STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. TF-06-336

ORDER APPROVING TARIFF WITH CHANGES

(Issued August 13, 2007)

On December 26, 2006, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) a proposed consolidated electric "Standby and Supplementary Power Service" tariff (Standby Tariff) identified as TF-06-336. IPL filed revisions to the proposed tariff on January 4, 2007. The Board, in its "Final Decision and Order" issued on April 28, 2006, in Docket No. RPU-05-3, ordered IPL to file a new proposed Standby Tariff in its next equalization filing or as a separate filing.

The Iowa Consumers Coalition (ICC) filed an objection to the proposed Standby Tariff on January 16, 2007. The ICC consists of three large industrial customers of IPL: Archer Daniels Midland Company; Cargill, Incorporated; and Equistar Chemicals, L.P. The ICC raised several objections and asked for a clarification.

In order to allow the Board, the ICC, and other interested persons time to fully consider the proposed Standby Tariff, the tariff was docketed as a formal contested case proceeding, identified as Docket No. TF-06-336, by order issued January 23,

2007. However, a procedural schedule was not set at that time in order to allow the parties an opportunity to review IPL's responses to additional information that the Board required in its order. The parties were also given time to engage in discovery and discussions to see if the parties could resolve some or all of their concerns. The Board required the parties to submit a joint report on or before March 15, 2007.

IPL, ICC, and the Consumer Advocate Division of the Department of Justice (Consumer Advocate) submitted a joint report on March 15, 2007. The parties indicated that after reviewing the additional information filed by IPL, three issues or clarifications remained. The parties said they had reached agreement on two of these, but not the third. The joint report reflected the parties' agreements, clarifications, and understandings.

The first clarification for which there was agreement relates to IPL's proposed 40 percent facility power requirements for supplementary service in proposed Tariff Sheet 76. The second clarification agreed to by the parties, addresses the application of IPL's interruptible rider to customers receiving supplementary service at non-transmission voltage levels.

There was no agreement on the final clarification or issue. The parties were unable to reach agreement on IPL's proposed minimum billing demand of 40,000 kW for transmission voltage level supplementary service. The parties asked for additional time to negotiate their final issue. The additional time was granted by Board order issued April 2, 2007; the order required the parties to submit a second joint report on or before April 17, 2007.

On April 17, 2007, the parties filed the second joint report. The report stated the parties were unable to reach agreement regarding the minimum billing demand. However, the parties said that an evidentiary hearing on the issue was not necessary and they asked the Board to set a briefing schedule that incorporated simultaneous briefs for resolution of the issue. The Board established a briefing schedule pursuant to the parties' request and all parties had the opportunity to file initial and reply briefs. Consumer Advocate participated in the negotiations that resulted in the two agreed-upon clarifications but did not take a position on the appropriate level of minimum billing demand.

IPL filed additional tariff revisions on June 8 and June 22, 2007. The revisions implemented the parties' agreements and clarifications and other minor changes previously ordered by the Board.

IPL POSITION

IPL states it is requesting a minimum contract demand level of 40,000 kW for supplementary Bulk Power service to match the current contractual demands of its two existing Bulk Power customers. Although the current Bulk Power tariff specifies a minimum contract demand of 25,000 kW, IPL states it is never utilized in practice. Therefore, IPL notes that the proposed 40,000 kW minimum demand level for supplementary Bulk Power service will not change anything for these customers. In addition, IPL will allow current Bulk Power customers to continue taking supplementary service through the existing Bulk Power tariff. IPL maintains that the only way current Bulk Power customers might be affected is if they choose to terminate service under the existing Bulk Power tariff and take supplementary Bulk Power service under the new tariff. If this happens, the 40,000 kW minimum demand level will be low enough to allow both current Bulk Power customers to make process and efficiency improvements if they want to without becoming ineligible.

To maintain revenue neutrality, IPL proposes its new supplementary Bulk Power service for transmission voltage customers should be based on the load characteristics and cost of serving its two existing Bulk Power customers. Therefore, IPL’s proposed rates for its new supplementary Bulk Power service are the same as its current Bulk Power rates, and IPL argues there is no cost basis for setting minimum billing demand lower than the 40,000 kW level currently contracted by these two customers.

IPL notes that ICC is arguing for an extension of supplementary Bulk Power service at demand levels less than 40,000 kW. IPL opposes this and argues that ICC has offered no cost support for a lower minimum demand level.

