

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. RPU-2016-0005
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**ORDER CANCELLING HEARING AND APPROVING SETTLEMENT
SUBJECT TO MODIFICATION AND REPORTING REQUIREMENTS**

(Issued October 25, 2016)

BACKGROUND

On July 27, 2016, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) a request for ratemaking principles that would apply to up to 500 MW of new wind generation. IPL refers to the proposed project as its “New Wind Project.” IPL requested expedited review of its request so that the New Wind Project could qualify for the full value of the federal production tax credit (PTC).

Ratemaking principles proceedings are conducted pursuant to Iowa Code § 476.53 (2015). Section 476.53 provides that when eligible new electric generation is constructed by a rate-regulated public utility, the Board, upon request, shall specify in advance, by order issued after a contested case proceeding, the ratemaking principles that will apply when the costs of the new facility are included in electric rates. Alternative energy production facilities, such as the New Wind Project, are eligible for advance ratemaking principles under Iowa Code § 476.53.

On August 10, 2016, the Board issued an order docketing the application, setting a procedural schedule, and setting the intervention deadline. Hearing in this docket has been set for October 26 and 27, 2016.

On August 25, 2016, the Board issued an order granting intervention in this docket to the Iowa Business Energy Coalition (IBEC), ITC Midwest LLC (ITC), the Large Energy Group (LEG), the Environmental Law and Policy Center (ELPC), the Iowa Environmental Council (IEC), MidAmerican Energy Company (MidAmerican), and Iowa Natural Resources, LLC (INR). The Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, is also a party to this docket.

On October 12, 2016, IPL, IBEC, LEG, and OCA filed a “Non-Unanimous Joint Stipulation and Agreement” (Settlement) and a “Joint Motion to Approve Non-Unanimous Stipulation and Agreement.” In the joint motion the settling parties state that the ELPC, IEC, and MidAmerican “have authorized the settling parties to state that they take no position on the terms of the stipulation.” According to the settling parties, the remaining intervenor, INR, has authorized the settling parties to state that INR opposes the Settlement, specifically the 500 MW cap on the size of the project. The settling parties also indicated that ITC had represented it will file a pleading indicating it has no objection to the Settlement, although no such pleading has been filed to date.

On October 18, 2016, INR filed comments on the Settlement. In its comments INR states that it continues to believe there is merit in a larger size cap. However,

INR also states that it is supportive of IPL's desire to add wind generation and therefore "will not object to the Board's approval of the [Settlement] to the extent the Board deems the same to be reasonable and supported by the record." ("Comments of Iowa Natural Resources, LLC on Proposed Stipulation and Agreement," p. 2).

CONDITIONS PRECEDENT

Before determining applicable ratemaking principles for the New Wind Project, the Board must make two findings pursuant to Iowa Code § 476.53(3)(c). First, the Board must determine that IPL has in effect a Board-approved energy efficiency plan. Second, IPL must demonstrate that it has considered other sources for long-term supply and that the facility is reasonable when compared to other feasible alternative sources of supply.

A. Energy Efficiency Plan

Pursuant to Iowa Code §476.53(3)(c)(1), IPL is required to have in effect a Board-approved energy efficiency plan. IPL witness Kopp provided testimony regarding IPL's current energy efficiency plan, identified as Docket No. EEP-2012-0001. (IPL Exhibit Kopp Direct, pp. 14-15). The Board approved the plan on December 2, 2013, and approved a limited modification of the plan on April 22, 2016. (*Id.* at 14). No party has contested whether IPL has in effect a Board-approved energy efficiency plan. The Board finds that IPL has a Board-approved energy efficiency plan.

B. Reasonableness of the Facility

Pursuant to Iowa Code § 476.53(3)(c)(2), the Board must find that IPL has considered other long-term sources of supply and the facility is reasonable when compared to other feasible supply sources.

In determining whether a proposed facility is reasonable when compared to other feasible alternative sources of supply, the Board need not find that the facility is the “least-cost” alternative. (Docket No. RPU-2001-0009, “Order,” p.6 (issued May 29, 2002)). Because there is no least-cost requirement, the Board may consider non-cost factors. (*Id.*) The Board must also look at the need for the facility. To find that there is a need for the facility, it is not necessary that there be a present need for the generation capacity. *NextEra Energy Res. LLC v. Iowa Utils. Bd.*, 815 N.W.2d 30, 40 (Iowa 2012). The Board may consider other needs “such as fuel diversity, the supply of less expensive energy to consumers, and compliance with future environmental regulations requiring clean energy.” *Id*

IPL states that the New Wind Project will allow it to take advantage of PTCs that will phase out from the 100 percent level beginning with the end of this year. (“Request for a Determination of Ratemaking Principles,” p. 5). IPL witness Kopp states that IPL used an industry standard model (EGEAS) to identify all combinations of IPL’s existing generation resources and future resource alternatives to determine the least cost expansion plan available. (*Id.* at 15). IPL witness Kitchen states that the EGEAS results show that 300 MW of wind is selected in both 2018 and 2019.

