

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. EEP-02-38 TF-06-106
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**ORDER APPROVING SETTLEMENT AND TARIFF
AND REQUIRING ADDITIONAL INFORMATION**

(Issued May 15, 2006)

INTRODUCTION AND PROCEDURAL HISTORY

On April 5, 2006, Interstate Power and Light Company (IPL), the Consumer Advocate Division of the Department of Justice (Consumer Advocate), Iowa Consumers Coalition (ICC), Iowa Industrial Intervenors (III), Swiss Valley Farms, Co., Deere & Company, Large Energy Group, the Standby Plant Customers, and Ag Processing Inc filed with the Utilities Board (Board) a non-unanimous partial settlement agreement and joint motion for approval (Agreement). The Agreement relates to IPL's commercial and industrial interruptible and residential cycling programs and offers new decision rules for the operation of those programs. Also filed on April 5, 2006, was a proposed tariff, identified as TF-06-106, to implement a portion of the Agreement, which is to offer interruptible customers a buy-through provision.

The only party to the proceeding who is not a signatory to the Agreement is MidAmerican Energy Company (MidAmerican). The Agreement states that

MidAmerican, while not a signatory, does not contest or object to the Agreement and waives its rights to a settlement conference and prior notice of such a settlement conference pursuant to 199 IAC 7.18(2) and its rights to file comments regarding the settlement pursuant to 199 IAC 7.18(3). The Board accepts MidAmerican's statement waiving its rights to a settlement conference and prior notice and will not require a settlement conference or notice prior to ruling on the Agreement.

Some procedural history of IPL's energy efficiency plan as it relates to the interruptible program and residential load control program is necessary for an understanding of the context in which the Agreement is filed for the Board's consideration. On June 3, 2003, the Board issued an order in Docket No. EEP-02-38 approving IPL's new 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 several intervenors. Among the objections was the alleged lack of details 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 the additional information.

Several parties actively participated in the proceeding. 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 planned commencement of the Midwest Independent Transmission System Operator's (MISO) Midwest Market Initiative (MMI). The hearing scheduled for July 7 was cancelled and additional information 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 were among the topics discussed at the technical conference. Following the technical conference, the parties engaged in various discussions regarding these issues.

On March 14, 2005, IPL filed with the Board a non-unanimous settlement and joint motion for approval of settlement (March 14 Settlement). While all parties did not sign the March 14 Settlement, there were no objections and the Board approved the March 14 Settlement by order issued April 27, 2005.

There was agreement on seven issues in the March 14 Settlement. The issues were: 1) impacts 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) a bidding program.

Perhaps the most significant portion of the March 14 Settlement is the signatories' agreement to continue their dialogue and perform research, collect data, and develop program options to address the seven issues identified in the settlement. The signatories agreed to file a report on or before June 30, 2006, addressing the MISO MMI and proposed changes to IPL's interruptible program. Operational issues to be addressed in the report include minimum interruptible threshold, measurement of kW billing demand, notice before interruption, and non-compliance penalties. Because the MISO MMI was a significant new event, the signatories agreed to allow MMI to operate for a full year before proposals to alter the interruptible program are presented.

Subsequent to approving the March 14 Settlement, the Board issued an order on October 27, 2005, requiring IPL to file additional information. The order expressed the Board's concerns with not only the interruptible program but also the residential direct load control program. These concerns included the costs of the programs and how the programs were used; the Board understood that no interruptible customers were interrupted during the summer of 2005 and no residential air conditioners in the program were controlled. The Board was particularly concerned that IPL's interruptible program was not being optimally used to advance the goals of energy efficiency generally; that is, to save energy and

capacity. The Board noted that the March 14 Settlement only prohibited changes to the interruptible program prior to April 1, 2006.

IPL filed additional information on November 28, 2005. By order issued December 6, 2005, the Board allowed other parties to file comments. Comments were filed asserting that the parties were engaged in a collaborative process that should be allowed to continue. The Agreement filed on April 5, 2006, is a result of the collaborative process contemplated in the March 14 Settlement.

On April 25, 2006, Consumer Advocate filed a response to the proposed buy-through tariff rider. Included in the response were some proposed changes to IPL's tariff filing. The Large Energy Group (LEG) filed comments on April 26, 2006, accepting Consumer Advocate's modifications and making one additional change. IPL filed a letter on May 1, 2006, accepting the modifications. IPL also filed a letter containing some minor revisions to Settlement Exhibit 1 and Attachment A, which were filed with the Agreement.

