STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. RPU-2019-0001 (TF-2019-0017, TF-2019-0018)

FINAL DECISION AND ORDER

(Issued January 8, 2020)

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I. INTRODUCTION AND PROCEDURAL HISTORY

A. IPL's Non-Standard Customer Notices, Docket No. RPU-2018-0004

On December 24, 2018, Interstate Power and Light Company (IPL) filed an application for approval of non-standard customer notices to send to customers in anticipation of its application to increase retail electric and natural gas rates. IPL stated it planned to use the future test year option for setting rates and would request a change in rates for two future test years, with final rates to be effective on January 1, 2020, and January 1, 2021. On January 9, 2019, the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, objected to IPL's proposal to use multiple future test years, argued IPL's proposed method of computing and displaying typical monthly bill impacts was misleading, and stated that including speculative and unreliable estimates unrelated to the general rate increase would confuse customers.

On January 23, 2019, the Board presided at an oral argument regarding IPL's proposals. In addition to IPL and OCA, the Iowa Business Energy Coalition (IBEC) and the Large Energy Group (LEG) appeared and participated in the oral argument.

On February 6, 2019, the Board issued an order rejecting the proposed non-standard customer notices. The Board closed Docket No. RPU-2018-0004 and opened two new dockets, identified as Docket Nos. RPU-2019-0001 (electric) and RPU-2019-0002 (natural gas), for IPL to file proposed non-standard customer notices for a general rate increase based on one future test year.

B. IPL's Revised Proposed Non-Standard Customer Notice, Docket No. RPU-2019-0001

On February 13, 2019, IPL filed a revised proposed non-standard customer notice for the proposed rate increase for electric service. IPL filed further revisions to the proposed non-standard customer notice on February 14, 2019.

On February 18, 2019, the Board approved IPL's proposed non-standard customer notice subject to further modifications and scheduled ten customer comment meetings. Among other changes and in response to OCA's objections regarding the display of typical monthly bill impacts on the notices, the Board required IPL to revise the paragraph in the notice describing the estimated billing impacts of the proposed rate increase to ensure that it only presented information about base rate changes.

C. Application for Rate Increase

On March 1, 2019, IPL filed an "Application for Revision of Electric Rates" (Application) in Docket No. RPU-2019-0001. Along with the Application, IPL filed proposed tariffs setting forth interim rates and proposed final rates, a motion to consolidate the hearings in the electric and natural gas rate increase cases, and a request for confidential treatment of certain information included in the Application.

In Docket No. TF-2019-0017, pursuant to Iowa Code § 476.6(9)(a), IPL filed a tariff designed to provide an annual revenue increase of $89,891,724 on a temporary (interim) basis. IPL implemented the interim rates on April 1, 2019. IPL used 2018 as the historic test year for interim electric rates. In lieu of a bond, IPL submitted a corporate undertaking in the amount of $89,891,724, an amount equal to the anticipated annual increase in revenues under the interim rates. IPL agreed in its corporate undertaking to refund any excess revenues, plus interest that it collects, to the extent that interim rates exceed the final rates approved by the Board in this proceeding or are not based upon previously established regulatory principles.

In Docket No. TF-2019-0018, IPL proposed final Iowa electric rates that would produce a permanent annual jurisdictional revenue increase of $203.6 million. IPL used 2020 as the test year for proposed final electric rates. The proposed $203.6 million increase included the approximately $90 million interim electric rate increase.

D. Interim Rates, Docketing Order, and Procedural Schedule

On March 8, 2019, OCA filed an appearance, an objection to IPL's proposed procedural schedules, and a motion to reduce interim rates. On March 12 and 13, 2019, LEG and IBEC joined in OCA's motion to reduce interim rates. On March 21, 2019, OCA filed an objection to IPL's rate application and a request for docketing.

In its motion to reduce interim rates, OCA argued that IPL used a 10 percent return on equity (ROE) to calculate the interim rates even though IPL's current tariffs incorporate a 9.6 percent ROE and its proposed final rates are based on a 9.8 percent ROE. OCA argued a 10 percent return is improper and not reasonable or just. OCA asked the Board to require IPL to recalculate the interim rates using a 9.6 percent ROE. IBEC and LEG joined in OCA's motion.

On March 26, 2019, the Board issued an order that approved IPL's corporate undertaking, scheduled an oral argument to consider OCA's motion to reduce interim rates, docketed and suspended IPL's proposed tariff for final rates, denied IPL's motion to consolidate the electric and gas rate cases, set a scheduling conference, and required additional information.

On April 1, 2019, the Board held a scheduling conference followed by an oral argument on OCA's motion to reduce interim rates. IPL, OCA, ITC Midwest LLC (ITC Midwest), IBEC, LEG, MidAmerican Energy Company (MidAmerican), Archer Daniels Midland Company (ADM), Environmental Law & Policy Center and Iowa Environmental Council (collectively, Environmental Intervenors), and a representative of AARP of Iowa appeared at the scheduling conference. IPL, OCA, IBEC, LEG, and AARP of Iowa presented arguments regarding the motion to reduce interim rates.

By order issued on April 11, 2019, the Board established a procedural schedule and denied the motion to reduce interim rates. The Board concluded that because Iowa Code § 476.6(9)(a) provides that a utility may place interim rates in effect without Board review and directs the Board to consider ordering refunds at the conclusion of the proceeding, the Board could not grant the relief requested. However, the Board found no restriction on its ability to investigate IPL's interim rates and determined the record developed in this case would allow the Board to decide at the conclusion of the proceeding whether to require refunds under Iowa Code § 476.6(9)(a).

E. Archer Daniels Midland Company's Complaint

On March 28, 2019, ADM filed a complaint regarding IPL's rates for Standby Power Service (SPS). ADM is a publicly held international agribusiness that receives Standby and Supplementary Power Service from IPL. ADM's complaint related to IPL's current SPS rates. ADM asked the Board to consolidate the complaint with IPL's electric rate case.

On April 5, 2019, IPL filed an answer and motion to dismiss ADM's complaint.

By order issued on April 11, 2019, the Board denied ADM's request to consolidate the complaint with Docket No. RPU-2019-0001 and denied IPL's motion to dismiss the complaint. Instead, the Board determined the complaint would be processed as an informal complaint according to chapter 6 of the Board's rules. The complaint was identified as Docket No. C-2019-0037. The Board explained that it approved IPL's compliance tariff for SPS rates after IPL's 2017 rate case, subject to complaint or investigation. *In re: Interstate Power and Light Company*, Docket Nos. RPU-2017-0001, TF-2017-0034, Order Approving Compliance Filing and Requiring Filing, (April 26, 2018). The Board said that IPL would have an opportunity to respond to ADM's complaint in Docket No. C-2019-0037, while the issues ADM raised about IPL's proposed final rates for SPS would be addressed in the rate case proceeding.[1]

F. Prehearing Conference May 31, 2019

In the March 26, 2019 docketing order, the Board directed IPL to file a complete listing of the state of Wisconsin's rate case minimum filing requirements when a future test year is used. In a response filed on March 29, 2019, IPL explained that in Wisconsin, the minimum filing requirements for a rate case using a future test year are not specifically identified in statute or administrative rules. Instead, the Public Service Commission of Wisconsin (PSCW) requires investor-owned electric and natural gas utilities to provide information specified in data

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[1] On July 26, 2019, Board staff issued a proposed resolution of ADM's complaint about IPL's current rates for SPS. After investigation, Board staff concluded that IPL had applied the rates and terms of its SPS tariff appropriately. ADM filed a response on August 9, 2019, stating that it disagreed with the proposed resolution, but ADM did not request a formal complaint proceeding. Instead, ADM said it would continue to address the SPS rates in the ongoing rate case.

requests issued by the PSCW. IPL filed a copy of 107 data requests used by the PSCW staff during rate reviews.

On May 6, 2019, the Board issued an order scheduling a prehearing conference for a discussion of the Wisconsin data requests and issues about whether IPL's requests for confidential treatment in Docket No. RPU-2019-0001 were properly supported. The conference was held on May 31, 2019. At the conference, the Board, Board staff, and IPL reviewed a document IPL filed on May 30, 2019, titled "Reconciliation of Wisconsin Initial Data Requests" (Reconciliation Document). The Board issued an order on June 17, 2019, requiring IPL to provide additional information, including its responses to certain data requests that were identified in the Reconciliation Document.

G. Comments, Comment Meetings, Question and Answer Document

As of October 7, 2019, the Board had received 5,609 comments in this docket from customers, businesses, associations, and municipalities. The Board reviewed and identified comments in various categories, including 4,512 comments alleging unreasonable rates; 987 comments expressing the extreme hardship the rates would impose on low-income families, senior citizens, and small businesses; 480 comments concerning IPL's poor management performance; 425 comments regarding excessive utility profit; 420 comments requesting increased market competition; 382 comments alleging infrastructure investments were unnecessary; 305 comments concerning excessive executive compensation; and 266 comments regarding advanced metering infrastructure (AMI) or "smart meters."[2]

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[2] Some comments are included in more than one identified category.

In April and May of 2019, the Board held ten customer comment meetings at locations throughout IPL's service territory. Some attendees asked questions that either were not answered or only partially answered by IPL or the Board. The Board reviewed the transcripts of the meetings and compiled a list of 40 unanswered questions. On July 17, 2019, the Board issued an order requiring IPL to file answers to the questions in Docket No. RPU-2019-0001. IPL filed answers on August 2, 2019.

H. Interventions and Testimony

The Board granted requests to intervene filed by the following parties: ITC Midwest; IBEC;[3] LEG;[4] Sierra Club; MidAmerican; ADM, Environmental Intervenors; International Brotherhood of Electrical Workers, Local 204; Large General Service Group (LGSG);[5] Walmart Inc.; Jonathan Lipman; ChargePoint, Inc. (ChargePoint); and Decorah Area Group (DAG).

Pursuant to the procedural schedule issued on April 11, 2019, testimony was filed by IPL, OCA, ITC Midwest, LEG, Sierra Club, ADM, Environmental Intervenors, LGSG, Walmart, Lipman, ChargePoint, and DAG.

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[3] IBEC members who are customers of IPL are Cargill, ADM, Deere & Company, JBS, and Equistar. (Tr. 86.)

[4] LEG is a group consisting of industrial, hospital and city utility electric customers of IPL. Participants include: AG Processing (Mason City); Agri-Industrial Products (Fairfield); Amsted Griffin Wheel (Keokuk); FMI Climax Molybdenum (Fort Madison); Guardian Glass (DeWitt); Hormel Foods (Osceola); Ingredion (Cedar Rapids); International Paper Cedar River Mill (Cedar Rapids); International Paper Shaver Road Cardboard (Cedar Rapids); Keokuk Water Works (Keokuk); Kinze Manufacturing (Williamsburg); Mercy Medical Center (Cedar Rapids); Pepsi Quaker Oats (Cedar Rapids); PMX Industries (Cedar Rapids); Rockwell Collins (Cedar Rapids); Roquette America (Keokuk); TreeHouse Foods (Cedar Rapids); and Unity Point St. Luke's Hospital (Cedar Rapids).

[5] LGSG consists of Armour Eckrich; Big River United Energy; Caraustar Industries, Inc.; Iowa Limestone Company; Lehigh Cement Company; Michael Foods, Inc.; Renewable Energy Group; the cities of Newton and Mason City, Iowa; Woodharbor; and Zinpro Corporation. (Tr. 85.)

IPL filed additional information, including its responses to certain OCA data requests, on April 9, 2019, and in response to Board orders requesting additional information issued on March 26, 2019; June 17, 2019; July 10, 2019; and November 1, 2019.

I. Joint Statement of Issues, Prehearing Briefs

On September 16, 2019, the parties filed a joint statement of issues, which included references to testimony addressing each issue. Prehearing briefs were filed on September 16, 2019, by IPL, OCA, IBEC, Sierra Club, Environmental Intervenors, Lipman, and Walmart. ChargePoint filed a prehearing brief on September 17, 2019.

J. Non-Unanimous Partial Settlement Agreement

On October 3, 2019, one business day before the hearing was scheduled to begin and ten business days after the Notice of Settlement deadline, a Non-Unanimous Partial Settlement Agreement (Settlement) and Joint Motion for Approval of Agreement was filed by IPL, OCA, Environmental Intervenors, IBEW, IBEC, LEG, LGSG, Sierra Club, and Walmart (collectively, the Settling Parties), pursuant to Iowa Code § 17A.12(5) and 199 IAC 7.18. The Settling Parties stated the Settlement resolves all issues relating to revenue requirement, ROE, capital structure, return on production tax credit (PTC) carryforwards, Renewable Energy Rider (RER), and other terms specifically identified in the Settlement. (Settlement, Article I, ¶ B.) The Settling Parties agree to cooperate in the compliance tariff process and to otherwise ensure that rates go into effect on January 1, 2020. (Settlement, Article XXI, ¶ B.) The Settling Parties also agreed they would not cross-examine other Settling Parties' witnesses on any issue addressed in the Settlement. (Settlement, Article XXI, ¶ C.) The Settling Parties withdrew their testimony regarding the subsequent proceeding required by Iowa Code § 476.33(b)(4). (Settlement, Article XVII.) The specific terms of the Settlement are discussed in Section III of this order.

On October 4, 2019, IPL filed a notice that a settlement conference would be held on October 11, 2019, to discuss the Settlement as required by the Board's rule at 199 IAC 7.18(2).

On October 4, 2019, ChargePoint filed a notice indicating that it took no position on the Settlement, ITC Midwest filed a statement that it did not contest the Settlement, and DAG filed a partial objection to the Settlement.

K. Hearing

A hearing was held October 7-9, 2019. At the start of the hearing, the Board excused witnesses identified in Board Hearing Exhibit 1. (Tr. 31.)[6] No objection was made to the Board's taking official notice of all customer comments filed in the docket. (Tr. 36.) Lipman's October 3, 2019 motion to allow supplemental rebuttal testimony was resolved by stipulation between IPL and Lipman. (Tr. 37.)

On October 8, 2019, on behalf of all parties to Docket No. RPU-2019-0001, IPL filed a "Motion for Extension of Time and Order Establishing a Procedural Schedule" asking the Board to modify the timelines set by rule at 199 IAC 7.18(3) for comments contesting the Settlement. The Board issued an order on October 10, 2019, establishing dates for post-hearing briefs and other filings.

On October 15, 2019, Lipman filed a partial objection to the Settlement (Lipman Objection). Lipman objected to the settled increase in the revenue requirement and electric base rate increase to the extent those amounts include any

[6] Throughout this order, references to the hearing transcript are shown as (Tr. page number).

amount attributable to IPL's AMI program. (Lipman Objection, pp. 1-2.) Lipman also objected to IPL's recovery of the remaining book value of retired meters. (Lipman Objection, p. 7.)

II. NON-UNANIMOUS PARTIAL SETTLEMENT

A. Summary of Settlement

The Settling Parties represent that the Settlement resolves all issues in the proceeding relating to the revenue requirement, capital structure, and certain rate design issues. (Settlement, Article V.) Pursuant to its terms, the "Agreement shall not become effective unless and until the Board enters an Order approving [the] Agreement in its entirety without condition or modification." (Settlement, Article IV.)

The Settlement provides for an annual Iowa jurisdictional electric base rate increase of $127 million based on a total annual Iowa electric revenue requirement of $1,816,169,098. (Settlement, Article VI, ¶ A.) The revenue requirement is based on a jurisdictional rate base of $6,126,710,733, a return on equity of 9.5 percent, and a capital structure of 51 percent common equity. (Settlement, Articles VI-VIII.) The Settling Parties also agree that IPL's reasonable and just rate case expense and amounts assessed by the Board and OCA related to this case will be recovered through a rider that reflects a three-year amortization period. (Settlement, Article VI, ¶ A.)

The Settling Parties included in Attachment A to the Settlement schedules with data used to develop the Settlement's provisions on the revenue increase, revenue requirement, return on equity (ROE), and capital structure.

B. Standard of Review

Board rule 199 IAC 7.18 provides that parties may propose to settle all or some of the issues in a proceeding. Pursuant to Board rule 7.18, the Board may not approve a settlement, whether contested or unanimous, "unless the settlement is reasonable in light of the record as a whole, consistent with the law, and in the public interest." Pursuant to Iowa Code § 476.8, utilities are required to furnish "reasonably adequate service," and any charges for providing such service must be "reasonable and just." The Board will review the substantive issues in this case under these standards.

III. REVIEW OF ISSUES ADDRESSED IN SETTLEMENT AGREEMENT

A. Revenue Requirement and Rate Base

IPL's original requested increase in revenue was $203.6 million, which included interim rates of approximately $90 million, based on a revenue requirement of $1,920,612,102. Before joining the Settlement, OCA proposed a two-phase approach to implementing final rates, with a final revenue requirement of $1,804,698,206. (OCA Kruger Direct, p. 37.) IBEC did not support OCA's proposed phase-in approach, but did not dispute the total interim revenue requirement increase proposed by OCA. (IBEC Meyer Rebuttal, pp. 7-10.) As noted above, the Settlement provides for an Iowa jurisdictional rate base of $6,126,710,733 for IPL's electric utility. The Board will address the items included in rate base which are specifically addressed in the Settlement.

1. Wind Asset Additions

Background and Positions of the Parties

IPL included $1.298 billion in its rate base to recover investments for 1,000 MW of new wind capacity approved in Docket Nos. RPU-2016-0005 (New Wind I) and RPU-2017-0002 (New Wind II), based on a 13-month average 2020 balance. This includes 470 MW scheduled to be in service in 2019 and the remaining 530 MW throughout 2020. IPL argued when using a future test year, all assets in service by the end of the future test year should be allowed in rates at the beginning of the test year. IPL proposed to recover its investments in New Wind I and New Wind II through an RER. (IPL Application, ¶ 18; IPL Vognsen Direct, pp. 28-33.)

In OCA's recommended phased-in approach to include items in rate base, the first phase would be based on rate base investments placed in service as of January 1, 2020, the beginning of the test year. For Phase I, OCA recommended a revenue requirement of $1,701,099,383, based on IPL's forecasted rate base as of December 31, 2019, with certain adjustments, and OCA's recommended return on equity (ROE) of 8.9 percent. (OCA Kruger Direct, pp. 3, 38.)

For Phase II, OCA recommended a revenue requirement of $1,804,698,206, based on IPL's forecasted rate base as of December 31, 2020, with certain adjustments, and an ROE of 8.9 percent. Phase II would incorporate proposed rate base additions placed in service by the end of test year 2020. Phase II would use a certification process to apply the year-end 2020 capital structure to ensure that the projected additions to rate base were used and useful prior to being included in rates in 2021. OCA's test year 2020 Phase I revenue requirement would not result in an increase for IPL customers because it would be less than the revenue requirement for interim rates IPL implemented on April 1, 2019. (OCA Kruger Direct, pp. 37-38.)

IBEC proposed an interim rate increase of $76.5 million and an additional $69.6 million for final rates, for a total increase of $146.1 million. (IBEC Meyer Direct, p. 3.) According to IBEC, OCA's proposal was meant to address the concern about unrecovered wind investment that would have been a component of IPL's proposed RER, which OCA opposed. IBEC understood OCA's concerns about approving rates for plant investment that is not used and useful at the time new rates go into effect but pointed out that this is merely a function of a future test year. IBEC stated that regulators must accept that in future test year rate cases, some investments and expenses will not be incurred at the time new rates are established. According to IBEC, regulators must be confident that investment totals in the forecasted revenue requirement will be placed in service during the future test year and thus can assume the investment will be used and useful. (IBEC Meyer Rebuttal, pp. 11-12.)

DAG urged the Board to deny the portion of IPL's requested revenue requirement that represents amounts not related to the wind projects as a way to provide incentives to the company to correct inefficient operation. (DAG Martin-Schramm Direct, p. 20.) IPL noted in rebuttal testimony that DAG proposed a revenue requirement of $72 million, which would represent recovery of wind investment only. (IPL Fields Rebuttal, pp. 13-14, 20.)

<u>Settlement Position and Board Discussion</u>

The Settlement resolves the differences between Settling Parties on this issue. The Board finds the terms of the Settlement regarding issues relating to timing of including the wind investments in rate base are reasonable.

