. Specifically, IPL is proposing a non-time-differentiated energy rate of 3.57 cents per kWh. On an optional, time-differentiated basis, the proposed rates are 4.88 cents for summer peak periods, 3.52 cents for winter peak periods, 3.84 cents for summer off-peak periods, and 3.24 cents for winter off-peak periods. The rates are based on IPL's analysis using the Electric Generation Expansion Analysis System (EGEAS) model. IPL also proposes an optional capacity payment of 0.64 cents per kWh for QFs that generate at the time of monthly peak and generate at a monthly capacity factor of at least 65 percent. Finally, IPL proposes removal of IPC tariff sheets 26, 26.1, and 26.2, which have been redundant since the Board's approval of IPL's Rules and Regulations tariff TF-05-67.

Although I-RENEW and IFU support the increase in IPL's avoided cost rates, they maintain the avoided cost method described in IPL's additional information filed on October 17, 2005, does not meet the requirements of Iowa Code § 476.43(3). I-RENEW and IFU ask the Board to enforce the ratemaking requirements of Iowa Code § 476.43(3).

MREP states the EGEAS method used by IPL for determining avoided costs for small QFs here is similar to the method IPL used in Docket No. AEP-05-1 for a larger project and the Board should wait until that docket is completed before approving IPL's small QF rates. Otherwise, MREP believes the Board would establish a precedent for what MREP regards as an improper method (EGEAS) for

determining IPL's avoided costs. Also, MREP notes that IPL's avoided costs should be based on current data inputs, rather than the inputs presented in Docket No. AEP-05-1, which are dated. MREP states it identified other problems with IPL's EGEAS analysis in Docket No. AEP-05-1 that should also be corrected.

Beyond these concerns, MREP notes that IPL's proposed tariff rates are based on average costs rather than hourly incremental costs. MREP claims this is contrary to Board rules, which define avoided costs as incremental costs (199 IAC 15.1). MREP states that IPL wrongfully uses averaging to lower its avoided cost rates, which unilaterally benefits IPL.

The avoided cost rate increases proposed by IPL are significant. Current IES/IPC non-time-differentiated energy rates range between 2.05 cents and 2.2 cents per kWh. IPL's proposal would increase this by over 62 percent, to 3.57 cents per kWh. The incentive ratemaking factors in Iowa Code § 476.43(3) cited by I-RENEW and IFU describe ratemaking factors the Board used to develop incentive rates, not avoided cost rates, for AEP facilities prior to 1997. In 1997, the Federal Energy Regulatory Commission (FERC) ruled that this incentive rate system is preempted by federal law because it required utilities to pay more than avoided cost for AEP purchases. Midwest Power Systems, "Order on Complaint and Petition for Declaratory Order and on Petition for Enforcement," FERC Docket No. EL95-51 (1/29/97). Since that time, the Board has had to use the FERC avoided cost standard for setting QF and AEP rates.

MREP urges the Board not to rule until Docket No. AEP-05-1 is completed. While a final decision has been issued in that docket, it is subject to rehearing and the Board has not ruled on the rehearing issues. However, even though rehearing issues in Docket No. AEP-05-1 have not yet been resolved, the Board's December 28, 2005, final decision nonetheless provides a basis for approving the rates proposed in this filing. The EGEAS information here can be used to set avoided cost rates for small QFs without prejudicing MREP's case, which involves an 80 MW wind project. As the Board noted in the final decision in that docket, avoided costs for an 80 MW wind farm are likely to be different than those for a 1 MW wind generator. If the Board later determines that the EGEAS information presented in this filing should be updated, any rates approved in this order can be updated, as well. Increases to the small QF rate proposed by IPL should not be delayed.

