

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. WRU-07-13-150 (WRU-06-11-150, WRU-04-14-150)
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**ORDER GRANTING REQUEST FOR
ONE-YEAR EXTENSION OF WAIVER**

(Issued June 14, 2007)

On May 10, 2007, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) a request for a one-year extension of a waiver of the electric energy adjustment clause (EAC) rules related to flowing costs and credits associated with participation in wholesale markets operated by regional transmission organizations through the EAC for recovery. The Board originally granted a waiver allowing these costs and credits to flow through IPL's EAC on May 13, 2004, in Docket No. WRU-04-14-150. That waiver was effective through May 31, 2006; the waiver was subsequently extended through June 30, 2007, in Docket No. WRU-06-11-150. IPL's most recent waiver request states that while the Consumer Advocate Division of the Department of Justice (Consumer Advocate) does not necessarily agree with the specific statements made in the waiver request, Consumer Advocate does not object to a further one-year extension. No objections to the waiver request were filed.

The Board in Docket No. WRU-04-14-150 granted the initial two-year waiver because of changes about to occur in the wholesale electricity markets that would affect costs flowing through the EAC. Those changes were brought about because of IPL's participation in wholesale energy markets operated by regional transmission organizations, such as PJM and the Midwest Independent Transmission System Operator, Inc. (MISO), approved by the Federal Energy Regulatory Commission. These markets, through features such as locational marginal pricing and financial transmission rights, replaced implicit costs and credits previously flowed through the EAC with explicit costs and credits. The initial two-year waiver was necessary because the EAC rules were adopted in an environment where there were no explicit charges and credits for such things as locational marginal pricing and financial transmission rights and the rules did not provide for such charges and credits to flow through the EAC.

The Board extended the waiver through June 30, 2007, in Docket No. WRU-06-11-150 because the reasons for granting the initial waiver remained valid, satisfying the standards for a waiver found in 199 IAC 1.3. Because the markets were relatively new and evolving, the Board believed it was more appropriate to proceed under a waiver than to change the EAC rules at that time. The Board noted that a waiver could be reexamined or modified quickly if changing circumstances warrant. However, the Board indicated that if IPL wanted a further extension of the waiver, its renewal request should address issues such as whether MISO's costs are

contributing to increases in IPL's EAC, the reasons for peaking dispatch issues and whether these issues have been resolved, and the results of a planned MISO cost-benefit study.

IPL addressed these issues in its current waiver request. IPL's filing showed that its membership in MISO did not negatively impact its Iowa EAC factors in 2006 and may have mitigated higher EAC factors resulting from increased fossil fuel costs. For example, throughout 2006 IPL received from MISO approximately \$22 million related to overcharges on revenue sufficiency guarantee (RSG) or "make-whole" payments. These payments might not have flowed back to IPL customers absent the EAC waiver. In addition, when both MISO purchases and sales are taken into account, IPL said that it netted an additional \$19.2 million of revenues from MISO that was refunded to customers through the EAC; absent the waiver, IPL would have retained these sums. In all, IPL said it received \$45 million in net credits from MISO in 2006 that, with the waiver, were flowed back to customers through the EAC.

IPL said that the peaker issues were being resolved. IPL noted that when MISO's energy market began in 2005, IPL's peaking units were started from three to four times more than had been normal. While the number of starts has been reduced, the data also shows that IPL's peakers are being used and compensated by the MISO footprint, not solely by IPL. In other words, when peaker use is increased, IPL is compensated from the MISO footprint, which offsets IPL's increased fuel costs. IPL said an issue remains with maintenance costs because the revenue from MISO

to cover future maintenance costs is being used to lower fuel costs and currently flows back to customers; at some point, higher maintenance costs caused by increased peaker starts will have to be addressed.

Finally, the initial independent cost-benefit analysis commissioned by MISO of its "Day-2" market has been released. IPL said the results indicated a MISO-wide benefit of approximately \$58 million of total production costs when compared to MISO's prior "Day-1" operations. IPL noted these benefits are in addition to the non-quantifiable benefits of centralized dispatch provided by MISO, including reliability and price transparency. Although these benefits are applicable to the MISO footprint, not IPL's service territory, the previously discussed 2006 results for the IPL EAC appear to demonstrate cost benefit for IPL customers.

The information submitted by IPL demonstrates that overall the waiver has benefited IPL's customers and the reasons for granting the prior waivers remain. A one-year extension of the waiver, through June 30, 2008, is appropriate. Because of ongoing changes brought about by MISO and the Day-2 market, the EAC waiver is the most appropriate means to ensure that any MISO benefits accrue on a timely basis to IPL's ratepayers.

The Board and its staff remain active participants in the MISO process, including membership and participation in the Organization of MISO States (OMS). Board members and staff attend meetings at MISO headquarters in Carmel, Indiana, on a regular basis; the Board's chairman will soon begin a term as president of OMS.

This participation has allowed the Board to keep abreast of the issues raised in the waiver request and the Board intends to continue its active participation and encourages other stakeholders to do the same. If IPL requests an extension of the current waiver, it should address any significant developments with respect to the cost-benefit analysis, peaker utilization, and other MISO issues impacting IPL's ratepayers.

IT IS THEREFORE ORDERED:

The request for waiver filed by Interstate Power and Light Company on May 10, 2007, is granted. The waiver is effective until June 30, 2008.

UTILITIES BOARD

/s/ John R. Norris

/s/ Curtis W. Stamp

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Krista K. Tanner

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