(IPL Exhibit Kitchen Direct, p. 10). IPL is proposing a 500 MW wind project due to limited availability of development-ready wind generation sites that allow IPL to meet its proposed cost cap. (*Id.* at 10-12).

Further, IPL states that expansion of its wind generation resources will supply clean, emissions-free energy to IPL's customers at a lower cost compared to other potential resource additions. (IPL Exhibit Kopp Direct, p. 2). OCA witness Turner states the New Wind Project will also reduce the risk to IPL and its customers of incurring future environmental compliance costs. (OCA Exhibit Turner Direct, p. 5).

The evidence in the record shows that IPL has considered other long-term sources of supply and has shown that the New Wind Project is reasonable when compared to other feasible supply sources. IPL has shown that the New Wind Project is a part of its strategy of transitioning its fleet to cleaner energy sources and that its models show additional wind generation is a cost-effective means of insuring IPL meets its customers' energy needs in the future. Therefore, the Board finds that IPL has satisfied the requirements of Iowa Code § 476.53(3)(c)(2).

REASONABLENESS OF SETTLEMENT

Board subrule 199 IAC 7.18 provides that the Board will not approve a settlement unless it "is reasonable in light of the whole record, consistent with law, and in the public interest." The Board, viewing the Settlement as a whole, finds it to be reasonable, in the public interest, and not contrary to law, subject to two modifications.

The first modification is to ratemaking principle No. 5, "Size Cap." The settling parties proposed the following:

The ratemaking principles shall apply to any new wind facility constructed as part of IPL's New Wind Project, regardless of its location in Iowa, up to a total of 500 MW.

("Non-Unanimous Joint Stipulation and Agreement," p. 5). The Board will modify the Size Cap principle as follows:

The ratemaking principles shall apply to any new wind facility constructed as part of IPL's New Wind Project that qualifies for 100% of the federal Production Tax Credits, regardless of its location in Iowa, up to a total of 500 MW.

In its responses to Board questions, filed on September 1, 2016, IPL states that it did not intend for the advance ratemaking principles to apply to facilities that do not qualify for the full PTCs. ("Additional Information," p. 1). Further, much of the customer economic benefits of the New Wind Project are driven by the facility's qualification for the full PTCs.

The second modification is to ratemaking principle No. 6, "Cancellation Cost Recovery." The settling parties proposed the following:

If IPL cancels construction of the New Wind Project for good cause, IPL's prudently incurred costs shall be amortized over a period not exceeding ten years, effective with IPL's next electric rate case. The unamortized balance shall not be included in rate base in any determination of interim and final rates thereafter during the period of the amortization provided, however, that the prudence of the costs and the good cause for cancellation may be disputed by any party and shall be subject to determination by the Board.

("Non-Unanimous Joint Stipulation and Agreement," p. 5). The Board will modify the Cancellation Cost Recovery principle as follows:

If IPL cancels construction of the New Wind Project for good cause, IPL's prudently incurred and unreimbursed costs shall be amortized over a period not exceeding ten years, effective with IPL's next electric rate case. The unamortized balance shall not be included in rate base in any determination of interim and final rates thereafter during the period of the amortization provided, however, that the prudence of the costs and the good cause for cancellation may be disputed by any party and shall be subject to determination by the Board.

The Board has required the same modification in previous advance ratemaking cases. (See, e.g., Docket No. RPU-2014-0002, "Order Approving Settlement with Modifications," p. 13). This modification clarifies that only unreimbursed cancellation costs are to be recovered.

The Board finds that the Settlement, as modified above, is reasonable, in the public interest, and not contrary to any law. IPL has satisfied the requirements of Iowa Code § 476.53(3)(c) and is therefore eligible for advance ratemaking principles. The ratemaking principles associated with the New Wind Project, as agreed to by the parties and modified above, are reasonable. The New Wind Project will reduce IPL's reliance on carbon-based generation and position IPL to meet ongoing and future environmental mandates in a manner that is likely to benefit ratepayers. The Settlement's benefits to retail customers will help ensure that IPL's current and future customers continue to enjoy adequate service and facilities at just and reasonable rates. Iowa Code §§ 476.6 and 476.8.

REPORTING REQUIREMENTS

IPL will be required to file semi-annual reports updating its progress on the New Wind Project. The reports are to include construction progress, information regarding completed transmission work, information regarding the location of New Wind Project facilities, and actual operating and capital costs of the New Wind Project. The first report will be required on or before March 3, 2017, and subsequent reports are to be filed every six months thereafter. The reporting requirements will end when the New Wind Project assets are included in IPL's rate base.

FINDINGS OF FACT

Based on a thorough review of the entire record in this proceeding, the Board makes the following findings of fact:

1. IPL has in effect a Board-approved energy efficiency plan as required under Iowa Code § 476.6(15).
2. IPL has a need for the New Wind Project and the New Wind Project will benefit ratepayers by, among other things, enabling IPL to meet current and future environmental regulations, providing low-cost energy to retail customers, and reducing IPL's reliance on carbon-based generation.
3. IPL has considered other long-term sources of electric supply and the New Wind Project is reasonable, both for cost and non-cost reasons, when compared to other feasible alternative sources of supply.

