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Executive Secretary**

August 28, 2009

IOWA UTILITIES BOARD

RPU-2009-0004

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE:

IOWA-AMERICAN WATER
COMPANY

DOCKET NO. RPU-2009-0004

COMMENTS ON RATE DESIGN OF THE
OFFICE OF CONSUMER ADVOCATE

The Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, in its Comments On Rate Design states:

1. The Iowa Utilities Board (Board) levelized the rate impact between the Quad Cities District and the Clinton District of Iowa-American Water Company (Company) for interim rate purposes in this proceeding. The Board cited an Interstate Power Company interim rate order in IUB Docket No. RPU-95-8. This interim rate order supports the Board's interim rate design decision for Company.

However, in the Board's May 31, 1996 Final Decision and Order in IUB Docket RPU-95-8, pp. 5-6, the Board held:

Finally, the settlement would preclude district consolidation and maintains separate Mason City and Clinton districts. In testimony filed prior to the settlement, several of the parties listed reasons why the districts should remain separate at this time. The parties stated the districts are completely separate and have different costs, particularly a substantial investment in the Hooppole Line, high-pressure mains serving Clinton contract firm customers. In addition,

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some parties stated any consolidation should be postponed until the uncertainties over Interstate's proposed merger are settled. Consumer Advocate stated consolidation might impose substantial and unforeseen impacts on individual customers. The Board agrees that it is better to postpone consolidation of the separate districts at this time. However, the Board will continue to monitor the issue and may want to consider the issue of consolidating Interstate's two districts in the next rate case.

Company's Quad Cities and Clinton Districts are not interconnected, with eighteen miles between their nearest connection points. Electric utilities are interconnected with respect to transmission and generation facilities. While many cities receiving natural gas from the same utility are not physically interconnected and have uniform rates, the largest part of the natural gas bill, the cost of natural gas, is provided by one or more natural gas pipelines that obtain their natural gas from some or all of the same natural gas fields. The utility has a consolidated PGA for these pipeline and natural gas charges.

The Board, in its July 27, 2009 Order Setting Temporary rates, p. 15, stated "[t]he Board has a long-standing policy of eliminating geographic rate differences within the service territories of Iowa gas and electric utilities, resulting in similarly situated customers paying the same rates for the same services regardless of their geographic location within the utility's service territory."

The essential question is whether Quad Cities and Clinton customers are similarly situated. They are clearly different in that Quad Cities utilizes Mississippi River water and treatment facilities designed for that purpose whereas Clinton utilizes well water and

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treatment facilities designed for that purpose. However, the customers of both Districts are similarly situated in terms of allocated common company overheads.

2. Rate equalization in this proceeding will, as the Board found, eliminate instances where the Clinton District receives significantly higher rate increases than the Quad Cities District. However, the Board also cautions that if the situation is reversed, and the large cost increases are in the Quad Cities District, much of the rate impact will also be experienced in the Clinton District with only moderate mitigation. An example of this latter situation was Company's 1990 rate case where it proposed an approximately 65% increase in the Quad Cities District with a comparatively small increase for the Clinton District.

3. The Board, in its July 27, 2009 Order Setting Temporary Rates in this proceeding, p. 16, indicated Company's future construction plans may be relevant as the Board considers this issue. Attached is Company's Response to OCA Data Request Nos. 8 and 33. Company's Clinton District is scheduled in 2012 and 2013 for a { [REDACTED] [REDACTED] }. This compares to the \$4.9 million for wells 10 and 11 Radium Treatment Plant in this proceeding that drives a substantial portion of Company's requested 62% rate increase for the Clinton District. However, as can be seen from the Attachments, during the next five years there is also substantial construction scheduled for the Quad Cities District. Clinton customers comprise 17% of Iowa-American's customers with 83% being Quad Cities customers.

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4. Finally, the Board should carefully consider the general applicability of its cost-based rate rules. *See, e.g.*, 199 IAC 20.10. These rules clearly require recognition of material differences in costs when setting rates for various groups of customers; here, well-water served customers in Clinton and the Mississippi River water served customers in Quad Cities have very different cost characteristics.

As the Board stated in *Re Interstate Power and Light Company*, IUB Docket No. RPU-02-3 *et al*, April 15, 2003 Final Decision and Order, p. 79:

Paragraph 199 IAC 20.10(2) “b” provides that customer classes shall be established on the primary basis of reasonably similar usage patterns within classes, even if this requires disaggregation or recombination of traditional customer classes. This rule simply recognizes that the purpose of having customer classes is to group together customers with reasonably similar usage patterns because those customers cause the utility to incur costs in a similar way. *See* Docket No. RMU-80-1, “Order Adopting Rules” (July 6, 1981). An inherent assumption in both paragraphs 20.10(2) “a” and “b” is that the utility’s system operates as an integrated whole, rather than as a collection of sub-systems.

5. The above reflects the pros and cons of rate equalization in Company’s Quad Cities and Clinton Districts. The Board should carefully weigh each consideration in arriving at its final rate decision in this proceeding.

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Respectfully submitted,

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DATE REQUEST
NOs. 8 and 33
and the Responses are

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