

**IOWA UTILITIES BOARD  
FISCAL YEAR 2003 REGULATORY PLAN  
Prepared pursuant to  
EXECUTIVE ORDER NINE  
August 26, 2002**

**Current Regulatory Objectives and Priorities**

The objectives and priorities of the Iowa Utilities Board (Board) derive from its statutory duty to "regulate the rates and services of public utilities..." established in Iowa Code § 476.1. This broad grant of authority is refined by specific directives throughout chapters 474 (establishes the Board), 476 (primary rate and service regulatory authority), 476A (electricity generator certification), 477C (dual party relay and equipment distribution), 478 (electric transmission line franchises), 479 (intrastate pipeline and underground gas storage permits), 479A (interstate natural gas pipeline inspection as federal agent, damages, and land restoration), and 479B (hazardous liquid pipeline and storage permits). A summary of the Board's primary general objective is found in § 476.8. The Board must assure that public utilities within its rate regulatory jurisdiction charge Iowa customers just and reasonable rates and that all public utilities within the Board's jurisdiction provide reasonably adequate service and facilities.

The Iowa legislature in 1995 established six new objectives concerning telecommunications regulation. Section 476.95 provides: 1) communication services throughout the state should come from a variety of providers; 2) to the extent reasonable and lawful the Board shall act to further the development of competition; 3) to encourage competition, the Board should move prices to cost and remove subsidies for incumbent local exchange carriers; 4) regulatory flexibility is appropriate in a competitive environment; 5) the Board should respond with speed and flexibility to telecommunications changes; and 6) economic development can be fostered by advanced telecommunications. These procompetitive policy objectives were furthered by the passage of the Telecommunications Act of 1996, 47 U.S.C. § 251 *et seq.* That federal statute provided an extensive role for the Board in opening the local exchange market to competition.

Under 47 U.S.C. § 271, the Board is consulting with the Federal Communications Commission concerning Qwest Corporation's compliance with a 14-point checklist to demonstrate it has opened up its Iowa local exchange service market to competition. When Qwest can demonstrate compliance in Iowa, the FCC will allow it to provide interLATA long distance service on calls originating in Iowa. The Board has participated actively in three multi-state proceedings and in FY 2003 will conclude the fact finding required under § 271. Both the Board and the U. S. Department of Justice have made positive recommendations to the FCC, whose 90-day FCC review period ends

September 11, 2002. Opening up the local exchange and long distance markets to competition is an important statutory objective for the Board.

There has not been a similar deregulation of the electric industry by the Iowa legislature. However, with the enactment of 2001 Iowa Acts, H.F. 577, the legislature clearly established significant regulatory changes. Most importantly, the Board must conduct contested case proceedings to establish ratemaking principles for certain new Iowa generating facilities to be leased or owned by rate-regulated public utilities. In addition, the Board must review and approve multiyear plans and budgets for rate-regulated utilities to regulate emissions from coal-fired plants. The plant-siting decision criteria in chapter 476A were loosened by the act, but the Board will continue to issue certificates to certain new plants. Also, the act requires electric utilities to offer alternate energy purchase programs to customers pursuant to Board-approved plans. An underlying statutory objective is to attract the development of electric power generating and transmission facilities within the state to ensure reliable electric service and provide economic benefits to the state. Iowa Acts, H.F. 577, § 12. The Board must harmonize that objective with its traditional duty to assure just and reasonable rates. Outside H.F. 577, the Board also has statutory duties relating to the purchase or wheeling by utilities of electricity from alternate energy production facilities. Iowa Code §§ 476.42-476.46.

With regard to regulation of natural gas service, the Board has implemented rules to certify competitive natural gas providers pursuant to § 476.87. A Board objective is to provide a regulatory environment where gas utilities can develop procurement policies that mitigate the extreme volatility in the short-term markets, which caused much hardship to customers in the winter of 2000-2001. Another objective is to ensure that gas and electric service complies with state and federal safety requirements. Implementation of federal pipeline safety regulations on operator qualification and integrity management will require significant resources by both staff and utilities in this fiscal year.