2. Construction Work in Progress

Background and Positions of the Parties

IPL initially proposed including Construction Work in Progress (CWIP) in rate base. IPL argued that this is a better alternative to the current method, known as Allowance for Funds Used During Construction (AFUDC). AFUDC tracks costs during construction and then the costs are generally included as part of the total cost of the asset that gets put into rates upon going into service. In contrast, CWIP puts a representative amount in rates prior to the asset going into service. IPL argued this reduces the long-term carrying costs of the project. (IPL Michek Direct, p. 21; IPL Michek Direct Ex. 2; IPL Krebsbach Direct, pp. 5-7.)

OCA asserted that IPL's proposal to recover $90 million in CWIP in rate base is contrary to ratemaking practices in Iowa, violates the used and useful principle, and would shift risk to customers, with no associated benefits.

DAG, IBEC, and Walmart also opposed IPL's proposal. Walmart suggested that if the Board were to approve IPL's proposal, the Board should reduce the ROE due to reduced investor risk. (Walmart Chriss Direct, pp. 10-12.)

In rebuttal testimony, IPL acknowledged that although including CWIP in rate base is contrary to the used and useful principle, arguments against the practice are misplaced because including CWIP in rate base is about the timing of recovery and reduces the long-term costs that are incurred through AFUDC.

Settlement Position and Board Discussion

The Settlement removes CWIP from rate base. (Settlement, Article VIII, ¶ B.) The Board finds the terms of the Settlement regarding issues related to CWIP are reasonable.

3. Depreciation Study

Background and Positions of the Parties

IPL initially proposed a new depreciation study based on the assets added to rate base in this case. The main difference between the old study and the new study is that IPL proposed to include asset retirement obligations (ARO) in depreciation. The new depreciation study would include estimated impacts of ARO as a component of net salvage. Including ARO would add approximately $5 million to the new study and allow for recovery over the life of the asset rather than upon retirement. (IPL Michek Direct, pp. 17-18.)

OCA opposed IPL's proposal. OCA pointed out that IPL's depreciation study in Docket No. RPU-2017-0001 increased depreciation expense for test year 2016 by $26 million and IPL's proposed depreciation rates in this case increase depreciation expense by approximately $12 million. OCA stated that including ARO in depreciation would increase depreciation expense by $4.3 million. (OCA Kruger Direct, pp. 4, 66.) OCA argued that given the magnitude of the proposed rate increase in this case and recent rate increases, IPL should defer this accounting proposal until a later time.

Settlement Position and Board Discussion

The Settlement provides that IPL agrees to withdraw its proposed changes to the depreciation study, including its request to include ARO in the study. The Settling Parties also agree that because the New Wind I and New Wind II projects were not included in IPL's previous depreciation study, depreciation rates for those projects are consistent with the advance ratemaking principles approved by the Board. (Settlement, Article VIII, ¶ C.) The Board finds the terms of the Settlement regarding issues related to the depreciation study are reasonable.

4. Retired Electric Meter Costs

Background and Positions of the Parties

IPL proposed recording the value of the retired electric meters that were replaced by AMI meters as a regulatory asset, and adding that asset to rate base, amortized over ten years. IPL argued it should be allowed to recover the book value of its retired meters and earn a return on its retired meters. IPL applied its unprotected excess Accumulated Deferred Income Tax (ADIT) in the amount of $28 million towards the balance. IPL argued that the cost of these assets is near-constant whether retired or not since they are depreciated in either case. IPL also stated that other regulatory jurisdictions have authorized recovery of this type of regulatory asset. The PSCW authorized Wisconsin Power and Light Company (WPL) to amortize the remaining net book value for retired meters over a ten-year period. (IPL Michek Direct, pp. 33-37.)

OCA argued that the retired meters should not be included in rate base because they are no longer used and useful. OCA asserted that the $28 million in unprotected excess ADIT should be returned to customers. OCA also stated that customers should not be expected to pay for two sets of meters. (OCA Kruger Direct, pp. 47-51; OCA Kruger Rebuttal, pp. 39-40.)

Lipman argued that for IPL to be allowed to recover the costs of retired meters, it should be required to show how the benefits to customers outweigh the cost of meter retirement. According to Lipman, because the costs outweigh the benefits, IPL should not be allowed to recover any costs of the retired meters. (Lipman Swartz Rebuttal, pp. 9-13.) Lipman also argues that these assets are no longer used and useful. (Lipman Swartz Rebuttal, p. 11.)

Settlement Position and Board Discussion

The Settlement allows IPL to recover the cost of the retired electric meters and does not allow IPL to earn a return on the cost of the retired meters. (Settlement, Article VIII, ¶ D.) The Settlement also provides that IPL agrees to withdraw its request to use the remaining unprotected excess ADIT[7] to offset the retired meter costs. Instead, IPL will use its Tax Benefit Rider (TBR) to provide customers the remaining electric retail share of unprotected excess ADIT for a period of 12 months, trued-up afterward to ensure customers are not under- or over-credited. (Settlement, Article XIII, ¶ A.)

Lipman objects to IPL's recovery of the $50 million remaining book value of the retired meters. Lipman's objection is based on Iowa Code § 476.8, pursuant to which rates and charges must be reasonable and just, and Board rule 7.18, which provides that the Board will not approve a settlement unless it is in the public interest. (Lipman Objection, p. 7.)

The Board has reviewed the Settlement's provision on retired meters and Lipman's objection. The Board finds the terms of the Settlement with regard to cost recovery of retired meters are reasonable.

5. Production Tax Credit Carryforwards

Background and Positions of the Parties

Production Tax Credit (PTC) carryforwards are deferred tax credits resulting from PTCs being generated and not used. IPL has been unable to use all the PTCs

[7] Article XIII of the Settlement refers to "Excess Deferred Income Taxes." The Board uses the interchangeable term "excess ADIT" throughout this order to be consistent with the Board's orders in Docket No. INU-2018-0001 and TF-2018-0038.

it has generated because it is in a Net Operating Loss (NOL) position. IPL initially proposed to include the PTC carryforwards in rate base as a deferred tax asset and to apply the same ROE that applies to all rate base items not subject to advance ratemaking principles. (IPL Brenner Direct, pp. 27-28; IPL Michek Direct, pp. 13-16.)

OCA proposed the PTC carryforwards associated with Whispering Willow East (WWE) receive a return equal to the cost of debt of 4.551 percent and the PTC carryforwards associated with the new wind farms receive no return until the PTCs become known and measurable. (OCA Kruger Direct, pp. 84-85.)

IBEC recommended that IPL be allowed to earn the cost of debt on the PTC carryforwards to provide some compensation but not be allowed to profit by earning a full rate of return, given the substantial adverse impacts of the carrying costs. (IBEC Brubaker Direct, p. 12.)

DAG opposed including PTC carryforwards in rate base, arguing that ratepayers should not have to pay for a future benefit because excess ADIT expense cancels out or significantly erodes the future gain until IPL is no longer in a NOL. (DAG Martin-Schramm Direct, p. 19.)

Settlement Position and Board Discussion

The Settlement provides that the PTC carryforward balance associated with the New Wind I and New Wind II projects will earn a pre-tax weighted average cost of capital calculated with a common equity component based on 5.0 percent. The provision for the return on New Wind I and New Wind II will apply until the PTC carryforward balance associated with New Wind I and New Wind II is zero. The PTC carryforwards and related return for the New Wind projects will be collected through the RER. (Settlement, Article XI, ¶ A.) The PTC carryforward balance associated with the WWE wind project will earn a pre-tax weighted average cost of capital with a common equity component based on the ROE identified in Article VII of the Settlement and the approved ROE in future rate cases. (Settlement, Article XI, ¶ B.)

Finally, the Settlement provides that the PTCs will be deemed retired and will be removed from the regulatory asset upon the earliest of (a) actual use and retirement or (b) expiration of the tax credits. Further, IPL agrees not to seek additional recovery of any expired PTC carryforwards for the WWE project or the New Wind projects through the RER or in a future rate review. (Settlement, Article XI, ¶ C.)

In its comments in response to the Settlement, DAG agrees that the Board should limit any inclusion of the PTC carryforwards to the cost of debt but would prefer that the Board deny any return to IPL due to its lack of transparency and poor tax planning. (DAG Initial Brief, pp. 31-32; DAG Reply Brief, p. 11.)

The Settlement limits IPL's return on the PTC carryforward balance for New Wind I and New Wind II. IPL's NOL tax position was known at the time New Wind I and New Wind II were proposed, so earning a full rate of return on the assets would send the wrong incentive for future assets. However, earning no return on the PTC carryforward balance could encourage the company to make tax decisions that are not in the best interest of customers in order to use the PTCs. The Board finds the terms of the Settlement regarding treatment of the PTC carryforwards are reasonable.

6. Selective Catalytic Reduction Installation at Ottumwa Generating Station

Background and Positions of the Parties

On May 16, 2017, in Docket No. EPB-2016-0150, the Board issued an order approving a settlement between IPL and OCA, allowing the installation of selective catalytic reduction (SCR) technology at the Ottumwa Generating Station (OGS). The costs for the SCR installation were approved by the Board on August 22, 2018, in Docket No. EPB-2018-0150. IPL began construction of the SCR on February 15, 2017. January 25, 2019, was the official in-service date. (IPL Hanson Direct, p. 10.) The SCR technology is part of IPL's plan for OGS to be fully controlled for mercury, particulate matter, sulfur dioxide, and nitrogen oxides. (IPL Hanson Direct, pp. 9-10.) IPL stated the project was completed in accordance with the Board-approved budget. (IPL Hanson Direct, p. 11.) Interim rates include $9 million in revenue requirement related to SCR. (IPL Michek Direct, p. 21.)

Before joining the Settlement, Sierra Club recommended that IPL retire all of its coal resources, "timed to minimize the losses of continued operation and to avoid any major capital expenditures." (Sierra Club Chernick Direct, p. 76.) Although that issue is broader in scope than the issue of the SCR technology at OGS, Sierra Club asserted that the expenditure of future capital and operating costs for IPL's coal resources would be imprudent. Sierra Club asked the Board to put IPL on notice that it will disallow future cost recovery for such expenditures. (Sierra Club Chernick Direct, p. 77.)

Board Discussion

The Settlement does not specifically address the SCR but includes a comprehensive settlement of rate-base and revenue-requirement issues, which includes the SCR investment. The Board continues to support its decisions in Docket Nos. EPB-2016-0150 and EPB-2018-0150.

7. Advanced Metering Infrastructure (AMI)

Background and Positions of the Parties

IPL accelerated its deployment of AMI in 2017 because its meter testing program showed that electric meters might be due for replacement within the upcoming four-year replacement period. IPL explained that AMI offers many benefits, such as service activation and deactivation, greater accuracy, customer access to granular usage data, faster outage response, and reduction in several costs such as meter reading expense. (IPL Bauer Direct, pp. 6-7, 10-13.)

IPL hired Black & Veatch (B&V), a third-party company, to prepare a cost-benefit financial analysis for the AMI Project. This analysis was based on an internal rate of return (IRR) model which shows that the cost savings exceeded the initial outlay of capital cost in AMI investment over the life of the assets. The analysis concluded that the hard and soft benefits totaled $306.8 million, while the hard costs totaled $222.5 million. IPL noted that the assumed depreciable life of the meters is 15 years, but IPL believes they could last 20 or more years. (IPL Bauer Direct, pp. 5-21; IPL Fields Rebuttal, pp. 50-51.) The net rate base impact of AMI for IPL's electric service in 2020 is $76,298,476. (IPL Fields Direct Ex. 10.)

OCA asserted that many of the operational savings of an AMI system could also be achieved by an automated meter reading (AMR) system. OCA further noted that IPL does not appear to have any current plans to implement many of the customer-focused benefits, such as the ability to review their usage in real time. (OCA Bents Direct, pp. 10-12.) OCA's position was that IPL should only be allowed to recover 50 percent of its return on AMI investment and 50 percent of its AMI investment until IPL shows it has implemented features which benefit customers, such as the ability to send high energy alerts to customers, smart pricing programs, and implementation of demand charges to inform customers of their usage. (OCA Kruger Direct, p. 46; OCA Bents Direct, p. 12.)

IBEC, DAG, and Lipman all argued against AMI. IBEC argued that IPL did not consider the affordability of AMI for its customers. DAG argued that IPL is not providing the full benefits of AMI to its customers and, therefore, should not recover any of the costs of the investment. (DAG Martin-Schramm Rebuttal, pp. 6-7.)

Lipman's witnesses provided extensive testimony regarding several aspects of AMI. Lipman argued IPL either overstated the benefits of AMI to customers or the technology provided greater advantage to IPL than to its customers. Lipman contends the cost-benefit analysis does not include all costs to customers. IPL's use of the IRR is not as important as showing that cost savings will exceed all costs to customers over 15 years. According to Lipman, the estimated additional capital costs are $119.2 million, bringing the total cost to $341.7 million compared to assumed savings of $300 million. (Lipman Swartz Rebuttal, pp. 3-4.) Lipman also argued there are drawbacks to AMI and raised concerns about cybersecurity, privacy, and radiofrequency radiation. Lipman argued about the useful life of the meters, suggesting that 15 years is too long because the meters will likely be obsolete and replaced sooner than that. Lipman also raised issues about IPL's meter testing, pointing out that the testing of many meter lots in 2014–2016 was faulty. (Tr. 308-323.)

Settlement Position and Board Discussion

While the Settlement does not specifically address the amount of AMI investment included in rate base, the schedules supporting the Settlement include IPL's 2020 test year rate base balances, which include AMI investment. Under the Settlement, IPL will undertake a review and collaborative process with the Settling Parties regarding the use of AMI to further enhance customer solutions or grid benefits, beyond those already in IPL's plans. IPL retains the right to select technologies or tools to implement that technology, and the Settling Parties retain the right to challenge the prudence of IPL's selections. (Settlement, Article X, ¶ B.)

OCA, IBEC, DAG, and Lipman had issues with IPL's implementation of its AMI investment. OCA and IBEC joined the Settlement. The Settlement resolves OCA's main issue by establishing a process by which IPL and other parties will collaborate to find ways to further enhance grid benefits for customers through AMI.

IBEC's concern about customer affordability of AMI was presumably resolved based on the settled revenue requirement.

Lipman addressed his ongoing concerns with AMI. Lipman was also an active participant in Docket No. SPU-2018-0007, which involved IPL's proposed non-standard meter alternative (NSMA). Lipman's ultimate position in this case is that IPL's investment in AMI was not prudent; therefore, IPL should not be allowed recovery of its AMI investment or its retired meters.

To determine whether an investment is prudent, a utility typically performs a cost-benefit analysis. IPL hired B&V to perform an objective financial analysis. IPL

Bauer Direct Exhibit 3 includes the B&V report, which contains the details of the analysis. IPL claimed that IPL and B&V had extensive conversations on what costs and benefits should be included in the analysis. Additionally, IPL compared the average cost of the Sensus meter with 12 other AMI projects from a United States Department of Energy report to determine the reasonableness of Sensus meters.[8] IPL's average cost was $271 per meter, the fifth lowest of the listed projects, which also falls below the average cost of the projects used in IPL's comparison. (IPL Bauer Rebuttal, p. 9.)

In his objection to the Settlement, Lipman argues that all of IPL's AMI costs, including the capital costs grossed up for taxes and insurance premiums, exceed the benefits that were included in IPL's B&V financial analysis. For that reason, Lipman believes the Board should deny IPL cost recovery of this project. Lipman also argued IPL attempted to show that after the 15-year review period, customers would benefit significantly from AMI because AMI meters will likely last longer than 15 years. Lipman does not accept this premise. In its response to Lipman's objection, IPL did not address these claims but, instead, argued that because Lipman did not participate in the Settlement Conference held on October 11, 2019, Lipman waived the right to object to the Settlement.

The Board disagrees with IPL and concludes Lipman did not waive his right to object to the Settlement. The Board has previously encouraged IPL to consider implementing new technologies such as AMI, and the management audit required by the Board in Docket No. INU-2011-0001 recommended that IPL actively pursue the

[8] This report was prepared in September 2016 and was titled "Results from the Smart Grid Investment Grant Program."

evaluation of transitioning to AMI/Smart Metering. In this case, the argument that the costs of the investment exceed the benefits to customers, even if proven, does not persuade the Board that IPL's investment in AMI was not prudent. The concerns whether the investment is yielding all possible benefits for customers, *i.e*, that the technology is not yet used and useful, do not warrant limiting IPL's recovery in this case. The AMI meters are serving their fundamental purpose of providing metering service to IPL's electric customers and will continue to be used and useful. IPL's investment in AMI meters is consistent with the Board's direction and the recommendation in the audit to consider using new technologies. While OCA contends AMI may not be used to its fullest potential at this time, it would not be prudent to implement AMR to subsequently be required to implement AMI to achieve further benefits and options. The implementation of AMI provides the opportunity for continued gains in efficiency and effective operation for the future without substantial further investment as would be required if implementing AMR at this time. The Board expects IPL to include all interested stakeholders in the collaborative process, including parties to this proceeding that did not join the Settlement. The Board finds that the terms of the Settlement regarding collaboration, with the addition of all interested stakeholders, are reasonable and will support the expansion of the customer-focused features of the meters. The Board encourages the development and other uses of this technology that improve operational efficiency.

After reviewing Lipman and DAG's objections to including the AMI investment in rate base, the Board finds no adjustment is necessary with respect to any impact AMI may have on the rate base and resulting revenue requirement.

8. Cash Working Capital

Background and Positions of the Parties

IPL calculated its cash working capital based on a lead-lag study consisting of the following major items: labor, other O&M expenses, property taxes, income taxes, interest on long-term debt, preferred dividends, Federal Insurance Contributions Act (FICA) taxes, and unemployment taxes. (IPL Fields Direct, pp. 4-5; Ex. 3.) The lead-lag study for the electric case also included items for fuel burned and electricity purchased. The calculation used the revenue lag days of 43.4, which consists of 15.2 metering days, 1.9 processing days, and 26.3 collection days. IPL argues that cash lag includes the time period from when an account is billed until it is paid or written off and is a cost not otherwise accounted for. (IPL Fields Rebuttal, pp. 51-52.) OCA asserted that IPL's calculation of 26.3 collection days includes uncollectible accounts from which it does not receive any money. OCA argued those accounts should be excluded from calculating the number of collection days because IPL will not receive any cash from those accounts. After removing those accounts, OCA believes the calculation of cash working capital should be adjusted based on a period of 22.9 collection days. (OCA Kruger Direct, pp. 95-97.)

Settlement Position and Board Discussion

The Settlement does not specifically address this issue, but the calculations attached to the Settlement include IPL's original proposal of 26.3 collection days for cash working capital with an adjustment. (Settlement, Attachment A, p. 4.) The Board finds that IPL's treatment of this issue in the Settlement calculations is reasonable.

B. Return on Equity and Capital Structure

1. Return on Equity

Background and Positions of the Parties

Prior to the Settlement, IPL witness Morin had proposed an ROE of 9.8 percent, contingent on the Board approving a capital structure with a 53 percent common equity ratio. (IPL Morin Direct, p. 61.) OCA witness Munoz had recommended an ROE of 8.9 percent, and IBEC witness Walters recommended an ROE of 9.2 percent. (OCA Munoz Direct, p. 5; IBEC Walters Direct, p. 50.) While Walmart and Environmental Intervenors did not provide the Board with a proposed ROE, both objected to IPL's 9.8 percent proposed ROE. (Walmart Chriss Direct, pp. 7-10, 13-16; Env. Int. Rábago Direct, pp. 63-64.)

Settlement Position and Board Discussion

The Settlement includes a 9.5 percent ROE to apply to IPL's portions of rate base that are not already associated with advance ratemaking principles. (Settlement, Article VII, ¶ B.) The Settling Parties assert that such an ROE is a reasonable compromise based on the evidence presented by the parties in their prefiled testimony. (*Id*.) DAG objected to the Settlement's ROE, stating that a 9.5 percent ROE was too generous given the evidence presented. (DAG Partial Objection, p. 4.)

The Settlement's 9.5 percent ROE falls within the range of OCA's proposed 8.9 percent ROE and IPL's proposed 9.8 percent ROE. A 9.5 percent ROE is also 10 basis points lower than the Board-approved ROE in the settlement in IPL's last electric rate case, Docket No. RPU-2017-0001. Further, a 9.5 percent ROE is below the 9.73 average authorized ROE for vertically integrated utilities. (Walmart Chriss

Direct, p. 14.) The Board finds the terms of the Settlement regarding the issue of ROE (9.5 percent) are reasonable.

