

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: DISTRIBUTED GENERATION	DOCKET NO. NOI-2014-0001
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**ORDER REGARDING POLICY STATEMENT, RATE DESIGN PRESENTATIONS,
AND NET-METERING GENERATION PILOTS**

(Issued October 30, 2015)

On January 7, 2014, the Utilities Board (Board) issued an order commencing an inquiry into distributed generation (DG), inviting participants to comment on broad general questions related to the benefits and challenges of DG, both for utilities and their ratepayers, on policies that should be examined with respect to DG, and to identify the technical, financial, regulatory, and safety aspects of DG that participants would like to address in this inquiry docket. Participants were also invited to comment on other issues they considered relevant to any discussion regarding DG, such as whether there were any technical hurdles to implementing DG. The Board also welcomed any policy recommendations for the Board, other state agencies, or the General Assembly to consider. Comments were received from over 170 participants, including utilities, utility associations, environmental groups, renewable energy advocates, and other organizations, businesses, and individuals.

Because of the breadth of the topics identified by participants in the comments, the Board issued an order on May 12, 2014, which suggested the inquiry

focus on the topics of net metering (excluding avoided costs issues, which are the subject of a separate Board docket, Docket No. INU-2014-0001); interconnection of DG, including safety and reliability; and customer awareness and protection. The Board invited participants to respond to specific questions contained in the May 12, 2014, order. Responses were due on June 24, 2014.

After reviewing the comments, the Board issued an order on September 19, 2014, which contained additional questions regarding net metering and interconnection and asked the participants to reply to each other's comments; the responses to the Board's questions and reply comments were due on October 24, 2014.

On April 30, 2015, the Board issued an order soliciting additional comments related to the issue of net metering. Initial responses and comments were due on or before June 15, 2015, and reply comments were due on or before July 15, 2015. The Board's staff prepared a memorandum dated October 5, 2015, which included, among other things, a list of participants filing comments (Appendix A) and a summary of the participants' comments with respect to net metering (Appendix B), along with staff analysis and recommendations. A copy of the memorandum is available on the Board's electronic filing site, <https://efs.iowa.gov/efs/>. That memorandum is incorporated into this order by reference and the summaries and analysis will not be repeated in their entirety here.

Iowa's alternate energy production (AEP) statutes, Iowa Code §§ 476.41 through 476.45, were enacted in 1983, with a stated purpose to encourage AEP development by requiring utilities to purchase electricity from AEP facilities at special incentive rates that would be just and reasonable for utility ratepayers. The AEP statutes do not explicitly authorize the Board to mandate net metering; however, this authority is implicit through the Board's enforcement of the Public Utilities Regulatory Policy Act of 1978 (PURPA) and the AEP statutes. Using this authority, the Board has required rate-regulated utilities to offer net metering to AEP facilities. The definition of AEP facilities included in rule 199 IAC 15.1 identifies the types of generation that are eligible for net metering.

Rule 199 IAC 15.11(5) states:

Net metering. Each utility shall offer to operate in parallel through net metering (with a single meter monitoring only the net amount of electricity sold or purchased) with an AEP facility, provided that the facility complies with any applicable standards established in accordance with these rules.

This rule describes net-metering service as “a single meter monitoring only the net amount of electricity sold or purchased.” The AEP customer draws electricity from and provides excess electricity back to the utility over the same meter making the meter run both forwards and backwards, thus netting one against the other. This “netting” of AEP kWh production against retail kWh usage is thought by many to be economically equivalent to the AEP customer selling electricity back to the utility at the utility’s retail rate. However, net metering does not involve separate purchase

and sale transactions – net metering is essentially a metering arrangement that nets kWh against kWh. Also, since net metering involves a single meter, it does not allow for the netting of an AEP facility's kWh production against retail kWh usage from multiple separate meters.

The Board adopted the net-metering subrule in 1984 as part of its AEP rules (Docket No. RMU-83-30). In describing the applicability of its AEP rules, the Board drew a clear distinction between renewable AEP facilities and non-renewable PURPA qualifying facilities (QFs) (or cogeneration), explaining why the rules (including net metering) would apply only to AEP facilities. Initially, the net-metering subrule applied to all electric utilities. However, in a challenge to the AEP statute, the Iowa Supreme Court ruled in 1987 that the Board's AEP requirements (including net metering) could not be applied to non-rate-regulated utilities (i.e., municipal utilities and rural electric cooperatives).

In 1999, in another challenge to the net-metering rules by MidAmerican Energy Company (MidAmerican), the Polk County District Court stayed the Board's net-metering rule based on federal preemption. Separately, the Federal Energy Regulatory Commission (FERC) declined to rule that federal law preempted the net-metering rule (FERC Docket No. EL99-3). To resolve the litigation and the conflicting results, MidAmerican proposed a settlement net-metering tariff (settlement tariff) supported by the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice (Docket No. TF-01-293).