The Board has statutory duties relating to energy efficiency programs for to both electricity and natural gas. Iowa Code §§ 476.6(17), (19), and (21). The Board objectives in this area are: (1) obtain accurate reports on energy efficiency programs from consumer-owned utilities, without unduly burdening these smaller utilities; (2) conduct a review of investor-owned utilities' proposed energy efficiency plans offering a range of cost-effective programs for all customer classes and determine performance standards for those plans, in consultation with the Department of Natural Resources; (3) assure that each investor-owned utility carries out its approved energy efficiency plan; (4) provide for timely and equitable recovery of the costs of energy efficiency programs incurred by investor-owned utilities; (5) assure that peak-load energy conservation programs are offered by investor-owned utilities to their customers; and (6) ensure that all utility-owned outdoor lighting in Iowa meets efficiency standards established by the Board.

Any discussion of Board objectives is incomplete without inclusion of our efforts to resolve customer complaints under Iowa Code § 476.3(1). The agency devotes a significant amount of resources to providing customers timely, just, and lawful resolution of the oral and written complaints that come to the agency annually from nearly 8,000 customer contacts. The Board is in a unique position to provide customers with an effective opportunity to resolve issues with the utilities, who are often in a superior position because the services they provide are necessities.

These objectives relate directly to the Governor's agenda. Iowa cannot be a leader in the "new economy," as envisioned by the Governor, without the telecommunications infrastructure and the necessary energy to make change possible. Reasonably adequate service at just and reasonable rates involves changing concepts and the Board is striving under its statutory mandates to make utility service in Iowa an engine for positive economic change. In addition, the Board's objectives regarding energy efficiency and alternate energy sources are important factors in achieving the Governor's goals of increasing environmentally sustainable business practices and using energy efficiently.

Satisfying these objectives allows the Board and its staff to carry out the Board's mission statement, which provides for:

Performance excellence in regulation, where we assure Iowans receive:

- The best value in utility services
- Safe and reliable utility services
- Fair treatment
- The information and services they need.

This description of the Board's objectives and priorities has necessarily hit only the high points. Every day, the Board and its staff make scores of individual decisions in areas such as resolution of customer complaints, review of tariff changes for more than 200 utilities, informal advice to the public as to application of Board rules, pipeline and electric transmission line inspections, and review of information affecting the public interest filed by the utilities with the Board. Our objective is to do all of these daily tasks in a sound, helpful, and timely manner, consistent with our mission statement.

**Significant Rule Makings FY 2003:**



**1. Title of Regulatory Action**      Assessment Allocation Rules  
Docket No. RMU-01-13

**Rule Chapter(s) that may be involved**

199 IAC ch. 17

**Description of Contemplated Regulatory Action**

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

These rules implement the changes to the Board's assessment allocation authority in Iowa Code § 476.10, which was amended by the legislature in 2001 Iowa Acts, Chapter 9, section 1. The rules reflect the discretion granted the Board to directly assess the costs of proceedings before the Board to the participants and the standards that apply to allocations. The rules also distinguish between direct assessments under 476.101(10) (competitive telecommunications matters) and 476.10 (other matters). The former require allocation of the costs.

**Legal Basis**

(Include whether action is required by statute or court order)

The existing rules no longer reflected the statutory provisions for assessments. It was necessary to make these amendments.

**Need for Regulatory Action**

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

The rules were needed to express the standards the Board will apply in making direct assessments under §§ 476.10 and 476.101(10).

**Other  
Affected/Interested  
Rule Making  
Authorities**

None

**Potential Public Groups Impacted**

All utilities, customer groups, and individual customers who participate in Board proceedings may be impacted by these assessment rules.

**Schedule:**  
(Actions & month/year)

The Board adopted these rules on July 26, 2002.

**Staff Contact/Phone #**

Amy Christensen (515) 281-6326



**2. Title of Regulatory Action**

Certification of Rural and Nonrural Telecommunication Carriers  
Docket No. RMU-01-14

**Rule Chapter(s) that may be involved**

199 IAC ch. 22

**Description of Contemplated Regulatory Action**

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

The Federal Communications Commission (FCC) requires each state public regulatory commission to file an annual certification with it to ensure that telecommunications carriers receiving federal high-cost universal service support use the money only for the provision, maintenance, and upgrading of facilities and service for which the support is intended. These rules establish the Board's filing requirements for the carriers, which are effectively a self-certification process.