The Board issued an order on May 2, 2006, docketing tariff filing TF-06-106 and setting an objection deadline. The Board said that because of the recent revisions to both the tariff and the exhibit and attachment, it needed additional time for review. The Board did not, however, set a procedural schedule and said it did not anticipate one would be necessary. The Board also said that because it was not clear that all parties agreed to the proposed tariff changes, it would set May 9, 2006, as a deadline for filing any objections. No objections were filed.

SUMMARY OF SETTLEMENT

The Agreement offers new decision rules for the operation of the interruptible program and the residential cycling program. The new decision rules are designed to address concerns raised by the Board in this docket, particularly in its October 27, 2005, order requiring additional information. The criteria for interruptions have been expanded. The Agreement states that IPL will interrupt if any one of the following four conditions exist:

1. Reliability. Interruptions are necessary to maintain safe and reliable system operations and meet obligations to other interconnected systems.
2. Energy Efficiency—Peak Demand. IPL will interrupt if IPL expects to experience less than a 15 percent planning reserve margin after allowing for a 75 MW measurement cushion. Included in the Agreement are definitions of planning reserve margin, measurement cushion, and customer firm demand.
3. Energy Efficiency—Reducing Energy Usage. IPL will interrupt if the day-ahead locational marginal price (LMP) for IPL's load zone in the MISO footprint is at the "running on oil" level for at least four consecutive hours or the rolling four-hour average real-time LMP for IPL's load zones exceeds the "running on oil" level. The Agreement defines "running on oil" as a predetermined LMP defined by an assumed heat rate of 13.5 million Btu per MWh and a spot market price for No. 2 oil.

4. Program Quality Control. Reasonable interruptions will be made to test and verify the capabilities of customers.

The Agreement provides that the total time for interruptions for conditions 2, 3, and 4 will be limited to no more than 64 hours of interruption per year for the typical average program participant, with each interruption being deemed to have occurred for the greater of four hours or the actual duration of the interruption. The Agreement contains a buy-through provision for conditions 2 and 3, but not for conditions 1 and 4. The buy-through is limited to two interruption events per year when there are ten or fewer events, and three when there are more than ten interruption events. For purposes of determining the number of hours of buy-through under the annual two-event limit and the annual three-event limit, each buy-through will be deemed to have occurred for the greater of four hours or the actual duration of the interruptible event. A customer who buys-through an interruption event must pay for all costs, including any energy received during the interruption at a real-time market-based price per kWh.

The Agreement also contains new decision rules for the residential load control or cycling program. The air conditioners of program participants will be cycled if one of the following conditions is present:

1. IPL will cycle to maintain safe and reliable system operations and meet obligations to other interconnected systems.

2. IPL will cycle if the temperatures in the northern, central, and southern cycling zones during the afternoon of a non-holiday weekday are projected to be at least 92, 92, and 94 degrees Fahrenheit, respectively.

The Agreement also provides that IPL will implement the new decision rules as soon as practicable to be effective in the summer of 2006; that the signatories believe the proposed decision rules address the Board's concerns about operational issues; that any material changes to the decision rules due to changes in power pool or transmission organization rules or by-laws will be made after consultation with the parties; and the parties continue to research and negotiate on other issues identified in the March 14 Settlement and Board orders. The Agreement states the parties' belief that the process of research and negotiation, which they have been using, is the best means to resolve the outstanding issues.

The signatories request that the Board issue an order approving the Agreement, endorsing the settlement process established in the March 14 Settlement, and approving the separate buy-through tariff rider. The Agreement provides that it will not be effective unless and until it is approved by the Board in its entirety.

Attached to the Agreement is Exhibit 1, which compares the proposed decision rules to the current decision rules and describes how the proposed decision rules would operate, including estimates of interruption and cycling frequency under the proposed decision rules. All parties to the Agreement, except ICC and III, join in the sponsorship of Exhibit 1. ICC and III reserve the right to file additional

explanations of their exceptions to Exhibit 1; all parties agree Exhibit 1 cannot be used to prejudice any party's rights in any other current or future proceeding before the Board. Exhibit 1 is presented for informational purposes only; the signatories are not asking that the Board approve the contents of Exhibit 1 as part of the Agreement.