4. The ratemaking principles identified in the Settlement filed by IPL, OCA, IBEC, and LEG on October 12, 2016, as modified above, are reasonable.

5. The Settlement, as modified, is reasonable, consistent with law, and in the public interest.

CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code chapter 476 (2015).

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. Ratemaking principle No. 5 of the “Non-Unanimous Joint Stipulation and Agreement” is modified as follows:

The ratemaking principles shall apply to any new wind facility constructed as part of IPL’s New Wind Project that qualifies for 100% of the federal Production Tax Credits, regardless of its location in Iowa, up to a total of 500 MW.

2. Ratemaking principle No. 6 of the Non-Unanimous Joint Stipulation and Agreement” is modified as follows:

If IPL cancels construction of the New Wind Project for good cause, IPL’s prudently incurred and unreimbursed costs shall be amortized over a period not exceeding ten years, effective with IPL’s next electric rate case. The unamortized balance shall not be included in rate base in any determination of interim and final rates thereafter during the period of the amortization provided, however, that the prudence of the costs and the good cause for cancellation

may be disputed by any party and shall be subject to determination by the Board.

3. The ratemaking principles stated in the “Non-Unanimous Joint Stipulation and Agreement” filed on October 12, 2016, by Interstate Power and Light Company, the Office of Consumer Advocate, a division of the Iowa Department of Justice, the Iowa Business Energy Coalition, and the Large Energy Group, as modified in this order, is approved. The approved ratemaking principles are attached to this order.

4. Interstate Power and Light Company shall file semi-annual reports as described in this order.

5. The hearing scheduled for October 26 and 27, 2016, is cancelled.

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 25th day of October 2016.

APPROVED RATEMAKING PRINCIPLES

	Ratemaking Principle	Description
1.	Rate of Return on Equity (ROE)	The allowed rate of return on common equity capital on the portion of New Wind Project costs incurred under Ratemaking Principle No. 4 (Cost Cap) that are included in Iowa electric rate base, shall be 11.0 percent. Notwithstanding the foregoing, all transmission facilities necessary to support the New Wind Project and that are classified as intangible assets in accordance with the uniform system of accounts shall earn the rate of return on equity authorized by the Iowa Utilities Board in a future rate case.
2.	Double Leverage	The issue of double leverage can be addressed at a later date in the context of a rate case or other proceeding.
3.	Depreciable Life	The depreciable life of New Wind Project for ratemaking purposes shall be 40 years. IPL shall be able to revise the depreciable life in the event an independent depreciation expert provides support for a different useful life and a change in depreciable life is approved by the Board in a contested rate case proceeding in which the parties to this proceeding may participate and present evidence either in support of or in opposition to the proposed change in depreciable life. IPL shall notify such parties of any application filed with the Board asking that the depreciable life of the New Wind Project be revised.
4.	Cost Cap	IPL shall be permitted to include in rates the actual costs of the New Wind Project of up to \$1,830/kW on a Project-wide basis, inclusive of AFUDC and all costs of transmission network upgrades, upgrades required as a result of Midcontinent Independent System Operator studies, generator tie lines, transmission interconnection and any other appurtenant facilities associated with the foregoing, whether owned by IPL or any other entity, without the need to establish prudence or reasonableness. In the event that actual costs are lower than the projected costs, rates shall recover only actual costs. In the event actual costs exceed the cost cap, IPL shall be required to establish the prudence and reasonableness of any excess before it can be included in rates.

5.	Size Cap	The ratemaking principles shall apply to any new wind facility constructed as part of IPL's New Wind Project that qualifies for 100% of the federal Production Tax Credit, regardless of its location in Iowa, up to a total of 500 MW.
6.	Cancellation Cost Recovery	If IPL cancels construction of the New Wind Project for good cause, IPL's prudently incurred and unreimbursed costs shall be amortized over a period not exceeding ten years, effective with IPL's next electric rate case. The unamortized balance shall not be included in rate base in any determination of interim and final rates thereafter during the period of the amortization provided, however, that the prudence of the costs and the good cause for cancellation may be disputed by any party and shall be subject to determination by the Board.
7.	Treatment of AFUDC	Interest costs incurred on the New Wind Project will be capitalized using the appropriate AFUDC rates in effect during the construction period. An AFUDC rate that recognizes a return on common equity rate of the greater of 10.0 percent or whatever percentage the Board finds reasonable during IPL's next rate case shall be applied to construction work in progress.
8.	Environmental Attributes	The Iowa jurisdictional portion of any revenues from the sale of renewable energy credits and carbon shall be recorded above-the-line by IPL. IPL's customers shall be entitled to the full value of any renewable energy credits, carbon credits, and environmental emission allowances (Environmental Attributes), beyond those needed for compliance with applicable regulatory requirements, associated with investment included in IPL's Iowa jurisdictional rate base. IPL shall use commercially reasonable efforts to maximize the value of Environmental Attributes associated with the IPL Wind Project.