**Legal Basis**

(Include whether action is required by statute or court order)

This rule making was under § 476.102 (universal service) and 47 U.S.C. §§254(e) and (f).

**Need for Regulatory Action**

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

Without a certification process, Iowa carriers would not receive universal service support from the federal high-cost fund. The rule established the certification process.

**Other  
Affected/Interested  
Rule Making  
Authorities**

The FCC.

**Potential Public  
Groups  
Impacted**

Independent telephone companies and their customers who benefit from universal service support.

**Schedule:  
(Actions &  
month/year)**

The rules were adopted on July 5, 2002.

**Staff Contact/  
Phone #**

Jennifer Johnson (515) 281-5420



**3. Title of Regulatory Action**

Electric Delivery Reliability  
Docket No. RMU-02-3

**Rule Chapter(s) that may be  
involved**

199 IAC chs. 20 and 25

**Description of Contemplated Regulatory Action**

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

At the conclusion of an extensive inquiry proceeding involving a wide range of interested parties, the Board is proposing amendments to its electric delivery reliability rules. These reliability rules are necessary to ensure that emerging competition and other changes in the electric industry do not diminish the quality of service lowans have come to expect from their utilities.

**Legal Basis**

(Include whether action is required by statute or court order)

These rules implement Iowa Code §§ 476.1, 476.1A, 476.8, 478.1, 478.3, 478.4, 478.12, 478.18. They are a discretionary exercise of the Board's general authority under § 476.2 and not explicitly required by statute.

**Need for Regulatory Action**

(Include if applicable how the action will reduce risk to public health, safety, or the environment).

This rule making reflects the need for updated reliability requirements as shown by the Board's inquiry on this subject matter.

**Other Affected/Interested Rule Making Authorities**

None.

**Potential Public Groups Impacted**

Electric utilities and their customers will be impacted by the rules.

**Schedule:**  
(Actions & month/year)

The Board initiated this rulemaking on February 4, 2002. The oral presentation was held on April 30, 2002, and supplemental comments were filed in the first two weeks of May. The Board expects to adopt the rules in the early fall.

**Staff Contact/ Phone #**

Chancy Bittner (515) 281-6928



**4. Title of Regulatory Action** Natural Gas and Electric Master Metering  
Docket No. RMU-02-6

**Rule Chapter(s) that may be involved**

199 IAC chs. 19 and 20

**Description of Contemplated Regulatory Action**

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

The Board intends to make its rules prohibiting master metering of multioccupancy premises more clearly state its policy in the matter. The policy prohibits master metering, except for situations where the gas or electricity is used for central heating, cooling, water-heating, or ventilation; where a facility is designed for elderly or handicapped; where a facility is grandfathered; or where individual metering is impractical. When a facility is master-metered, the charge must be an unidentified part of the rent, or the allocation method must not charge tenants more than the total electric bill for the facility.

**Legal Basis**

(Include whether action is required by statute or court order)

The rule prohibiting master metering goes back to the federal Public Utility Regulatory Policies Act of 1978 (PURPA). After proceedings under that statute, the Board's predecessor adopted a master metering prohibition consistent with state law.

**Need for Regulatory Action**

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

The rule change was necessary to provide a clearer statement of Board policy.

**Other Affected/Interested Rule Making Authorities**

None.

**Potential Public Groups Impacted**

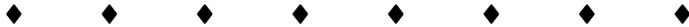
The rules impact gas and electric utilities, real estate developers, companies with multi-building properties, landlords, and tenants.

**Schedule:**  
(Actions & month/year)

This rulemaking was initiated on June 28, 2002. The oral presentation is scheduled for August 21, 2002, and the rules will likely be adopted before the end of the calendar year.

**Staff Contact/Phone #**

Cecil Wright (515) 281-6104



**5. Title of Regulatory Action**

Utility Crossings of Rail Road Rights-of-Way  
Docket No. RMU-02-7

**Rule Chapter(s) that may be involved**

New chapter, 199 IAC ch. 42

**Description of Contemplated Regulatory Action**

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

The statute (Iowa Code § 476.27 [2001 Supp.]) governing utility crossings of railroad rights-of-way requires the Board to promulgate rules prescribing the terms and conditions for a crossing. The statute contains a list of nine areas where, at a minimum, rules are required.