DISCUSSION

No objections to the proposed stipulation and agreement were filed. Subrule 199 IAC 7.2(11) provides that the Board will not approve a settlement unless it "is reasonable in light of the whole record, consistent with law, and in the public interest." The Board will first address the Agreement's terms addressing changes to the interruptible program and then the provisions regarding residential cycling.

Exhibit 1 to the Agreement provides both a narrative explanation of the impacts of the proposed decision rules and a quantitative analysis of the likelihood of interruptions under the proposed rules. IPL currently has a two-condition decision rule for interruptions; the Agreement changes that to a four-condition rule.

Condition 1 is the same under existing rules and the proposed rules, allowing interruption to preserve system integrity at any time and for any duration. Conditions 2 and 3 under the proposed rules replace the second condition under the current two-condition rule; the current rule provides for interruptions when anticipated system demand exceeds the energy available from firm system resources. Condition 4 is new, and explicitly allows for interruptions to test the capabilities of customers.

The most significant changes are new Conditions 2 and 3. Condition 2 is similar to a rule IPL used when it was a member of the Mid-Continent Area Power Pool (MAPP). Under Condition 2, IPL states it will develop specific load targets based on net capability, reserve margin, and a cushion. (Ex. 1, Table 1). IPL will limit a fixed demand bid in the MISO day-ahead market to a specified load target; the amount that forecast load exceeds the load target will indicate the amount of interruptible load required. Exhibit 1 includes a hypothetical use of interruptible load under Condition 2 and MISO day-ahead market conditions on a typical July day. (Ex. 1, Table 2).

Condition 3 is explained in Exhibit 1 as being more stringent than Condition 2 because it will occur when LMPs approach the cost of IPL's highest cost generating units. Under Condition 3, IPL will estimate whether the MISO day-ahead clearing LMPs for the IPL load zone will exceed the "running on oil" level for at least four hours, using information such as day-ahead forward prices, past day's clearing LMPs, weather forecasts, and system conditions. If IPL expects the day-ahead price to exceed the "running on oil" level, IPL will bid blocks of interruptible demand into the day-ahead market over the hours when IPL expects the high prices. If a demand bid block fails to clear in the day-ahead market for more than three hours, an interruption will be scheduled on a day-ahead basis. If a demand block bid fails to clear for less than three hours, IPL may delay an interruption decision to real-time.

IPL states that Condition 3 will not be implemented in the day-ahead market if an interruption has been implemented in the day-ahead market under Condition 2.

Also, Condition 3 will occur in the real-time market if certain LMPs for the IPL zone exceed the “running on oil” level and the projected real-time demand will exceed the demand cleared in the day-ahead market for the corresponding four-hour period. An example is provided showing the use of interruptions to manage capacity as real-time LMP approaches and then exceeds a proxy price of \$160 per MWh for an oil-fired unit. (Ex. 1, Table 3).

The buy-through provision will allow a participant to avoid a limited number of interruptions by paying the cost of non-interruptible energy during the interruption period. The cost will be based on real-time LMP at the IPL load zone plus any MISO market charges incurred by IPL as a result of the buy-through.

Exhibit 1 includes an estimate of the effects of Conditions 2 and 3 on the number of annual interruptions. IPL estimates that Condition 2 will result in three to four interruptions per year in a normal weather year. IPL states that the number of interruptions under Condition 3 is more difficult to estimate, but that its analysis of 2005 LMP history suggests that, on a real-time basis, there may be two days per year when the four-hour LMP approaches the trigger “running on oil” price. Under the new decision rules, IPL estimates there will be a total of four to six or more days per year when interruptions should occur. (Ex. 1, Table 4).

Condition 2 addresses concerns previously raised by the Board and Consumer Advocate that IPL may not have been using its interruptible capacity in a manner that would avoid the need for new supply resources. Condition 3 appears responsive to Board concerns about the need to use the interruptible program to

avoid expensive purchased power in situations of market volatility and high prices. These concerns were raised because there were no interruptions during the summer of 2005. If Condition 3 had been used in 2005, the Board's analysis indicates there would have likely been at least two interruptions triggered by LMPs that exceeded the "running on oil" price. Condition 2 would likely have triggered additional interruptions during 2005.

The proposed decision rules must be tested by actual operation, but the information contained in Exhibit 1 to the Agreements indicates that the rules should be a significant improvement to the current standards and provide more value for customers from the interruptible program. There are significant penalties if a customer fails to interrupt, including being terminated from the program and returned to firm service with its higher rate.

