

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE: CITY OF EVERLY, IOWA, Petitioner,  v. INTERSTATE POWER AND LIGHT COMPANY, Respondent;	DOCKET NO. SPU-06-5
CITY OF KALONA, IOWA, Petitioner,  v. INTERSTATE POWER AND LIGHT COMPANY, Respondent;	DOCKET NO. SPU-06-6
CITY OF ROLFE, IOWA, Petitioner,  v. INTERSTATE POWER AND LIGHT COMPANY, Respondent;	DOCKET NO. SPU-06-7
CITY OF TERRIL, IOWA, Petitioner,  v. INTERSTATE POWER AND LIGHT COMPANY, Respondent;	DOCKET NO. SPU-06-8
CITY OF WELLMAN, IOWA, Petitioner,  v. INTERSTATE POWER AND LIGHT COMPANY, Respondent.	DOCKET NO. SPU-06-10

**FINAL DECISION AND ORDER**

(Issued July 11, 2008)

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## I. PROCEDURAL HISTORY

On June 6, 2006, the cities of Everly, Kalona, Rolfe, Terril, Titonka, and Wellman, Iowa (collectively, Cities), each filed with the Utilities Board (Board) a petition requesting a certificate of authority to furnish electric service to the existing point of delivery of customers already receiving service from another electric utility. These filings, commonly referred to as municipalization proceedings, were identified as Docket Nos. SPU-06-5, SPU-06-6, SPU-06-7, SPU-06-8, SPU-06-9, and SPU-06-10. Each of the Cities is an Iowa municipal corporation currently receiving electric service from Interstate Power and Light Company (IPL). IPL owns the electric distribution system within each of the Cities. Titonka (Docket No. SPU-06-9) subsequently dismissed its petition, reducing the number of cities seeking municipalization to five. In addition to participation by the Consumer Advocate Division of the Department of Justice (Consumer Advocate), there is one intervenor, MidAmerican Energy Company (MidAmerican).

The Board issued notices to IPL and Consumer Advocate of the municipalization petitions on June 9, 2006, pursuant to Iowa Code § 476.23. IPL filed objections to each of the municipalization petitions. On June 22, 2006, IPL filed motions to assess the direct costs of the Board and Consumer Advocate to the individual municipalities. The Board denied the motion by order issued August 15, 2006. The Board indicated it had no jurisdiction to assess Consumer Advocate's costs and that, with respect to the Board's costs, the motion was premature because

some of the factors to be considered in assessing costs pursuant to Iowa Code § 476.10 and 199 IAC 17.4(4) (good faith participation, financial resources, and nature of the proceeding, for example) cannot be determined until the proceedings are concluded. The Board did provide some guidance, however, and said that, absent unusual circumstances, the Board would expect its direct assessment to be one-half to IPL and one-half to the Cities. The Board indicated that in proceedings where the parties are two commercial entities and the subject matter of the proceedings is not related to the provision of utility service to an individual customer, the Board generally assesses each party one-half of the costs.

On July 7, 2006, each of the Cities filed a motion to consolidate the proceedings. The Board issued an order on August 17, 2006, that consolidated the dockets for purposes of hearing and procedural schedule, but maintained the individual dockets as separate contested cases. The Board found there were significant issues common to all the dockets, as well as issues that applied to individual cities. The Board said any final order would address common issues, as well as issues that applied to individual cities.

Following a prehearing conference with the parties, the initial procedural schedule was set by order issued September 5, 2006. There was also a dispute whether any of the Cities' proposed boundaries infringed on current service territory boundaries of any rural electric cooperatives (REC); additional information was filed by the Cities indicating that no REC boundaries would be affected.

The procedural schedule was modified and extended by order issued December 22, 2006. The modification was necessary because of the death of one of the Cities' expert witnesses. Under that schedule, the hearings would have been held in August 2007.

The Board issued an order on June 29, 2007, requesting additional information from the Cities under various scenarios using different assumptions. The additional information was filed near the time the Cities filed their rebuttal testimony. Subsequent to the rebuttal testimony being filed, IPL filed a motion for leave to file surrebuttal testimony and reschedule the hearing or to strike testimony. The Board granted IPL leave to file surrebuttal testimony by order issued July 27, 2007, indicating that the Cities' rebuttal testimony was a major change to the direct case filed by the Cities and that it appeared the direct case was filed when the Cities had not yet settled on their data, inputs, and projections. The hearing was also rescheduled and the Cities were given a chance to respond to IPL's surrebuttal testimony.

IPL also sought to strike the Cities' response to the Board's request for additional information because it allegedly did not comply with the request. The Board denied the motion, saying that the Cities could have filed the information as part of their rebuttal case, but the Board required the Cities to file the information as requested by the Board, saying the information was useful for comparative purposes. The Cities had said they did not do this because they were no longer relying on their

direct case methods, which the Board's request was predicated on. The Cities subsequently filed the information as requested by the Board.

Hearings were held beginning November 26, 2007. Several extensions to the post-hearing briefing schedule were granted at the request of the parties. IPL, MidAmerican, and the Cities each filed initial and reply briefs; Consumer Advocate did not file post-hearing briefs or statements.

While the five dockets were consolidated for purposes of hearing and procedural schedule, each remains a separate contested case proceeding. However, because the dockets share many common facts and arguments, one written decision is being issued covering all five dockets. The discussion and findings that follow generally apply to all five Cities; when there are factors or arguments pertinent to an individual city, they are specifically identified in the discussion or finding.

## **II. STATUTORY FRAMEWORK AND SHELDON**

Iowa Code § 476.23, which deals with electric service area conflicts, governs municipalization cases. To pursue municipalization, there must first be an affirmative vote in a city election. All the Cities met this requirement with affirmative votes for municipalization in city elections. If a municipalization petition is subsequently filed (as was done by each of the Cities), the Board is to issue a certificate authorizing the municipality to provide service to the city, if there are no objections. Here, IPL objected to each of the petitions. When an objection is filed, the Board, after hearing,

is to grant a petition for municipalization (upon such terms, conditions, and restrictions as may be justified), if the Board "determines that service to the customer by the petitioner [city] is in the public interest, including consideration of any unnecessary duplication of facilities ... ."

Regardless of whether there is an objection to municipalization, § 476.23 requires that "any certificate issued shall require that the petitioner [city] pay to the electric utility presently serving the customer, the reasonable price for facilities serving the customer." (Iowa Code § 476.23(1)). In making this price determination, the statute provides that the Board "shall" include due consideration of the following:

[t]he cost of the facilities being acquired; any necessary generating capacity and transmission capacity dedicated to the customer, including, but not limited to, electric power generating facilities and alternate energy production facilities not yet in service but for which the board has issued an order pursuant to section 476.53 [the ratemaking principles statute], and electric power generating facility emissions plan budgets approved by the board pursuant to section 476.6, subsection 22; depreciation; loss of revenue; and the cost of facilities necessary to reintegrate the system of the utility after detaching the portion sold.

It is important to note that, other than stating that a reasonable price must be paid by the city for the electric utility's facilities and listing various factors to consider in making the price determination, the statute does not give explicit guidelines as to how the Board is to determine a reasonable price.