2. Capital Structure

Background and Positions of the Parties

Prior to the Settlement, IPL had argued for a capital structure with a 53 percent common equity ratio to counter losses to its cash flow because of the 2017 federal Tax Cuts and Jobs Act (*Tax Cuts and Jobs Acts of 2017*, Pub. L. No. 115-97 131 Stat. 2054 2017, Tax Reform). Tax Reform reduced the corporate income tax rate from 35 percent to 21 percent. (*Id*.) As pointed out by IPL witness Krebsbach, this reduction produces lower bills for IPL's customers, which results in reduced cash flow for IPL, which negatively impacts IPL's financial metrics used to determine its credit ratings. (IPL Krebsbach Direct, pp. 2-5.) To improve its financial metrics, IPL proposed to increase its common equity ratio to 53 percent.

OCA argued against the 53 percent common equity ratio, stating that losses to cash flows were not significant enough to warrant a downgrade in IPL's credit rating and were speculative. (OCA Munoz Direct, pp. 60-70.) OCA also noted that such an increase in the common equity ratio would significantly increase IPL's revenue requirement. (*Id*., pp. 24-31.) OCA proposed a common equity balance of approximately 47 percent for 2020. (*Id*., p. 23.) IBEC had argued that a 50 percent common equity ratio was reasonable. (IBEC Walters Direct, pp. 19-23.)

Settlement Position and Board Discussion

The Settling Parties have agreed to a 51 percent common equity based on a 13-month average balance ending December 31, 2020. (Settlement Article VII, ¶ C.) The ratio falls between OCA's proposed 47 percent and IPL's proposed 53 percent.

Determining the appropriate capital structure requires balancing IPL's costs of long-term debt, preferred equity, and common equity. The weighted cost rates consider the different levels of risk associated with each type of capital. Long-term debt is generally the cheapest of the three and should have the lowest cost rate since the interest payments are contractual, and the bondholders are first in line to recover their investment in the event of a bankruptcy. In contrast, common equity has the highest cost rate since its shareholders only receive residual earnings through dividends and are last in line to recover their investment in the event of bankruptcy. The level of common equity capital can have a significant impact on the revenue requirement since it is the most expensive capital available to the utility.

A 51 percent common equity ratio is similar to IPL's capital structure used in its interim rates for the period ending on March 31, 2019. A 51 percent common equity ratio should help IPL maintain its credit rating and closely reflects what is in its current capital structure. The Board finds the terms of the Settlement regarding capital structure (51 percent common equity ratio) are reasonable.

C. Settled Income Statement Issues

1. Transportation Electrification Incentives

Background and Positions of the Parties

Since April 2016, shareholders have funded a Transportation Electrification Pilot, providing more than 360 rebates. (IPL Nielsen Direct, p. 32.) IPL proposed to recover up to $2.2 million (under O&M expenses) in test year 2020 for customer rebates for electric vehicle charging infrastructure,[9] electric forklifts,[10] and electric-capable transport refrigeration units (eTRUs),[11] but is not proposing to earn a return on the proposed incentives. (IPL Initial Brief, p. 54.) IPL asserts both its customers and the company will benefit from increased electrification adoption because revenues from increased load could help control and offset customer costs. (IPL Initial Brief, p. 54; IPL Nielsen Direct, p. 31.) According to IPL, the proposed incentives will complement a number of Iowa incentives, including the Iowa Energy Plan. (IPL Initial Brief, p. 54; IPL Nielsen Direct, p. 31.)

ChargePoint recommended that the Board require IPL to implement a modified version of IPL's proposed Transportation Electrification Program and suggested specific modifications to the program. (ChargePoint Initial Brief, pp. 1-2.) ChargePoint also recommended that the Board approve the program budget of $2.2 million and order IPL to offer incentives at the levels proposed. (*Id*., pp. 4-5.)

Environmental Intervenors supported IPL's proposal to initiate a rebate program but expressed concern that IPL offered no analytical support for the proposed rebate levels to ensure that IPL is not overpaying or underpaying for customer rebates. (Env. Int. Rábago Direct, p. 43.) Environmental Intervenors also suggest that IPL eliminate the rebates for conventional (non-smart) chargers and

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[9] IPL proposes the following residential and nonresidential customer rebates: up to $750 for Residential Level 2 EV Smart Charger; up to $500 for Residential Level 2 EV Conventional Charger; up to $1,500 per port or $3,000 per dual prong for Business/Community/Multifamily Level 2 EV Charger; and up to $30,000 for Direct Current Fast Charging (DCFC) Charger. (IPL Nielsen Direct, pp. 30-31.) In rebuttal testimony (IPL Nielsen Rebuttal, pp. 28-29), Mr. Nielsen agreed to remove the rebate for conventional home chargers for residential customers.

[10] IPL proposes customer rebates up to $1,500 per lift for Class 1 and 2 Forklift and up to $350 per lift for Class 3 Forklift. (IPL Nielsen Direct, p. 31.) IPL proposes dealer rebates up to $350 per lift and up to $100 per lift, respectively. (*Id*.)

[11] IPL proposes customer rebates up to $1,500 per eTRU and plug-in infrastructure. (*Id*.)

offer optional time-of-use rates that encourage off-peak charging. (*Id*., pp. 43-44.) Environmental Intervenors recommended that the Board allow IPL to offer its Transportation Electrification Program with modifications to ensure the technologies incent maximum benefits from electrification. (Env. Int. Reply Brief, p. 5.)

OCA argued that the Board should not require ratepayers to fund IPL's proposed Transportation Electrification Program because the program is not cost-effective. (OCA Initial Brief, p. 14.) Further, OCA asserted that because transportation electrification incentives do not benefit all customers, IPL's shareholders should continue to fund this program. (*Id*.)

LEG agreed with OCA's analysis of IPL's cost-effectiveness calculations. (LEG Initial Brief, pp. 14-15.) LEG asserted that IPL's proposed Transportation Electrification Program would subsidize specific technologies selected by IPL for purposes of increasing electric usage. (*Id*., pp. 13-14.)

Settlement Position and Board Discussion

While not addressing the Transportation Electrification Program specifically, the Settlement contains a comprehensive agreement on the revenue requirement, which includes O&M expenses such as these incentives. At hearing, IPL witness Nielsen stated that IPL intends to move forward with a Transportation Electrification Program consistent with IPL's proposal. (Tr. 399-400.) However, Mr. Nielsen also stated that given the Settlement's lower revenue requirement, the total amount for this program may be lower than the proposed $2.2 million amount. (Tr. 411.)

The Board has reviewed the cost-effectiveness analysis provided by the parties and finds the Transportation Electrification Program is not cost-effective for all customers. The Board finds that the Transportation Electrification Program shall not be funded by rates paid by customers. Any incentives for the program must be paid by shareholders.

2. Variable Pay Plans (Performance Pay)

Background and Positions of the Parties

OCA claimed IPL included a total of $20 million for both short-term and long-term performance pay plans in final rates. (OCA Kruger Direct, p. 57.) IPL initially only addressed short-term pay and did not acknowledge including long-term performance pay until rebuttal testimony. (IPL Stock Rebuttal, pp. 2-9.) These pay plans are part of the employee's overall compensation package and are not considered bonuses. According to IPL, the plans are needed to attract and keep talented employees and align employee behavior with IPL's objectives. IPL also noted that breaking the pay into two parts reduces costs to customers. Costs of life insurance, pension, time off, sick leave, and vacation are related to base salary. (IPL Stock Direct, pp. 7-8.)

OCA objected to IPL's proposal, asserting that the financial components that make up the majority of the variable pay structure primarily benefit shareholders. (OCA Kruger Direct, pp. 53-64.) Likewise, IBEC and DAG argued that performance pay should not be part of the revenue requirement approved by the Board. (IBEC Meyer Rebuttal, pp. 6, 15-16; DAG Martin-Schramm Rebuttal, pp. 5-6.)

Settlement Position and Board Discussion

The Settlement removes payment for both short-term and long-term performance pay from the revenue requirement. (Settlement, Article XV.)

Removing performance pay from the revenue requirement is consistent with the settlement the Board approved in IPL's last electric rate case, Docket No. RPU-

2017-0001. The Board finds that the terms of the Settlement regarding variable pay plans are reasonable.

D. Settled Rate Design Issues

1. Residential Summer Declining Block Rates

Background and Positions of the Parties

IPL's original application proposed a declining price block structure applicable for residential customers for the summer season. (IPL Vognsen Direct, p. 20.) IPL stated the declining block rate structure was appropriate because a positive correlation exists between customer energy usage and load factor. (*Id.*) OCA opposed the proposal for many reasons, including that the proposal did not meet the requirements of Board rule 20.10(3). (OCA Davison Direct, p. 58.) DAG and Environmental Intervenors objected to the proposal for various reasons. LEG supported the proposal.

Settlement Position and Board Discussion

The Settlement provides that IPL withdraw its proposal. (Settlement, Article XVI, ¶ B.) The Board finds the terms of the Settlement regarding residential summer declining block rates are reasonable.

2. Customer Charges

Background and Positions of the Parties

IPL initially proposed to raise the residential customer charge to $13 per month from $11.50 per month and to raise the general service (GS) customer charge to $20 per month from $19 per month. (IPL Vognsen Direct, p.18.) IPL proposed this change to more accurately reflect costs. (*Id.*) IPL initially stated that the calculated cost of providing service to residential customers is $15.65 and the calculated cost of providing service to GS customers is $20.87. (*Id.*) Based on the revised Class Cost of Service Study (CCOSS), the cost basis for the residential customer charge is $15.77. (IPL Vognsen Rebuttal, p. 38.)

DAG was the only party to oppose IPL's proposed customer charges. According to DAG, the customer charge for the Residential class should be $9.95, the charge for the GS class should be $15.87, and the volumetric charges should be increased. (DAG Osterberg Direct, p. 9.)

<u>Settlement Position and Board Discussion</u>

The Settlement adopts IPL's proposed customer charges, as they were clarified in IPL's rebuttal testimony. (Settlement, Article XVI, ¶ F.) The Board finds that the $13 and $20 customer charges included in the Settlement for the Residential and GS classes, respectively, are reasonable.

IPL initially proposed a reconnect charge of $17.29 for all reconnections regardless of the time when the reconnection is made, and a charge of $73.26 for reconnections that require a field representative visit to the premises. The current reconnect charges are $56 and $123, respectively. IPL later explained it would adjust these charges to whole numbers of $17 and $73 for administrative efficiency and said the adjustment would be made to the applicable tariff sheet in IPL's compliance filing. (IPL Vognsen Rebuttal, pp. 60-61.) The Board orders IPL to include this revision in the compliance filing required by this order.

E. Settled Tariff Issues

1. Energy Efficiency Cost Recovery (EECR) Tariff Changes

Background and Positions of the Parties

IPL's proposed Rider EECR – Energy Efficiency Cost Recovery, Revised Sheet No. 60 (EECR Rider) included new language, which provides: "Cost recovery factors will be applied to all kilo-Watt hours consumed by the customer and delivered by the Company." IPL argued that the proposed language would ensure the EECR factor is applied on a uniform basis to all customers based on each kWh delivered by IPL to the customer. (IPL Vognsen Direct, pp. 42-43.)

OCA stated that the proposed language would reduce the value of net-metered energy and recommended that the changes not be considered outside the Board's net metering (NM) pilot programs without input from stakeholders. (OCA Munoz Rebuttal, pp. 21-22.)

Environmental Intervenors argued the changes "represent a back door attempt to undermine net metering and the Board's established process for analyzing net metering and evaluating policy and rate changes that could impact it." (Env. Int. Prehearing Brief, p. 8.) They also asserted that the new rates are not based on actual usage and are discriminatory, treating NM and alternative energy production (AEP) customers differently than other customers who may reduce their energy usage. (*Id*., p. 9.) For these reasons, Environmental Intervenors asked the Board to reject IPL's proposed EECR (and Regional Transmission Service (RTS)) rider proposals. (*Id*., p. 10.)

DAG agreed with Environmental Intervenors and urged the Board to reject the proposed EECR (and RTS) rider changes. (DAG Martin-Schramm Rebuttal, p. 10.)

Conversely, LEG supported IPL's proposed EECR language. (LEG Latham Direct, p. 20.)

Settlement Position and Board Discussion

The Settlement provides that IPL agrees to strike the following sentence from the EECR Rider: "Cost recovery factors will be applied to all kilo-Watt hours consumed by the customer and delivered by the Company." (Settlement, Article XVI, ¶ D.)

The Board acknowledges IPL's contention that NM and AEP customers have the same access to energy efficiency programs as non-NM and non-AEP customers. In some cases, NM and AEP customers may not pay a proportionate share of the energy efficiency costs when compared to the non-NM and non-AEP customers because the EECR was originally designed for non-NM and non-AEP customers. Currently, the EECR factor is applied to all customers' monthly electricity usage. In the case of NM and AEP customers, the monthly usage is the difference between the kWh delivered from IPL and the excess kWh generated and sent to IPL's system, which means the EECR factor is not applied to all energy delivered by IPL and used by NM and AEP customers.

IPL's proposed language appears to be ambiguous and does not clearly identify how the EECR Rider will be applied to NM and AEP customers. In addition, IPL's testimony and the information it provided in data requests communicate differing methods for implementing the proposed language. (IPL Vognsen Rebuttal, pp. 46-48; Env. Int. Rábago Direct Ex. 12.)

The Board finds the terms of the Settlement regarding the issue related to EECR tariff changes are reasonable.

2. Renewable Energy Rider (RER)

Background and Positions of the Parties

IPL initially proposed an RER to recover costs of one or more AEP facilities for which the Board has approved advance ratemaking principles under Iowa Code § 476.53. IPL explained that the proposed RER would serve as a "carve-out" from the base rate revenue requirement so that the benefits of current and future renewable generation resources would go to customers and align costs and benefits in rates. (IPL Michek Direct, p. 37; Application, p. 9, ¶ 18; IPL's Response to Order Regarding Customer Comment Meeting Questions, pp. 7-8.) According to IPL, the RER is necessary because the single test year based on average rate base for 2020 would not provide for full cost recovery of investments in New Wind I and New Wind II, which the Board has already approved in the advance ratemaking proceedings. IPL contends that using the RER to recover costs and return benefits to customers would be more efficient than a rate case and would eliminate regulatory lag for renewable investments. (IPL Michek Rebuttal, p. 23; IPL Vognsen Rebuttal, p. 7.)

IPL would use the RER to recover costs when each new AEP facility is placed in service without filing a rate review proceeding to include those costs in base rates. IPL proposed that the RER factor, or surcharge, would appear as a specific line item on customers' monthly bills, and customers would receive notice on their bills of any change in the RER factor, as approved by the Board, on an annual basis. IPL would provide revised RER factors in an annual true-up filing in October of each year. In that filing, actual costs and benefits would be reconciled with the forecasted costs and benefits. (TF-2019-0018, Original Sheet No. 91.) The Board and interested parties would be able to review changes in the RER rate factors before IPL implemented new rates through the rider. (IPL Michek Rebuttal, pp. 13, 23; IPL Vognsen Rebuttal, pp. 4-5.)

In direct testimony, IPL stated that New Wind I and New Wind II would qualify as renewable projects eligible for recovery under the RER because the Board has awarded advance ratemaking principles for those projects and costs associated with those projects are not being recovered in base rates. However, the proposed RER was not limited to the New Wind projects. (IPL Vognsen Direct, p. 30.) IPL stated that the RER could include additional projects for which the Board awards advance ratemaking principles under Iowa Code § 476.53. (*Id*.) In rebuttal testimony, however, IPL indicated it would not object to a more limited RER that applies only to New Wind I and New Wind II. (IPL Michek Rebuttal, p. 27; IPL Vognsen Rebuttal, p. 4.)

Prior to the Settlement, IPL proposed including all of the following costs and benefits in the RER:

- Return of investment (depreciation expense);
- Return on investment (financing costs), including plant-related ADIT;
- Operation and maintenance expenses, including necessary taxes (O&M expenses);
- Federal tax credits and carryforward credits related to the AEP facility; and
- Capacity value benefits (MISO capacity accreditation).

(IPL Micheck Direct, p. 38; IPL Michek Direct Ex. 4 (Final E); IPL Vognsen Direct, pp. 28-29.)

Prior to joining the Settlement, OCA, IBEC, LEG, and Walmart opposed the proposed RER. According to OCA, the RER would transfer capital investment risk from IPL to its customers; would reduce cost-management incentives; would not meet the criteria for an automatic cost recovery mechanism; would allow for additional and automatic return; and is unjustified and unnecessary. (OCA Munoz Direct, p. 85; OCA Kruger Rebuttal, pp. 16-17.) As an alternative, OCA proposed the two-phase rate increase that would implement rate increases in two increments that would be determined based on additional review of actual investments. (OCA Kruger Direct, p. 37.)

IBEC recommended rejecting IPL's proposed RER because it would allow automatic rate adjustments without appropriate review by the Board and without consideration of other factors that could affect IPL's revenue requirement, such as increased accumulated depreciation, changing sales levels, increased operational efficiencies, and benefits of debt refinancing. (IBEC Brubaker Direct, p. 13; IBEC Brubaker Rebuttal, p. 11.) As an alternative, IBEC proposed that IPL could defer depreciation of and return on incremental wind farm investments, using a regulatory asset; in IPL's next rate case, the deferred balances would be shown in IPL's cost of service. (IBEC Brubaker Direct, pp. 15-16.)

LEG urged the Board to reject the proposed RER because IPL did not propose a regulatory process to review and challenge the rates and recoveries that would flow through the RER and because the RER is incompatible with cost cap ratemaking principles. (LEG Latham Direct, pp. 17-19; LEG Latham Rebuttal, pp. 12-13.) LEG argued that without a contested case review of IPL's RER filings, IPL would not be accountable for its overstatement in the advance ratemaking proceeding of the value of capacity for the New Wind II projects. (LEG Latham Direct, p. 19.)

Walmart opposed the RER, arguing that it would shift the risk associated with regulatory lag from IPL to the ratepayers. Walmart recommended that the Board closely examine IPL's proposed ROE in light of the RER, which Walmart described as a risk-reducing factor. (Walmart Chriss Direct, p. 12.)

Settlement Position and Board Discussion

Article XII of the Settlement allows IPL to implement the RER on a limited basis. The Settlement limits the RER to facilities constructed or being constructed as part of New Wind I and New Wind II and removes the recovery of O&M expenses attributable to those facilities from the RER. (Settlement, Article XII, ¶ A.) The Settlement also provides that the RER will include the settled lower common equity component of 5.0 percent for the PTC carryforward balance. For everything else, the settled RER is consistent with IPL's proposal as shown in IPL Michek Direct Exhibit 4 (Final)(E).

As settled, the RER will exist until the Board's final order in IPL's next rate review proceeding, in which parties will be able to advocate for a new RER, base rate treatment, or other mechanism to recover costs and benefits of assets that would flow through the RER agreed upon in the Settlement. O&M expenses for the facilities forecasted for test year 2020 will be included in base rates. (Settlement, Article XII, ¶ B.)

The Settling Parties agree that the RER will be trued-up to the in-service dates of the New Wind I and New Wind II facilities. (Settlement, Article XII, ¶ C.) IPL's witness Michek testified that without the RER, it would need to file another application to increase its electric rates in 2020 to ensure that the New Wind investments were included in rate base. In that scenario, IPL would likely file a rate case with the Board using a test year of 2021. (IPL Michek Rebuttal, pp. 26-27; IPL Initial Brief, p. 18.) In addition to the unrecovered wind investments, the next rate case also would need to address the accumulation of a significantly higher PTC carryforward balance.

As originally proposed, the RER would have allowed IPL to recover costs associated with any facility for which the Board has granted advance ratemaking principles when the facility is placed into service, instead of filing an application with the Board to include the costs in base rates. If approved as initially proposed by IPL, the RER could lead to significant rate impacts in the future. The Settlement reduces the potential impact of the RER by limiting it to New Wind I and New Wind II and by eliminating recovery of O&M expenses through the rider. The potential impact of the RER was further restricted by the Settlement's provision that limits the common equity component of the return to 5.0 percent for the entire life of the PTC carryforward balance for New Wind I and New Wind II. (Settlement, Article XI, ¶ A.)

