

**STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD**

**FILED WITH
Executive Secretary
April 09, 2014
IOWA UTILITIES BOARD**

IN RE:

**INTERSTATE POWER AND LIGHT
COMPANY**

**DOCKET NOS. SPU-2005-0015
(RPU-2014-0001,
TF-2014-0033)**

**RESPONSE OF
IOWA CONSUMERS COALITION**

Iowa Consumers Coalition (ICC) hereby responds to the Board's April 1, 2014 "Order Docketing Tariff, Requiring Additional Information, Cancelling Consumer Comment Hearings, and Allowing Optional Implementation of Customer Credits." In its Order, the Board directed Interstate Power and Light Company (IPL) to respond to five information requests related to the proposed settlement and tariff revisions filed by IPL in these proceedings. The Board also permitted, but did not require, ICC and the other parties to respond to the information requests.

Below, ICC responds to the Board's fifth information request contained in the Order.

**BOARD INFORMATION REQUEST
DOCKET NOS. SPU-2005-0015 (RPU-2014-0001, TF-2014-0033)**

- 5. Provide support and the rationale for the \$5 million credit to Standby Customers, including details about their concerns regarding transmission charges referenced on page 7 of the proposed settlement and what the transmission charges associated with standby service would be with and without the credit.**

RESPONSE

ICC first provides background on the transmission component of IPL's Standby Service rates, discusses the nature of the problem addressed by the credit for Standby Customers, and then explains why this credit is justified in the context of the settlement.

A. IPL's Standby Service Rates.

IPL's Rider SSPS offers Standby and Supplementary Power Service to Large General Service and Bulk Power customers with onsite generation, including combined heat and power (CHP) generation facilities. These customers use Rider SSPS for electricity supply when onsite generation is unavailable, such as in forced or planned outages, or when their electricity needs exceed their generating capability. Rider SSPS comprises (1) a generation component that adopts a fluctuating pricing model to account for generation variety, and (2) a transmission component based on IPL's Regional Transmission Service rider (Rider RTS).

Under Rider RTS, the transmission component of IPL's Standby Service is billed based on the higher of the Standby Customer's contract demand or non-coincident peak demand. This means that a Standby Customer's highest demand on the IPL system, whenever it occurs and regardless of whether IPL's system is also at its peak, sets the Customer's billing determinant for purposes of the transmission component of Standby Service rates. In contrast, IPL is billed for its transmission costs by the Midcontinent Independent System Operator, Inc. (MISO) based on IPL's monthly coincident peak. These two approaches to billing for transmission costs result in a mismatch between the transmission costs incurred by IPL and the transmission charges passed on to Standby Customers by IPL. Consequently, the transmission component of IPL's Standby Service rates does not reflect the customer's actual contribution to system costs. The transmission charges incurred for Standby Service distort the economics of onsite generation and thereby discourage the development and use of customer-owned generation.

B. Non-Coincident Peak Billing Imposes Unjustifiably High Costs On Standby Customers That Do Not Reflect Their Usage Of The Transmission System.

IPL's non-coincident peak billing for the transmission component of Standby Service results in unreasonable and unduly discriminatory rates for Standby Customers. These customers are charged for the transmission component of Standby Service disproportionately to their actual use of the transmission grid and to IPL's cost for associated transmission service from MISO.¹ In fact, because they rely principally on their own onsite generation for electricity supply, Standby Customers do not use the transmission system to the same extent as other customers and contribute little to the IPL system annual peak. Accordingly, IPL's billing to Standby Customers for the transmission component of Standby Service based on their non-coincident peak is disproportionate to their use of the system.

ICC has estimated what the transmission charges to one Standby Customer would have been if they were calculated based on IPL's monthly coincident peaks. Based on this coincident peak approach, compared to IPL's current non-coincident peak billing, the Standby Customer incurs an *annual* overcharge of over \$8 million due to IPL's billing structure for Standby Service.² This represents an excessive transmission billing charge that fails to account for a Standby Customer's actual contribution to system peak load, its grid usage, and IPL's transmission cost.

¹ IPL purchases transmission service from MISO to support its delivery of generated or purchased power to its customers. The rates that IPL pays for this transmission service are established pursuant to the authority of the Federal Energy Regulatory Commission and are set forth in MISO's transmission tariff. MISO's costs for service to IPL are, in turn, based on the costs of the transmission system owned by ITC Midwest, LLC (ITC Midwest).