The only municipalization petition to previously come before the Board, at least in recent times, was City of Sheldon, Iowa, v. Iowa Public Service Company,

Docket No. SPU-88-7 (Sheldon). The statute was the same as it is today, except the provisions for facilities for which ratemaking principles have been granted and for emissions plans and budgets have been added since the Sheldon decision to the factors which must be considered when determining a reasonable price for the utility's facilities. The Sheldon decision was issued on August 2, 1990.

In Sheldon, the Board determined that it had an affirmative duty to determine whether service by a newly-created municipal utility is in the public interest, rejecting the city's arguments that the city's election authorizing the municipal utility was dispositive on the issue. (Sheldon, pp. 7-12). The Board reaffirms that it has an affirmative duty to determine public interest in this context. The statute by its very terms allows the Board to grant a petition for municipalization only if the Board determines it is in the public interest.

The Cities correctly noted there is little Board precedent in this area, acknowledging the Sheldon decision but stating that the electric industry has changed significantly since 1990, particularly in the areas of power supply and transmission. The Cities argued that if they can show a positive net present value (NPV) of savings from municipalization, the public interest standard in the statute is satisfied. (Cities' Initial Brief, p. 6). The Cities also noted that while Iowa has established exclusive electric service territories (Iowa Code §§ 476.23-476.25), the provision allowing for municipalization demonstrates that service territories are not to be deemed inflexible to the point where service territory change can never occur.

At one point, MidAmerican appeared to argue that municipalization would only be justified if there were serious service quality issues in a particular community. IPL did not make the exact same argument, but it disagreed with the idea that the public interest determination solely could be made by the NPV analysis (although it contends the NPV for all the Cities is negative). Rather, IPL argued that the public interest determination is broader and includes such things as encouragement of coordinated statewide electric service at retail, elimination or avoidance of unnecessary duplication of facilities, and promotion of economical, efficient, and adequate electric service to the public. Iowa Code § 476.25. MidAmerican pointed out that in Sheldon the Board determined community control of electric service is not one of the factors the Board is directed to consider. (Sheldon, p. 22).

The Board agrees that the electric industry has changed since the Sheldon decision, with the primary drivers of change being the development of wholesale power markets and open-access transmission, which have led to the development of regional transmission organizations. As will be discussed in greater detail later, these changes have presented both opportunities and challenges to cities that have existing municipal utilities as well as those that are considering the formation of a municipal electric utility.

Sheldon provides a framework for analysis that is useful for the Board's determinations in the current dockets. In deciding these cases, the Board will:

1. Establish the service area boundaries that would be in place if the municipalization were approved. Price cannot be determined unless the boundaries are established.
2. Establish the cost of the utility's facilities that the municipality would acquire, looking at such things as inventory, depreciation, salvage value, costs of reintegration, and stranded costs.
3. Look at other cost factors that are associated with a city owning a municipal utility, such as purchased power costs.
4. Determine what it would cost if the municipality remained a customer of IPL, looking at such things as IPL's estimated revenues.
5. After the analyses in steps 2, 3, and 4 are completed, the total customer costs for each city of municipalization and the total customer costs for each city of remaining with IPL are then used to make a determination of NPV of municipalization for each city.
6. Make public interest determinations, factoring in not only the NPV but also such things as impact on coordinated electric service at retail and promotion of efficient and adequate service.

The Board believes that a decision to grant a municipalization petition based solely on a positive NPV analysis would be inconsistent with the Sheldon decision. The Board in Sheldon looked not only at price and NPV, but also considered such things as whether the establishment of a new municipal utility would provide public

utility service as efficiently as the incumbent provider based on factors like the scale and scope of the incumbent's operations. (Sheldon, p. 39).

Likewise, a negative NPV does not mean that a municipalization petition should always be denied. As will be discussed in greater detail later in this order, there may be countervailing public interest factors, such as service quality issues, that could tip the scale in favor of granting a petition, even if there is a projected negative NPV.

### **III. SERVICE TERRITORY BOUNDARIES**

There are three principles that the Board will use in evaluating what the boundaries of the municipal utilities should be, in the event the petitions are granted. First, the Board agrees with the conclusion reached in Sheldon that, absent a compelling reason, it is unreasonable to exclude parts of the city from the municipal utility boundaries. (Sheldon, p. 13). Second, unreasonable duplication of facilities should be avoided. Third, the ultimate test in determining service area boundaries in municipalization cases is one of reasonableness, taking into consideration engineering, efficiency, and other factors. Because cities often provide services or own property outside their city limits for such services as sewer, water, and airports, the Board does not rule out establishing electric service area boundaries that go beyond the city limits. This does not mean a city can selectively reach out to a development or industry outside city limits for inclusion in its service territory; any

expansion of service territory beyond city limits must be supported by the Board's reasonableness test.

The parties agreed that Terril's corporate limits should serve as the municipal utility boundary. For the other four cities, IPL used each city's corporate limits, while the cities extended the boundaries beyond the corporate limits to include some other IPL customers in order to reduce duplication of facilities. IPL argued that citizens outside of the corporate limits should not be included because they did not vote to municipalize.

The boundary question is a close one. The Cities' proposed boundaries appear to be based on reducing duplication of facilities and not on an attempt to selectively add large customers or developments. However, not all duplication of facilities is unreasonable and the Board is concerned that the Cities' boundaries would force IPL to accept primary metering,<sup>1</sup> which means that some IPL customers would have to be served using the Cities' facilities, such as substations. (Primary metering is not an issue in Terril). Under IPL's service territory boundary and reintegration proposals, all IPL customers would be served by IPL facilities and would not be dependent on any of the Cities' facilities for service.

While primary metering is used between many utilities in Iowa on a voluntary basis, IPL is concerned about being forced to rely on primary metering and municipal

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<sup>1</sup> When metering is performed at distribution voltage, which may be several thousand volts, rather than the voltage that a typical residential customer uses (120 or 240 volts), it is called primary metering. Primary metering is generally used on large industrial loads, single customers with multiple buildings, and similar situations.

facilities to serve its own customers. The Board might be willing to order primary metering in a case where the municipal plans were developed to the point that everyone could have confidence in them, but the Cities' plans in this case have not been developed to that degree. Because the Cities' proposed operational plans do not contain several elements the Board believes are necessary before primary metering could be considered a viable option, the Board will not adopt the Cities' boundaries but will instead use the Cities' corporate limits as the proposed service area boundaries. As will be discussed later in the reintegration section, this means that there will be some duplicate substations, but the Board does not view this duplication as unreasonable, based on the facts and circumstances of this case. The Cities' operational plans will be addressed in the discussion on operation and maintenance expenses.

Another factor favoring the use of the Cities' corporate limits is that the Cities did not provide an inventory adjustment if their wider boundaries were used. There is no evidence in the record to identify and value that portion of the system outside the Cities' corporate limits that would be sold to the new municipal utilities, if the petitions were granted. In the absence of this information, it would be difficult, if not impossible, to fully analyze the cost of the Cities' proposed municipalization.