If the settled RER is approved and implemented, the PTCs for New Wind I and New Wind II will flow through the RER instead of the Energy Adjustment Clause (EAC). If the settled RER is not approved, the Board will need to determine what happens with the PTCs as they are earned in 2021.[12] According to IPL's estimates, the PTCs in 2021 will be greater than the amount estimated in test year 2020 as new facilities will be in production for the entirety of 2021. If the Board were to agree to have the PTCs earned in 2021 flow through the EAC, then, as provided in the Board's order in Docket No. RPU-2017-0002, IPL would need to apply for a rate

[12] The parties in the advance ratemaking principles proceeding for New Wind II, Docket No. RPU-2017-0002, were concerned about the timing of when the earned PTCs would flow through to the customer. In that proceeding, the Board agreed with IPL's assessment that the matching principle required New Wind II to be in rate base before the PTCs could be passed through to the customers.

increase in 2021 to capture the increase in the 13-month average investment balance to comply with the matching principle. If the Board does not approve the RER, and the Board does not allow the PTCs to flow through the EAC until the entire investment is included in rate base, then customers will not receive all of the PTCs as they are earned if IPL does not file for a rate increase in 2021.

The Settlement limits the RER to the New Wind projects and secures a significant reduction of IPL's return on the PTC carryforward balance relative to what IPL first proposed for the life of the PTC carryforward balance associated with New Wind I and New Wind II. OCA emphasizes that the primary benefit of the settled RER is that it allows IPL to delay filing its next rate case. (OCA Reply Brief, p. 5.) OCA also emphasizes that the lower earnings on the PTC carryforwards for New Wind I and New Wind II will apply as long as the PTC carryforward balance exists, which delivers a long-term benefit to IPL's customers. (*Id*., pp. 3-5.) OCA argues that the Settlement's treatment of the RER is reasonable given IPL's development of the five large-scale wind projects included in New Wind I and New Wind II that will conclude at different times in the 2020 test year. (*Id*., p. 4.)

Through testimony in this case, IPL has indicated that approval of the RER will allow the company to defer filing its next electric rate case. (Tr. 247-48; IPL Michek Rebuttal, pp. 26-27.) The Board understands that approving the RER means that IPL will not need to apply to increase its rates for electric service to recover costs associated with New Wind I and New Wind II because the ending balances for 2020 and forecasted changes in 2021 for those projects would be recovered through the RER. The RER will allow full cost recovery of investments in New Wind I and New Wind II and forestall the need for IPL to apply for a rate increase for test year 2021.

The Board finds the terms of the Settlement regarding the RER are reasonable. In the event the information that tracks transmission costs and any cost cap overruns is no longer provided through the semi-annual reports for New Wind I and New Wind II in Docket Nos. RPU-2016-0005 and RPU-2017-0002 because those facilities are included in rate base, IPL shall include the information in the RER reconciliation.

3. Community Solar Program, Renewable Energy Partners Program, Customer-Hosted Renewables Program

Background and Positions of the Parties

IPL has proposed three tariffs related to renewable energy programs: the Community Solar Program, the Renewable Energy Partners Program, and the Customer-Hosted Renewables Program. The tariffs are intended to increase customers' access to renewable energy. Participation in each program is voluntary.

The Community Solar Program allows customers to offset their electric bills by purchasing a subscription to electricity produced at a solar facility built specifically for the program. Subscriptions are issued in blocks of 250 watts. (IPL Nielsen Direct, p. 6.) A 2.5 megawatt facility would therefore have 10,000 subscriptions available for purchase. The fee for each 250-watt subscription is based on the expected cost of producing electricity at the facility over the 20-year duration of the subscription. (*Id*., p. 9.) Subscription holders receive a credit on their monthly bill. The credit is calculated by multiplying the monthly output of the facility by the customer's percentage of total shares in the facility, then multiplying that product by the current credit rate. (*Id*., p. 13.) The credit rate is initially set at $0.0559 per kWh, which is based on IPL's most recently approved class cost-of-service study. (*Id*.) The credit rate may be updated in the future based on new class cost-of-service studies, but it will never fall below the current rate. (*Id*.) Customers may transfer their subscription to a new address or to a different individual under certain circumstances. (*Id*., p. 11.) IPL estimates that the payback period for an average residential customer is between nine and 11 years. (*Id*., p. 14.)

The Renewable Energy Partners Program allows nonresidential general service customers or large general service customers to purchase their energy from a renewable energy facility built specifically for the customer. (*Id*., p. 15.) The customer enters into a contract with IPL and makes an up-front payment for the entire cost of the new facility in exchange for a credit on its monthly bill. (*Id*.) The amount of the credit is based on the settled market value of the energy produced, less any MISO charges. (*Id*., p. 18.) The terms of each contract IPL negotiates with a participating customer will ensure that nonparticipating customers will not be harmed. (*Id*., p. 16.) IPL will file each contract with the Board for approval. (*Id*., p. 17.)

The Customer-Hosted Renewables Program allows nonresidential general service customers and large general service customers to host solar panels or battery storage systems owned by IPL on the customer's rooftop or land in exchange for a fixed monthly lease payment. (*Id*., p. 19.) For solar panels, the value of the lease payment is calculated by multiplying the capacity of the solar array by the MISO zone 2 cost of new entry (CONE), then dividing by 12. (*Id*., p. 22.) The CONE rate in effect at the time the lease is signed will remain in effect for the duration of the lease. (*Id*.) For battery storage systems, the lease payment is calculated by multiplying the capacity of the battery in megawatts by $1,500, then dividing by 12.

(*Id*., p. 23.) The prudency of the lease payments will be reviewed by the Board in future rate cases. (IPL Nielsen Rebuttal, p. 19.)

Settlement Position and Board Discussion

Pursuant to the terms of the Settlement, the Settling Parties withdrew their objections to each of the three renewable energy tariffs, subject to the clarifications and details provided in IPL's rebuttal testimony. (Settlement, Article XVI, ¶ E.) IPL agreed to convene at least three stakeholder planning meetings with the Settling Parties within 18 months of the date of this order to discuss initial results of the programs and potential changes. (*Id*.) The Settlement provides that changes to the programs will be considered, at the latest, during IPL's next rate review. (*Id*.)

The Board finds that the terms of the Settlement regarding the renewable energy tariffs are reasonable. The Board requires IPL to file for approval by the Board revised tariffs which reflect the clarifications and details as provided in IPL witness Nielsen's rebuttal testimony. (IPL Nielsen Rebuttal, pp. 1-26.) The Board requires IPL to include all intervening parties, and other interested persons, not just the Settling Parties, in the stakeholder planning meetings described in the Settlement.

4. Energy Adjustment Clause (EAC)

Background and Positions of the Parties

IPL testified that the fuel costs that flow through the company's EAC are expected to decrease by $22 million from 2018 to 2019 with the addition of IPL's 470 MW of wind investment. IPL stated that from 2019 to 2020, EAC-eligible fuel costs will decrease by $13 million due to additional wind and the early termination of the

Duane Arnold Energy Center (DAEC) power purchase agreement (PPA). (IPL Fields Direct, pp. 13-14; IPL Michek Direct, pp. 6-7.)

IPL proposed to modify the EAC to include recovery of the buyout payment made to terminate the DAEC PPA consistent with the Board's December 11, 2018 order in Docket No. SPU-2018-0008. IPL proposed to allocate the buyout payment to customer classes using a demand-based, average and excess allocator because that is the allocator used for the DAEC PPA costs. (IPL Vognsen Direct, pp. 41-43.) IPL also proposed to add the following statement on EAC tariff sheets 58 and 59: “However, this adjustment will not include energy market settlements from renewable energy projects not included in rate base for determining rates.”

OCA objected to IPL’s proposed additional language that would exclude energy market settlements for projects not reflected in rates. OCA argued that ratepayers should receive all potential benefits from the renewable energy projects as soon as the projects are operational. According to OCA, the proposed language would allow IPL to flow a stream of benefits to shareholders rather than to ratepayers while still recovering the costs from ratepayers. OCA pointed out that at many of the customer comment meetings held in this case, IPL claimed that part of the reason IPL is constructing renewable generation resources is to be able to deliver these kinds of benefits to customers. (OCA Davison Direct, p. 43.) OCA argued that the Board should hold IPL to those commitments by rejecting IPL’s proposed language. (*Id.*)

IBEC agreed with OCA that the energy market settlements of all renewable energy projects should be included in the EAC. (IBEC Brubaker Rebuttal, pp. 11-12.)

LEG supported IPL's proposed changes to the EAC relating to the recovery of the DAEC PPA buyout payment. (LEG Latham Direct, pp. 18-19.)

Settlement Position and Board Discussion

As argued by OCA and IBEC, the Settlement provides that IPL will withdraw its proposed revision to the EAC relating to energy market settlements from renewable energy projects not included in rate base. The Settlement retains IPL's proposal relating to the recovery of the DAEC PPA buyout payment. (Settlement, Article XVI, ¶ C.) The Board finds the terms of the Settlement regarding the issue of the EAC are reasonable.

5. Fixed Amount Bill Pilot

Background and Positions of the Parties

IPL proposed a Fixed Amount Bill Pilot (FABP). As proposed, residential customers participating in the FABP could opt for a fixed annual bill with no reconciliation. (IPL Application, ¶ 20.)

OCA opposed the proposed FABP, arguing that it is discriminatory; would fail to give efficient price signals; is contrary to the Board's rule at 199 IAC 20.3(1)(a), which requires that all electricity sold by a utility shall be on the basis of meter measurement, with certain exceptions; and is unnecessary in light of the existing Budget Billing program. (OCA Taylor Direct, pp. 9, 11.)

Environmental Intervenors opposed the proposed FABP, arguing it would fail to give efficient price signals, is inconsistent with ratemaking principles, and is not needed because budget billing is available. (Env. Int. Rábago Direct, pp. 40-41.) LEG also opposed the proposal as unnecessary. (LEG Latham Direct, p. 15.)

Settlement Position and Board Discussion

Pursuant to the Settlement, IPL withdrew its proposed FABP. (Settlement, Article XVI, ¶ A.) The need for stable pricing for IPL's customers can be addressed through IPL's Budget Billing program. IPL's current electric tariffs refer to Budget Billing by its former title, "Level Payment Plan." The Board finds the terms of the Settlement regarding FABP are reasonable. The Board requires IPL to update the Level Payment Plan language in its electric tariffs to refer to Budget Billing.

F. Other Settled Issues

1. Environmental Attributes

Background and Positions of the Parties

IBEC recommended that IPL adopt a program that would allow eligible customers to choose to have IPL retire the renewable energy credits and other environmental benefits of New Wind I and New II on their behalf. IBEC stated that such a program would allow customers to count these benefits toward the customer's environmental or renewable energy goals. (IBEC Brubaker Direct, pp. 19-20.)

IPL agreed with IBEC's proposal but proposed to include it in the RER tariff. IBEC objected to including it in the RER tariff and suggested that customers should have the opportunity to participate regardless of whether the RER is approved. (IBEC Brubaker Additional Rebuttal, pp. 12-13.)

Settlement Position and Board Discussion

The Settlement provides that upon the written election by any customer taking service under the Large General Service (LGS) rate or the High Load Factor/Large Volume (HLF/LV) rate, IPL shall retire, or retire on behalf of the customer making the election, the customer's pro rata share of the environmental and compliance benefits of New Wind I and New Wind II that are not needed by IPL to comply with environmental laws. (Settlement, Article XX, Environmental Attributes.)

DAG recommended that customers in the LGS-Supplementary class be able to participate in the program, in addition to customers in the LGS and HLF/LV classes. (DAG Partial Objection, p. 10.) DAG further recommended that eligible customers should be required to pay the market cost for the renewable energy certificates. DAG urged the Board to require IPL to charge customers the market rate and deposit the revenues in IPL's Hometown Care Energy Fund. (*Id*., p. 11.) At the October 11, 2019 settlement conference, participants discussed DAG's suggestion that the definition of "electing customer" be expanded to include customers under the LGS-Supplementary tariff. On October 16, 2019, IPL filed a settlement conference update clarifying that the LGS-Supplementary customers will have the same rights as LGS and HLF/LV customers to request that IPL retire on their behalf their pro rata share of the environmental and compliance benefits of New Wind I and New Wind II that IPL does not need for compliance purposes. The Settling Parties pointed out that customers have already paid for the facilities, so they did not agree with DAG's suggestion to charge the market rate to retire the benefits. *In re: Interstate Power and Light Company*, Docket No. RPU-2019-0001, Briefing Parties' Response to Objections to Partial Settlement (Oct. 18, 2019).

The Settling Parties agreed to IBEC's recommendation for IPL to adopt a program that will allow eligible customers to ask IPL to retire on their behalf environmental and compliance benefits associated with New Wind I and New Wind II through the Midwest Renewable Energy Tracking System or other comparable process. The Settling Parties also agreed to expand the definition of "electing customer" to allow participation by LGS-Supplementary customers. The Board finds that the terms of the Settlement regarding the environmental attributes are reasonable. IPL shall include in its compliance filing proposed revised tariff language consistent with this decision.

2. Accumulated Deferred Income Taxes (ADIT)

Background and Positions of the Parties

IPL initially proposed to apply the remaining $28 million balance of unprotected excess ADIT associated with the Tax Cuts and Jobs Act of 2017 to offset the costs of its retired meters. (IPL Michek Direct, p. 34.) OCA opposed that proposal, arguing that once the unprotected excess ADIT is known, it should be delivered to customers over a 12-month period through IPL's TBR mechanism. (OCA Kruger Direct, pp. 44-45, 94-95.)

With respect to protected excess ADIT, IPL proposed to use the Average Rate Assumption Method (ARAM) to calculate the differences in tax and book depreciation; this amount would be amortized as dictated by the IRS. IPL proposed that the amount determined for 2020 will be used going forward without any true-up. IPL's position was that a true-up was administratively burdensome. (IPL Brenner Direct, pp. 15-18; IPL Brenner Rebuttal, pp. 24-25.)

OCA argued that IPL should implement a true-up each year and any over/under amounts should be included in IPL's TBR. Otherwise, it would take 50 years for the customers to receive refunds. (OCA Kruger Direct, pp. 94-95.)

Settlement Position and Board Discussion

Under the Settlement, IPL withdraws its request to use the remaining unprotected excess ADIT to offset the costs of the retired meters. (Settlement, Article XIII, ¶ A.) Instead, IPL will deliver excess ADIT to the customers through the TBR over a 12-month period.

The Settlement also provides that IPL will establish an over/under regulatory account to track differences between the protected excess ADIT being returned to customers in this case and actual amounts calculated using the ARAM. To avoid normalization violations, IPL will determine the balance of the over/under account and make a recommendation in a subsequent rate case about how to return the over/under regulatory liability account to customers using the TBR. (Settlement, Article XIII, ¶ B.)

The Board finds the terms of the Settlement regarding treatment of excess ADIT issues are reasonable.

3. Interim Rates

Background and Positions of the Parties

In this docket, IPL implemented interim rates in its electric rate case in the amount of approximately $90 million using a test year of calendar year 2018. Interim rates included an increase in rates to all customer classes except the SPS class. *In re: Interstate Power and Light Company*, Docket No. RPU-2019-0001, Order Approving Customer Notices with Modifications and Scheduling Customer Comment Meetings (Feb. 18, 2019).

Settlement Position and Board Discussion

The Settlement purports to resolve all issues raised by the parties regarding interim rates by refunding to customers $7.5 million through the TBR, beginning on the date that IPL is permitted to implement final rates in this proceeding. (Settlement, Article XIV.) The way the TBR tariff is structured, one factor is developed and applied to all kWh sales units, regardless of class. The refunds through the TBR will occur over a 12-month period with a true-up at the end of the period to ensure that no more and no less of the total refund of $7.5 million was credited to customers.

Since the SPS class rates were not increased on an interim basis, that class should not receive any of the interim rate refund agreed to in the Settlement. IPL shall calculate and file a separate TBR rate for the SPS class that does not include the $7.5 million interim rate refund.

The Settlement also provides that if IPL files interim rates in its next electric rate case, IPL agrees to use an ROE for interim rates no greater than 9.5 percent for rate base assets that are not subject to advance ratemaking principles. (Settlement, Article XIX.)

Whether the amounts included in interim rates were supported by previously established regulatory principles is not specifically addressed in the Settlement. Settlements do not establish precedent regarding how issues would be addressed in future rate proceedings, nor can settlements be used to establish regulatory principles for future interim rate filings. Whether amounts in interim rates are based upon previously established regulatory principles may still be an issue in any future rate case proceedings in which a utility implements interim rates.

IPL calculated interim rates using an ROE of 10 percent based upon an ROE found by the Board to be reasonable in Docket No. RPU-2010-0001, IPL's last general rate case proceeding where ROE was a litigated issue. IPL considered the 10 percent ROE from the last litigated general rate case proceeding to be based upon a previously established regulatory principle. (IPL Ashenfelter Rebuttal, pp. 4-8.) In this case, IPL proposed an ROE of 9.8 percent for final rates based upon current models presented by IPL witness Morin, which is lower than the ROE used for interim rates.

The ROE litigated in Docket No. RPU-2010-0001 was decided pursuant to a version of Iowa Code § 476.6(9)(a) that was rescinded in 2017. (2017 Iowa Acts ch. 21 §§ 3, 4 (H.F. 445).) Since the statute that established the regulatory principle has been rescinded and the Board has not litigated an ROE for IPL following the change in statute, the Board finds there is no previously established regulatory principle for an interim rate ROE.

The ROE proposed by a utility for permanent rates is calculated using current models and economic data. To determine the ROE for interim rates, it is not reasonable to use an outdated ROE, or an ROE for calculation of interim rates that is higher than that used to calculate permanent rates. The Board finds the established regulatory principle is that an ROE used for interim rates cannot exceed the ROE requested for final rates.

The dissent contends the $7.5 million refund agreed to in the Settlement is unreasonable because, according to the dissent's calculation, "the refund to customers pursuant to Iowa Code § 476.6(9)(a) should be based on an annualized sum of $20 million." The dissent reaches the $20 million annualized figure by computing and adding the following: (1) $10 million IPL overcollected using an interim rate ROE of 10 percent; (2) approximately $8 million representing long-term performance pay included in interim rates; and (3) approximately $2 million representing outside services costs. Because the interim rates have been in effect for nine months, the dissent asserts the refund should be $15 million plus interest. The dissent reasons that because the refund reflected in the Settlement does not include the entire refund amount as calculated by the dissent, the refund portion of the Settlement is unreasonable.

The flaw in the dissent is that it does not take into account that a Settlement represents a compromise of all disputed issues, not simply those disputed issues identified by the dissent (*i.e.*, not simply the refund amount). Had the Settlement solely reflected a compromise of the amount of the refund, then perhaps the dissent's reasoning would carry weight. Taken as a whole and giving due consideration to all aspects of the settlement, the Settlement is reasonable. *See* 199 IAC 7.18 (directing the Board to consider whether the Settlement is "reasonable in light of the whole record"). It is worth noting that in the context of judicial review of settlement agreements, the Iowa Supreme Court has indicated that the "law favors settlement of controversies and, accordingly, . . . voluntary settlements of legal disputes should be encouraged, with the terms of settlements not inordinately scrutinized." *Fees v. Mutual Fire and Auto. Ins. Co.*, 490 N.W.2d 55, 58 (Iowa 1992) (citations omitted). The Board finds the Settlement constitutes a reasonable resolution to all disputed issues, including the refund issue; is consistent with Iowa law; and is in the public interest.

4. Resource Planning

<u>Background and Positions of the Parties</u>

Before joining the Settlement, Environmental Intervenors and Sierra Club argued that several of IPL's coal-powered generating facilities are not economically viable. (Env. Int. Varadarajan Direct, p. 12; Sierra Club Chernick Direct, p. 15.) They argued that the Board should require IPL to accelerate the retirement of those plants and disallow recovery of operating costs associated with the plants. (Env. Int.

Varadarajan Direct, p. 34; Sierra Club Chernick Direct, p. 21.) Sierra Club additionally noted that IPL will be required to make capital investments in the coming years at two of the plants in order to comply with federal environmental regulations. Sierra Club argued that the Board should disallow recovery on those capital investments. (Sierra Club Chernick Direct, p. 21.)

IPL argued that the environmental groups' analyses fail to account for several important considerations. (IPL Kitchen Rebuttal, p. 7.) IPL argued that decisions regarding a plant retirement must consider more than just the economic viability of the plant. Such decisions must consider whether adequate replacement capacity is available; how the retirement of one plant would impact the economic viability of other plants; and how the retirement would impact fuel contracts, labor agreements, and operating agreements. (*Id*., p. 6.)

