

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. RPU-06-1
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ORDER APPROVING UNANIMOUS SETTLEMENT AGREEMENT

(Issued February 14, 2007)

INTRODUCTION AND PROCEDURAL HISTORY

On September 8, 2006, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) proposed electric tariffs, identified as TF-06-254 and TF-06-255. The tariffs are a proposed lighting consolidation tariff (TF-06-254) and a proposed second-step equalization tariff (TF-06-255) that would accomplish the next step toward equalizing rates across IPL's four pricing zones. IPL stated the proposed rate changes are designed to be revenue neutral.

In the Board's "Final Decision and Order" issued January 14, 2005, in Docket No. RPU-04-1, the Board directed IPL to begin making annual, revenue-neutral equalization filings. Tariff filing TF-06-255 is the second of these annual filings that have generally been referred to as rate equalization filings. The Board, in its "Final Decision and Order" issued April 28, 2006, in Docket No. RPU-05-3, ordered IPL to file a target rate design and consolidated tariff for lighting as part of its next equalization or general rate case, whichever came first. Tariff filing TF-06-254 is IPL's lighting proposal.

In order to allow the Board and other parties time to fully consider the proposed rate changes to lighting and the second step in rate equalization, the tariffs were docketed as a formal contested case proceeding, identified as Docket No. RPU-06-1, and a procedural schedule was set by order issued October 5, 2006. The order also required IPL to provide additional information regarding, among other things, estimated bill impacts for various customer groups. On October 27, 2006, IPL provided the additional information requested.

On December 4, 2006, the Board issued an order suspending the procedural schedule and canceling the January 23, 2007, hearing. IPL requested the cancellation, saying in its motion that it had contacted all parties and the parties expressed an interest in pursuing a settlement. IPL noted in its filing that it had reviewed the prefiled testimony and pleadings and did not discern any significant issues or controversy. All parties agreed to the suspension and cancellation.

On December 20, 2006, all parties to this proceeding filed a "Unanimous Settlement Agreement." Signatories to the settlement were IPL, the Consumer Advocate Division of the Department of Justice, Iowa Consumers Coalition, Community Coalition for Rate Fairness, and Ag Processing Inc.

SUMMARY OF SETTLEMENT AGREEMENT

The settlement provides that the parties acknowledge that IPL's initial filing in this proceeding complies with the Board's requirements for rate equalization and a target rate design and consolidation of the lighting tariff. The parties agree that IPL's proposed tariffs may be approved as filed, with the minor clarification contained in

Article VII of the settlement. The clarification relates to the lighting proposal.

Pursuant to the settlement, the proposed tariffs are to go into effect on June 30, 2007.

The clarification addresses a separate, unregulated maintenance service that IPL intends to offer in conjunction with its redesigned customer-owned lighting services. IPL estimates the new unregulated maintenance service will be used for about 550 (out of more than 100,000) lighting fixtures. In Article VII of the proposed settlement, IPL affirms "there will be no cross-subsidization between regulated utility service and unregulated maintenance service with regard to IPL's personnel and equipment." IPL agrees to track the costs associated with this maintenance service and keep those costs separate from IPL's regulated service costs. Article VII further provides the maintenance service referred to is for bulb replacement and cleaning of refractors with major maintenance items (such as fixture or pole replacement) being directly billed to IPL's customers.

DISCUSSION

All parties to this proceeding signed the proposed settlement and no objections to the proposed settlement 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 rate equalization aspects of the settlement and then the lighting proposal.

In IPL's last equalization filing in Docket No. RPU-05-3, the Board approved consolidated target rate designs for residential, general service (GS), and large general service (LGS) classes and the first step changes to reach those targets. The Board also said that equalization should occur over a five-step process for residential and GS classes and a three-step process for LGS. The remaining steps in the equalization process generally involve taking the dollar difference between the first step and the target, for each rate element in each pricing zone, and dividing it by the remaining number of equalization steps. This way, the dollar amount changes are approximately the same for each rate element over each of the remaining steps.

As was the case in Docket No. RPU-05-3, increases for some customers will be offset by bill reductions for others. Also, the percentage billing increases for some of the individual GS and LGS customers will be significantly greater than the residential percentage increases. However, the percentage increases will be generally less than those customers experienced in Docket No. RPU-05-3. In addition, IPL's proposal moves the remaining grandfathered LGS customers that no longer qualify for the LGS class to GS. This process began in Docket No. RPU-05-3, but was limited to moving LGS customers who would experience either (a) annual billing increases of less than 20 percent when moved to GS or (b) greater increases if they remained under redesigned LGS rates than if they were moved to GS. The customers who were not moved in Docket No. RPU-05-3 were allowed to remain on LGS rates for one more year.