#### **IV. COSTS OF MUNICIPALIZATION**

##### **A. Introduction**

Both IPL and the Cities used the same NPV model to determine whether there are any financial benefits to municipalization. The NPV model compares the total costs to proposed customers of the Cities if the municipalization is approved to the total cost to these customers if IPL continues to provide their service. A positive NPV means that these customers are projected to pay less overall for service from a municipal utility. While IPL and the Cities agreed on the model that would be used, they disagreed on many of the inputs.

Iowa Code § 476.23 directs the Board to determine the cost of the facilities that would be acquired by each city, if the petitions are approved. To determine this cost, IPL and the Cities evaluated the inventory of assets, depreciation, salvage value, reintegration costs, and stranded costs, arriving at differing buy-out prices for each city. However, the NPV analysis is more than determining a buy-out price. IPL and the Cities looked at other factors impacting the costs of municipalization, such as projected purchased power costs. All the costs of municipalization were then compared with the costs of remaining with IPL in the total NPV analysis to determine whether there are any financial benefits to customers from the transaction. If the NPV is positive, there are projected financial benefits to the directly-affected customers from municipalization; if the NPV is negative, there are no projected

financial benefits to those customers from municipalization. The Cities and IPL, because they used different inputs, arrived at different NPV results.

The Cities' analysis showed a positive NPV for each city, ranging from about \$1.1 million for Terril to \$11.9 million for Kalona. The Cities argued that a positive NPV, combined with a city's vote to municipalize, is sufficient to establish that municipalization is in the public interest. IPL's analysis showed a negative NPV for each city, ranging from about negative \$1.8 million for Terril to negative \$6.4 million for Kalona. IPL argued that a negative NPV demonstrates municipalization is not in the public interest.

Both the Cities and IPL overstate the probative value of the NPV analysis. While it is an important factor in municipalization cases, it is not by itself determinative of the public interest. For example, if city leaders advocated municipalization primarily because of service quality issues, and voters approved going forward with the municipalization process even though they were informed it could result in higher rates, the NPV analysis might carry lesser weight in the Board's analysis because cost savings or lower prices were not the major selling points during the voting. Another example would be if city leaders advocated municipalization primarily because they wanted their city to be a model for renewable energy and voters approved going forward with the municipalization process. The NPV analysis would likely carry lesser weight in the Board's analysis in such a case, because municipalization was not sold to voters as a cost-saving measure.

In these cases, municipalization appears to have been primarily advocated by each city's leaders both as an additional revenue source for the city and as a means to reduce rates through a switch of wholesale power providers. (Tr. 1377, 1428, 1469, 1511, 1544). The only reliability issues in the record involve the City of Terril, and those issues have been addressed by IPL. (Tr. 1527). Because municipalization has been presented to citizens of these communities as a revenue source or cost-saving measure, the NPV analysis carries more weight in the Board's analysis; if the Cities had sought municipalization for other reasons, the NPV analysis would probably be somewhat less important in the analysis.

The Board will now address inventory of assets, depreciation, salvage value, reintegration costs, and stranded costs in order to determine the total amount each city would pay to IPL if it were allowed to municipalize. The Board will then determine other costs associated with municipalization, such as purchased power costs. In Section V of this order, the Board will look at the costs of each city remaining with IPL and, when this analysis is complete, a projected NPV for each city will be determined, comparing the costs to the directly-affected customers of municipalization to the costs of remaining with IPL.

**B. Inventory of Assets**

In order to determine an appropriate buy-out price of IPL's electric assets in each city, an inventory of those assets must be determined. After the inventory has been completed, then a value is placed on that inventory. Both parties used a

Replacement Cost New (RCN) valuation method, which was the method adopted by the Board in Sheldon. The Cities accepted IPL's RCN values for all accounts except Accounts 364 (poles, towers, and fixtures) and 365 (overhead conductors). In agreeing to these valuations, the Cities noted that while accepting the values they did not accept IPL's methodology. (Tr. 38-39, 76).

The Cities prepared their inventory by having one of their witnesses perform a detailed mapping and inspection of the existing systems in each city. (Tr. 23-24). The witness then reconstructed the system using materials of the same capacity and function at current prices, net of depreciation, resulting in the RCN for the distribution system in each city.

IPL hired Ulteig Engineers to perform a physical inventory of the distribution assets in each city. (Tr. 1915, 2068, 2323-24, 2340). To then determine the RCN for the assets, IPL utilized its STORMS program. (Tr. 2071). The STORMS program is a design and cost estimating system that estimates the cost of a project using IPL's current cost of materials, labor, and overheads. (Tr. 2071). The STORMS program is used by IPL for all capital investments on its distribution system and reflects economies of scale and IPL's ability to purchase inventory in bulk. (Tr. 2072).

The Cities' primary issue with IPL's STORMS program was that it systematically replaced the distributions systems in each city with increased capacity and upgraded facilities by using larger-sized conductors (which also resulted in increased costs for poles, structures, and labor). (Tr. 57, 59-68, 97-98, 100). The

Cities argued that it would not be fair to have them pay for a system that is better than the system each city would be acquiring.

IPL performed all of its RCN valuations the same way, using its physical inventory for each city and then using the STORMS program to obtain the RCN for each distribution asset account. The Cities accepted IPL's results (but not the methodology) for all but two accounts. For accounts where the Cities accepted IPL's RCN valuations, IPL's methodology resulted in a lower valuation than the Cities' methodology; the Cities disputed the two accounts where IPL's methodology resulted in higher inventory values, thereby increasing the buyout price to each city.

It is important to use a consistent methodology to value the distribution assets and not pick and choose methodologies depending on the results for a particular account. Mixing methodologies to produce a desired result runs the risk of understating or overstating the total cost. In this case, the differences are not substantial. For example, the Cities disputed IPL's use of larger-than actual conductor sizes. IPL reran the STORMS program using actual conductor size and found that in total there was little impact on the valuation price. IPL used the larger size to keep the analysis simpler, but used actual pole sizes instead of increasing the pole size to accommodate the larger conductor. IPL's inventory method and RCN valuation is superior in that it began with an actual physical inventory and provides consistency in the valuation method for each account. IPL's method will also be used

for substation accounts, which were not in dispute and were not extensively addressed by either IPL or the Cities.

### **C. Depreciation**

Depreciation is a component of determining the fair market value of each city's distribution system. The Cities used a traditional straight-line accounting style of depreciation with some visual inspections and some statistical analyses added to their overall depreciation recommendation. IPL used a present worth depreciation method that is based on an actual inspection of the inventory for each city; the inventory is then depreciated based on the overall physical condition of the assets. Under IPL's method, depreciation changes as the distribution systems age, based on the condition of the assets.

Depreciation in valuation cases such as these municipalization proceedings is different than depreciation in rate case proceedings involving rate-regulated utilities. In rate cases, depreciation is used to reduce the book value of assets when designing rates to spread the cost of the assets over the useful life of the assets in order to recover those costs from all customers over the relevant time period. Depreciation is also used for tax purposes, which may have other purposes (accelerated depreciation as an incentive to investment, for instance). For rate cases and tax purposes, depreciation calculations are used for accounting treatment and the actual condition or market value of the asset may not be considered. In valuation cases, depreciation is used to reduce the beginning value of the asset (Replacement

Cost New) to determine the fair market value of the asset. An asset's book value is largely irrelevant in determining fair market value (unless the book value will be used to determine rates in the future, as in transactions between rate-regulated utilities). Instead, depreciation for valuation purposes should reflect the continued usefulness of the asset. Thus, for example, a particular piece of equipment may be fully depreciated for tax purposes, 90 percent depreciated for ratemaking purposes, yet still have 50 percent of its useful life remaining. In these circumstances and in an arm's-length transaction for fair market value, the 50 percent figure may be the most significant.