ICC POSITION

ICC states that the minimum demand issue here is almost identical to the Bulk Power minimum billing demand issue that the Board addressed in IPL’s last fully-litigated rate case, Docket No. RPU-05-3. In that case, ICC notes that IPL proposed to increase its minimum billing demand for Bulk Power customers from 25,000 kW to 60,000 kW, and that the Board rejected IPL’s proposal as unexplained and unjustified. Similarly, in IPL's current tariff proposal, ICC argues that IPL has offered no substantive reasons or any cost impact study or other economic analysis that would support establishing a higher 40,000 kW minimum billing demand for supplementary Bulk Power service. ICC states that the only justification IPL offers is its claim that a 40,000 kW minimum billing demand level will maintain revenue neutrality by reflecting the load characteristics and cost of serving IPL's two existing Bulk Power customers. However, the ICC argues that the Board rejected this justification in Docket No. RPU-05-3, stating that:

> [N]o explanation is given why the cost of serving a 25,000 kW high voltage, high load factor customer is significantly different than serving a 55,000 kW customer with similar voltage and load patterns. (Interstate Power and Light Company, "Final Decision and Order", Docket No. RPU-05-3 (4/28/06), p. 30).

As in Docket No. RPU-05-3, the ICC maintains, IPL provides no explanation or evidence showing how the cost of serving a 25,000 kW high voltage, high load factor customer would be significantly different than serving a 40,000 kW customer with similar voltage and load factor characteristics. ICC argues a higher 40,000 kW minimum demand level will pose an unreasonable financial barrier for transmission voltage level customers that are considering customer-owned generation and will also create an inconsistency between supplementary Bulk Power service and the 25,000 kW minimum billing demand in IPL's Bulk Power tariff.

The ICC acknowledges IPL's observation that the service contracts for IPL's two existing Bulk Power customers already specify minimum contract demand levels of 40,000 kW. However, the ICC maintains that this does not explain why increasing the tariff minimum demand level to 40,000 kW is reasonable. Also, the ICC argues that the existence of specific provisions in individual contracts should not, by itself, justify the adoption of similar, more broadly applicable provisions in a general tariff. In any event, the ICC notes that the current contracts can be terminated after providing IPL the required notice. The ICC concludes that IPL's proposal to increase its minimum billing demand to 40,000 kW seems designed to provide IPL revenue protections at the expense of its transmission voltage level customers.

BOARD DISCUSSION

The arguments over the proposed change in minimum demand appear to be a continuation of the Bulk Power minimum billing demand issue argued in IPL's last fully-litigated rate design case, Docket No. RPU-05-3. In that case, as part of the rate consolidation process, IPL proposed to extend the availability of its Bulk Power tariff to all IPL pricing zones. Until that time, the Bulk Power class consisted of two very large industrial customers in the IPC pricing zone. Because Docket No. RPU-05-3 was a revenue-neutral rate design case, IPL proposed to increase its Bulk Power minimum demand level from 25,000 kW to 60,000 kW to minimize potential IPL revenue losses due to: 1) customer migration to Bulk Power from higher-priced Large General Service (LGS) rates in other pricing zones; and 2) demand reductions by existing Bulk Power customers who might install customer-owned cogeneration.

In its Docket No. RPU-05-3, "Final Decision and Order," the Board stated that although IPL had presented little justification for a higher minimum demand level, IPL's concern about potential revenue loss from customer migration as part of the rate consolidation process was understandable. This concern plus IPL's lack of evidentiary support for an increased minimum demand level led the Board to:

1) extend Bulk Power to all IPL pricing zones with no change to the 25,000 kW minimum demand level; 2) restrict the availability of Bulk Power to the two existing customers; and 3) require IPL to survey its LGS and Bulk Power customers for purposes of considering an expansion or reconstitution of the Bulk Power class in IPL's next general rate case. Interstate Power and Light Company, "Final Decision and Order," Docket No. RPU-05-3 (4/28/06), pp. 30-31.

In TF-06-336, the minimum demand issue has shifted from the Bulk Power tariff to the Bulk Power provisions of IPL's consolidated Standby Tariff. As in the previous case, IPL is extending the availability of Bulk Power to all IPL pricing zones, this time in the context of its proposed supplementary Bulk Power service. Also as in the previous case, IPL is seeking a higher minimum billing demand threshold for supplementary Bulk Power service, which would tend to minimize any potential revenue loss caused by customer migration to Bulk Power from higher-priced LGS rates in other pricing zones. As the Board noted previously in Docket No. RPU-05-3, any concern about potential revenue loss due to the rate consolidation process would be understandable, given that the process is intended to be revenue-neutral.

However, aside from the concern about potential revenue loss, it is not clear why any increase in Bulk Power minimum demand is warranted at this time. As ICC pointed out, little or no additional evidentiary support for such an increase has been provided and a higher minimum demand for supplementary Bulk Power would be inconsistent with the 25,000 kW minimum demand level in the current Bulk Power tariff.