<u>Settlement Position and Board Discussion</u>

Pursuant to the terms of the Settlement, Environmental Intervenors and Sierra Club have withdrawn their objections to IPL's recovery of operating and capital expenses related to coal-powered generating plants. (Settlement, Article IX, ¶ H.) IPL has agreed to conduct a resource planning process for its generation fleet. IPL will begin the process by February 1, 2020, and will aim to complete it by December 31, 2020. (*Id.*, ¶ A.) IPL has agreed to consult with the Settling Parties on modeling inputs and retirement scenarios considered in the planning process. IPL has agreed to conduct a reasonable number of modeling runs using assumptions and scenarios requested by the Settling Parties, but it retains the right to determine the final assumptions and scenarios it will use to make decisions related to retirements. The

Settling Parties retain the right to object to the final assumptions and scenarios used by IPL to make decisions. (*Id.*, ¶¶ A-C.)

IPL has also agreed to prioritize its analysis of the Lansing Generating Station with the goal of completing that analysis by June 1, 2020. IPL has further agreed not to make more than $10 million in capital investments in Lansing Unit 4 unless additional investments are required due to an emergency. IPL has also agreed not to seek recovery on the capital investments required to comply with the federal Clean Water Act. (*Id*., ¶ D.) Finally, IPL has agreed to convene regular meetings with the Settling Parties in order to update them on the status of the planning process and to receive feedback from the Settling Parties regarding the planning process. (*Id.,* ¶ E.)

MidAmerican filed comments regarding the resource planning component of the Settlement. MidAmerican argued that the Board should limit IPL's analysis of jointly owned generating facilities to IPL's share of each generating unit. MidAmerican also argued that the Board should reject any requests it receives to compel MidAmerican to participate in the planning process. (MidAmerican Comments, pp. 1-2; MidAmerican Reply Brief, pp. 2-3.)

The Board supports the goal of transitioning to greater use of renewable generating facilities. However, the Board finds it is critical that decisions regarding retirement of existing baseload generating facilities consider the impact of the retirements on the ability of IPL and other utilities to provide reasonably adequate and reliable service to Iowa customers. The Board finds that the planning process agreed to by the Settling Parties is a reasonable and prudent approach for evaluating such decisions. However, given the importance of these decisions, the Board requires that participation in the process be open to all parties to this case, not just those parties that signed the Settlement.

The Board declines to limit the scope of IPL's analysis as requested by MidAmerican. IPL will be allowed to conduct analysis in the manner it considers most useful, as long as it is consistent with the terms of the Settlement. The Board finds that approval of the Settlement does not compel MidAmerican to participate in IPL's resource planning process nor does it bind MidAmerican to any resulting analysis or decisions. The Board finds that the terms of the Settlement regarding resource planning are reasonable and expects IPL to allow all parties to this case to participate in the planning process.

IV. SUBSEQUENT PROCEEDING

In the Settlement, the parties have agreed to withdraw their testimony describing proposals for the subsequent review proceeding required under Iowa Code § 476.33(4)(b). (Settlement, Article XVII.) The parties reserve the right to raise any arguments at a later date regarding the subsequent proceeding. (*Id.*)

The Board will conduct a subsequent proceeding in this matter as required by the Iowa Code in conformance with any rules to be adopted.

V. CONTESTED ISSUES

A. Cost of Service

<u>Background</u>

CCOSS results show the total cost of service, *i.e.*, the revenue requirement, for each applicable customer class. In this case, the issues raised in response to IPL's CCOSS fall into one of three major categories: (1) cost allocation (the allocation of costs to customer classes); (2) revenue allocation (the allocation of responsibility for the revenue requirement to customer classes); and (3) the sales forecast. Cost allocation issues relate to the determination of which method will be used to allocate the costs at issue. Revenue allocation becomes an issue when the CCOSS results, if strictly applied, would result in dramatic impacts. In those situations, the CCOSS results are generally used as a guide to determine class revenue responsibility. Sales units are used to derive certain allocation factors and rates.

IPL developed its CCOSS by conducting a review of plant and operation and maintenance accounts and established studies on the relative costs of providing facilities and services for each rate class. To establish these relationships, it is necessary to analyze a utility's electric system design, physical configuration and operations, accounting records, and system and customer load data. From the results of those analyses, methods of direct assignment and common cost allocation methodologies can be chosen for all of the utility's plant and expense elements. (IPL Vognsen Direct, pp. 43-48.) Consistent with the CCOSS in Docket No. RPU-2017-0001, customers were combined into nine retail classes. (*Id*., p. 45.)

IPL asserts its CCOSS in this case is consistent with Board-approved methodologies and the Board's direction that IPL should "continue moving to cost-based rates." (IPL Initial Brief, p. 29, citing Docket No. RPU-2017-0001, Final Decision and Order, p. 44 (Feb. 2, 2018).) IPL says its allocation of costs is consistent with the CCOSS, modified to mitigate large increases to certain classes. (*Id*., pp. 29-30.) Adjustments were made to the Average and Excess Demand (A&E)

allocation, allocation of uncollectibles, and the labor allocator. (IPL Vognsen Rebuttal, p. 10.)

On November 7, 2019, in response to the Board's November 1, 2019 Order Requiring Additional Information, IPL updated its CCOSS and revenue allocation based on the Settlement. IPL applied the updated CCOSS to the approximately $127 million revenue requirement resulting from the Settlement and provided information about the effect of those updates on rates by class.

Specific features of IPL's CCOSS and its proposed allocation of costs that will be discussed in this order include IPL's sales forecast; proposed A&E allocator; proposed allocation of Key Account Manager (KAM) costs; proposed allocation of uncollectible expenses; proposed allocation of grid modernization costs; and, more generally, IPL's proposed allocation of the revenue requirement. Objections to IPL's CCOSS and IPL's proposed allocations are discussed below.

1. Sales Forecast

Background and Positions of the Parties

IPL forecast 2020 test year sales based on monthly billing histories from January 2010 to December 2017, 20 years of weather data, economic data, and data from the USDA National Agricultural Statistic Service. (IPL Mendyk Direct, pp. 2-18.) The forecast incorporates IPL's prediction of sales trends.

OCA did not raise any significant issues with IPL's forecast methodology but recommends using a revenue verification process by rate class in the subsequent proceeding if actual sales exceed forecasted sales. OCA also recommends that the Board initiate workshops to establish a uniform methodology for future test year forecasts. (OCA Davison Direct, pp. 32-39.)

IBEC stated that the residential energy sales and revenues used in IPL's CCOSS are unreasonably low. IBEC says IPL should use the 20-year average annual usage per customer of 9,104 kWh, which would increase projected sales and reduce IPL's final revenue requirement by nearly $13.3 million. (IBEC Meyer Direct, pp. 13-18.)

In rebuttal testimony, IPL asserted IBEC's recommended 9,104 kWh is not consistent with current trends. IPL stated that OCA's proposed revenue verification process should consider weather and over- and under-forecasted units and should apply to all classes. (IPL Mendyk Rebuttal, pp. 3-4.)

Board Discussion

The Board expects that the reasonableness and accuracy of IPL's sales forecast volumes will be best determined in the subsequent proceeding the Board will conduct for this rate proceeding. Therefore, any alteration of IPL's sales forecasts at this point would be premature. The Board approves IPL's proposed sales forecast volumes.

2. A&E Allocator

Background and Positions of the Parties

OCA witness Davison pointed out that IPL uses the 2020 forecasted load data throughout this case with one major exception. To calculate the A&E allocators for generation and transmission costs, IPL uses unadjusted, actual load research data from 2018. (OCA Davison Direct, p. 10.) OCA contends this is problematic because IPL has stated that "the summer of 2018 was significantly warmer than a normal summer" and IPL weather-normalized the sales forecasts for the weather-sensitive-classes. (*Id.*; OCA Davison Direct Ex. 9.) According to OCA, because IPL acknowledges that for some classes, weather drives sales and load characteristics, IPL's use of a "single snapshot" of data from a year IPL says had abnormal weather is not appropriate. OCA also asserts that IPL's use of the actual 2018 load data to develop the allocators while using weather-normalized sales data for rate design violates the cost causation principle. (*Id.*)

OCA recommends that in future rate cases, utilities using a future test year should be required to use the same forecasted load data throughout its filing. (*Id.*) For this case, OCA recommends that the Board require IPL to use a composite of the allocator values proposed in this proceeding and the allocators used in IPL's last electric rate case, Docket No. RPU-2017-0001, with a 50/50 weighting. (*Id.*) In support, OCA argues that this approach accounts for improvement in the load factors of some classes since the last case is not based entirely on anomalous data and is consistent with the Board's preferred approach of gradually making changes to the CCOSS. (*Id.*, pp. 14-15.)

IPL does not support OCA's proposal. Based on a review of the A&E allocators developed in prior rate proceedings going back to the 2001 test year, IPL asserts the 2018 allocator is reasonable compared to a 17-year average A&E allocator. (IPL Vognsen Rebuttal, pp. 10-14.)

LEG generally supports IPL's A&E allocation of the generation and transmission components of costs as being fair, transparent, and not resulting in subsidies between classes. (LEG Latham Direct, pp. 20-24.)

Walmart does not oppose IPL's proposal. (Walmart Chriss Direct, pp. 17-18.)

IBEC opposes OCA's proposed weighted A&E allocation factors because the Board has not previously accepted suggestions to weather-normalize data. IBEC recommends that the Board reject OCA's proposal. (IBEC Brukaber Rebuttal, pp. 3-11.)

LGSG disagrees with OCA's assertion that 2018 consumption data used by IPL is anomalous. According to LGSG, approving OCA's proposed weighted A&E allocation would perpetuate the errors in the allocators established in Docket No. RPU-2017-0001. (LGSG Inge Rebuttal, pp. 1-7.)

Board Discussion

The Board recognizes the discrepancy between IPL adjusting 2020 forecasted sales volumes for weather and using actual 2018 load research data to derive the A&E allocation factors. The Board agrees with OCA that the discrepancy should be addressed and will approve OCA's proposal to weight IPL's A&E allocation factors 50/50 with the A&E allocation factors approved in Docket No. RPU-2017-0001. The Board requires IPL to incorporate OCA's proposed allocation in the compliance filing required by this order. Stakeholders will have the opportunity to address the appropriate basis for such allocation factors in future test year rate cases and in the upcoming rule-making proceeding.

3. Key Account Manager Costs

Background and Positions of the Parties

IPL has allocated KAM costs based on the average number of customers (AVGCUST) allocator since 2003. (IPL Vognsen Rebuttal, pp. 14-16.)

OCA contends that KAM costs should be allocated based on the weighted number of customers in each class, or the WTDCUST allocator. OCA proposes adjustments to reallocate the costs associated with KAM in a more accurate manner. (OCA Davison Direct, pp. 15-24.) According to OCA, there are two types of KAMs distinguished by whether they work with smaller to mid-sized commercial and industrial customers or with IPL's largest commercial and industrial customers. As described by OCA, KAMs provide customer service and information (CS&I) to a specific subset of ratepayers, deliver energy efficiency programs, interface with economic development organizations, and engage in community outreach. (*Id.*, p. 16.) OCA adjusts the CCOSS so that recovery of these specific expenses align with the classes responsible for them.

According to OCA, IPL allocates CS&I-related expenses based on the AVGCUST. OCA asserts the allocation should be based on the WTDCUST because working on a CS&I issue of a large customer takes more time and effort than working on a CS&I issue of a residential customer. All else being equal, a one-percentage point change in a class's labor allocator value yields a $2.25 million change in the CCOSS-prescribed revenue allocation. OCA provides a detailed description of the calculation behind its proposed adjustment and recommendation to allocate CS&I expense using the WTDCUST allocator instead of the AVGCUST allocator. (*Id.*, pp. 19-22.) Generally, OCA's methodology decreases the amount allocated to residential customers and increases the amount allocated to general service and large general service customers. (*Id.*, p. 23.)

According to OCA, IPL is unable to support the weight assigned to customer classes for the WTDCUST allocator, which means costs are arbitrarily assigned to customer classes rather than on a cost-causation basis. IPL also said it has not updated the weighting factors for "decades." (OCA Data Request No. 448.) OCA recommends that the Board require IPL to track the time spent on each task and the class of service the task serves so that future allocators used are more accurate.

IBEC does not support OCA's recommendation that KAM expenses be directly assigned to large customers instead of using a customer allocator. IBEC contends that OCA has not proven that these employees function only to serve large customers. (IBEC Brubaker Direct, p. 10.)

According to IPL, OCA's proposal should be rejected because it would depart from Board precedent, is based on the erroneous assumption that general plant investment does not serve all customer classes, and would double count labor costs assigned to the commercial and industrial classes by directly assigning labor costs while using a WTDCUST allocator to allocate labor costs. IPL points out that the Board has accepted four previous CCOSS in which IPL used the AVGCUST allocation. (IPL Vognsen Rebuttal, pp. 14-16.)

<u>Board Discussion</u>

OCA's proposal presents a more specific methodology for allocating the KAM-related costs to the classes receiving the benefit of those services. Results under OCA's proposal appear to be more consistent with the Board's general view that costs should be allocated to the classes receiving the benefit of the services. The Board approves OCA's proposed allocation methodology in this case. IPL's compliance filing in response to this order shall be based on OCA's proposed allocation for KAM-related costs. Under this approach, IPL and stakeholders can review this issue and propose further refinements to this allocation methodology.

4. Uncollectible Expense

<u>Background and Positions of the Parties</u>

In its CCOSS, IPL allocated uncollectible expenses based on customer class percentage of write-offs. In IPL's last electric rate case, Docket No. RPU-2017-0001, uncollectibles were allocated based on retail revenues, and IPL agreed to gather information by customer class for use in a future proceeding. IPL's proposal in this case is based on the information IPL gathered.

OCA supports use of the retail revenue allocator throughout the CCOSS. At the time of IPL's last rate proceeding, references to a future rate proceeding would have been based on a historic test year since there was no statutory authority for use of a future test year. According to OCA, in a case based on a future test year, the best indicator of the potential and relative size of possible future revenue deficiencies is the actual revenue the utility forecasts it will collect going forward, which is what the retail revenue allocation methodology captures. (OCA Davison Direct, pp. 24-28.)

IBEC's position is that uncollectible expenses should be allocated to the customer class that created the expense, as proposed by IPL. IBEC says that IPL's approach is consistent with the National Association of Regulatory Utility Commissioners (NARUC) Electric Utility Cost Allocation manual. (IBEC Brubaker Rebuttal, pp. 6-11.)

<u>Board Discussion</u>

Since this is the first electric rate case application using a future test year, the Board concludes that IPL's approach to allocating uncollectible expenses is reasonable and approves IPL's allocation of uncollectible expenses.

5. Allocation of Grid Modernization Costs

<u>Background and Positions of the Parties</u>

Article X of the Settlement addresses inclusion of grid modernization costs in the revenue requirement. The allocation of grid modernization costs is a disputed issue. OCA raised the issue of connecting recovery of these costs to those who benefit from the investment. OCA recommends that IPL's proposed method of allocating costs of grid modernization investments be modified so that allocation of costs to the residential class is based on the fact that residential customers are expected to receive only approximately 1.2 percent of the total estimated customer outage reduction (*i.e.*, reliability) benefit of grid modernization. According to OCA, it appears that the costs of grid modernization would be allocated based on either the number of customers or class non-coincident peak demand. This means residential customers would be allocated between 25 percent and 80 percent of the costs, respectively. (OCA Norwood Direct, pp. 7, 26.)

IPL opposes OCA's recommendation. IPL argues that OCA fails to identify any specific FERC accounts, or amounts from those accounts, that would be allocated based on an alternative methodology. If such a methodology exists, it would be complex, cumbersome, and speculative. (IPL Vognsen Rebuttal, p. 17.)

<u>Board Discussion</u>

The Board does not believe this issue was sufficiently addressed in the record and therefore will not make any adjustments to IPL's proposed allocation of grid modernization costs. Therefore, the Board's resolution of this issue focuses on obtaining information that will be necessary for the Board and stakeholders to consider alternative grid modernization cost recovery approaches in future general rate case proceedings.

The Settlement indicates that the settled revenue requirement includes the cost of deployment of Phase 1 of IPL's High Bandwidth Fiber Deployment Communication System (the Fiber Project), as described in IPL's Grid Modernization

Strategy filed in Docket No. RPU-2017-0001 on April 3, 2018. (Settlement, Article X, ¶ A.) IPL witness Dyer refers to 2019 and 2020 fiber investment of $10.25 million and $35.32 million, respectively. (IPL Dyer Rebuttal, p. 12.) However, the Settlement does not refer to the specific applicable costs.

This is an area that warrants further exploration. In future general rate case proceedings, IPL shall specifically identify any costs relating to grid modernization in the proposed revenue requirement and CCOSS. In future cases, IPL shall also propose allocations for each grid modernization cost category and quantify the associated benefits for each customer class so that benefits closely match costs by class.

6. Revenue Allocation

Consistent with the Board's adoption of OCA's A&E allocation factors and OCA's methodology for allocating KAM-related costs, the Board finds the overall cost allocation principles proposed by IPL to be just and reasonable. The Board will direct IPL to file a final CCOSS, revenue allocation, rate calculations, and proof of revenue consistent with this order at the time it files its compliance tariffs in this docket. IPL shall also provide calculations showing the approved revenue increase, by class, as a percentage of total revenues and base rate revenues.

B. Rate Design

1. Extension of Summer Period

Background and Positions of the Parties

Seasonal pricing reflects the higher costs incurred by IPL to provide service during the summer months. (IPL Vognsen Direct, p. 16.) Currently, IPL's tariff defines the summer period as June 16 through September 15. IPL proposes to extend the summer period by one month, from May 16 through September 15. (*Id.*) IPL states that the extension of the summer period will flatten the pricing differentials between the seasons, which will result in customers seeing lower average prices corresponding with the start of the summer time period. (*Id.,* p. 17.)

OCA opposes IPL's proposal because it would increase customer bills for May and June, be revenue neutral by reducing bills in the winter months, and because customers have budget billing as an option to flatten billing. (OCA Taylor Rebuttal, p. 8.)

DAG stated that the proposal would increase the annual bill for LGS and LGS-Supplementary classes. (DAG Berg Direct, p. 3.)

LEG supported IPL's proposal. LEG stated that the proposed additional summer month is revenue neutral in that additional revenue in May and June would be offset in other months. LEG faulted OCA's failure to include offsetting revenue-neutral rate reductions from other months in its calculations. (LEG Latham Rebuttal, p. 14.)

<u>Board Discussion</u>

The Board finds IPL's proposal to extend the summer period is reasonable. The extension will be revenue neutral and will flatten the seasonal pricing differential throughout the year. The Board approves IPL's proposal to extend the summer period.

2. Large General Service

<u>Background and Positions of the Parties</u>

IPL proposes to continue the process started in Docket No. RPU-2017-0001 of realigning the demand and energy charges for the Large General Service (LGS) class. In this case, IPL allocates a larger portion of the rate increase to the demand rate and maintains the same pricing relationship between on- and off-peak rates for the time-of-day pricing, based on the functionalization of the CCOSS. According to IPL, this gives incentive to customers to improve their load factors, which will ultimately lower customers' overall per-unit costs. (IPL Vognsen Direct, p. 22.) IPL argues that its CCOSS supports continuing separate LGS and LGS-Supplementary classes and rates, as the Board approved in Docket No. RPU-2017-0001.[13] (IPL Initial Brief, p. 43.)

In rebuttal testimony, IPL states that the pricing differentials between the LGS and LGS-Supplementary classes are due to the revenue impacts of interruptible credits and time-of-use. In Docket No. EEP-2018-0003, the Board approved IPL's reduced interruptible credit levels, which resulted in an overall reduction in interruptible credits by approximately $5.3 million in this case. IPL notes that this reduction increased base revenues and reduced energy efficiency revenues prior to application of a rate increase in this proceeding. The LGS rate share was $3.6 million (68 percent) and the LGS-Supplementary share was $300,000, most of which was attributable to a single customer.

IPL froze the availability of the non-time-of-use option for LGS and LGS-Supplementary customers in Docket No. RPU-2017-0001. IPL expects that more of the LGS-Supplementary customers will eventually need to transition to time-of-use

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[13] In Docket No. RPU-2017-0001, the Board approved IPL's proposal to separate standby service from supplementary service, creating the LGS-Supplementary class. IPL argued in that case that separate classes were necessary because the two services have different cost causation bases. *In re: Interstate Power and Light Company*, Docket No. RPU-2017-0001, Final Decision and Order, p. 69 (Feb. 2, 2018).

since the non-time-of-use option will likely be eliminated in a future rate proceeding. According to IPL, its proposed rate design encourages greater participation of LGS-Supplementary customers in time-of-use and demand response programs. (IPL Vognsen Rebuttal, pp. 41-43.) The proposed rate design encourages these customers to begin preparing for that transition now. (*Id*., p. 42.)