The Cities' depreciation method frontloads the depreciation and reduces the current value of the asset. In contrast, IPL's method has a slower initial depreciation rate that increases as the asset ages, resulting in a higher current valuation for the distribution assets than the Cities' method. It is reasonable to conclude that for valuation purposes, an asset's value will typically decrease at a slower rate early in its useful life than when the asset becomes more aged.

The Cities also incorporated the Iowa Curves in their analyses. The Iowa Curves are based on a 1935 study that concluded that all industrial assets depreciate at a rate equal to one of 18 separate curves. However, the Board believes that a depreciation method based on actual inspection of the inventory, as was done by IPL, is better than reliance on the Iowa Curves because the Iowa Curves are based on statistical analysis of the average remaining life of assets as a group, rather than

the condition of the actual, specific assets in the Cities' inventories. (See, Sheldon, pp. 18-19).

Another factor that weighs against the Cities' depreciation method is that if the condition of the distribution assets for each city is as poor as their analysis shows, the Board would expect the Cities to project significant operations and maintenance (O&M) expenditures in future years to maintain and replace these assets. However, the Cities' analysis does not show any significant changes in O&M expenditures during the 25-year period used in the analysis. If the assets are in as poor condition as the Cities' depreciation study indicated, O&M costs should be significantly higher in the first years the Cities would own the systems in order to account for rebuilds and upgrades their depreciation study indicated were necessary.

IPL's depreciation method is superior and consistent with Sheldon because it begins with an actual inventory inspection and bases depreciation on the overall condition of the asset. The 5 percent discount factor used by IPL is reasonable because it uses a fundamental valuation concept that the current value of service today is more valuable at present than service to be provided in future years. IPL's method more closely mirrors what generally happens to long-term infrastructure assets; as the assets age, depreciation tends to accelerate and fair market value is affected accordingly.

**D. Salvage Value**

The Cities argued that salvage value should be included in the valuation of each city's electric system because electric distribution assets often have costs relating to removal and disposal. The Cities maintained that salvage value in these cases was negative and that the negative salvage value for each city's assets should be subtracted from its valuation.

IPL said that while it was appropriate to consider salvage value for accounting purposes, it is not appropriate to make a separate salvage value calculation to determine an asset's market value. IPL maintained that salvage costs have nothing to do with an asset's market value, since those costs are not incurred until the end of an asset's useful life. IPL also argued that the Cities had done no analysis to demonstrate that the costs of removing the assets at the end of their useful lives will exceed the value of the scrap metal from those assets; that is, that there will actually be a negative salvage value.

If the Cities had provided additional information regarding salvage value and how it could be appropriately calculated based on when the asset would be projected to be retired, the Board might very well have determined that an adjustment to valuation was appropriate. However, because the Board does not have information in the record about the projected scrap value of the assets (copper wire, for example), the Board has no basis to determine whether any salvage adjustment should be positive or negative. The Board does not believe it is appropriate to

determine salvage value in these cases by simply subtracting removal costs from the purchase price; any adjustment should be based on the asset's useful life and should not only consider any removal costs but also any residual value of the asset after removal. In these cases, based on the record, there will be no adjustment (positive or negative) for salvage value.

**E. Reintegration**

The main dispute over the reintegration plans is the potential use of primary metering. The Cities proposed reintegration plans in which some IPL customers would be served by IPL using the Cities' facilities through the use of primary metering. IPL's reintegration plans are based on IPL customers receiving service only from IPL facilities. Primary metering is not an issue for Terril's reintegration plan.

It is undisputed that from an engineering standpoint, primary metering works and represents the cheapest reintegration plan for the four cities where primary metering is an issue. Under IPL's reintegration plans, additional substations would need to be built because there would be no sharing of these facilities with the four cities.

In Sheldon, the Board declined to mandate the use of primary metering, noting that while it was used elsewhere in the incumbent utility's system, it was not used in any area where it was mandated by an outside entity such as the Board against the incumbent utility's wishes. The Board noted there was evidence in the record that

problems can exist in primary metering when there is hostility between the utilities. The Board said that the protracted litigation in Sheldon had generated hostile feelings between the prospective municipal utility and the incumbent provider. (Sheldon, pp. 29-30).

The Board does not find a hostile environment here between the parties and would not hesitate to order primary metering if an appropriate record had been made. However, the Board will not mandate primary metering in these cases because the Cities did not submit specific operating plans and city officials did not appear to be ready to fully address any interconnection issues. In the four cities where primary metering is an issue, the duplication of facilities (part of IPL's plan) is reasonable because the Cities did not perform sufficient due diligence to satisfy the Board that they could reintegrate the systems successfully using primary metering. IPL customers should not be forced to rely on another utility for service when that utility has not offered detailed, specific plans for providing that service. The Cities' witnesses did not demonstrate any expertise concerning the operation of municipal electric systems. (Tr. 1386-87, 1437-38, 1480, 1519-20, 1556-57). For these reasons, the Board will reject the primary metering proposals in these dockets. IPL's reintegration plans will be used in the Board's analysis, with some modifications. The Board notes that while it does not necessarily expect municipalities to have signed management contracts or fully-developed management plans when presenting a case like these, the Cities' due diligence in this case fell short and the vagueness of

their future plans made it unrealistic to order another utility to depend on them for service to the other utility's customers.

The Cities complained that IPL proposed oversized facilities in its reintegration plans. The Cities, because they relied on primary metering, failed to present evidence of a viable alternative to IPL's proposed substations, and there is no evidence in the record of what the costs of smaller substations would be, if smaller substations are a viable alternative. The Board cannot modify the reintegration plans based on the Cities' assertions, because there is no support for the assertions or costs for any alternatives.

Some of IPL's reintegration plans, however, contain some minor internal inconsistencies and will be modified. Also, the Board has some additional comments on reintegration of Terril. Additional comments or modifications for each city's particular situation are as follows:

Everly—no modifications.

Kalona—IPL's six-mile line to Riverside bears no apparent relationship to reintegration and will be subtracted from reintegration costs. Also, IPL priced two transformers for the substation, when only one is needed. The cost of the extra transformer (\$56,128) will be subtracted from the reintegration costs for Kalona.

Rolfe—IPL again priced two transformers; the cost of the extra transformer (\$56,128) will be subtracted from reintegration costs. Also, IPL in testimony refers to the substation as 2.5 MVA (Tr. \_\_\_\_), but its reintegration plan prices a 3.5 MVA

transformer. Because IPL did not provide pricing for a 2.5 MVA transformer, the substation transformer pricing will be adjusted proportionally to the ratio of the two transformer sizes (2.5 divided by 3.5 times \$56,128).

