IOWA UTILITIES BOARD
Energy Section

Docket No.: TF-2015-0008
Utility: Interstate Power and Light Company
File Date: January 30, 2015
Memo Date: April 27, 2015

TO: The Board

FROM: Andrew McGrean

SUBJECT: Annual Filing of Natural Gas Energy Efficiency Cost Recovery Report

I. Background

On January 30, 2015, Interstate Power and Light Company (IPL) filed with the Iowa Utilities Board (Board) its annual Natural Gas Energy Efficiency Cost Recovery (EECR) Report, along with a new tariff to implement revised natural gas cost recovery factors to be effective April 1, 2015. The filing reflects a set of factors developed from estimated 2015 contemporaneous expenditures to be incurred in the next 12 months and reconciliation of the 2014 actual EECR collections compared to the actual 2014 contemporaneous expenditures.

On February 12, 2015, IPL submitted a revised filing to correct errors found in the initial filing.

On February 19, 2015, the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice filed a Conditional Objection. In its Conditional Objection, OCA states that it has no concerns with IPL's accountings and reconciliation expenditures from 2014. OCA is, however, concerned whether IPL's proposed EECR factors sufficiently reflect the anticipated levels of direct cost assignment to IPL's Large General Service (LGS) and General Service (GS) classes as agreed to in Settlement Issue 17 approved in IPL's current Energy Efficiency Plan (EEP). IPL's approved EEP budget is based on allocations determined in its most recent rate case, which differs from the directly assigned costs. This also makes it difficult to compare IPL's direct assignment spending versus budget for these customer classes. This comparison is used to determine whether a plan modification or waiver for spending variance is needed under 199 IAC 35.6(4).

OCA states that as it is difficult to compare nonresidential spending to budget because of the recent introduction of direct cost assignment to the LGS and GS classes, IPL should propose an alternative method or mechanism to evaluate the nonresidential plan direct-assigned spending with IPL's approved EEP budget allocation. OCA requests that IPL's EECR filing be docketed for investigation of the foregoing concerns. OCA does not object to IPL's proposed residential factors going into effect, but does recommend that IPL further investigate the nonresidential factors to ensure that they appropriately reflect the direct assignment of costs approved for the nonresidential class.

On February 27, 2015, the Board issued an order docketing the filing for additional information.

On March 9, 2015, IPL filed a response to OCA's Conditional Objection. In the response, IPL argues that based on Board precedent and the rules related to energy efficiency plans neither a waiver nor a plan modification is appropriate. IPL says that in 2014 its natural gas savings were 96 percent of the savings goal. IPL committed to ongoing review of its energy efficiency plan while working with interested stakeholders. IPL also provides a comparison of 2014 actual spending to the 2014 planned spending and provided a comparison of 2014 actual kWh savings to the 2014 planned kWh savings.

IPL addresses OCA's concern about the allocation factor by stating that the allocation between residential and nonresidential customer classes was not changed. However, the allocation methodology between GS and LGS rate classes was changed to allocate incentive expenses to the class which incurred the expense. Nonincentive costs continue to be allocated based on the nonresidential allocator which is derived from information in Docket No. RPU-2010-0001 (for electric) and Docket No. RPU-2012-0002 (for natural gas).

On March 16, 2015, OCA filed a Reply to Response. OCA notes that IPL's energy efficiency plan was part of a contested case and IPL cannot unilaterally change that plan. Furthermore, OCA explains that the Board's rules (199 IAC 35.6(4)) require IPL to file an application to modify its plan because its residential gas spending was 14 percent below approved budget, nonresidential gas spending was less than 50 percent of approved budget, and total gas spending was 28 percent below approved budget. OCA states that IPL agreed[1] to seek a program modification concurrently with, or shortly after its EECR filing if the EECR filing demonstrated variances with spending or impact conditions established in the Board's rules. OCA suggests the Board require IPL to file information indicating whether it will seek a plan modification or waiver.

The Board issued an order on April 13, 2015, requiring IPL to provide revised allocation factors; IPL filed this additional information, including revised tariff sheets, on April 17, 2015. In addition, IPL filed a waiver request (WRU-2015-

[1] Joint Motion for Approval of Non-Unanimous Partial Settlement Agreement Appendix 3, p. 1 (4a), Docket No. EEP-2012-0001, July 26, 2013.

0014-0150) on this date[2]. On April 24, 2015, OCA filed a Reply supporting IPL's decision to file a waiver.

