

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. RPU-07-5 SPU-00-10
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**ORDER APPROVING SETTLEMENT AND SYSTEM  
COORDINATION AND OPERATING AGREEMENT**

(Issued February 6, 2008)

**INTRODUCTION AND PROCEDURAL HISTORY**

On September 28, 2007, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) an application for determination of ratemaking principles pertaining to a proposed wind-powered generation project of up to 200 MW (IPL Wind Project). IPL in its initial filing said the IPL Wind Project would likely consist of two projects of approximately 100 MW each. IPL stated the projects would be in Iowa, but exact sites had not been determined.

On October 12, 2007, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a response to IPL's application and a request for docketing. Consumer Advocate noted that the IPL Wind Project could potentially serve both IPL's Minnesota and Iowa customers and that the proposed wind project related to issues Consumer Advocate was investigating regarding allocation of energy costs and revenues to the various Alliant Energy subsidiaries, including IPL. Consumer Advocate said it wanted to ensure that IPL's customers are receiving the

benefits of IPL's lower-cost generation resources. On October 24, 2007, the Board docketed IPL's application and set a procedural schedule.

On November 8, 2007, Consumer Advocate and IPL asked that the procedural schedule be suspended pending the filing of a proposed settlement. The parties filed a proposed settlement agreement (Settlement) on November 15, 2007, accompanied by a motion to approve the Settlement. On November 19, 2007, the Board issued an order holding the procedural schedule in abeyance.

Ratemaking principles proceedings are conducted pursuant to Iowa Code § 476.53 (2007). Section 476.53 was enacted during the 2001 legislative session as part of House File 577. This section provides that when defined new electric generation is constructed by a rate-regulated public utility, the Board, upon request, shall specify in advance, by order issued after a contested case proceeding, the ratemaking principles that will apply when the costs of the new facility are included in electric rates. Alternate energy production facilities, such as the proposed IPL Wind Project, were added to the list of eligible facilities for ratemaking principles by House File 391, which was enacted during the 2003 legislative session. Section 476.53(1) states that the general assembly's intent in enacting ratemaking principles legislation is to "attract the development of electric power generating and transmission facilities within the state ... ."

### **CONDITIONS PRECEDENT**

Before determining the applicable ratemaking principles for the IPL Wind Project, the Board must make two findings pursuant to Iowa Code § 476.53(3)"c."

These are conditions precedent to a determination of ratemaking principles, because if the Board cannot make these findings, the utility cannot receive ratemaking principles. First, the Board must determine that the public utility has in effect a Board-approved energy efficiency plan. Second, the utility must demonstrate that it has considered other sources for long-term supply and that the facility is reasonable when compared to other feasible alternative sources of supply.

IPL has in effect a Board-approved energy efficiency plan. IPL witness Holmes provided prefiled testimony regarding IPL's energy efficiency plan. IPL received approval of its current energy efficiency plan in Docket No. EEP-02-38, and its actual plan expenses have exceeded budgeted amounts in each of the last four years, resulting in savings that were 54 percent above the targeted amount. (Holmes Direct, p. 3).

IPL also demonstrated in the prefiled testimony of witnesses Zuhlke (Zuhlke Direct, p. 9), Friedman (Friedman Direct, pp. 4-6, 819-21), and Kitchen (Kitchen Direct, pp. 3-4, 7) that it had considered other sources for long-term electric supply, including purchase power agreements, and that the proposed IPL Wind Project is reasonable when compared to other feasible alternative sources of supply. The statute does not require that the IPL Wind Project be the least-cost alternative, but only a reasonable alternative to other sources of supply. The IPL Wind Project adds flexibility to IPL's generation portfolio, particularly during off-peak hours, and advances the state's goal of promoting renewable resources in Iowa.

### **SUMMARY OF SETTLEMENT**

The proposed Settlement provides for a return on equity of 11.7 percent on the portion of the IPL Wind Project included in IPL's Iowa electric rate base. The Settlement provides for a depreciation expense based on a plant life of not less than 25 years and a cost cap per kW installed; if costs fall at or below the cap, IPL does not need to establish the prudence or reasonableness of the expenditures. The cost cap is inclusive of associated costs necessary for the reliable integration of the IPL Wind Project into the transmission network. IPL would be required to establish the prudence and reasonableness of any costs in excess of the cost cap before those amounts could be included in Iowa jurisdictional rates. The Settlement also specifies the accounting for any renewable energy and carbon tax credits, the federal production tax credit, treatment of allowance for funds used during construction, and cancellation costs.

In addition to ratemaking principles specifically addressing the IPL Wind Project, the Settlement also addresses the System Coordination and Operating Agreement (SCOA) that was initially executed in 2001 by and among various Alliant Energy operating companies, including IPL, Wisconsin Power and Light Company (WPL), and Alliant Energy Corporate Services, Inc. (AECS). AECS provides various services to the Alliant Energy operating companies and Consumer Advocate had raised concerns about how various costs were allocated under the SCOA.