Terril—the only dispute between the parties regarding reintegration is whether an underground line should be built through Terril or an overhead line built around the city for IPL to serve its customers. The Board will not force IPL to build an underground line through Terril for the same reasons it did not require primary metering; there is not enough evidence in this record regarding future utility operations under the proposed conditions. It is simply not clear what terms and conditions would apply, so an order requiring IPL to rely on an underground line through Terrill would expose the company to unknown risks and obligations that cannot be evaluated on this record. IPL's proposal to build an overhead line around Terril is more reasonable, based on the record. The Board notes that the projected additional cost of building around the city is relatively small.

Wellman—IPL proposed a single-phase underground feeder but priced a three-phase underground feeder. Because single-phase feeder pricing is not in the record, dividing the three-phase cost by three will be used to approximate the cost.

#### **F. Stranded Costs**

In Sheldon, the Board determined it was appropriate to compensate the incumbent utility for both stranded generation and transmission. However, the

electric industry has evolved since the Sheldon decision, particularly with the development of wholesale energy markets and regional transmission organizations.

All parties agree that stranded transmission is not an issue in these dockets because IPL will be compensated by Midwest Independent Transmission System Operator, Inc. (MISO), for use of its transmission system. The parties disagree, however, whether there is stranded generation investment.

The only stranded generation estimate in the record was provided by IPL for the years 2009 and 2010. The Cities did not provide a stranded generation estimate but argued there is no stranded generation because IPL should be able to sell any excess generation in the wholesale market at a price above IPL's production costs. MidAmerican maintained that planned investment that may be stranded by the Cities if they leave the IPL system should be included, but neither MidAmerican nor IPL provided any figures to use in a calculation.

Assuming the Cities acquire IPL's assets in January 2009, IPL said there would be one year of stranded generation (2009), because IPL's resource plan shows a capacity shortfall in 2010. (Tr. 3013-16). The Board does not find that IPL has established that there will be stranded generation for one year or, if there is, that IPL would not be able to sell that generation in the wholesale market at prices above its production costs. The Board will not include any stranded investment in the NPV analysis. The Board notes that the combined load of the Cities represents a small percentage of IPL's total load; it may be possible to establish stranded generation

investment in future cases, depending on the size of the municipality and the capacity situation faced by the incumbent utility.

### **G. Overall Cost to Cities**

The overall cost to each city is determined based on the Board's decisions regarding inventory, depreciation, salvage value, reintegration, and stranded costs. The costs use a 5 percent bonding level as proposed by the Cities.<sup>2</sup> The total costs for each city are:

	Everly	Kalona	Rolfe	Terril	Wellman
Buyout Price	\$ 1,128,942	\$ 2,167,263	\$ 859,891	\$ 551,340	\$ 938,236
Reintegration	\$ 618,831	\$ 353,580	\$ 266,125	\$ 183,143	\$ 619,364
Stranded Costs	\$ -	\$ -	\$ -	\$ -	\$ -
Total Cost to City	\$ 1,747,773	\$ 2,520,843	\$ 1,126,016	\$ 734,483	\$ 1,557,600

Now that the Board has determined the total cost each city would have to pay to IPL, the Board will examine other cost issues that impact the NPV analyses.

### **H. O&M Expenses**

O&M expenses relate to the servicing that each city will need to provide to operate and maintain its distribution system, covering such things as inventory maintenance, metering and billing. O&M costs are a vital component in determining NPV.

The projected O&M costs for each city were determined by one of the Cities' witnesses, incorporating the possibility that some of the O&M work for each city

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<sup>2</sup> While IPL used a 10 percent bonding level, this issue did not appear to be contested and changing the bonding level has a small impact on the buyout price.

would be outsourced, probably to a nearby municipal utility or electric cooperative. IPL based its proposed O&M costs on actual operating cost data for ten small municipal utilities.

There are flaws in both estimates. While IPL had sample data for ten small Iowa municipal utilities, it is not known if the ten utilities recorded data and expenses the same way or if costs for debt retirement, interest, or labor costs for non-utility work were included in the numbers. Different cities may report the same overall costs in different ways, making direct comparison of their figures problematic.

The Cities' O&M estimates have more serious flaws. The Cities' estimates were not substantiated by actual O&M costs for similar-sized municipal utilities. For example, the Cities presumably could have provided samples of O&M contracts entered into by some small Iowa municipal utilities that outsource their O&M to other utilities. No such contracts were provided.

Also, the Cities had little contact with other municipal utilities or cooperatives that might be willing to perform O&M for the Cities. While it would be unreasonable to require the Cities to have signed O&M contracts at a set price at this stage of the municipalization process, reasonable due diligence on the part of the Cities required either an estimate from prospective O&M suppliers or contract data from other cities that outsource O&M. In this area, the Cities simply did not provide evidence of sufficient planning and their O&M estimates cannot be accepted.

IPL's estimates are based on actual data for ten Iowa cities and are the most reasonable estimates contained in the record. The Board notes that for two of the cities [Everly and Terril], the IPL estimates are lower than the estimates developed by the Cities' witness.

**I. Purchase Power Costs**

Purchase power costs are one of the most significant costs in owning and managing a municipal utility. The parties' differing positions on purchase power costs have a dramatic impact on the results of the NPV analysis. There are deficiencies in both analyses.

The purchase power cost estimate provided by the Cities relied on information from Missouri River Energy System (MRES) and assumed that the Cities would obtain their power from a purchasing pool, such as the Resale Power Group of Iowa (RPGI). The Cities' evidence on purchased power pricing was scant and great reliance was placed on one MRES contract involving a South Dakota utility; it should be noted that the actual contract was not part of the record and the price used was based on a single invoice. The MRES power supply contract and its terms are not part of the record. The RPGI contract referred to by the Cities is entitled to little weight because it expires in 2009; market conditions have changed dramatically since that contract was executed and there is little or no evidence that the RPGI contract is representative of the terms available in the future.

The Cities also offered what appeared to be contradictory testimony. One of the Cities' witnesses claimed the Cities would be able to purchase wholesale power below market cost, while at the same time asserting that IPL would be able to sell any stranded generation at, or above, market price. (Tr. 656-57, 691). Because the power supply marketplace is becoming tighter and the environment for building new fossil-fueled generation has become more contentious, it is unreasonable to believe that the Cities will be able to purchase power at below market cost. (However, those market costs are likely to be lower for a purchasing group or pool than for a small stand-alone utility.)

In developing its purchase power recommendation, IPL used electric price quotations from the Northern Illinois Trading Hub, escalated those prices, and took capacity needs into consideration. (Tr. 2621-22, 2628-29). IPL assumed each city would operate as a stand-alone utility and would not be part of a purchasing group or pool. IPL's analysis ignores that small utilities such as these are most likely to join a purchasing group or pool, which could provide significant benefits such as sharing diversity of peak load and load patterns or offsets between available capacity reserves and capacity needs for purchasing capacity. Power pools allow smaller utilities to act like a larger purchaser in the power supply and transmission markets, rather than purchasing as individual utilities. (Tr. 698-700). IPL's purchased power costs also tend to overstate costs because the analysis used only short-term contracts.