IPL states that its updated CCOSS and allocation result in a 2.96 percent increase for the LGS class and a 3.13 percent increase for the LGS-Supplementary class. IPL also points out that the gap in demand charges for rate codes 440 and 800 has been eliminated. (IPL Reply Brief, p. 32, citing IPL's November 7, 2019, Settlement Filing, Ex. 2 and 3.) IPL argues that its updated CCOSS supports maintaining the separate classes because IPL's cost to serve each class is different. (*Id*.)

DAG opposes maintaining separate LGS and LGS-Supplementary classes and the differences in the proposed increases. DAG argues that a separate LGS-Supplementary class is not necessary. DAG explains that Luther College has 660 kW AC of solar generation behind its main meter and all of the energy is consumed on campus. (DAG Martin-Schramm Direct, pp. 21-22.) DAG states that pursuant to the Board's April 26, 2018 order approving IPL's compliance tariffs in Docket No. RPU-2017-0001, IPL moved Luther College (and approximately 50 other LGS customers with supplementary power systems behind their meters) from the LGS rate (rate code 440) to the LGS-Supplementary rate (rate code 800). (*Id*.) DAG states that the change was a surprise to Luther College and the cost impact of the change was significant. If DAG were still under rate code 440, its annual bill would increase by 6.7 percent. Under rate code 800, its bill would increase by 16.9 percent.

DAG contends IPL has not supported this disparity in rate impact and that the 16.9 percent increase is unfair. (DAG Berg Direct, pp. 5-7.) DAG asserts that the LGS-Supplementary rate punishes Luther College for investments made in distributed generation and will discourage other customers from making those investments. (*Id*., pp. 6-7.)

DAG acknowledges that the demand rates for the two classes are now identical and expects the proposed rate code 800 will be slightly advantageous for customers in that category. However, DAG still argues there is no need to maintain the separate classes and urges the Board to require IPL to eliminate the LGS-Supplementary class and move those customers to the LGS class. (DAG Initial Brief, p. 40.)

Environmental Intervenors oppose IPL's proposed LGS rate structure, arguing it is discriminatory for LGS customers with distributed generation. (Env. Int. Rábago Direct, pp. 36-38.) Environmental Intervenors initially focused on IPL's proposal to increase demand charges for LGS-Supplementary customers by approximately $2 per kW of demand in the winter and approximately $4 per kW in the summer. Environmental Intervenors argue IPL's proposal is discriminatory to the extent it would make distributed solar generation less attractive. (*Id*., pp. 36-37; Env. Int. Initial Brief, p. 15.) Environmental Intervenors initially recommended that the Board direct IPL to eliminate the differences in charges between the two classes but later joined in supporting the proposal from DAG to eliminate the separate LGS-Supplementary class. (Env. Int. Reply Brief, p. 2.)

OCA does not object to maintaining the two distinct classes but shares the concern of DAG and Environmental Intervenors regarding the difference in charges for the classes. In its initial brief, OCA points out that, based on IPL's Settlement Exhibit 3 filed on November 7, 2019, IPL appears to have made a good faith effort to address the concerns of the parties regarding the difference in rates for the two classes. OCA indicated it supports IPL's proposed solution. (OCA Initial Brief, pp. 10-11.)

LEG supports IPL's proposal, asserting it provides greater incentive for customers to improve their load factors and is revenue neutral. (LEG Latham Direct, pp. 7-8.)

Walmart supports IPL's proposal, arguing that it moves toward a cost-based rate for the LGS class. Walmart states that under the current rate structure, customers with higher load factors pay a portion of the demand-related costs IPL incurs to serve customers with lower load factors. (Walmart Chriss Direct, pp. 20-21.)

Board Discussion

IPL has explained that the pricing differentials between LGS and LGS-Supplementary are due to the revenue impacts of interruptible credits and time-of-use and that LGS-Supplementary customers are eligible to participate in those programs. IPL witness Vognsen testified that over 95 percent of the costs for the LGS class are demand-related. (IPL Vognsen Direct, p. 22.) Moreover, IPL has made adjustments to eliminate the differences in the demand charges for the LGS and LGS-Supplementary classes to address some of the concerns of DAG, Environmental Intervenors, and OCA. The Board concludes that IPL has shown sufficient support for maintaining the distinction between the two classes and approves IPL's proposal regarding LGS and LGS-Supplementary rates.

3. Standby Tariff

Background and Positions of the Parties

In Docket No. RPU-2017-0001, the Board approved IPL's proposal to separate standby service from supplementary service and create two distinct classes. IPL argued that the two services cause IPL to incur different costs and the Board concluded that IPL's rationale was reasonable. *In re: Interstate Power and Light Company*, Docket No. RPU-2017-0001, Final Decision and Order, p. 69 (Feb. 2, 2018). IPL eliminated Rider Standby and Rider Supplementary Power Service (Rider SPSS), moved supplementary rates from Rider SPSS into a separate tariff for LGS-Supplementary service, and implemented a separate rate for SPS. (ADM Stephens Direct, pp. 3-14.)

In this case, IPL is not proposing any changes to the pricing structure of the Standby tariff. IPL states it will adjust the pricing to reflect the final revenue allocation to the Standby class by adjusting prices on a uniform basis. (IPL Vognsen Direct, p. 23.)

ADM opposes IPL's proposed treatment of Standby service. ADM receives nonfirm, unscheduled service from IPL under the Standby tariff. ADM states that as a result of IPL's changes to the standby rates approved in the last rate case, ADM's costs have nearly doubled. At ADM's Cedar Rapids plant, for example, IPL's energy charges in the month of October 2018 would have been approximately $0.76 million under the old rider rate structure ($0.0343/kWh), but are $1.7 million under the current rate structure ($0.0766/kWh). ADM has adjusted its operation to purchase less unscheduled energy and to generate more of its own power. (ADM Balke Direct, p. 9.) Two of ADM's corn processing plants in Iowa are in IPL's service territory;

these facilities have Combined Heat and Power (CHP) operations. (*Id*., p. 4.) ADM argues that IPL's Standby rates deter expansion of CHP in Iowa. (ADM Brief, p. 8.)

ADM argues the daily demand charge should not apply to unscheduled energy, which is interruptible. ADM asserts that in nearly all hours of the year, it will not impose any additional capacity costs on IPL and, therefore, should only be required to pay for firm power instead of unscheduled energy. Further, under the terms of the tariff, ADM can only use unscheduled standby service up to 964 hours per year, or 11 percent of the time, and not the full year. (ADM Stephens Direct, p. 8.) ADM disputes IPL's stated justification for the daily demand charges, *i.e*., that it incurs generation capacity costs every time it supplies a customer with energy because IPL allocates generation capacity costs on an average and excess basis. ADM argues that a utility's costs should be allocated based on cost causation, not costs that are caused by the utility's allocation.

According to ADM, MidAmerican does not impose daily demand charges on unscheduled energy, as was IPL's previous practice. ADM asks the Board to require IPL to strike the current provision that sets the unscheduled standby energy rates at the higher of the MISO real-time local marginal pricing (LMP) plus a 10 percent adder or the EAC (plus the daily demand charges and the non-fuel energy charges) and return to the previous pricing model. (*Id*., pp. 12-14.)

ADM also asks the Board to require IPL to eliminate the provision that restricts a customer's use of unscheduled energy service to no more than 964 hours per year. ADM argues IPL has not justified this limit. To further alleviate the restriction on the use of unscheduled energy, ADM also recommends that the Board require IPL to remove the following sentence from tariff Sheet No. 44: “An unscheduled outage is not a temporary economy sale of power.”

IBEC recommends accepting the rate design proposed by ADM. IBEC does not object to IPL’s $9.68 per kW per month distribution reservation charge, but recommended that the reservation charge reflect the cost-based differential for customers that use both the primary- and secondary-level voltage systems. IBEC recommended a charge of $7.87 per kW per month for distribution reservation service at the primary voltage level and $11.49 per kW per month for service at the secondary level. (IBEC Brubaker Direct, pp. 18-20.)

IPL opposes ADM’s recommendations and argues there is no reason to change the Standby tariff at this time because it is based on IPL’s costs to provide the service. (IPL Initial Brief, p. 49.) IPL states that ADM ignores the fact that IPL uses its capacity to serve customers taking unscheduled service. (IPL Vognsen Rebuttal, p. 54.) According to IPL, returning to the previous pricing model, the LMP plus ten percent, would give ADM the opportunity to “game the system” by taking energy from IPL when it is cheaper than using its own generation. ADM would have to pay a demand charge only when IPL has additional capacity on the spot market. IPL argues this would not be fair to customers in other classes who pay embedded costs of generation and who do not have the same pricing arbitrage options. (IPL Initial Brief, p. 51.)

In response to ADM’s argument that the daily demand charge is not reasonable because unscheduled energy is interruptible, IPL points out that interruptible customers pay for embedded generation costs, but get a bill credit for interruptions. (IPL Reply Brief, p. 35, n. 144.)

IPL says the 964-hour limit on unscheduled usage is a reasonable approximation for the forced outage of a Standby customer's own generation. Eliminating the limit would allow greater use of the tariff in situations where the customer is not facing an outage. (IPL Initial Brief, p. 52.) IPL argues that ADM's recommended changes are contrary to the specific and limited purpose and design of the tariff, which is to provide service in the event of unexpected outages (unscheduled standby service) or scheduled maintenance on the customer's generation (scheduled standby service). (*Id.*, p. 53.)

IPL agrees with IBEC's recommendation that there be separate distribution reservation charges for primary and secondary service, even though IPL does not currently have any customers that take service at a distribution voltage. IPL agrees with the distinction because the costs to provide service at the different levels are different. (IPL Vognsen Rebuttal, pp. 53-54.)

LEG agrees with IPL's proposed pricing structure for the Standby class. (LEG Latham Direct, p. 8.) LEG opposes ADM's recommended changes, arguing the return to the previous pricing would allow ADM to buy as much energy as it wants at the LMP rate without paying for any non-energy components of the EAC. LEG states that no other customer has this option. (LEG Reply Brief, p. 4.)

<u>Board Discussion</u>

The Board will address ADM's three requested modifications of IPL's proposed Standby tariff. First, the daily demand charges are imposed so that standby customers pay some share of the embedded cost of capacity. (ADM Stephens Direct Ex. 8, p. 2, Data Request No. 2.3; IPL Vognsen Rebuttal, p. 55.) Absent the daily demand charge, the rates for unscheduled standby service would include no contribution to embedded capacity costs. Further, because daily demand charges are applied to each business day's on-peak period,[14] they provide an incentive to defer outages to off-peak periods when possible. The Board concludes that IPL has justified the daily demand charges and the non-fuel energy charges. The Board finds that charging unscheduled Standby customers demand charges is not unreasonable, but recognizes that the charges have motivated ADM to reduce its use of IPL's electric service.

With respect to the 964-hour limit on use of unscheduled service, IPL indicates the limit is based on an assumption of a predictable forced outage rate of 11 percent per year. IPL states that a higher amount would indicate that the customer was either not properly scheduling outages with IPL or there were underlying issues with the reliability of the customer's generation which would need to be addressed. Limiting the amount of unscheduled standby service a customer can use is consistent with the nature and purpose of the service, which is to provide service in case of a forced outage. Further, the Board notes that the limitation on unscheduled service of 964 hours per year is not a new provision in this case and was not a new provision in IPL's prior electric rate proceeding. In Docket No. RPU-2017-0001, the Board told IPL that if it intended to continue applying the limitation to unscheduled standby service, that provision should be included in the tariff as it had been in a previous tariff.

With respect to ADM's request to strike the provision that states an unscheduled outage is not a temporary economy sale of power, the Board agrees

[14] On-peak periods are defined as weekdays from 7 a.m. to 8 p.m.

with IPL that it is not reasonable to allow Standby customers to use unscheduled Standby service as a pricing arbitrage opportunity. The provision is consistent with the design and purpose of the tariff, *i.e*., the definition referring to backup energy required during a forced outage, the ongoing 964-hour limitation, and on-peak daily demand charges. It is not reasonable to expect IPL to design this tariff to ensure market price advantages for one customer class, especially considering the potential impacts to IPL's other customers. (IPL Vognsen Rebuttal, pp. 58-59.)

The Board concludes that both the 964-hour limit on usage and the sentence providing that an unscheduled outage is not a temporary economy sale of power are reasonable.

The Board approves IPL's proposed SPS tariff with the clarification that IPL shall file a revised SPS tariff that includes the separate distribution reservation charges for primary and secondary service.

4. Regional Transmission Service Rider (RTS) Tariff

Background and Positions of the Parties

IPL has used a rider identified as Rider RTS to recover FERC-approved transmission costs since 2011. The Board first approved the rider in Docket No. RPU-2010-0001 and approved its continued use in Docket No. RPU-2017-0001. In this case, IPL proposes to add the following new language to the Rider RTS tariff: "…consumed by the customer and delivered by the Company…" Approval of the proposed language would mean that transmission charges would apply to all energy delivered to a customer. IPL also proposed to add similar language to the tariff for the EECR Rider but, pursuant to the Settlement, agreed to strike that language. (Settlement, Article XVI, ¶ D.)

In rebuttal testimony, IPL clarified that it does not intend to apply an RTS charge to production from private generation consumed by the customer and has not proposed to assess a charge for transmission services the private generation customer does not use. Instead, IPL proposes to apply the RTS charge in any hour in which the billing meter registers kWh flowing from the grid to the customer. (IPL Vognsen Rebuttal, pp. 17-21, 43, 47-48.)

Several parties object to IPL's proposed tariff revision. DAG argues that IPL's proposed new language would deter customers from investing in solar power. (DAG Osterberg Direct, pp. 13-15.) DAG points out that under the current language of the RTS tariff, the RTS charge was only applied to the total (net) kWh delivered each month. IPL's proposed change would only affect customers with distributed generation and would force them to pay transmission costs for a portion of the energy they produce. (*Id.*) DAG remains concerned about IPL's proposal to apply the new language to distributed generation customers whose excess production is sent out on the distribution network and not to the transmission grid. (DAG Osterberg Surrebuttal, pp. 3-4.)

Environmental Intervenors contend that the proposed revision would negatively affect existing and future distributed generation customers and is inconsistent with the goals of the NM pilot tariffs approved by the Board in Docket No. NOI-2014-0001. Further, Environmental Intervenors argue IPL's proposal ignores the Iowa Legislature's rejection of punitive rate structures for distributed generation, as shown by the failure of House File 669 to advance during the 2019 legislative session. (Env. Int. Johannsen Direct, pp. 15-21.) Environmental Intervenors describe the proposal as vague and argue it would allow IPL to charge customers for the RTS charges they would have paid if they had not reduced their deliveries from IPL through self-generation. (Env. Int. Rábago Direct, pp. 61-63.) According to Environmental Intervenors, IPL is proposing a punitive monthly charge of $9.98 for residential customers and $54.86 for general service customers for transmission charges NM and AEP customers do not use. (*Id.*)

OCA contends IPL's proposed revision marks a significant change to IPL's net metering policy and would significantly reduce the value of net metered energy. OCA says this proposal should not be considered outside of the NM pilot proceeding. (OCA Munoz Rebuttal, pp. 21-22.)

<u>Board Discussion</u>

Although several parties argue IPL's proposed change should not be considered in this rate case, outside the NM pilot tariffs in Docket No. TF-2016-0321, the issue raised by IPL's proposed tariff revision is distinct from the issues currently being studied in the NM pilots.

The Board acknowledges that there may be some instances in which NM and AEP customers are not paying a reasonable amount through the RTS rider since the rates were originally designed for non-NM and non-AEP customers. Currently, the RTS factor is applied to all customers' monthly electricity usage. In the case of NM and AEP customers, the monthly usage is the difference between the kWh delivered from IPL and the excess kWh generated and exported to IPL's system, meaning that there may be energy delivered by IPL and used by NM and AEP customers where the RTS factor is not being charged.

IPL's proposed language appears to be ambiguous and it is not clear how the RTS rider will be applied to NM and AEP customers. IPL's testimony and the information it provided in response to data requests communicate different methods for implementing the proposed language. (IPL Vognsen Rebuttal, pp. 46-48; Env. Int. Rábago Direct, Ex. 12.) Because the Board cannot be certain how IPL intends to apply the RTS rider to NM and AEP customers' usage, the Board does not approve IPL's proposed language.

It would be reasonable for IPL to charge transmission rider costs on all energy (kWh) IPL delivered to the NM and AEP customers if actual metered data is available, as long as those customers would not pay transmission costs on the energy that is simultaneously self-generated and consumed by the customer or the energy the customer generates and exports to IPL's system. If IPL chooses to propose a change in the RTS rider in a future tariff filing, IPL should clearly specify how transmission costs are applied to customer bills and provide examples demonstrating how the billing units used to charge for RTS are calculated based on actual metered information.

5. Allocation of Transmission Costs

Background and Positions of the Parties

In Docket No. RPU-2017-0001, IPL proposed to allocate transmission costs using the average and excess demand (A&E) methodology in order to reflect use of the transmission system throughout the year, including at peak system usage. LEG and LGSG supported IPL's proposed allocation based on A&E.

ADM and IBEC proposed that transmission costs be allocated based on 12 monthly coincident peaks (12 CP) with costs allocated in proportion to a class's use of the system at the time of each monthly peak. ADM argued that the 12 CP method is consistent with how ITC Midwest bills IPL for transmission costs.

The Board did not adopt the 12 CP proposal in Docket No. RPU-2017-0001. Instead, the Board concluded that IPL's proposed allocation using the A&E methodology more accurately accounts for its customers' use of the transmission system during all hours of the year and more reasonably balances competing customer interests. *In re: Interstate Power and Light Company*, Docket No. RPU-2017-0001, Final Decision and Order, pp. 58-59 (Feb. 2, 2018).

In this case, ADM again recommends that the Board adopt the 12 CP methodology to allocate transmission costs. ADM asserts that IPL's A&E allocation approach is flawed and results in charging Standby customers more than twice the costs they impose on the system. (ADM Stephens Direct, p. 3.) ADM contends that its use of the transmission system is intermittent, given that its on-site generation is reliable. (*Id*., p. 20.) ADM argues that the mismatch between what IPL pays MISO for transmission and how IPL allocates transmission costs persists. (*Id*.) ADM reiterates its argument that MISO uses the 12 CP allocator to charge IPL for transmission costs, and IPL passes those same charges to customers through the RTS rider. (*Id*., p. 19.) ADM points out that WPL, which is also a MISO transmission customer, allocates transmission expenses to its customers using the 12 CP methodology. (*Id*., p. 32.) ADM also states that the Board has approved MidAmerican's use of the 12 CP methodology for allocating transmission costs. (ADM Initial Post-Hearing Brief, p. 3; Tr. 481-482.) ADM contends that the 12 CP allocator better achieves cost-based rates. (Tr. 715-16.)

ADM explains it is no longer recommending coincident peak billing, so there is no risk that a Standby customer would not pay for transmission service in any month. (ADM Stephens Direct, p. 22.)

ADM acknowledges that transitioning to the 12 CP approach would cause a realignment of transmission costs among the customer classes and for at least one class, the change would be significant. To mitigate the impact of the change, ADM supports a phased-in approach to move to the 12 CP methodology over a three-year period. (Tr. 713-714; ADM Initial Brief, p. 2.)

Alternatively, ADM says that if the Board decides not to require IPL to use the 12 CP methodology, the Board should require IPL, at a minimum, to annually update the A&E methodology under the RTS rider. IPL acknowledged it does not update the A&E allocators each year when it sets the charges for the RTS rider. Instead, the allocators are updated during rate case proceedings, which can lead to allocators being in place for several years without adjustment. (Tr. 479-480.)

ADM contends that annual updates would address unusual situations that can occur and skew results of the A&E methodology, such as what occurred during 2018. ADM explains that the excess portion of the A&E allocator is based on a non-coincident peak demand, which occurred at noon on November 4, 2018, a time at which ADM was experiencing a major boiler outage at its Cedar Rapids plant. (ADM Stephens Direct, pp. 31-32; Tr. 478; ADM Initial Brief, p. 3.) According to ADM, annual updates would best account for transmission costs imposed by the different classes in the RTS rider year.