II. Legal Standards

Energy efficiency cost recovery for investor-owned utilities (IOUs) is governed by the following statute:

> **Iowa Code §476.6(15)(g).** A gas or electric utility required to be rate-regulated under this chapter may recover, through an automatic adjustment mechanism filed pursuant to subsection 8, over a period not to exceed the term of the plan, the costs of an energy efficiency plan approved by the board, including amounts for a plan approved prior to July 1, 1996, in a contested case proceeding conducted pursuant to paragraph "e". The board shall periodically conduct a contested case proceeding to evaluate the reasonableness and prudence of the utility's implementation of an approved energy efficiency plan and budget. If a utility is not taking all reasonable actions to cost-effectively implement an approved energy efficiency plan, the board shall not allow the utility to recover from customers costs in excess of those costs that would be incurred under reasonable and prudent implementation and shall not allow the utility to recover future costs at a level other than what the board determines to be reasonable and prudent. If the result of a contested case proceeding is a judgment against a utility, that utility's future level of cost recovery shall be reduced by the amount by which the programs were found to be imprudently conducted. The utility shall not represent energy efficiency in customer billings as a separate cost or expense unless the board otherwise approves.

The Board's Administrative Rules contain a chapter (Chapter 35) which includes procedures for cost recovery by IOUs.

> **Iowa Admin. Code 199—35.12(476) Energy efficiency cost recovery.** A utility shall be allowed to recover the previously approved costs, deferred past costs, and estimated contemporaneous expenditures of its approved energy efficiency plans through an automatic adjustment mechanism. The utility may propose to recover the portion of the costs of process-oriented industrial assessments related to energy efficiency. Only unrecovered costs may be recovered through the automatic adjustment mechanism, and costs may be recovered only once.

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[2] The aspects of the filing pertaining to the waiver will be addressed in that docket going forward; the revised EECR factors are addressed in this memo.

This section of Chapter 35 is followed by a page of definitions and descriptions of accounting procedures which applied to costs being recovered in the period 1997-2001, during which IOUs recovered both the ongoing costs of energy efficiency plans and the deferred costs of plans implemented up to 1997. In addition to these rules, rule 35.12 includes timeframes and calculation procedures which continue to be applicable . . . . (formulas follow)

> **35.12(2)** *Automatic adjustment mechanism.* Each utility required to be rate-regulated shall file by March 1 of each year, subject to the board's approval, energy efficiency costs proposed to be recovered in rates for the 12-month recovery period beginning at the start of the first utility billing month at least 30 days following board approval. Each utility may elect to file its first energy efficiency automatic adjustment up to 120 days after the effective date of these rules.
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> **35.12(3)** *Energy efficiency cost recovery (ECR) factors.* The utility shall calculate ECR factors separately for each customer classification or grouping previously approved by the board. For all plans current at the time this rule becomes effective and for all future plans, if a utility desires to use customer classifications or allocations of indirect or other related costs other than those previously approved, such customer classifications or allocations of indirect or other related costs must be approved as part of a plan filing or of a modification thereof. ECR factors shall use the same unit of measurement as the utility's tariffed rates.
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> **35.12(4)** *Filing requirements.* Each utility proposing automatic recovery for its energy efficiency costs shall provide the following information:
> *a.* The filing shall restate the derivation of each ECR factor previously approved by the board.
> *b.* The filing shall include new ECR factors based on allocation methods and customer classifications and groupings approved by the board in previous proceedings.
> *c.* The filing shall include all worksheets and detailed supporting data used to determine new ECR factors. Information already on file with the board may be incorporated by reference in the filing.
> *d.* The filing shall include a reconciliation comparing the amounts actually collected by the previous ECR factors to the amounts expended. Overcollections or undercollections shall be used to compute adjustment factors.
> *e.* If in a prudence review, the board has determined that previously recovered energy efficiency costs were imprudently incurred, adjustment factors shall include reductions for these amounts.

35.12(5) *Tariff sheets.* Upon approval of the new ECR factors, the utility shall file separate tariff sheets for board approval to implement the ECR factors in its rates.

III. Analysis

The following chart contains IPL's proposed natural gas EECR factors:

Customer Class	Natural Gas EECR Current $/kWh	Natural Gas EECR Proposed $/kWh
Residential	0.0425	0.0178
Nonresidential General Service	0.0206	0.0034
Large General Service	0.0364	0.0153

The decrease in factors for each customer class reflects over-collections in the previous year.

IV. Recommendation

Staff recommends the Board sign the attached order approving IPL's natural gas EECR filing.

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