Various revisions to the SCOA have been filed since its inception and the Board has had an opportunity to review and approve the revisions.<sup>1</sup> On October 4, 2007, IPL filed additional SCOA revisions related to changes to reflect, among other things, the operation of the Midwest Independent Transmission System Operator Inc. (MISO), markets. On October 9, 2007, Consumer Advocate filed a response to the proposed SCOA changes. While Consumer Advocate agreed the changes appeared to be non-substantive, Consumer Advocate raised broader concerns about the SCOA and cost allocation. In particular, Consumer Advocate said it appeared IPL was consistently selling more power to WPL than it purchased from WPL, resulting in concerns that because the SCOA provides WPL's purchases are at IPL's variable energy costs, IPL might be losing opportunities for market-based sales at higher rates.

In the Settlement, the parties resolved all their underlying disputes regarding the SCOA. The Settlement provides that the proposed changes to the SCOA filed on October 9, 2007, should be approved and further provides that IPL will work aggressively to designate IPL and WPL as separate owners in the MISO market so that the two utilities will receive separate settlement statements from MISO, which will promote the allocation methodology contained in the SCOA.

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<sup>1</sup> This docket before the Board, Docket No. SPU-00-10, and FERC Docket Nos. ER-07-881-000, ER-07-881-001, and ER-07-881-002 are currently applicable.

## 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 ratemaking principles contained in the Settlement generally track principles that have been awarded in other ratemaking principles dockets. The 11.7 percent return on equity agreed to by the parties is less than the 12.3 percent return initially proposed by IPL and is identical to the return approved on June 27, 2007, in Docket No. RPU-07-2, for MidAmerican's most recent wind project. The return agreed to by the parties appears to be within the zone of reasonableness given the risks associated with new generation, the intent of § 476.53, and the fact that this return will prevail for the regulated life of the wind facilities. There has been little change in the yields on A-rated utility bonds since the decision in Docket No. RPU-07-2.

The other ratemaking principles associated specifically with the IPL Wind Project, including the cost cap and depreciation life, also appear to be reasonable. The other ratemaking principles are similar or identical to those approved in other proceedings.

IPL acknowledged in its filing that the specific size and locations for the IPL Wind Project have not been definitely determined. Because of this uncertainty, it is difficult to determine potential impacts on the transmission system or the costs of any required upgrades. Both the MISO and Mid-Continent Area Power Pool processes,

however, will help ensure that the IPL Wind Project will be interconnected in a manner complying with standard utility practice, such that the interconnection of the wind facilities will not degrade the adequacy, reliability, or operating flexibility of the local and regional transmission system.

In order for the Board to satisfy itself that there will be no ongoing negative impacts on the transmission system from the IPL Wind Project, the Board will require IPL to provide periodic project updates of all transmission information and site-specific information related to IPL's wind projects, as it becomes available. IPL will be required to provide the following:

1. All transmission (feasibility, system impact, and facilities) studies completed to evaluate the impacts of interconnecting of wind generation that will be subject to these ratemaking principles in IPL's Iowa service territory.
2. Every six months, a project status update for each site selected for the IPL Wind Project. At a minimum, the filing is to include information on the site selected, work done at the site, status of on-site and off-site transmission network upgrades, including the costs of those upgrades and time lines for the various projects. Other information relevant to the project and its development is also to be filed.

As noted above, the Settlement provides that IPL will advocate separate MISO billings for IPL and WPL. This should provide benefits to IPL by properly allocating settlement amounts to IPL and eliminating any subsidies from IPL to WPL that might have occurred. By having separate MISO settlements, each utility will receive the appropriate locational marginal pricing (LMP) settlement, reflecting the difference

between IPL's (or WPL's) variable energy costs and the market-clearing LMP. Under this arrangement, once in place, no subsidies should flow from one utility to the other. In this way, approval of the Settlement will serve the public interest with respect to the SCOA.

While the Settlement may not decide each issue the way the Board would in a contested hearing, the Board, viewing the Settlement as a whole, will find it to be reasonable, in the public interest, and not contrary to any law. The Settlement will facilitate the construction of additional renewable energy to help meet the state's goal and will increase the diversity of Iowa's generation resources. In addition, provisions of the Settlement pertaining to the SCOA should help to eliminate subsidies that may have flowed between IPL and WPL when one utility purchased from the other.

#### **FINDINGS OF FACT**

1. It is reasonable to find that IPL has in effect a Board-approved energy efficiency plan as required under Iowa Code § 476.6(19).
2. It is reasonable to find that IPL considered other long-term sources of electric supply and the proposed wind facilities are reasonable when compared to other feasible alternative sources of supply.
3. The ratemaking principles contained in the Settlement are reasonable.
4. The changes proposed to the SCOA are reasonable.
5. 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 by Interstate Power and Light Company and the Consumer Advocate Division of the Department of Justice on November 15, 2007, in Docket No. RPU-07-5 is approved.
2. The proposed changes to the System Coordination and Operating Agreement filed by IPL on September 27, 2007, and revised on October 4, 2007, in Docket No. SPU-00-10, are approved as discussed in this order.
3. IPL shall file with the Board the information specified in the body of this order.

### UTILITIES BOARD

/s/ John R. Norris

/s/ Krista K. Tanner

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

/s/ Darrell Hanson

Dated at Des Moines, Iowa, this 6<sup>th</sup> day of February, 2008.