**Legal Basis**

(Include whether action is required by statute or court order)

Iowa Code § 476.27 (2001 Supp.)

**Need for Regulatory Action**

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

The legislative process leading to the statute was very contentious between the railroads and the utilities. Certain areas were left for the Board to fill in the details, because circumstances may change over time and it is easier to amend the rules than to amend the statute when the parties have a history of conflict.

**Other Affected/Interested Rule Making Authorities**

The statute explicitly requires the Board to consult with the Department of Transportation regarding these rules.

**Potential Public Groups Impacted**

These rules will impact the utilities and also the railroads who are not otherwise under Board jurisdiction.

**Schedule:**  
(Actions & month/year)

The railroads and the utilities continued actively to seek satisfactory compromises in these rules, with the result that the rule making was not initiated until July 9, 2002. The oral presentation will be held November 5, 2002, and the Board will attempt to adopt rules by early 2003.

**Staff Contact/Phone #**

Gary Stump (515) 281-4606



**6. Title of Regulatory Action**

Regulatory Principles for Electric Generating and Transmission Facilities

**Rule Chapter(s) that may be involved**

New chapter, 199 IAC ch. 41

**Description of Contemplated Regulatory Action**

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

The 2001 legislation (H.F. 577) provided a fundamental rate making change. A utility that proposes to own or lease certain new generation facilities in Iowa may initiate a contested case proceeding for the Board to determine the regulatory principles that will apply during the life of the plant. As this is a new regulatory approach in Iowa, the Board proposed rules (Docket No. RMU-01-11) to establish minimum filing requirements to provide guidance to the utilities as to the information the Board will need to determine if their proposals are reasonable. The Board terminated that rulemaking on May 24, 2002, stating that it had its first ratemaking principles case pending and that the rules would likely require amendment after the decision. Utilities were instructed that the proposed rules remain a useful guide in preparing an application. The Board intends to initiate a second rulemaking on this subject matter during this fiscal year.

**Legal Basis**

(Include whether action is required by statute or court order)

These rules are not required by the new statute, but are within the Board's general rulemaking authority under § 476.2.

**Need for Regulatory Action**

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

The rules will allow the parties to understand the nature of the proceedings as they prepare their cases. The rules will establish procedural uniformity into these potentially diverse contested cases.

**Other Affected/Interested Rule Making Authorities**

None we are aware of.

**Potential Public Groups Impacted**

Electric utilities and customers may be impacted by the rules.

**Schedule:**  
(Actions & month/year)

The Board does not have a firm schedule as to the initiation of this rule making.

**Staff Contact/Phone #**

Gary Stump (515) 281-4606



**7. Title of Regulatory Action** Alternate Energy Purchase Programs

**Rule Chapter(s) that may be involved**

199 IAC ch. 15

**Description of Contemplated Regulatory Action**

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

Legislation adopted in 2001 (HF 577) requires Iowa electric utilities, by 2004, to offer programs that allow their customers to contribute voluntarily to the development of alternate energy in Iowa. Utilities must file tariffs to implement the programs according to Board rules. The Board will adopt new rules that set forth criteria and procedures for utilities' alternate energy purchase programs.

**Legal Basis**

(Include whether action is required by statute or court order)

Rules are required to implement new Iowa Code Section 476.47 (HF 577).

**Need for Regulatory Action**

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

This rulemaking is a result of a statutory directive.

**Other  
Affected/Interested  
Rule Making  
Authorities**

Because the issues involve choices of fuel and alternate energy, the Department of Natural Resources may be interested.

**Potential Public  
Groups  
Impacted**

Electric utilities, and groups interested in the development of alternate energy in Iowa.

**Schedule:  
(Actions &  
month/year)**

The rulemaking will likely be initiated in the fall and completed during the first months of calendar 2003. New Iowa Code Section 476.47 requires electric utilities to begin offering alternate energy purchase programs to customers by January 2004.