MREP also questioned the use of average rather than hourly avoided cost rates. However, the use of average rates should actually benefit the small QFs for which standard rates are designed. Average rates allows small QFs the option of metering their kWh output on a simpler, less expensive basis. Alternatively, small QFs also have the option of paying for more sophisticated metering and receiving avoided cost rates averaged on a seasonal, time-differentiated basis. The averaging of avoided costs over peak and non-peak periods is less precise than the use of 8,760 hourly avoided cost rates, but likely makes the rates more understandable to small QFs and provides intermittent generators a more predictable revenue stream. Also, the averaged rates appear to be based on straightforward averages of the

hourly cost data, not biased in IPL's favor as MREP suggests. Finally, the Board notes that MREP itself has asked for an average avoided cost rate in Docket No. AEP-05-1.

The Board will approve IPL's standard small QF tariffs, which are proposed IES tariff sheets 98, 99, 100, and 100.1, and proposed IPC tariff sheets 25, 25.1, 25.2, and 25.3, with some modifications. The Board will strike the following text from proposed IES tariff sheet 98 and IPC tariff sheet 25, as shown:

Availability:

To any Customer taking service under one of Company's standard electric rate schedules and who has entered into an Electric Service Agreement with Company for the interconnection and operation of on-site extended parallel distributed generation systems with capacity 100 kW or less. The Qualifying Facility is a cogeneration facility or small power production facility under 18 on CFR Part 292, Subpart B, ~~and which is not a qualifying alternate energy production facility or a qualifying small hydro facility according to Company's Alternative Energy Rate Schedules.~~ Service will be contracted for a minimum period of twelve months. Service hereunder is also subject to Company's Rules and Regulations.

The Board is requiring this deletion because although a small AEP is almost certain to opt for IPL's net metering tariff rather than its standard QF rate schedule, the option for standard QF rates should nonetheless be retained for PURPA compliance. As QFs under PURPA, small AEPs should have the choice of selling, rather than net metering, their excess production.

The Board will also require the following deletion:

Rates and Charges:

The interconnection costs also include such further non-recurring amounts that Company, ~~in its sole judgment,~~ deems necessary to expend subsequently, beyond those necessary to serve an equivalent customer without a Qualifying Facility. From time to time certain nonrecurring expenses may be caused by the nature of the Qualifying Facility. Those expenses will be billed to the Qualifying Facility.

This deletion is necessary because the charging of unspecified future interconnection costs is not entirely at the unregulated discretion of a rate-regulated utility and should not be described this way. Any interconnection costs a QF believes to be improper or excessive can be appealed to the Board through the complaint process.

The Board will also approve the proposal, which was unopposed, to delete IPC tariff sheets 26, 26.1, and 26.2. These tariff sheets are redundant after the approval of TF-05-67, the consolidated rules and regulations tariff.

The second issue is IPL's proposed master interconnection agreement (Agreement). Pursuant to 199 IAC 15.11(4), each rate-regulated electric utility is required to file and maintain a tariff schedule of standard AEP contract provisions offered. Any AEP contract provisions that differ from the standard tariff provisions are subject to Board approval, unless agreed to by the AEP and utility. IPL proposes to replace its current tariff of standard QF and AEP contract provisions with the proposed Agreement, which would apply to all forms of customer-owned distributed generation.

I-RENEW and IFU ask that the Board suspend any final determination of IPL's proposed Agreement until the Board has fully developed its recommendations for reforming Iowa's existing interconnection standard. The commenters appear to be referring to state regulatory requirements under the Energy Policy Act of 2005 (EPACT 2005) to consider new interconnection policies.

MREP has concerns about the allegedly one-sided nature of IPL's proposed Agreement, which might serve as precedent for any interconnection agreement with MREP. For example, the third "whereas" clause seems to give IPL unlimited discretion to refuse interconnection if the utility determines, in its sole judgment, that interconnection would interfere with the utility's system or other customers. MREP also notes that EPACT 2005 requires the Board to consider adopting new interconnection standards based on current best practices and model codes. MREP believes the Board should postpone action on IPL's proposed Agreement until after it has conducted its review process for considering the EPACT 2005 interconnection standards.