There are deficiencies in both of the analyses presented in these proceedings, with one analysis tending to understate projected purchased power costs and the other analysis tending to overstate them. The most reasonable amount to use, based on the record, is an average of the two extremes. This average results in the most reasonable purchased power cost estimate that can be made on this record, moderating the two positions presented by the parties so that the cost estimate reflects the advantages of participating in a purchasing pool while at the same time recognizing that the projected power cost used is unlikely to be less than the market rate.

**J. Transmission (Congestion/Ancillary Services)**

Transmission charges are difficult to estimate because it is not known where any of the five cities would purchase power. Estimates provided by IPL and the Cities have problems similar to the purchased power cost estimates. Because the problems are similar, the Board will again average the two positions. Unlike purchased power costs, transmission costs have a relatively small impact on the NPV analysis, no matter which figures are used.

The Board notes that transmission has changed dramatically since the Sheldon decision. Open access transmission, combined with the development of the wholesale power market and regional transmission organizations, has in some respects made it easier for new utilities to obtain power and transmission. On the other hand, it is a difficult system to navigate and, if done poorly, costs can be

exorbitant. Today's environment is one of increased risk, which is why adequate planning is vitally important in evaluating municipalization petitions.

**K. Energy Efficiency Expenditures by the New Utilities**

IPL and the Cities are not far apart on their recommendations for energy efficiency expenditures by the new utilities, so there is little change in the NPV analysis from using one set of numbers over the other. Because no city proposed specific plans, IPL assumed each city would provide the same level of energy efficiency incentives that IPL currently provides. IPL did not include low-income energy efficiency expenditures in its estimates. (Tr. 2459-60, 2605-06, 2613-14). The Cities in rebuttal testimony accepted IPL's estimates, except for three cities [Kalona, Terril, and Wellman], which claimed some expenditures for "Operation Relief" were overestimated. The Board will use IPL's estimates because these represent the current level of funding, other than low-income programs.

While energy efficiency will also be discussed in the public interest section of this order, it is important to note that all utilities should strive to provide complete energy management services in today's market, meaning that customers should be provided choices on such things as energy efficiency programs, demand side management, and renewables, in addition to traditional utility service. Investor-owned utilities are required to file energy efficiency plans that go through an extensive review and approval process with the Board. Iowa Code § 476.6(16). The Board may modify those plans or budgets. Municipal utilities are required to file

energy efficiency plans with the Board, but there is no extensive review or approval process and the Board does not have the authority to order changes to the plans or budgets. Iowa Code § 476.1B(1)"l." Generally speaking, the investor-owned utilities have shown more of a commitment in time, effort, and money to energy efficiency than most municipal utilities.

The witnesses for the individual cities did not appear to fully understand the importance of energy efficiency and energy management in today's environment. The witness for Everly had some experience with energy efficiency programs because Everly has a municipal gas utility, and Wellman should have some experience from its municipal gas utility, but the other witnesses did not. The Board believes such programs are vital and is concerned about the Cities' commitment because maximizing revenues from the municipal utility could take priority over establishing energy efficiency programs that might provide such things as rebates to residents for certain appliance purchases; funds spent on energy efficiency could not be used by the city to fund other city projects. In other words, if the proposed city utility's goal is to provide money for other civic improvements or projects, there may be a disincentive for the city utility to actively provide or promote a variety of energy efficiency programs. Projected energy efficiency spending and programs are important not only in determining NPV, but are also a factor in the public interest determination.

**L. Retail Access and Service Quality**

MidAmerican argued that the Cities' petitions were a selective, backdoor attempt to institute retail choice for their citizens, when that same choice is not available for all Iowans. (Tr. 1694-95). MidAmerican also argued that municipalization should only be available when there are serious issues of service quality with the incumbent utility.

Neither argument is persuasive. While Iowa rejected retail choice when it was considered by the Legislature, the municipalization statute was retained. The statute does not provide that municipalization is available only when there are serious service quality issues. Factors such as the impact of municipalization on remaining IPL customers can be addressed in the public interest determination.

**M. Peak Demand Loads**

IPL and the Cities disagree on estimates of peak demand load. IPL based its estimates on an analysis of each city's load, but it assumed that each city would purchase power on a stand-alone basis and not as part of a power pool. The Cities argued that peak load can be offset by pool membership and used IPL systemwide data for their estimates.

While the Board believes the Cities would likely join a power pool, there was no proposal for membership presented to support their peak numbers. Both IPL's and the Cities' peak demand estimates are flawed, but IPL's estimates are more

reasonable because they are based on city-specific numbers rather than IPL's system averages. The Board will use IPL's estimates in its analysis.

**N. Rate Comparison**

The Cities compare their projected purchase power costs to the power supply costs of the municipal utilities in the RPCI group, arguing that this comparison shows that the Cities' estimates of total revenues per kWh for each city are reasonable as compared with rates per kWh for those other municipal utilities. IPL argued that while power supply costs are a key element of the NPV analyses presented by both IPL and the Cities, the relevant question here is whether the Cities can buy power below market rates.

The Board is not persuaded that the Cities will be able to purchase power at less than market rates. The comparison to RPCI member rates is informative, but not determinative. The municipal utilities in RPCI have been in existence for many years and would tend to have significantly lower embedded costs than new municipal utilities. The Cities provided scant evidence that they would be able to charge their customers rates similar to those charged by the municipal utilities in RPCI. Finally, the Cities' analysis was made under the current RPCI contract, which is due to expire soon. Trends in the wholesale power market addressed by various witnesses suggest that with current conditions the prices paid under the current RPCI contract will increase, likely leading to retail rate increases.

## **V. COST OF REMAINING WITH IPL**

One aspect of the NPV analysis is the cost to the Cities' customers if municipalization is approved, as discussed in the preceding sections. The other aspect of the NPV analysis is the cost to customers of each individual city if they remain customers of IPL. Both the Cities and IPL projected revenues that would be generated if each city remained on IPL's system. Exhibit 113J contains IPL's revenue projections and Exhibits 26E, 26K, 26R, 26T, and 26W contain the Cities' projections. Both parties start their analysis in 2009.

### **A. Base Rates**

The Cities and IPL start their base rate analysis at the same point: IPL's rates approved by the Board in Docket No. RPU-05-3. These rates became effective on June 30, 2006, and were set as part of a process of equalizing IPL's rates between its various pricing zones and did not include a revenue increase for IPL. IPL's last revenue increase was approved effective February 17, 2005, in Docket No. RPU-04-1.

IPL and the Cities agreed to adjust the 2006 rates for additional equalization changes that will occur in June 2008. IPL and the Cities have also agreed on estimates of customer counts and usage, inflation rates, and the use of 2009 as the starting date of the analyses. Year 2009 was selected because all agreed that the Cities could not begin operations any earlier than sometime in 2009. IPL and the

Cities do not agree, however, on the effect of inflation on the 2008 equalization rates that are used to establish base rates.

