

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. EEP-02-38 TF-06-197
---	------------------------------------

**ORDER APPROVING SETTLEMENT, TARIFF,
AND ENERGY EFFICIENCY PLAN MODIFICATION**

(Issued October 20, 2006)

INTRODUCTION AND PROCEDURAL HISTORY

On June 30, 2006, Interstate Power and Light Company (IPL), the Consumer Advocate Division of the Department of Justice (Consumer Advocate), Iowa Consumers Coalition, Iowa Industrial Intervenors, Swiss Valley Farms, Co., Deere & Company, Large Energy Group, and the Standby Plant Customers filed with the Utilities Board (Board) a non-unanimous partial settlement agreement and joint motion for approval (Third Settlement). The signatories represented that the two other parties to this proceeding, Ag Processing Inc and MidAmerican Energy Company, did not sign the Third Settlement but did not contest or object to the Third Settlement and waived their rights to a settlement conference and their rights to file comments regarding the Third Settlement. 199 IAC 7.18(2) and (3). The Board accepts the parties' statement regarding the waiver of the non-signatories' rights to a settlement conference and prior notice and will not require a settlement conference or notice prior to ruling on the Third Settlement.

The Third Settlement was accompanied by an energy efficiency plan modification and new tariff riders, identified as TF-06-197, to implement the Third Settlement. No objections or comments by parties to the Third Settlement or anyone else were filed.

The Third Settlement and accompanying tariff propose major changes to IPL's electric interruptible program. The Third Settlement, among other things, would equalize interruptible credits over time, limit the total hours of interruption, include a new customer charge, and have a three-tier classification or interruption warning system. The Board docketed TF-06-197 by order issued July 17, 2006, to allow the Board time to review the comprehensive and extensive Third Settlement and accompanying tariff and energy efficiency plan revision.

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 Third Settlement 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 proposed modification were filed on February 12 and 13, 2004, by several intervenors. Among the objections was the

lack of alleged 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 Systems Operator's (MISO's) 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 further discussions regarding these issues.

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

There was agreement on seven issues in the First 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 First Settlement was 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, hours alert, 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 were presented.

Subsequent to approving the First 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.

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 noting that the parties were engaged in a collaborative process that should be allowed to continue. On April 5, 2006, a non-unanimous partial settlement agreement was filed (Second Settlement). The Second Settlement was approved by order issued May 15, 2006. The Second Settlement contained new decision rules for the operation of the interruptible program and residential cycling program and was designed to address concerns raised by the Board. Explicit criteria for interruptions and residential cycling were developed. In approving the Second Settlement, the Board said that "[t]he 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." The Third Settlement proposes to resolve all outstanding issues concerning IPL's non-residential interruptible program.

SUMMARY OF THIRD SETTLEMENT

The Third Settlement addresses the issues that were to be included in the June 30, 2006, report and resolves all outstanding interruptible issues, including some minor revisions in the prior settlements. The Third Settlement looks at certain operational provisions in IPL's interruptible tariffs that may be affected by the MISO market, with the stated goal of achieving consistency and uniformity. Operational issues covered by the Third Settlement include minimum interruptible threshold, measurement of kW billing demand, hours alert and notice clause, and non-

compliance penalties. The Third Settlement contains final step credit levels of \$7.06 per kW-month (summer) and \$4.55 per kW-month (winter). The credits levels between approval of the Third Settlement and final convergence are also provided. The Third Settlement also provides a minimum size threshold (200 kW) to qualify for interruptible service and alert and notice provisions.

The Third Settlement provides for four steps or credit level changes that will result in complete rate convergence. The timing of some of these steps is tied to the ongoing rate equalization process, most currently in Docket No. RPU-06-1. The credit levels are the result of negotiations among the parties but are based on IPL's 2007 avoided costs for the interruptible program.

The Third Settlement limits the total annual hours of interruption to 64 hours, except to maintain system reliability. There is also a new customer charge designed to shift recovery of non-incentive program costs from the energy efficiency cost recovery rider (EECR) to a customer charge applied to interruptible customers only. The Third Settlement signatories state that the EECR factor is under-recovering the program's non-incentive costs. If the Third Settlement is approved, all non-incentive costs will be removed from the EECR factors in IPL's next annual reconciliation, expected in March 2007.

The Third Settlement adds a new feature for customer notification, a three-level system of status classification: system normal, warning, and interruption. IPL will announce a warning using its power manager system.

The Third Settlement signatories state that they have reviewed bidding alternatives (specifically, the MISO Demand response program) but have concluded that it would not be advisable to implement this program, even on a pilot basis, at this time. The Third Settlement indicates that the MISO program currently has no rules and is not well defined, but that IPL will continue to monitor development of the program.

The Third Settlement concludes that the interruptible program revisions, including operation of the interruptible program using decision rules that result in an appropriate number of interruption frequencies, versus the current frequency of zero or one per year, make it appropriate for the interruptible program to continue as an energy efficiency program.

The Third Settlement provides information demonstrating that with the implementation of the MISO MMI (Day 2 market), the instances of transmission loading relief (TLR) incidents have decreased dramatically. However, interruptions may still be ordered by IPL if the locational marginal price exceeds a trigger level, which may happen if congestion costs rise due to transmission problems.

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 Third Settlement makes changes to IPL's interruptible program and provides information on the impact of MISO and the MISO MMI.

The Board is pleased with the Third Settlement's proposed convergence or equalization of the interruptible credits. This addresses the equity problems that have been highlighted by the Board in past orders. The new terms and conditions for the interruptible program appear to be reasonable and help ensure that customers participating in the program have explicit statements of their rights and responsibilities under the tariff. The Board expects IPL to continue its efforts to educate both existing and new participants about the terms of the program.

While the Board had hoped MISO's demand response bid program would be more fully developed by now, the Board believes the Third Settlement accurately reflects the current status and that a pilot bidding program in Iowa could only suffer from gaming of the program (because there would not be enough bidders to keep the price low and IPL could not prevent market abuse), adversely affecting not only a pilot bidding program but the existing interruptible program. IPL pledges to continue to monitor MISO's developments with respect to demand response and the Board intends to do what it can to hasten the development of a MISO demand response program.

The decision rules implemented in the Second Settlement and the summer's results show a good-faith effort by IPL to realize the value of the interruptible program by using the interruptible capacity to manage peak load under challenges from both reliability and economic factors. With the changes made, the interruptible program is appropriately labeled an energy efficiency program.

The Third Settlement confirms that the MISO MMI appears to be reducing congestion problems through market mechanisms and that the new decision rules fit nicely with the management of congestion impacts through locational marginal pricing. The Board expects IPL to continue to monitor MISO's operation to determine if any future revisions to the interruptible program are necessary to better tailor the program to MISO's operation.

The Third Settlement is reasonable in light of the whole record, consistent with law, and in the public interest. It will be approved. The parties are commended for their efforts at resolving these difficult issues. The settlement negotiations extended over a long period of time and required extensive time commitments from all the parties. The results, however, appear to be well worth the effort. The changes to the interruptible program will create a program that treats program customers on an equal basis and generates more energy efficiency savings for those customers and other customers of IPL. In other words, the interruptible program as revised will provide more efficiency savings for each dollar expended.

FINDING OF FACT

The Third Settlement agreement filed on June 30, 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 June 30, 2006, relating to Interstate Power and Light Company's interruptible credits program, is approved.
2. Tariff filing TF-06-197 is approved, effective as of the date of this order.
3. The modification to Interstate Power and Light Company's energy efficiency plan filed on June 30, 2006, is approved.

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 20th day of October, 2006.