The IEC argues the proposed insurance requirement in the Agreement might discourage renewable energy development, especially for small developers. The IEC notes that developers already assume tort liability for building and interconnecting renewable energy facilities, making the insurance requirement redundant. The IEC states that the cost and availability of such insurance is not clear and that only four states require it.

Luther has concerns about sections of the proposed Agreement relating to indemnification, arbitration, and resolution of outstanding claims. Luther had similar concerns with an energy efficiency agreement it negotiated with IPL, which were resolved to Luther's satisfaction. Luther is hoping for the same outcome for its AEP agreement with IPL.

The Board finds that it is not appropriate to approve the master interconnection agreement at this time and will reject it without prejudice. The proposed Agreement contains provisions that are controversial and not part of IPL's current standard QF and AEP contract provisions (IPL Rules and Regulations, Tariff Sheets 283-292). For example, IPL's current standard contract provisions do not require QFs to maintain liability insurance (as proposed in the Agreement, Section 8). Also, the current standard contract provisions acknowledge the Board's regulatory authority and do not require QFs to give up their Board appeal rights in exchange for a commercial dispute arbitration process (as proposed in the Agreement, Section 12, Paragraph h).

As some of the commenters pointed out, the Board will be investigating these and other issues regarding interconnection policy as part of a federally-mandated process under EPACT 2005. Specifically, EPACT 2005 requires state commissions to consider implementing additional ratemaking standards under PURPA. Each standard is set forth as a declarative statement and state commissions are required to consider adopting the standard, as stated, for each of its rate-regulated electric utilities. If the state commission does not adopt the standard, it must explain why.

The new PURPA standard relating to interconnection would require the establishment of non-discriminatory agreements and procedures that “promote current best practices of interconnection for distributed generation,” including “practices stipulated in model codes adopted by associations of state regulatory agencies,” such as the National Association of Regulatory Utility Commissioners’ (NARUC’s) “Model Interconnection Procedures and Agreement of Small Distributed Generation Resources.” The NARUC model is different from IPL’s proposed agreement; for example, it does not include a liability insurance requirement.

PURPA has specific procedural requirements for considering each standard. The state commission is supposed to conduct a public hearing for each standard and issue its decision in writing based on evidence presented at the hearing. This may involve a Notice of Inquiry, possibly followed by a Board rule making or other proceeding. Given the broad nature of the EPACT 2005 process, it is premature for the Board to rule on issues such as QF liability insurance and arbitrated dispute resolution in the context of IPL’s tariff filing. After the EPACT 2005 process is completed, IPL may refile its proposed master interconnection agreement for Board consideration. Until then, IPL should continue to offer its current standard QF and AEP contract provisions. It is important to note that QFs and AEPs are entitled to these current standard contract provisions, under the terms of IPL’s tariff and 199 IAC 15.11(4); and that any contract provisions that differ from the standard tariff provisions are subject to Board approval, unless otherwise agreed to by the parties.

IT IS THEREFORE ORDERED:

1. IES tariff sheets 98, 99, 100, and 100.1 and IPC tariff sheets 25, 25.1, 25.2, and 25.3 are approved, subject to complaint and investigation, with the modifications to IES sheet 98 and IPC sheet 25 contained in this order.
2. IPC tariff sheets 26, 26.1, and 26.2 are deleted.
3. IPL shall file compliance tariff sheets to implement the approved tariff changes within 20 days from the date of this order.
4. IPL's master interconnection agreement filed on August 30, 2005, is rejected, without prejudice to refiling as described in this order.

UTILITIES BOARD

/s/ John R. Norris

/s/ Diane Munns

ATTEST:

/s/ Margaret Munson
Executive Secretary, Deputy

/s/ Curtis W. Stamp

Dated at Des Moines, Iowa, this 20th day of March, 2006.