In information filed in response to the Board's October 5, 2006, order, IPL said there were 119 grandfathered LGS customers that would be moved to GS as a part of this filing. The projected annual billing impacts are as follows: One customer will have a percentage reduction as a result of the change, 49 will have increases between zero and 10 percent, 50 will have increases between 10 and 20 percent, and 19 will have increases between 20 and 24 percent. This closely tracks the 20 percent annual increase limit imposed in Docket No. RPU-05-3 for the grandfathered customers. According to IPL's post-Docket No. RPU-05-3 customer communications plan, which was filed on July 27, 2006, all 119 customers were contacted and informed that they would be transferred to GS rates in June 2007. IPL offered to provide those customers with information about time-of-day pricing and energy efficiency programs available to GS customers as a way to try to mitigate any adverse effects.

The second aspect of the settlement involves IPL's lighting proposal. The Board in Docket No. RPU-04-1 established a time frame of three annual steps for consolidating and equalizing IPL's lighting rates. In Docket No. RPU-05-3, IPL filed uniform percentage changes to its lighting rates as the first equalization step and said it would file a consolidated lighting rate structure and tariff as the second equalization step. IPL's current filing is intended to fulfill its commitment.

Currently, IPL's IES and IPC pricing zones have separate lighting tariffs. The IES lighting tariff applies to both area and street lighting; the IPC pricing zone has separate tariffs for these services. Under IPL's proposed consolidation, there will be

separate tariffs for area and street lighting. IPL argued separate tariffs for area and street lighting are appropriate because the installation and maintenance costs are different. The structural changes IPL proposed are revenue neutral for the lighting class as a whole, as well as for area and street lighting services individually.

Under IPL's lighting proposal, standard area and street lighting services will have monthly non-metered charges for fixtures owned and maintained by IPL. Non-metered service charges will continue to apply for most current customer-owned fixtures; new customer owned-fixtures and current customer-owned incandescent fixtures will be billed according to their metered energy usage. Tariffed maintenance service will be discontinued for customer-owned facilities; customers wanting to continue IPL's maintenance service will contract for it separately and be billed directly for the cost. These separate maintenance service contracts were addressed by the settlement's clarification regarding separation of costs.

There are some rate structure shifts in IPL's proposal that will have rate impacts. For IPL-owned lighting, current standard service involves mounting the fixture on a shared distribution pole, with the shared pole costs recovered through the monthly fixture charge. Under IPL's consolidation proposal, shared pole costs will be recovered through a separate charge and pole credits that had been used in the IES zone will be eliminated.

IPL also intends to discontinue maintenance for mercury vapor (MV) fixtures. This service is currently available only to customers that have used MV fixtures continuously since 1990. Under the consolidation proposal, broken MV fixtures will

be replaced with the more energy efficient sodium vapor (SV) fixtures. The proposal also phases out pricing differences between equivalent MV and SV fixtures and eliminates rate differences for different SV fixture types of the same wattage (such as open or enclosed luminary and long or short bracket). The result will be narrower, more uniform service offerings.

The information provided in IPL's filing showed that less than 3 percent of the area lighting fixtures and less than 20 percent of the street lighting fixtures (including pole charges and lost credits) will see revenue increases of over 10 percent. More importantly, the highest percentage increases appear to involve relatively small dollar amounts. For area lighting, the highest percentage increases (68.4 percent) impact only two fixtures; the monthly increase will be \$3.10 per fixture. For street lighting, the highest percentage increases impact five fixtures; the monthly increase will be \$6.54 per fixture.

While the settlement may not decide each issue the way the Board would in a contested hearing, the Board, viewing the stipulation and agreement as a whole, will find it to be reasonable, in the public interest, and not contrary to any law. The settlement implements tariff consolidation for the lighting class and another step towards rate equalization. Both the rate equalization portion and the lighting portion of the settlement are consistent with prior Board orders regarding tariff consolidation and rate equalization.

FINDING OF FACT

The settlement 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 (2007).

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The settlement agreement filed in Docket No. RPU-06-1 on December 20, 2006, is approved.
2. Tariff filings TF-06-254 (as clarified by the settlement agreement) and TF-06-255 are approved, subject to complaint or investigation, effective June 30, 2007.

UTILITIES BOARD

/s/ John R. Norris

/s/ Curtis W. Stamp

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

Dated at Des Moines, Iowa, this 14th day of February, 2007.