The buy-through provision applies only to Conditions 2 and 3 and is limited to two (less than ten interruptions per year) or three (more than ten interruptions per year) interruption events per year. This allows a customer who receives an interruption request in the middle of a critical production run or essential service timeframe to compare the cost of paying IPL to buy market-priced energy with the economic gains of continued plant or service operation. However, because the buy-through provision cannot be used for more than two or three interruptions, the interruptible program's benefits should not be undermined, particularly since the customer has to pay all costs, including real-time market-based price per kWh. This

price is likely to be high during a Condition 2 or 3 interruption, making the buy-through option attractive to interruptible customers only in special circumstances.

Turning to the residential cycling program, IPL estimates the new decision rules will increase the number of cycling events from one or two per year to seven to nine per year. This estimate is based on weather tables for the Mason City, Cedar Rapids, and Burlington zones. (Ex. 1, Attachment D). There were no cycling events in 2005; under the proposed new rules, the data provided by IPL indicates there would have been several cycling events in 2005. Although the true test is in actual implementation, the weather data indicates the new decision rules will provide significant value to IPL's customers in reduced energy and capacity costs.

The Board will approve the proposed Agreement. The changes to the decision rules for both the interruptible and residential cycling programs should provide additional energy and capacity savings and increase the value of the interruptible programs to all of IPL's customers. While the true test is in actual operation, the new decision rules address concerns raised with these programs by the Board, Consumer Advocate, and others and should be implemented immediately as provided for in the Agreement so the benefits are available for the 2006 summer season. If the new decision rules do not work as anticipated, further modifications may be necessary and can be addressed later. The Board expects that any changes to the decision rules will be filed for consideration and approval by the Board.

As part of the Agreement, the signatories ask that the Board once again endorse the settlement process established in the March 14, 2005, settlement and

approved by the Board in its April 27, 2005, order. The Board is pleased to endorse this process and thanks the parties for the significant time and effort that has been expended in these negotiations. The Board hopes the negotiations continue so that differences on outstanding issues can be narrowed or resolved. Particularly for the interruptible customers involved in the settlement process, the Board recognizes that participation in the settlement process represents a commitment of time and money to a process that is not part of their companies' normal operations, although of course energy costs can have a significant impact on their overall profitability.

While the Board applauds the parties for their efforts in reaching the Agreement, the Board recognizes that the signatories to the Agreement represent only a portion of IPL's interruptible customers. IPL will be required to contact all interruptible customers prior to June 1, 2006, and provide them with copies and an explanation of the new decision rules and their likely impact.

Currently, IPL notifies the Board when an interruption event will occur, both by calling the Board's Duty Officer pager and sending an e-mail to the Board's Manager, Customer Service. This process should continue. In addition, the Board will require IPL to notify the Board when a buy-through or cycling event will occur. The notification should be by email to the Manager, Customer Service, and to Gordon Dunn (gordon.dunn@iub.state.ia.us) and Jim Kellenberg (jim.kellenberg@iub.state.ia.us). This will assist the Board in addressing any customer calls it receives regarding an interruption or cycling event and analyzing IPL's energy adjustment clause for the months an event or events occur. Finally, IPL will be required to file a report on or

before November 1 of each year, beginning in 2006, detailing interruptions and cycling events for the prior summer, including a replication of charts C-1 and C-2 of Exhibit 1 using actual information.

FINDING OF FACT

The settlement agreement filed on April 5, 2006, is reasonable in light of the whole record, consistent with law, and in the public interest.

CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code chapter 476 (2005).

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The settlement agreement filed in Docket No. EEP-02-38 on April 5, 2006, relating to Interstate Power and Light Company's interruptible credits program and residential cycling program, is approved.
2. Tariff filing TF-06-106 is approved, as amended by the Large Energy Group's April 26, 2006, filing, subject to complaint or investigation.
3. IPL shall file each year on or before November 1 a report on interruptions and cycling events for the prior summer as detailed in the body of this order.

4. IPL shall notify all interruptible customers of the changes to the decision rules and their likely impacts and file a letter with the Board no later than June 1, 2006, stating that all interruptible customers have been notified.

5. IPL shall notify the Board of interruption, buy-through, and cycling events as detailed in the body of this order.

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 15th day of May, 2006.