The main features of the MidAmerican settlement tariff were: 1) limiting net metering to 500 kW of capacity per AEP facility; and 2) carrying forward any net excess generation for net metering to future months, rather than purchasing it from the AEP facility. The Board approved the settlement tariff with modifications. Later, the Board approved a similar net-metering tariff for Interstate Power and Light Company (IPL) (Docket Nos. TF-03-180 and TF-03-181).

The Energy Policy Act of 2005 required state commissions to consider implementing five additional ratemaking standards under PURPA Section 211, one of which is related to net metering. In an order issued on August 8, 2006, in Docket No. PURPA Standard 11 199 IAC 15.11(5), the Board explained that it had considered and adopted, in prior state actions, a net-metering standard for Iowa's rate-regulated electric utilities, having previously made specific policy determinations in various dockets that were consistent with the description of net metering under the PURPA Standard. The Board had defined "eligible on-site generating facilities" as being limited to AEP facilities; and for MidAmerican and IPL, the Board had further limited the definition to a 500 kW cap per AEP facility and had added a requirement to carry forward net excess generation for net metering to future months consistent with the PURPA Standard.

The Board's questions in its April 30, 2015, order in this docket asked participants to comment on a proposed DG-related policy goal, specific net-metering questions, and proposed options going forward. The draft policy goal said that the

goal of the Board was “[t]o provide a regulatory framework that allows distributed generation to grow in an equitable manner that balances the interests of regulated utilities and all utility customers.” While some participants generally supported the idea of having a policy goal, many suggested alternative wording. Other participants noted that a policy goal was not necessary because various energy policy goals are articulated in current statutes. Comments from the various participants included such things as utility-owned generation should be part of the policy goal, the proposed goal implies that utilities or certain subsets of utility customers are being harmed by current DG policy, cost-effective DG should be encouraged, the policy goal should address cost allocation and cost shifting issues, and the policy goal raises more questions than it addresses.

After considering the comments, the Board will not adopt a separate policy goal with respect to distributed renewable generation. Iowa Code §§ 476.41 and 476.53A, for example, articulate the Legislature’s intent to encourage renewable generation. While the Legislature may determine that a more specific goal is necessary with respect to distributed generation, a separate policy goal from the Board does not appear necessary at this time. As indicated in some of the comments, the draft policy goal could raise more questions than it answers.

The Board also asked participants to present well-developed ideas that could be implemented as net-metering pilot projects and to indicate their preferences for addressing net metering going forward. Some participants proposed specific pilot

projects, such as a shared renewable program and a solar pilot involving a small number of non-taxable entities, rather than all utility customers. Other participants offered general ideas for potential pilot projects, such as a community-based solar project. Most participants are supportive of pilot projects related to net metering and DG, and both investor-owned utilities IPL and MidAmerican indicated that they are exploring pilot solar projects, although not necessarily net-metering pilots.

Given the current status of DG development and net metering in Iowa, additional information is required before any permanent policy or rule changes are made. One option would be to conduct a study on DG in Iowa, including quantification of costs and benefits. However, it appears such a study would be premature because of the relatively low DG penetration levels in Iowa. Another option, and the best one for Iowa, is for the utilities to conduct pilot projects exploring various aspects of net metering or other DG issues that could be used to inform future policy or rule changes. Pilot projects would provide information quicker without having to wait for higher DG penetration levels for a viable study. Other states have, for example, begun limited community solar programs or pilots.

A pilot approach creates an opportunity for innovation and the exploration of best practices outside the parameters of current net-metering policies. It also provides an opportunity to make changes on a limited basis in order to determine the impacts that those changes might have on the utility and its customers prior to making these changes permanent.

Another advantage of pilot projects is that making significant changes to net-metering rules now may be premature since it is unclear whether the growth in DG will continue, given the uncertainty surrounding the future of the federal investment tax credits for solar projects. These tax credits are currently set to expire at the end of 2016 and could also impact the Iowa Solar Energy System Tax Credits.

Two key topics that could be part of a net-metering pilot are the treatment of excess net-metering credits (such as diversion of any excess credits to a low-income fund) and whether the net-metering cap should be increased. Participants commented that with respect to excess credits, a cash-out option could also be used and because many believe these credits belong to the DG customer, diversion to a low-income fund might not be appropriate. A pilot would generate information on the amount of excess credits generated by net-metered customers to determine whether there are sufficient credits to justify a change in the rules, which provide that the credits roll-over but are not cashed out.

