

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 GRANTING MOTION TO WAIVE PLAN REQUIREMENT

(Issued October 20, 2006)

On November 30, 2005, the Utilities Board (Board) issued an order approving a joint energy efficiency plan modification filed by Interstate Power and Light Company (IPL) and some of the parties to IPL's ongoing energy efficiency plan proceeding, Docket No. EEP-02-38. In that order, among other things, the Board approved a plan modification addressing the issue of natural gas customers who convert from gas to electric heat using ground source heat pumps through IPL's geothermal rebates. The modification contemplated that IPL would try to negotiate agreements with Aquila, Inc. (Aquila), and MidAmerican Energy Company (MidAmerican) for sharing costs and savings credits associated with IPL electric customers who switch from natural gas to electric heat in areas where IPL only provides the electric service to customers, with MidAmerican or Aquila providing the gas service. If IPL could not reach agreement with the other two utilities, the approved plan modification called for IPL to offer geothermal rebates only to customers who receive both electric and gas service from IPL.

On August 23, 2006, IPL filed with the Board a request for waiver of the plan requirement related to the geothermal rebates. IPL said that in spite of the best efforts of IPL, MidAmerican, and Aquila, agreement could not be reached on sharing costs and savings credits. IPL stated it then evaluated changes it needed to make to the geothermal rebates and found that offering the rebates only to IPL customers who receive both gas and electric service from IPL, referred to as combination customers, would render the rebates ineffective from a cost-benefit standpoint. IPL concluded that its geothermal rebate program should continue without the modification contained in the November 30, 2005, Board order (that is, the program would remain available to IPL customers who receive their electric service from IPL but their gas service from another utility and use IPL's geothermal program to switch from natural gas to electric heat). IPL based its request on 199 IAC 35.7, which provides that "[u]pon request and for good cause shown, the board may waive any energy efficiency plan requirement." The Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a response to IPL's waiver request on September 1, 2006. No other responses or objections were filed.

In support of its request for waiver of the plan requirement, IPL said its geothermal rebates have had a positive impact in reducing natural gas consumption. In 2005, IPL calculated that it rebated 141 residential customers and 38 commercial customers, with a resulting summer peak savings of 281 kW for residential customers and 95 kW for commercial customers. IPL noted that peak summer savings indirectly

conserves natural gas because electric peaker units typically are natural gas fired. At the time the plan modification was submitted, IPL believed that the changes would contribute to providing more effective energy efficiency savings. However, after failing to reach agreement with Aquila and MidAmerican, IPL determined that offering geothermal rebates only to combination customers would decrease the number of rebates by 87 percent for residential customers and 100 percent for commercial customers, based on 2005 results. Going forward, IPL concluded that limiting the program to combination customers would reduce the significant peak savings and reduced natural gas usage.

IPL pointed out that if the waiver is not granted, it might have to suspend the rebate program because there would not be enough participants to support the rebates. Also, IPL said customers with new construction are unlikely to have natural gas run to their homes if they use geothermal heating, cooling, and water heating; these customers, even if IPL is the gas provider, are not considered combination customers (because no gas connection is ever installed) and therefore would be ineligible for the rebates without the waiver.

IPL concluded that because geothermal systems decrease natural gas usage and provide more efficient air conditioning, the rebates for all customers should continue to help customers cope with increased energy bills caused by higher natural gas prices and by reducing demand for gas should help reduce the upward pressure

on gas prices. IPL said that granting the waiver would not prejudice the substantial legal rights of any person or impinge upon the public health, safety, or welfare.

In its response, Consumer Advocate said that, given IPL's inability to negotiate agreements with MidAmerican and Aquila, Consumer Advocate supported the waiver request. Consumer Advocate noted that the availability of incentives is particularly important for emerging technologies with great potential for energy savings, like the geothermal heat pump. Consumer Advocate argued that limiting the rebate only to IPL's combination gas and electric customers could be harmful to IPL's energy efficiency program, could generate significant customer confusion, and would create significant lost energy efficiency opportunities.

The Board will grant the waiver. The geothermal rebate program provides significant savings in natural gas usage and more efficient air conditioning. While the Board is disappointed the utilities did not come to an agreement for sharing costs and savings credits for customers where IPL is the electric provider and another utility is the gas provider, the Board does not want to deny these customers access to a successful program. The standards for a waiver found in 199 IAC 1.3 have been satisfied.

The Board does not, however, endorse all of IPL's rationale for requesting the waiver. In particular, the Board does not believe that if the waiver were denied, IPL could unilaterally terminate promotion of geothermal technology solely on the basis of

limited participation. It appears that such termination would require a plan modification approved by the Board.

IT IS THEREFORE ORDERED:

The "Motion for Approval of Waiver of Plan Requirement," filed by Interstate Power and Light Company on August 23, 2006, is granted.

UTILITIES BOARD

/s/ John R. Norris

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

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