**Staff Contact/  
Phone #**

John Pearce (515) 281-5679



**8. Title of Regulatory Action**

Franchise Extensions and Termination for Nonuser

**Rule Chapter(s) that may be involved**

199 IAC ch. 11

**Description of Contemplated Regulatory Action**

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

H.F. 2341, 2002 Iowa Acts, requires the Board to adopt rules to simplify franchise extension applications and proceedings. The act also amended the time for forfeiture of a franchise for failure to begin construction, which is likely to be reflected in new rules.

**Legal Basis**

(Include whether action is required by statute or court order)

Rules are required to implement amendments to Iowa Code Sections 478.13, 478.18, and 478.21.

**Need for Regulatory Action**

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

This rulemaking is a result of a statutory directive.

**Other  
Affected/Interested  
Rule Making  
Authorities**

None.

**Potential Public  
Groups  
Impacted**

Electric utilities.

**Schedule:  
(Actions &  
month/year)**

The rulemaking will likely be initiated in fiscal year 2002.

**Staff Contact/  
Phone #**

Don Stursma (515) 281-5546



**9. Title of Regulatory Action**

Utility Insolvency and Bankruptcy

**Rule Chapter(s) that may be  
involved**

New 199 IAC ch. 41

**Description of Contemplated Regulatory Action**

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

The Board has requested that staff investigate the desirability of rules attempting to protect the public interest in the event of a utility becoming insolvent or entering bankruptcy. No conclusion has been reached at this time about whether such rules would be effective and beneficial.

**Legal Basis**

(Include whether action is required by statute or court order)

If the Board pursues a rule making, it will be under its general rule making authority in Iowa Code Section 476.2.

**Need for Regulatory Action**

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

The Board is considering whether such a rule making is needed. Clearly, bankruptcy proceedings are possible for Iowa utilities, but it is not clear that rules will be particularly helpful in protecting the public. The Board recognizes that its actions in this area could exacerbate a utility's financial difficulties, which in turn could negatively impact customers. On the other hand, it might be helpful in bankruptcy litigation to have specific protective rules in place to cite to the court.

**Other Affected/Interested Rule Making Authorities**

None.

**Potential Public Groups Impacted**

Utilities, their creditors, and customers.

**Schedule:**  
(Actions & month/year)

The rule making, if pursued, will likely be initiated in fiscal year 2002.

**Staff Contact/ Phone #**

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In addition to the rulemakings listed above, the agency has completed its review of all its rules pursuant to Executive Order Eight. We have suggested a significant number of rules to be added, deleted, or modified to make Board rules more reflective of current conditions. We submitted the assessment report on November 1, 2001, and the implementation of the rulemakings will depend on approval of the assessment report by the Governor's office.

## **Significant Contested Cases FY 2002**

While the emphasis of this regulatory plan is on rule makings, the Board anticipates several significant contested cases will occur during the fiscal year. Currently pending are natural gas general rate cases, Docket No. RPU-02-2 for MidAmerican, Docket No. RPU-02-5 for Aquila, and Docket No. RPU-02-7 for Interstate. Currently pending are two related Interstate electric rate cases, Docket Nos. RPU-02-3 (revenue requirement) and RPU-02-8 (rate design and zone disparities). Interstate also has applied for ratemaking principles for its proposed gas fired plant near Mason City, Docket No. RPU-02-6. Another ratemaking principles case for MidAmerican's coal fired plant near Council Bluffs is also likely in the near term.

In telecommunications, currently pending is a proposal by Iowa Telecom to modify its price regulation plan with significant rate increases, Docket No. RPU-02-4. The Board docketed a proceeding to determine jurisdiction to review Qwest's sale of its directory publishing business, Qwest Dex, on August 21, 2002. AT&T has requested a major reduction to the access charges the independent local telephone companies charge interexchange carriers, Docket No. FCU-02-14. The Board will continue to deal with complaint dockets and other issues arising from the introduction of competition into the local exchange market.

## **Other Significant Proceedings FY 2002**

Board staff has been actively involved in the Iowa Alliance for Advanced Telecommunications to make broad band Internet access more widely available. The annual survey conducted by staff has been the main research tool for the Alliance. This year the Alliance is developing strategy to accomplish the study objectives, particularly the stimulation of demand for broad band access.

In the energy area, the Board continues to be a participant in determining the structure of regional institutions responsible for energy transmission.

August 26, 2002

/s/ Diane Munns \_\_\_\_\_

Diane Munns  
Chairman