While IPL and MidAmerican did not favor raising the net-metering size cap, many participants did. IPL pointed out that it does not have a customer who, in aggregate, has reached the 500 kW cap. MidAmerican believes the subsidy issue of raising the cap needs to be addressed. This could be done in a pilot, where data could be gathered on the financial impacts of raising the net-metering cap. A pilot could also help determine whether current interconnection rules are sufficient to ensure reliability of the utility's system with an increase of the cap to 1 or 2 MW.

While the Board does not believe there is sufficient information to change or expand the net-metering rules at this time, a pilot project increasing the current 500 kW size to 1 MW could provide valuable information and it is consistent with the policy statement encouraging DG growth. The financial impacts of a net-metering pilot, from MidAmerican's and IPL's comments, appear fairly limited, particularly for MidAmerican if large general service customers remain on three-part rates and meter the demand charges. Reliability could also be addressed and a pilot would limit any negative impacts and provide information for future corrections and changes.

The Board encourages all utilities (municipal, rural electric cooperatives, and investor-owned), but particularly the investor-owned utilities (IPL and MidAmerican), to consider implementing pilot projects that will expand renewable DG in Iowa, and to collaborate with the participants in this NOI while developing pilot program proposals. The Board believes it is important for the utilities to have the flexibility to design creative pilot programs but also believes that the investor-owned electric utilities should include topics that have been discussed in this inquiry, such as alternatives to the indefinite rollover of excess net-metering credits and the impacts of changes in the eligible facility size cap.

The Board's encouragement of pilot projects is premised on the belief that additional information is needed in order to move forward with the implementation of changes to net metering. As such, any proposed pilot programs presented to the Board should include an explanation of what additional informational needs would be

addressed by each individual pilot proposal. Because flexibility is important, the Board is not mandating any particular pilot for the investor-owned utilities at this time.

In order to gauge the investor-owned electric utilities' progress, the Board will direct MidAmerican and IPL to each file a Preliminary Implementation Plan within 90 days of the date of this order that, at a minimum, includes the following:

1. Detailed timeline of the pilot project(s);
2. Plan for collaboration with NOI participants;
3. The goals of the proposed pilot;
4. How the results of the pilot project will be quantified; and
5. A plan for reporting pilot project results.

The Board anticipates that any proposed pilots will be presented to the Board as proposed tariff filings. Any tariff filed with a proposed pilot will be docketed to allow all parties an opportunity to review and file comments and will be distributed to the service list of participants in this docket to ensure that all interested participants are aware of the proposed pilot project and have the opportunity to comment. Potential changes to the Board's rules will be considered after pilot results are evaluated.

Finally, the Board asked for comments on long-range options related to net metering. IPL, MidAmerican, and the Iowa Association of Electric Cooperatives (IAEC) argued that net metering should consider the utility's ability to recover costs from its customers in an equitable manner. IPL proposed a four-phase approach culminating with its 2017 electric rate case while MidAmerican proposed a three-part rate that includes a basic service charge, a volumetric kWh energy component, and a kW-based demand component. The IAEC said that delay in rate design changes

increases the risk of stranded investment for utilities and DG owners, developers, and investors. Various reports were cited regarding potential rate design changes, such as demand charges and time-of-use rates. Other participants said net-metering penetration rates are so low in Iowa that no rate design changes are needed.

While rate design changes may or may not be needed in the immediate future, the Board believes it is appropriate to obtain additional information regarding rate design alternatives and why or why not changes might be needed. The Board's staff will contact MidAmerican and IPL to schedule a time at one of the Board's regularly scheduled monthly meetings to present their plans for future rate designs, such as IPL's plan for designing and filing new DG tariffs and MidAmerican's three-part rate that it is considering. Other participants who want to present rate design options at a future Board meeting should contact Brenda Biddle at 515-725-7305 or Brenda.Biddle@iub.iowa.gov to schedule a date for their presentations. Due to time constraints, it is likely that the presentations will be spread over several of the Board's monthly meetings.

IT IS THEREFORE ORDERED:

1. The Board declines to adopt a policy statement with respect to renewable distributed generation.
2. All utilities, but particularly investor-owned utilities (Interstate Power and Light Company and MidAmerican Energy Company), are encouraged to develop pilot projects consistent with this order and IPL and MidAmerican are to file Preliminary

Implementation Plans within 90 days of the date of this order containing the information identified in the order.

3. Presentations regarding alternative rate designs will be scheduled at future monthly Board meetings as discussed in the body of this order. Notice of the presentations will be provided in the published agenda for the Board meetings.

UTILITIES BOARD

/s/ Geri D. Huser

/s/ Elizabeth S. Jacobs

ATTEST:

/s/ Trisha M. Quijano
Executive Secretary, Designee

/s/ Nick Wagner

Dated at Des Moines, Iowa, this 30th day of October 2015.