IBEC agreed with ADM that it would be more appropriate to allocate transmission costs using the 12 CP methodology because that is how MISO bills IPL and it is aligned with cost causation. (IBEC Brubaker Direct, p. 17.)

IPL again urges the Board to reject ADM’s recommendation, arguing that the costs of ADM’s substantial use of the transmission system throughout the year are appropriately allocated using the A&E methodology. IPL asserts that allocating transmission costs on the basis of 12 CP would have a considerable impact on the LGS customer class. (IPL Initial Brief, pp. 40-41.) IPL insists that there is no correlation between how MISO bills IPL and how ADM uses the transmission system; IPL says ADM has large loads and frequently uses the system. IPL asserts ADM should pay for that use. IPL argues that ADM's phased-in transition to using the 12 CP methodology would still result in poor allocation. (IPL Reply Brief, p. 29.) IPL states that after the discussion at hearing about the possibility of updating the A&E allocators annually under the RTS rider, it reviewed the issue and would not object to annual updates to the A&E allocation methodology. (*Id*., p. 31.)

LEG supports IPL's proposal to continue using the A&E methodology to allocate transmission costs. (LEG Latham Direct, p. 10.)

Board Discussion

The Board approves IPL's continued use of the A&E allocator for transmission costs. IPL has demonstrated in this case that the A&E allocation methodology reflects ADM's use of the system throughout the entire year. (IPL Vognsen Rebuttal, pp. 18-19; IPL Vognsen Rebuttal Confidential Ex. 2.) The Board is not persuaded that the 12 CP methodology would more reasonably allocate transmission costs than the A&E methodology and will not adopt ADM's proposal to transition to using the 12 CP methodology in phases.

The parties agree that annual updates to the A&E methodology would be an improvement over the current practice of updating the methodology only in the context of a rate case. Annual updates could avoid anomalous results. Therefore, the Board directs IPL to update the A&E methodology on an annual basis as part of the Rider RTS update.

Finally, the Board notes that IPL's annual Rider RTS update, identified as Docket No. TF-2019-0284, is pending before the Board. The Board directs IPL to include in its compliance filing in response to this order a proposal detailing how IPL will coordinate the annual update of the A&E allocator with the annual Rider RTS reconciliation filing.

C. Tariff Issues

1. Individual Contract Rate (ICR)

Background and Positions of the Parties

IPL proposes an Individual Contract Rate (ICR) tariff based on the Large General Service/High Load Factor (LGS/HLF) tariff that allows individual industrial customers to negotiate alternative cost-based rates. (IPL Vognsen Direct, pp. 24-25.) Under IPL's proposal, customers must take service at the transmission voltage level with a minimum incremental load of at least 25 MW. (IPL Vognsen Rebuttal, p. 50.)

OCA objects to the ICR, stating it is not appropriate to prioritize affordability and attractiveness for select industrial customers over generally applicable rate designs. (OCA Davison Direct, pp. 40-41.)

LEG opposes the ICR and notes that IPL does not provide assurance that the ICR rates cover the marginal costs of the class. (LEG Latham Direct, pp. 8-9.) LEG states that IPL does not explain how the costs and revenues for ICR customers are reflected in its CCOSS nor how ICR customers contribute to IPL's revenue requirement. (*Id*.) DAG joins LEG in opposing IPL's ICR tariff. (DAG Martin-Schramm Rebuttal, pp. 10-11.)

IPL responds that its ICR tariff is similar to the ICR tariff that the Board approved for MidAmerican. The default rate for IPL's proposed ICR tariff is the LGS/HLF tariff, which will apply unless other cost-based charges are negotiated with the customer. IPL states that its ICR is meant to provide long-term price certainty compared to current flexible pricing rules and remain in effect until a future rate proceeding. (Tr. 503.) IPL states that the economic development benefits of increased jobs, property tax revenue, and purchases of local goods and service will flow to all of its customers within the area. (IPL Vognsen Rebuttal, p. 50.)

<u>Board Discussion</u>

OCA, LEG, and DAG raise valid concerns over the implementation of IPL's proposed ICR tariff. However, the Board already has approved a similar proposal for negotiable individual contract rates for MidAmerican.[15] Concerns over the implementation of IPL's proposed ICR tariff can be addressed through Board oversight. IPL stated at hearing that it could provide the Board with the ICR contracts for individual customers. (Tr. 504-505.) IPL acknowledged that it does not oppose annual reporting. (Tr. 505.) The Board approves IPL's proposal for an ICR tariff subject to the following conditions:

1. IPL shall include the following language within its ICR tariff and individual ICR contracts:

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[15] MidAmerican originally proposed an ICR tariff in Docket No. RPU-2013-0004. The tariff was subsequently updated in Docket No. TF-2014-0334.

The rates, riders, terms, and conditions applicable to Rate ICR are subject to modification by the IUB and such modifications shall apply to service hereunder.

2. IPL shall address the following scenarios applicable to changes in load:

   a. Load growth beyond IPL's facilities' current capabilities, and

   b. Load below 25,000 kW for 12 consecutive months; and/or

   c. Customers not served at transmission voltage.

3. IPL shall comply with the following annual reporting requirements by March 1 of each year:

   a. Provide complete copies in searchable PDF format of all ICR customer contracts or amendments to customer contracts executed during the prior 12 months in searchable PDF format.

   b. Provide an exhibit detailing the following billing information for each ICR customer taking service during any part of the prior 12-month period:

      i. Calculations showing the actual monthly billing units, rates, and total billing amount for each customer under negotiated ICR rates based on actual energy and/or demand consumption. The calculation should tie directly to each customer's monthly bill.

      ii. Calculations showing the monthly billing units, rates, and total billing amount for each customer under default ICR rates based on actual energy and/or demand consumption.

      iii. Provide the dollar and percentage difference between the two calculations detailed above.

In future electric rate proceedings, the Board will determine how any differences between the revenues that would be recovered under ICR default rates and the revenues recovered under ICR-negotiated rates should be addressed. Therefore, IPL will be required to include the rate analysis from the ICR annual report applicable to each individual ICR customer showing the differences between the revenues under ICR default and negotiated rates. Further, to facilitate the Board's review, IPL shall include each individual ICR customer in its CCOSS and address the revenue differences in prepared testimony.

2. Non-Standard Metering Alternative (NSMA) Tariff (AMI Opt-Out Charge)

<u>Background and Positions of the Parties</u>

In Docket No. SPU-2018-0007, IPL proposed a $15 per meter per month charge to customers who elect to opt out of having an Advanced Metering Infrastructure (AMI) meter installed. In an order issued February 6, 2019, the Board directed IPL to allow the opt-out option without any fee because meter-reading costs were included in base rates. The Board did not preclude IPL from seeking an opt-out charge but said that it would be appropriate to consider such a proposal in the rate cases IPL was expected to file. *In re: Interstate Power and Light Company*, Docket No. SPU-2018-0007, pp. 31-32, 48 (Feb. 6, 2019).

In this case, IPL proposes a monthly opt-out charge of $5.27 per electric meter. IPL says it will update the charge annually based upon actual costs of providing the alternative and the actual number of customers who choose the option. (IPL Vognsen Supplemental Direct, p. 2.) IPL states that the charge is intended to recover the cost of the following: physically reading a meter twice a year, NSMA customer moves, complying with testing requirements for non-AMI meters, maintaining manual meter-reading systems, sending notices to customers relating to the NSMA, information technology (IT) costs, processing of manual reads by IPL's customer service employees, and maintaining an inventory of non-standard meters. (*Id*., p. 3.)

IPL's position is that the approximately 3,500 customers who do not select IPL's standard meter (the AMI meter) are causing IPL to incur costs and should pay for choosing to opt out. Otherwise, all other customers would subsidize the costs of the NSMA. (*Id*., pp. 3-4.) IPL proposes to charge the same fee regardless of which of the three types of metering technology available to NSMA customers (analog meters, nontransmitting digital meters, and AMI meters set to transmit less frequently) is chosen. (IPL Vognsen Rebuttal, p. 52.)

OCA objects to certain aspects of IPL's proposed NSMA charge. OCA argues that customers who choose the AMI meter which transmits less frequently should not be charged an NSMA charge. OCA claims these customers are not responsible for any costs beyond what IPL has included in rate base. (OCA Davison Direct, pp. 45, 47-49.)

OCA also argues that the costs associated with customer moves should be removed from the monthly charge. OCA contends these costs would be incurred regardless of the customer's selection of an NSMA. According to OCA, these estimated charges of $26,117 are problematic because the cost of replacing the existing meter would have been incurred when IPL rolled out AMI; these costs are already accounted for in the overall AMI implementation cost. To cover costs for a potential move through the NSMA charge is redundant and unreasonable. (*Id*., pp. 45-49.)

OCA also opposes including the IT costs associated with the reduced-pulse AMI meter. IPL proposes that the total of $151,700 be amortized over three years, which amounts to $50,566 per year. OCA argues that the customers that choose a reduced-pulse AMI meter option should not have to pay the NSMA charge because they selected the standard AMI meter and are not responsible for any costs incurred beyond the $98.6 million increase in rate base for the AMI investment. They also will not need manual meter reads.

OCA recommends that NSMA customers who select an analog or a nontransmitting digital meter should pay an NSMA charge, but that charge should not include any business operation expense that is part of the broader AMI rollout project expense, which would include installation costs for potential moves and IT costs associated with software upgrades. With the adjustments recommended by OCA, the monthly NSMA charge would be $3.43. (*Id*., p. 49.)

Lipman argues there should be no charge for the reduced-pulse AMI meter option. Lipman contends that customers choosing this option do not create meter-reading costs, a need to estimate meter reads, an inventory of the analog meters, or costs to comply with testing requirements. Lipman also argues it is unfair to charge the estimated IT costs required to automate the placement of the AMI meter in the opt-out mode when the cost of getting a meter into any mode should be a basic metering cost. Also, Lipman points out that while IPL wants to amortize the $151,700 of IT costs over three years, the software that drives the Sensus meters is amortized over 15 years. (Lipman Direct, pp. 8-13.)

Lipman further contends the costs to Jefferson County and Vedic City are unfair. According to Lipman, IPL ignores the savings in travel time to go from meter to meter for Vedic City, where more than half of the opt-outs are located. IPL is seeking to impose a uniform NSMA charge across all customers that elect the NSMA option. Lipman asserts it would take less than three minutes to travel between addresses, as IPL suggests. Finally, Lipman argues against charging customers for meter-reading costs for both electric and gas services, asserting that would essentially double count those costs. (*Id*., pp. 13-16.)

Board Discussion

The Board finds it is reasonable to allow IPL to recover a monthly NSMA charge. However, not all of the costs IPL proposes to recover through the charge are reasonable. Also, the Board does not agree that all customers opting out of the standard AMI meter should pay the monthly charge.

The Board makes the following findings regarding the issue of NSMA charges: The Board finds it is reasonable to allow IPL to recover the costs associated with customer moves. The ongoing costs for replacing an NSMA meter with the standard AMI in the event a customer moves will exceed what IPL would have incurred to install the standard AMI meter during the initial rollout because the opportunity to achieve efficiencies in a large scale rollout has passed. Moreover, these costs are not redundant to what IPL will recover through base rates for its AMI investment. (IPL Vognsen Rebuttal, p. 52.)

The Board finds it is not reasonable for IPL's monthly charge to include the IT costs associated with the reduced-pulse AMI meter option. Including those costs in the monthly charge would impose those costs on customers who choose a different non-standard meter, *i.e.*, using an analog meter or using a nontransmitting digital meter. Removing these IT costs from IPL's proposed charge of $5.27 results in a charge of $4.06 per month. (Settlement, Article XX, Environmental Attributes.) The

Board finds that a monthly charge of $4.06 for choosing a non-standard meter is just and reasonable.

The Board finds that the approved monthly charge of $4.06 should not apply to customers who choose the reduced-pulse AMI meter option. In Docket No. SPU-2018-0007, the Board directed IPL to offer an AMI meter with minimal transmissions so that customers who were concerned about exposure to radiofrequency would have an option to reduce their exposure without having to pay a charge for exercising that option. These customers are using IPL's standard meter, the AMI meter with the reduced-pulse option, and should not pay for making that selection.

The Board concludes that the fixed monthly charge of $4.06 approved in this order should not be subject to the annual adjustments IPL proposes. Fixing the charge now in this case will give customers certainty about what they will have to pay to use a non-standard meter.

The Board requires IPL to include revised tariff sheets for the NSMA monthly charge consistent with this discussion.

3. Miscellaneous AMI Issues

IPL has acknowledged the concern raised in this case about whether the company relied on faulty test results to prematurely replace analog meters with AMI meters. IPL now commits that it will not use any existing failed meter lot testing results to determine when an existing analog meter will be replaced as part of a failed meter lot; instead, starting in 2020, IPL will rely on new testing results to make this decision. (IPL Initial Brief, p. 29.) The Board expects IPL to comply with all applicable meter testing standards, including the standards articulated in the Board's rules at 199 IAC 20.6.

Lipman attempts in this case to revisit issues already decided by the Board in Docket No. SPU-2018-0007 relating to the use of analog meters as the standard meter. (Lipman Direct, pp. 16-17.) Lipman argues that the Board authorized Lipman to challenge in this case the financial prudency of IPL's decision not to replace a failed analog meter with a used analog meter. Lipman is attempting to revisit the issue of IPL's choice of the AMI meter as its standard meter and, in doing so, relies on the Board's statement in its June 24, 2019 order in Docket No. SPU-2018-0007 regarding the rate cases IPL was expected to file. Lipman misconstrues the Board's statement. In the June 24, 2019 order, the Board pointed to the upcoming rate cases as the appropriate proceedings for review of the prudency of IPL's investment in AMI infrastructure. The Board will not revisit the determination the Board made in Docket No. SPU-2018-0007 that IPL's use of AMI meters that comply with the Board's rule at 199 IAC 20.6 provides customers with reasonably adequate service.

4. Optional Demand Pilot

<u>Background and Positions of the Parties</u>

The Board approved IPL's Optional Demand Pilot for both the residential customers and for small GS customers in IPL's last electric rate case, with certain modifications, including eliminating IPL's proposed reduced customer charge for participating in the project and requiring IPL to report annually on the number of customers participating in the pilot. *In re: Interstate Power and Light*, Docket No. RPU-2017-0001, Final Decision and Order, pp. 75-76 (Feb. 2, 2018). The pilot was designed to encourage high load factor customers to reduce their bills and to use energy more efficiently. (*Id.*) The pilot focused on cost recovery similarly to how

IPL's larger commercial and industrial customers recover costs through demand charges. (*Id*.)

In the present case, Environmental Intervenors argue that the Optional Demand rates for residential customers should be terminated because the rates are not efficient or equitable and customers are not taking service under the rates. (Env. Int. Rábago Direct, pp. 35-36; Rábago Ex. 11.) Environmental Intervenors also assert that IPL lacks the technical capability to serve customers on these rates. (Env. Int. Rábago Direct, p. 35.)

In response, IPL explains there has been a delay in the implementation of the pilot due to the AMI rollout. (IPL Vognsen Rebuttal, pp. 49-50.) IPL notes that once AMI meters are fully implemented, IPL can offer the pilot to customers and gather additional data. (*Id*.)

In Docket No. RPU-2017-0001, the Board stated that the purpose of the pilot was to test a new process or design in a limited manner to gain knowledge before making any permanent changes. Until the pilot is implemented, the Board will not have any basis to determine the effectiveness of the design. Terminating the pilot before it is implemented would be premature. In Docket No. RPU-2017-0001, the Board ordered IPL to provide an annual report specifying the number of customers participating in the pilot each month and their use of kW and kWh units. *In re: Interstate Power and Light*, Docket No. RPU-2017-0001, Final Decision and Order p. 94, (Feb. 2, 2018). The reporting requirement established in Docket No. RPU-2017-0001 will continue.

VI. MANAGEMENT EFFICIENCY

Background and Positions of the Parties

Several issues relating to IPL's management efficiency were raised in this case. The Board will review the positions of the parties regarding the management efficiency issues.

In its testimony, OCA addressed the impact of IPL's rates and service on customers. The total number of IPL customers with monthly payment agreements for past due accounts in March of each year grew from 1,416 customers in 2016 to nearly 76,000 in 2019. (OCA Parker Direct, pp. 16-19.) OCA also testified that IPL demonstrates poor customer satisfaction performance, pointing out that IPL customers have issues with various aspects of IPL's service, including general complaints filed with the Board, as well as complaints regarding IPL's Customer Care and Billing (CC&B) system rollout and the AMI project. (*Id*., pp. 29-32.) IPL's J.D. Power customer satisfaction evaluations have declined since 2015. (*Id*., p. 32.)

Before joining the Settlement, OCA argued that customer impact should be one of the "core focuses" in IPL's decision-making. (OCA Prehearing Brief, p. 65.) OCA identified IPL's insufficient analysis of its metering system needs and capabilities and the lack of a competitive bidding process for its AMI investment and inadequate benefit-cost analysis for grid modernization as examples of IPL's generally poor management practices. (OCA Prehearing Brief, p. 65; OCA Kruger Direct, pp. 15-18; OCA Norwood Direct, pp. 8-28; OCA Norwood Rebuttal, pp. 5-17.) OCA argued that, collectively, these decisions showed IPL did not focus on the interests of its customers and demonstrated poor management efficiency. (*Id*. p. 66.)

OCA also shared DAG's concerns about IPL's lack of candor in the Decorah municipalization efforts. (*Id.*)

According to OCA, IPL has neglected to focus on customer impacts in its decision-making. OCA recommended that until IPL demonstrates that it is progressing on the management efficiency issues OCA identified, the Board should set IPL's ROE at or near the lower level in the range of reasonable ROE. (OCA Parker Direct, p. 39.)

OCA joined the Settlement, which does not explicitly address management efficiency. According to OCA, the concerns about rate impact and affordability raised by IPL's customers in this case should motivate IPL to manage its costs in order to put off having to file another rate case as long as possible. (OCA Reply Brief, pp. 1-2.) OCA also expects that the Settlement's requirement of greater stakeholder engagement in generation resource planning and grid modernization should mean that IPL will give greater consideration to customer benefits and affordability in its investment planning. (*Id.*, p. 3.)

LEG witness Latham and IBEC witness Meyer agreed with OCA's recommendation for a management efficiency penalty in the form of a lower ROE. (LEG Latham Rebuttal, p. 17.; IBEC Meyer Rebuttal, p. 7.) LEG alleged that IPL's investment in New Wind I and New Wind II demonstrated management inefficiency. (LEG Latham Rebuttal, p. 17.)

DAG did not join in the Settlement. DAG urges the Board to exercise its authority under Iowa Code § 476.52 to signal to IPL that the Board is dissatisfied with IPL's management. In testimony and its objection to the Settlement, DAG points to several examples of what DAG describes as poor management, including IPL's failure to address customer affordability. According to DAG, the energy burden for IPL customers earning less than $25,000 is already 43.2 percent higher than similar customers served by MidAmerican, Iowa's other investor-owned electric utility; IPL customers earning less than $50,000 have an energy burden that is already 45 percent higher than similar customers served by MidAmerican. (DAG Holland Direct, p. 8.) IPL's residential rates are currently 44.7 percent higher than MidAmerican's, its commercial rates are 38.5 percent higher, and its industrial rates are 47.6 percent higher. (DAG Martin-Schramm Direct, pp. 4-7.)

DAG says the comments from IPL's customers reveal outrage and desperation with the continuing rate increases. DAG points out that while the Settlement reduces IPL's proposed rate increase for residential customers, it leaves roughly 60 percent of the request in place, and fails to address the heavy burden IPL's rates impose on low- and moderate-income customers, businesses, and communities. (DAG Partial Objection, p. 2.)

DAG calculates that the reduced revenue requirement increase (down to $127 million from $204 million) would still result in a 15.16 percent increase in base rates for residential customers. (DAG Partial Objection, p. 4.) DAG states that IPL customers have faced a 45 percent increase in rates since 2008, while MidAmerican customers have experienced a 25 percent increase in rates since 2008. DAG argues this disparity in rates between IPL and MidAmerican is unjust and unreasonable and must be addressed by the Board. (DAG Partial Objection, pp. 5-6.)