IPL projected revenues from base rates by starting with IPL's approved 2008 equalization tariff rates, escalated by 2.7 percent to the start year of 2009. IPL then escalated the base rates annually by 2.7 percent for each year of its analysis. The Cities do the same thing, except the Cities use IPL's rates from 2005 adjusted for a multi-year inflation factor of 8.3 percent. The 8.3 percent inflation factor adjusts the equalization rates that will be effective in June 2008 by the agreed-upon inflation rate of 2.7 percent for the years 2006, 2007, and 2008. In other words, the parties agree on the analysis, except for the Cities' 8.3 percent adjustment to equalization rates. The Cities adjust the 2008 equalization rates by 8.3 percent while IPL only increases the 2008 rates by 2.7 percent. Both IPL and the Cities escalate their respective rates annually by 2.7 percent after 2009.

The Cities argued that IPL will likely ask for a significant increase in rates in its next rate case and that this should be reflected in base rates for the purposes of calculating revenues. The Cities pointed out several significant events that have occurred since IPL's last general rate case, such as the sale of IPL's transmission system, damage from ice storms in 2007, and possible construction of a coal-fired generation plant. IPL countered that it does not plan to file a rate case to recover the ice storm damages and that other events cited by the Cities would not affect rates until after 2009.

IPL has not had an allowed revenue increase since February 17, 2005, when it was granted an 11.9 percent increase. Increases in normal operating costs and other changes in IPL's operations indicate that its next revenue increase might be along similar lines. Even if the major events cited by the Cities do not impact IPL's next general rate case, other factors such as inflation and increased costs suggest an initial adjustment to base rates larger than the 2.7 percent suggested by IPL. In addition, IPL adjusted the Cities' estimated power supply costs from 2006 through 2009 for inflation for purposes of the analysis of what municipalization would cost each city; it is reasonable to assume that inflation will impact IPL's operations in a similar manner. The Cities' method, which consistently applies an inflation factor since IPL's last revenue increase, is more reasonable. The Board will use the base rates developed by the Cities in the Board's NPV analysis.

**B. Energy Adjustment Clause/Alternate Energy Production**

The Board will use IPL's calculation for the energy adjustment clause/alternate energy production factor for purposes of determining the costs and revenues that would be generated if the Cities continue to be served by IPL. IPL used the most recent 12 months of data and updated that data in surrebuttal testimony; it is appropriate to use the most recent data for these costs, which are passed through to IPL customers each month without a rate case. The Cities' 24-month average was not updated in surrebuttal and, therefore, is not as current as IPL's data.

**C. Forecasted Growth Rates**

The Cities used a 1 percent growth rate for each city in their analysis, noting that it was at the lower end of the 1 to 1.5 percent per year usage increase currently experienced and projected for the 26 municipal utilities that are members of RPGI. The Cities also said their growth rate was based upon discussion with city officials and the industry experience of their expert witnesses. (Tr. 790, 1217-18).

IPL developed a specific growth rate for each city, using city-specific energy and demand data consistent with each city's responses to data requests issued by IPL. IPL developed forecasted energy sales from historical growth rates of weather normalized usage per customer for each rate class in each city and then adjusted for known and measurable customer changes. IPL also developed peak demand estimates using load research hourly interval data to estimate hourly loads by rate class for each city and then derived city-specific system peak demands. IPL's growth rates for each city are found in Exhibit 113J.

IPL's method of forecasting growth rates is a better method for purposes of this docket because it uses city-specific historical data for each rate class and develops an individual growth rate for each city. The Cities' universal 1 percent growth rate implicitly assumes that five cities located in different parts of the state with different customer characteristics will all grow at the same rate. This implicit assumption is unreasonable. The Board will use IPL's individual city growth rates in its NPV analysis.

**D. NPV Results**

Based on the Board's decisions on the various issues in Section IV (costs of municipalization) and Section V (costs of remaining with IPL), an NPV for each city can be determined. Included in the calculation is an increase in regulatory expenses to the Cities' latest estimated level. The NPV results are:

Everly—negative \$1,868,287.

Kalona—positive \$153,009.

Rolfe—negative \$2,440,857.

Terril—negative \$922,321.

Wellman—negative \$692,125.

**VI. PUBLIC INTEREST**

The discussion above includes analysis of issues relating to the cost of municipalization versus the cost of remaining with IPL. The Board can now determine whether municipalization of any of these electric systems is in the public interest. Sheldon provides some guidance in making that determination. As noted earlier, the Board determined in Sheldon that it has an affirmative duty to determine whether service by a newly-created municipal utility is in the public interest. The Board must examine all the costs, benefits, and other factors in reaching its public interest determination; the Board's public interest determination that it is mandated to make by statute is broader than simply recording the decision of a city's residents.

The Legislature gave the Board guidance in identifying public interest considerations. Iowa Code § 476.25 provides that "[i]t is declared to be in the public interest to encourage the development of co-ordinated statewide electric service at retail, to eliminate or avoid unnecessary duplication of electric utility facilities, and to promote economical, efficient, and adequate electric service to the public."

Economical service is not promoted by granting four of the five petitions, for which a negative NPV indicates that municipal service could be more expensive to customers than continued service from IPL. Only Kalona shows a positive NPV and it is small. A relatively small increase in purchased power costs from those estimated by the Board would produce a negative result for Kalona as well. For each of the Cities, the hope of a positive NPV translated into the possibility of reduced customer rates or additional revenues for other city projects. (Tr. 671, 773, 880, 981, 1081). Because the NPV for all but one city is negative, it appears that there would not be reduced rates and there could be additional revenues for other city projects only by raising rates.

It is unlikely that any of the Cities can provide service as efficiently as IPL because of economies from vertical integration and the costs both to IPL and the Cities of breaking up the IPL system. (Tr. 1686, 3050). The Iowa Association of Municipal Utilities in 2005 noted that municipal industrial rates are higher than investor-owned utility rates; the association attributed this to a lack of economies of

scale that a large industrial load and its associated high load factor could provide.

(Tr. 1681). The efficient service factor favors IPL.

Adequate service is another factor the Board considers. While the Board does not expect signed contracts or detailed work plans regarding maintenance and operation of the utility systems, in this case the Cities did little other than receive some letters of intent that stated another utility would be interested in providing maintenance and operational services; it appeared there was little or no subsequent contact or investigation to determine a likely range of costs or other relevant information. The minimal investigation performed by the Cities is insufficient for an undertaking such as this. (Tr. 1386-87, 1437-38, 1480, 1519-20, 1556-57). The one possible exception is Everly. Everly's witness ran the municipal natural gas utility and he performed more due diligence than his counterparts at the other four cities, but even he had little or no discussion of prices or costs. While Everly's research on this issue was better than the other four cities, it was not sufficient to establish that the proposed municipal electric utility would be able to provide adequate service at reasonable prices.

Because of the Cities' lack of due diligence with respect to prospective operations and maintenance plans, the reintegration plans approved by the Board would result in duplication of facilities. If the Cities had offered more detailed evidence of their plans, the Board might have ordered that primary metering be used,

which would reduce the duplication of facilities. This lack of reliable information increased the costs of municipalization by increasing the costs of reintegration.