² The financial impact of IPL's transmission billing construct on Standby Customers will only worsen as ITC Midwest's rates continue to escalate. ITC Midwest shows no signs of slowing down its continued investment in the transmission grid in Iowa. Because IPL is the primary user of the ITC Midwest transmission, ITC Midwest's costs are recovered principally from IPL. In turn, IPL passes these costs through to its own retail customers under Rider RTS. The effects of ITC Midwest's non-stop cost increases are magnified for Standby Service customers because of IPL's use of non-coincident peak billing.

Non-coincident peak billing also impedes the development of onsite generation, including CHP facilities, in Iowa. CHP facilities offer a multitude of benefits for Iowa, including, but not limited to, energy savings, reduced emissions, reliability benefits, and a reduced need for and cost of transmission infrastructure. These benefits translate into robust economic development, more jobs, a smaller carbon footprint and other environmental benefits, and improved reliability for electricity consumers. However, IPL's excessive transmission demand charges imposed through its Standby Service rates are a barrier to new and existing CHP facilities in Iowa. As a result, the time is ripe for reform of IPL's billing of transmission service to Standby Customers.

For these reasons, ICC has pursued relief from and reform of the transmission component of Standby Service rates, including in the negotiations leading up to the settlement filed in these proceedings.

C. The Proposed \$5 Million Credit Represents A Just And Reasonable Amount Reached During Settlement Negotiations.

As outlined above, ICC believes that the billing approach for the transmission component of Standby Service should be reformed to use monthly coincident peak billing. To fully resolve the issue, the Standby Service rate must be modified, whether in a separate rate case or an overall rate design case, which is anticipated at the conclusion of the period covered by the proposed settlement. Full resolution also will assist the Board in its inquiry into barriers to distributed generation development in Iowa, including CHP generation facilities.³ In the interim, a credit provides partial relief to Standby Customers that are being overcharged for transmission costs relative to their actual

³ *In re Distributed Generation*, "Order Opening Inquiry On Distributed Generation And Soliciting Comments," Docket No. NOI-2014-0001 (Jan. 7, 2014). ICC responded to the January 7 Order with comments identifying concerns similar to those raised in this response. *In re Distributed Generation*, "Comments Of The Iowa Consumers Coalition In Response To Notice Of Inquiry Regarding Distributed Generation," Docket No. NOI-2014-0001 (filed Feb. 25, 2014).

contribution to transmission system costs. The \$8 million overcharge figure represents ICC's best estimate based on its knowledge of a single Standby Customer. Other Standby Customers are not fully known to ICC. The remaining \$3 million overcharge for the one Standby Customer, as well as overcharges for other Standby Customers, will need to be addressed as soon as practicable. A credit much higher than the proposed \$5 million provided for in the settlement would be justified to relieve Standby Customers from the transmission component of Standby Service rates. But ICC is willing to agree to a lower amount (the proposed \$5 million) for purposes of settlement.

The proposed \$5 million credit to Standby Customers represents an amount unanimously agreed to and negotiated by the parties to the proposed settlement. It does not provide full relief, but in the spirit of compromise and providing rate certainty for 2014 through 2016, is justified. The proposed \$5 million credit is the product of successful settlement negotiations entered into among the parties (IPL, ICC, the Consumer Advocate Division of the Department of Justice, and the Large Energy Group), and represents compromise by all parties. For these reasons, ICC respectfully submits that the \$5 million credit component of the settlement, and the settlement as a whole, should be approved by the Board. With the \$5 million credit and the rest of the settlement in place, the parties will be able to continue negotiations on resolving the Standby Service transmission overcharge issue, including necessary Standby Service rate modifications outside of this proceeding. The settlement, including the proposed \$5 million credit, calls this issue of rate design to the attention of the parties and can afford time for meaningful resolution.

CONCLUSION

WHEREFORE, Iowa Consumers Coalition respectfully requests that the Iowa Utilities Board consider the response provided herein, issue an order approving the proposed settlement and tariff submitted in Docket Nos. SPU-2005-0015 and TF-2014-0033, respectively, and take such action as may be consistent herewith.

Respectfully submitted,

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