The two competing concerns, lack of support for any change in minimum demand level and potential revenue loss, are the same concerns expressed in Docket No. RPU-05-3 for a similar issue. To promote consistency between the two tariffs, the Board will treat this tariff in a manner similar to the Bulk Power tariff provisions that were part of Docket No. RPU-05-3. The Board will set the minimum billing demand for supplementary Bulk Power service at 25,000 kW, consistent with the current minimum demand in IPL's Bulk Power tariff. To prevent revenue loss from rate consolidation, the Board will restrict the availability of supplementary Bulk Power service in the Standby Tariff to IPL's existing Bulk Power customers.

IPL is encouraged to consider changes to its Bulk Power minimum demand level, along with other potential long-term changes to the Bulk Power class, as part of its ongoing process for considering expansion or reconstitution of the Bulk Power class. The Board believes the best venue for addressing long-term changes to Bulk Power will be in a general rate case where potential class cost-of-service and revenue effects can be assessed together.

The two changes to the proposed tariff that the Board finds appropriate (minimum billing demand of 25,000 kW and restricting availability to IPL's existing Bulk Power customers) would also exclude non-Bulk Power transmission level customers (i.e., LGS transmission level customers) from supplementary power service. To avoid this unintended consequence of the Board's decision, some additional tariff changes to Tariff Sheets 80 and 81 are necessary. All of the changes the Board will require are highlighted by underlining and strikeouts.

On Tariff Sheet 80, the text descriptions identifying the two categories of "Monthly Supplementary Service Charges" should be changed as follows to distinguish Bulk Power from non-Bulk Power transmission level service:

> a) Secondary, Primary, ~~and~~ Sub-transmission, and non-Bulk Usage Transmission Voltage levels
>
> b) Bulk Usage Transmission Voltage Level where IPL provides 161 KVA service that the Customer transforms to 69 KVA (FROZEN – limited to existing Bulk Usage customers).

On Tariff Sheet 81, the following text changes should be made to distinguish Bulk Power from non-Bulk Power transmission level service, and to match the terms and conditions listed in the current Bulk Power and LGS tariffs for transmission level service:

> **Billing Demand for Supplementary Service:**
>
> The kW demand to be used for billing purposes for non-transmission and non-Bulk Usage transmission voltage service each month shall be the sum of the highest 15-minute supplementary demand during on-peak hours of the current month plus 50% of the amount by which the highest 15-minute supplementary demand during off-peak hours exceeds the highest on-peak demand, but not less than 75% of the highest monthly billing demand similarly determined during the previous months of June, July and August.
>
> Billing demand for Bulk Usage transmission voltage service shall be the largest metered demand in the twelve months ending with the current billing month but not less than ~~40,000 kW~~ 25,000 kW.
>
> **Primary Voltage Service Discounts for Non-Bulk Usage Supplementary Service:**
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> Where primary service is available and provided the Customer purchases primary service and furnishes the

> approved transformation and protective devices, the following discounts on demand charges will be allowed: 4.42% for 4,160 to 34,500 volt service (when 34,500 volt service reflects Company transformation from 69,000 volts and the 34,500 volt system is not further transformed to supply a lower voltage Company distribution primary system), 7.50% for 69,000 and 34,500 volt service (where 34,500 volt service reflects transformation by Company from greater than 69,000 volts, or if transformed from 69,000 volts, the 34,500 volt line is further transformed to supply a lower voltage Company distribution primary system) and 10.00% for 115 kV service and above.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. Tariff filing TF-06-336, filed on December 26, 2006, and amended on January 4, June 8, and June 22, 2007, by Interstate Power and Light Company is approved, subject to complaint or investigation, with the following changes:

   a. The minimum billing demand for supplementary Bulk Power service (i.e., transmission voltage service) shall be 25,000 kW, consistent with the current minimum demand in Interstate Power and Light Company's Bulk Power tariff.

   b. The availability of supplementary Bulk Power service (i.e., transmission voltage service) shall be restricted to Interstate Power and Light Company's existing Bulk Power customers.

2. Interstate Power and Light Company shall make any proposed changes to Bulk Power and supplementary Bulk Power minimum demand levels part of the survey and reconsideration process ordered by the Board in its "Final Decision and

Order" in Docket No. RPU-05-3, for possible expansion or reconstitution of the Bulk Power class in IPL's next general rate case.

3. Interstate Power and Light Company shall make the changes to Tariff Sheets 80 and 81 identified in this order.

4. Interstate Power and Light Company shall file compliance tariffs consistent with this order within 20 days of the date of this order.

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 13th day of August, 2007.