The Board also has concerns about the Cities being unprepared at hearing to talk about energy efficiency and how it fits into their plans for the municipal utilities. This is another example where the Cities did not offer sufficient, reliable evidence to persuade the Board that they had the ability to successfully address all the issues that come with owning and managing a municipal electric utility. The Board acknowledges that many municipal utilities provide a high level of service, but the record did not establish that the Cities would be able to furnish adequate and reasonable service from the first day of operation. The Board does not doubt that the Cities could learn to run safe and efficient electric utilities, but the Board cannot approve a process of learning on the job. The Cities needed to show they had a reasonable plan ready to implement.

While the Board has an independent public interest determination to make that is not automatically satisfied by results of the votes, the margin of the vote, light versus heavy turnout, and how municipalization was presented to voters could impact the Board's public interest determination. Here, municipalization appeared to be advocated as a way to reduce electric rates or to increase revenues for other city projects. (In Terril, where service quality may also have been a factor in the vote, those issues were resolved.) With a negative NPV, a city has a higher burden of explaining to voters the non-financial reasons to municipalize, such as service quality

issues, the desire to be a model city for energy efficiency, or the desire to locally control rates for economic development purposes, for example. This record does not reveal these non-financial motivations for municipalization. This makes the negative NPVs even more significant.

The Board specifically rejects the "slippery slope" arguments presented by IPL and MidAmerican, that is, that if a few cities are permitted to municipalize, others will follow suit, ultimately gutting the company. Each municipalization case must be judged on its merits and the Board will not attempt to forecast what other municipalities might do or decide these cases based on such a forecast. The Board cannot decide a case based on a fear that an outcome allowing municipalization will result in the dismantling of Iowa's electric system. Those are issues for the Legislature to address. Municipalization is specifically provided for by law and the threat of municipalization should be credible so that investor-owned utilities continue to be responsive and accountable to the cities they serve.

In summary, the Board finds that none of the Cities established that it is in the public interest to establish a municipal electric utility. A city has a higher burden to show that municipalization is in the public interest when the NPVs are negative or only slightly positive. In addition, each city has failed to show sufficient due diligence on one or more issues important to municipalization, such as operations and maintenance, energy efficiency, and the ability to offer safe and reliable service from day one. This raises concerns that the Cities will not be able to navigate the risks

associated with an electric utility, such as obtaining purchased power and transmission at a reasonable price and operating the system in such a way as to provide safe, reasonable, and adequate service, at least for some time into the future. The Board finds that municipalization in these cases is not in the public interest, based on the record made.

The Board recognizes the challenges cities currently face in generating revenue and finding additional revenue streams. The Cities in these dockets all cited the additional revenue sources from a municipal electric utility as at least one factor in their decisions to municipalize. (Tr. 1377-78, 1383-84, 1401, 1427-28, 1444, 1468-69, 1495, 1510-11, 1556). Cities in the future may want to municipalize for these or other reasons, such as making their city a model for energy efficiency or alternative energy. To the extent cities have to raise electric rates to produce additional revenue to raise money to meet their goals, the effect may be similar to that of a tax increase. Not only is the effect similar to a tax increase, but it can be a regressive tax increase, applying to all municipal utility customers based on their electric usage, not income. Low-income families sometimes have disproportionately high electric bills due to the condition of their housing stock. Cities in future municipalization cases should consider the impacts of any projected rate increases and provide information on the costs and benefits of the city's goals for the municipal utility, such as increased use of alternative energy.

## **VII. FINDINGS OF FACT**

1. If a certificate of authority is granted to the City of Everly to form a municipal utility, it is reasonable to establish the exclusive service territory boundaries as Everly's current corporate limits.

2. If a certificate of authority is granted to the City of Kalona to form a municipal utility, it is reasonable to establish the exclusive service territory boundaries as Kalona's current corporate limits.

3. If a certificate of authority is granted to the City of Rolfe to form a municipal utility, it is reasonable to establish the exclusive service territory boundaries as Rolfe's current corporate limits.

4. If a certificate of authority is granted to the City of Terril to form a municipal utility, it is reasonable to establish the exclusive service territory boundaries as Terril's current corporate limits.

5. If a certificate of authority is granted to the City of Wellman to form a municipal utility, it is reasonable to establish the exclusive service territory boundaries as Wellman's current corporate limits.

6. If a certificate of authority is granted to the City of Everly to form a municipal utility, a reasonable price for the facilities, including reintegration costs, currently used to serve customers in the city is \$1,747,773.

7. If a certificate of authority is granted to the City of Kalona to form a municipal utility, a reasonable price for the facilities, including reintegration costs, currently used to serve customers in the city is \$2,520,843.

8. If a certificate of authority is granted to the City of Rolfe to form a municipal utility, a reasonable price for the facilities, including reintegration costs, currently used to serve customers in the city is \$1,126,016.

9. If a certificate of authority is granted to the City of Terril to form a municipal utility, a reasonable price for the facilities, including reintegration costs, currently used to serve customers in the city is \$734,483.

10. If a certificate of authority is granted to the City of Wellman to form a municipal utility, a reasonable price for the facilities, including reintegration costs, currently used to serve customers in the city is \$1,557,600.

11. Based on the discussion in the body of this order, it would be unreasonable and not in the public interest to grant the City of Everly a certificate of authority to form a municipal electric utility and furnish electric service to customers within Everly's corporate limits.

12. Based on the discussion in the body of this order, it would be unreasonable and not in the public interest to grant the City of Kalona a certificate of authority to form a municipal electric utility and furnish electric service to customers within Kalona's corporate limits.

13. Based on the discussion in the body of this order, it would be unreasonable and not in the public interest to grant the City of Rolfe a certificate of authority to form a municipal electric utility and furnish electric service to customers within Rolfe's corporate limits.

14. Based on the discussion in the body of this order, it would be unreasonable and not in the public interest to grant the City of Terril a certificate of authority to form a municipal electric utility and furnish electric service to customers within Terril's corporate limits.

15. Based on the discussion in the body of this order, it would be unreasonable and not in the public interest to grant the City of Wellman a certificate of authority to form a municipal electric utility and furnish electric service to customers within Wellman's corporate limits.

#### **VIII. CONCLUSIONS OF LAW**

The Board has jurisdiction of the parties and the subject matter of these proceedings pursuant to the provisions of Iowa Code chapter 476 (2007).

#### **IX. ORDERING CLAUSES**

##### **IT IS THEREFORE ORDERED:**

1. The petition requesting authority to furnish electric service filed by the City of Everly on June 6, 2006, is denied.

2. The petition requesting authority to furnish electric service filed by the City of Kalona on June 6, 2006, is denied.

3. The petition requesting authority to furnish electric service filed by the City of Rolfe on June 6, 2006, is denied.

4. The petition requesting authority to furnish electric service filed by the City of Terril on June 6, 2006, is denied.

5. The petition requesting authority to furnish electric service filed by the City of Wellman on June 6, 2006, is denied.

6. Motions and objections not previously granted or sustained are denied or overruled. Any argument in the initial briefs or reply briefs not addressed specifically is rejected either as not being supported by the evidence or as not being of sufficient persuasiveness to warrant comments.

7. Based on its normal practice, the Board will assess one-half of its costs of these proceedings to IPL and one-half to the Cities.

**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 11<sup>th</sup> day of July, 2008.