According to DAG, recent increases to IPL's retail rates have resulted primarily from increases to IPL's rate base. DAG states that IPL's rate base increased 194 percent from 2009 to 2020. (DAG Berg Direct, p. 10.) DAG describes the accelerating growth in IPL's rate base and states that information in the confidential record of this case suggests that IPL will continue to add facilities to its rate base, leading to more increases in retail rates. (DAG Martin-Schramm Surrebuttal Confidential Ex. 15, p. 11.) DAG contends the Settlement's revenue requirement and capital structure terms will lock in these rapid and continuing rate increases. (DAG Initial Brief, p. 15.)

DAG objects to the Settlement's 9.5 percent ROE, arguing it is too generous in light of the evidence presented by OCA and DAG establishing IPL's management inefficiency. DAG asserts IPL is functioning in a less financially beneficial manner for its customers when compared to MidAmerican. (DAG Martin-Schramm Direct, p. 14.) DAG urges the Board to set a lower ROE for rate base not subject to advance ratemaking principles to send a signal to IPL that the Board is dissatisfied with IPL's inefficient management. (DAG Partial Objection, pp. 7-10; DAG Initial Brief, p. 19.)

DAG also says that IPL's behavior in this case and in the Decorah municipalization campaign, which DAG characterizes as "duplicitous," can be characterized as management inefficiency. (DAG Initial Brief, p. 20.) DAG contends that IPL attempted to hide the true impact of the proposed rate increases, beginning with the proposed customer notices in Docket No. RPU-2018-0004. According to DAG, IPL sought to offset the proposed base rate increases with anticipated reductions in fuel costs, energy efficiency program costs, and lower energy costs. DAG asserts that even though the Board rejected those notices, IPL continued in this case to rely on anticipated offsets in an effort to downplay the effect of the proposed rate base increase. (*Id.*, p. 21.) DAG also points to IPL's Hearing Exhibit 4, the "waterfall" chart, which displays refunds and credits, which are not the result of anything at issue in this rate case, as an example of IPL's obfuscation. (*Id*.)

DAG also points to IPL's misrepresentations about its plans for future rate cases in the Decorah municipalization campaign in 2017 and 2018 as examples of management inefficiency. DAG points out that IPL's consultant, Concentric Energy Advisors (CEA), prepared a feasibility study on the proposed municipal utility. CEA presented information to the citizens of Decorah that IPL planned on a rate case every third year with a 3 percent increase starting in 2021, after the 6.10 percent assumed rate increase in 2018. (DAG Berg Direct, p. 13; DAG Initial Brief, p. 22.) DAG stated when that information was presented, IPL management representatives did not contradict the consultant's representations. (DAG Berg Direct, p. 13.) DAG also points to the mailer IPL sent its customers during the municipalization campaign, urging them to vote against what would be double-digit rate increases if a municipal utility were approved. (DAG Berg Direct Ex. 8.)

IPL witness Bauer testified that at the time of the original CEA study, IPL had not made a decision on whether to file a rate case or the magnitude of such a case. (IPL Bauer Rebuttal, pp. 35-36.) DAG contends that information in the confidential record in this case shows that IPL's own planning documents indicate the company was planning since 2016 to file a rate case in 2019. (DAG Initial Brief, pp. 23-24.)

IPL generally resisted the requests for a management efficiency penalty from DAG and OCA, insisting that it has managed its business effectively while balancing interests in affordability, reliability, and safety. (IPL Brummond Rebuttal, pp. 18-19.) IPL acknowledged that MidAmerican's rates are lower than IPL's but argued that is not a reason to impose a management efficiency penalty. IPL contends its rates are competitive with those of most utilities in the Upper Midwest and across the United States. IPL stated that its 2018 average cost per kWh was close to the national average and below the 2017 average for Iowa municipal and cooperative utilities. IPL also pointed to its extensive rural and more dispersed customer base as examples of the significant structural differences between IPL and MidAmerican. (*Id.*, pp. 26-27.)

IPL disputes DAG's assertion that IPL was not honest with the City of Decorah regarding municipalization. IPL contends it stated the facts about its rate case plans as it knew them to be at the time. IPL argues that its statements about its plans actually demonstrate good management, not management inefficiency. IPL suggests that effectively managed utilities are those that engage in long-term planning. (IPL Reply Brief, pp. 15-16.) IPL also argues that the Board recognizes that a comparison of utility rates does not support a management efficiency penalty.

<u>Board Discussion</u>

The Board's rules at 199 IAC chapter 29 govern the Board's evaluation of a rate-regulated utility's management efficiency and allow for consideration of a range of factors that may differ among utilities. The factors outlined in 199 IAC 29.3(1) include: the price per unit of service by customer class and type of service; operation and maintenance costs per unit of service; quality of service, as reflected in objective measures of service quality, and customer complaints shown in company and Board records; findings made in complaint proceedings, penalties assessed, and measures of customer satisfaction; and customer mix, among other factors.

In applying those factors, the Board recognizes that disagreement with management decisions does not necessarily equate to poor management. *In re:*

Interstate Power and Light, Docket No. RPU-2009-0002, Final Decision and Order, pp. 39-40 (Jan. 19, 2010). In this case, however, the Board's concerns amount to more than mere disagreement with the decisions of IPL's management. Evidence in this docket relating to the numerous complaints from IPL customers regarding IPL's service, including complaints regarding IPL's rollout of the AMI project, and IPL's declining customer satisfaction evaluations, demonstrates that IPL has not efficiently managed its relationships with its customers, particularly when it comes to deploying new technology. (OCA Parker Direct, pp. 30-32; Tr. 600.)

In addition, the actions taken by IPL in opposition to the Decorah municipalization effort demonstrate a lack of management efficiency by withholding from and not providing to the citizens of Decorah accurate information about anticipated rate increases. Because a rate-regulated electric utility is a monopoly in its service territory, it has a duty to be transparent and to provide accurate information to customers and communities in that service territory. The evidence in this case regarding IPL's behavior during the Decorah municipalization campaign shows that IPL did not fulfill this responsibility and failed to meet the expected standard of conduct for a regulated monopoly. The facts of the study performed by CEA with regard to costs to residents of Decorah may have been true at the time of the study; however, there was further information with regard to timing of rate cases and expected rate increases that was known prior to the municipalization vote. IPL's management decided not to share, incorporate or update its messaging with Decorah residents.

The lack of transparency and misrepresentation in the Decorah municipalization vote is of significant concern to the Board. It is not definitively known whether the information IPL withheld would have changed the results of the vote. It also is not within the authority of the Board to require or allow for a new municipalization vote. IPL's actions raise a question about whether there is a need for changes to statute or administrative regulation that would govern the behavior of regulated utilities during the municipalization process. The Board, however, does have the authority to ensure that IPL provides accurate information to Iowans regarding the service supplied by their regulated utilities. Accurate information is particularly important for communities considering municiplization. The Board will require IPL to submit a plan to ensure that information presented to communities considering any anticipated rate changes is accurate and current.

In addition to the Decorah municipalization issue, the Board strongly disapproves of the approach used by IPL to introduce and implement AMI technology and is concerned with the significant number of recurring customer complaints beyond those related to the rate case. There also were comments and testimony comparing IPL's rates to MidAmerican's rates as evidence of management inefficiency.

The Board does not rely on evidence of how IPL's rates compare to MidAmerican's rates to demonstrate management inefficiency. Given the significant differences between the two utilities in terms of corporate history, service territory, and customer base, the comparison is of limited value in determining management efficiency. The Board also does not consider the decisions of IPL to invest in wind projects as management inefficiency, as argued by LEG, given those projects were previously approved by the Board.

The Board, as indicated above, has serious concerns with the management decisions and actions by IPL. The Board perceives a shift in decisions by IPL from those focused on Iowa customers to those focused on or coming from the parent company and its shareholders. The dissent would implement an adjustment to reduce the level of profit or the revenue requirement for IPL based upon the finding of management inefficiency. The Board finds the decisions and actions of IPL do not warrant implementing an adjustment. However, the Board requires that IPL take specific action to address the concerns described above.

The Board directs IPL to place an emphasis on customer impact going forward. IPL will be required to file a comprehensive plan addressing how it intends improve its relationships with its customers. A component of the plan will require IPL to proactively engage with stakeholders and consider community-specific solutions to identifiable concerns. In addition, IPL’s plan must include monthly meetings with the Board’s customer service staff to address trends in customer complaints. The Board will monitor IPL’s progress and expects IPL to provide evidence of increased customer satisfaction, including but not limited to: a reduction in customer complaints, reduced average call wait times, and an increase in its J.D. Power customer satisfaction score.

The Board expects that the collaborative process for grid modernization and resource planning established in the Settlement should bring customer interests into focus going forward and give them greater priority than was the case in the AMI deployment. IPL is expected to consider community-specific solutions based on discussions with its stakeholders.

Pursuant to § 476.5, and the Board's authority at § 476.52, the Board in the past has ordered IPL to file a management efficiency audit. *See In re: Interstate Power and Light Company*, Docket No. INU-2011-0001 (Sept. 27, 2012). While the Board will not order an audit, IPL shall review its own internal processes, identify opportunities for improvement, and correct deficiencies as they become apparent. IPL shall include its review within its comprehensive plan for improving stakeholder engagement and customer satisfaction. The Board will monitor and review IPL's management efficiency and may take necessary action as allowed under Iowa Code chapter 476.

VII. RATE CASE EXPENSE

The Settlement provides that IPL will recover its rate case expenses and the amounts assessed by both the Board and OCA through a rate case expense tracker amortized over a three-year period. (Settlement, Article VI, ¶ A.) Rate case expenses will be determined in a subsequent order.

VIII. CONCLUSION REGARDING SETTLEMENT

Based on the foregoing findings and conclusions, the Board finds the Settlement with respect to permanent rates and a $7.5 million refund with respect to interim rates to be just and reasonable when viewed in light of the record as a whole. The Settlement is consistent with the law and is in the public interest. The Board will therefore approve the electric base rate increase of $127 million based upon a total annual revenue requirement of $1,816,169,098.

IX. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The Joint Motion for Approval of Agreement filed on October 3, 2019, by Interstate Power and Light Company; the Office of Consumer Advocate, a division of the Iowa Department of Justice; the Environmental Law and Policy Center and Iowa Environmental Council; the International Brotherhood of Electrical Workers, Local 204; Iowa Business Energy Coalition; the Large Energy Group; Large General Service Group; Sierra Club; and Walmart Inc. is granted.

2. The Non-Unanimous Partial Settlement Agreement filed on October 3, 2019, is reasonable in light of the record as a whole, consistent with the law, and in the public interest, and is approved.

3. The temporary electric tariff identified as Docket No. TF-2019-0017, filed on March 1, 2019, and placed into effect on April 1, 2019, by Interstate Power and Light Company shall remain in effect until the Utilities Board approves the compliance tariffs required by this order.

4. The proposed final electric tariff filed by Interstate Power and Light Company on March 1, 2019, identified as Docket No. TF-2019-0018, and made subject to investigation as part of this proceeding, is rejected.

5. Interstate Power and Light Company shall include all interested stakeholders in the collaborative processes regarding implementation of Advanced Metering Infrastructure and renewable energy tariffs, including parties to this proceeding that did not join the Non-Unanimous Partial Settlement Agreement.

6. Interstate Power and Light Company shall not fund the Transportation Electrification Program with funds derived from rates or charges paid by customers.

7. Interstate Power and Light Company shall revise its tariffs to reflect reconnect charges of $17 for all reconnections regardless of when the reconnection is made and $73 when a field representative is required at the premises.

8. In the event the information that tracks transmission costs and any cost cap overruns is no longer provided through the semi-annual reports for New Wind I and New Wind II in Docket Nos. RPU-2016-0005 and RPU-2017-0002, Interstate Power and Light Company shall include the information in the Renewable Energy Rider annual reconciliation.

9. Interstate Power and Light Company shall update language in its electric tariff to refer to “Budget Billing” instead of “Level Payment Plan.”

10. Interstate Power and Light Company shall allow all parties in Docket No. RPU-2019-0001 to participate in the Resource Planning process.

11. Interstate Power and Light Company’s proposed sales forecast volumes are approved and will be reviewed in the subsequent proceeding.

12. The proposal from the Office of Consumer Advocate to weight Interstate Power and Light Company’s Average and Excess Demand allocation factors 50/50 with the Average and Excess Demand allocation factors approved in Docket No. RPU-2017-0001 is approved.

13. Costs associated with the Key Account Managers shall be allocated according to the allocation methodology proposed by the Office of Consumer Advocate.

14. Interstate Power and Light Company’s proposal to allocate uncollectible expenses based on a percentage of write-offs by customer class is approved.

15. Interstate Power and Light Company's proposal to allocate the costs of grid modernization is approved.

16. Interstate Power and Light Company's compliance filings shall include a final class cost of service study, revenue allocation, rate calculations, and proof of revenue consistent with this order. Interstate Power and Light Company shall also provide calculations showing the approved revenue increase, by class, as a percentage of total revenues and base rate revenues.

17. Interstate Power and Light Company's proposal to extend the summer period is approved.

18. Interstate Power and Light Company's proposal to maintain separate Large General Service and Large General Service-Supplementary rate classes is approved.

19. Interstate Power and Light Company's proposed Standby SPS tariff is approved. Interstate Power and Light Company shall include in its compliance tariffs separate distribution reservation charges for primary and secondary service.

20. Interstate Power and Light Company shall calculate and file with the Utilities Board a separate Tax Benefit Rider rate for the Standby Power Service class that does not include the $7.5 million interim rate refund. The Tax Benefit Rider is to be shown as a separate line item on customer bills.

21. Interstate Power and Light Company's proposal to revise its Rider Regional Transmission Service (Rider RTS) tariff so that transmission charges would apply to all energy delivered to a customer is rejected. If Interstate Power and Light Company chooses to propose a change in the Rider RTS in a future tariff filing, Interstate Power and Light Company should clearly specify how transmission costs

are applied to customer bills and provide examples demonstrating how the billing units used to charge for transmission service are calculated based on actual metered information.

22. Interstate Power and Light Company's proposal to continue using the Average and Excess Demand allocation methodology for transmission costs is approved with the requirement that the allocator be updated annually as part of the annual Rider Regional Transmission Service (Rider RTS) update. In the compliance filing prepared in response to this order, Interstate Power and Light Company shall propose how it will coordinate the annual update of the Average and Excess Demand allocator with the annual Rider RTS reconciliation filing.

23. Interstate Power and Light Company's proposed Individual Contract Rate (ICR) tariff is approved, with the following conditions:

a. The rates, riders, terms, and conditions applicable to Rate ICR are subject to modification by the Utilities Board and such modifications shall apply to service hereunder.

b. Address the following scenarios in its ICR tariff applicable to changes in load:

i. Load growth beyond Interstate Power and Light Company's facilities' current capabilities, and

ii. Load below 25,000 kW for 12 consecutive months; and/or

iii. Customers not served at transmission voltage.

c. File annual reporting requirements by March 1 of each year:

i. Complete copies of all ICR customer contracts or amendments to customer contracts executed during the prior 12 months in searchable PDF format.

ii. An exhibit detailing the following billing information for each ICR customer taking service during any part of the prior 12-month period:

1. Calculations showing the actual monthly billing units, rates, and total billing amount for each customer under negotiated ICR rates based on actual energy and/or demand consumption. The calculation should tie directly to each customer's monthly bill.

2. Calculations showing the monthly billing units, rates, and total billing amount for each customer under default ICR rates based on actual energy and/or demand consumption.

3. The dollar and percentage difference between the two calculations detailed above.

24. Interstate Power and Light Company is authorized to charge a monthly Non-Standard Metering Alternative charge of $4.06 to electric customers who choose a non-standard meter. Interstate Power and Light Company shall not apply the charge to customers who choose the reduced-pulse AMI meter option. Interstate Power and Light Company's proposal to update the charge on an annual basis is rejected.

25. Environmental Intervenors' proposal to terminate Interstate Power and Light Company's Optional Demand Pilot is rejected.

26. Interstate Power and Light Company shall file its compliance filings and associated tariffs within 20 days of the date of this order.

27. The Utilities Board will conduct a subsequent proceeding in this matter as required by Iowa Code.

28. The Board establishes a regulatory principle that a return on equity used for interim rates cannot exceed the return on equity requested for final rates.

29. Interstate Power and Light Company shall file within 90 days of the date of this order its comprehensive plan addressing stakeholder engagement and customer satisfaction. The plan must include monthly meetings with the Board's customer service staff to address trends in customer complaints and monthly reporting of Interstate Power and Light Company's progress.

30. This order constitutes the final decision of the Utilities Board in Docket No. RPU-2019-0001.

UTILITIES BOARD

/s/ Geri D. Huser

/s/ Nick Wagner

ATTEST:

/s/ Kelsie Vanderflute

Dated at Des Moines, Iowa, this 8th day of January, 2020.

X. PARTIAL DISSENT AND CONCURRENCE

I respectfully dissent from the majority with respect to its approval of interim rates in the Non-Unanimous Partial Settlement Agreement (Settlement) and Joint Motion for Approval of Agreement, its conclusions regarding the appropriate amount of refund of interim rates to be returned to Interstate Power and Light Company's (IPL) customers and method of making the refund, and the treatment of management efficiency issues. Except as stated herein, I concur with the majority.

Approval of the Settlement

IPL initially requested approval of an overall increase in its revenue requirement of more than $203 million, including approximately $90 million in interim rates. The Settlement provides $7.5 million as a refund to customers for interim rates. The Settlement provides no analysis or explanation for how the $7.5 million refund for interim rates was calculated, leaving the Board no grounds on which to conclude whether the Settlement is just and reasonable, compliant with law, and in the public interest as required by statute. Iowa Code § 476.8(1), 199 IAC 7.18. In that respect, the Settlement is akin to a "black box settlement." Presumably, the Settlement represents a compromise to which most, but not all, parties in this case agreed. The Settling Parties request the Board find the Settlement to be just and reasonable. However, without knowing the bases for any such compromises, it is impossible to know whether these compromises reach the right conclusion; *i.e.,* one that is just and reasonable.

Interim Rates

Iowa Code § 476.6(9)(a) authorizes a rate-regulated utility to implement temporary (interim) rates without Board approval on or after 10 days following the filing date of an application for a general rate increase. This statute provides that at the conclusion of the proceeding, if the Board determines that temporary rates were not based upon a previously established regulatory principle, the Board shall consider ordering refunds based upon the overpayments made by each individual customer class, rate zone, or customer group. The statute also provides that refunds may be ordered if amounts the utility collects under temporary rates exceed amounts which would have been collected under final rates approved by the Board. Section 476.6(9)(c) provides for a public utility to pay interest at a prescribed rate to customers receiving refunds from a public utility.

IPL implemented a nearly $90 million rate increase in this docket on April 1, 2019, using calendar year 2018 as a historic test year. IPL has been collecting the increase in interim rates from its customers since April 1, 2019.

On October 3, 2019, one business day before the start of the hearing in this case and 13 days after the settlement deadline, IPL and other parties filed the Settlement, giving the Board inadequate time to review the terms of the Settlement prior to the hearing. The Settlement purports to resolve all issues raised by the parties regarding interim rates by approving the interim rate increase subject to a customer refund of $7.5 million through the Tax Benefit Rider, with bill credits to customers over a 12-month period and a true-up at the end of the period to ensure that the total refund of $7.5 million is credited.

The Settlement does not specifically address any of the issues about interim rates raised by the parties earlier in this proceeding, including whether the amounts in interim rates were supported by previously established regulatory principles. Instead, the Settling Parties agreed that a one-time refund (albeit spread over 12 months) of $7.5 million was reasonable.

Regardless of the Settlement's resolution of outstanding issues on the calculation of interim rates, additional scrutiny is needed for return on equity, long-term performance pay, and outside services costs.

Return on Equity for Interim Rates

For interim rates, IPL used a 10 percent ROE to determine the rate of return on common equity for rate base assets not subject to advance ratemaking principles. In spite of proposing an ROE of 9.8 percent for final rates (and agreeing in the Settlement to an ROE of 9.5 percent for final rates), IPL argued that the 10 percent ROE was based on a previously established regulatory principle because the Board found a 10 percent ROE was reasonable in IPL's last litigated rate case. (IPL Ashenfelter Rebuttal, pp. 4-8.) The 10 percent ROE was based on a nine-year-old rate case, Docket No. RPU-2010-0001. OCA and IBEC both argued that a 10 percent ROE is outdated and unreasonable and recommended 9.6 percent ROE instead. (OCA Munoz Direct, pp. 8-12; IBEC Meyer Direct, pp. 18-21.) These parties stated that the difference in revenue between a 10 percent ROE and the 9.6 percent ROE that OCA and IBEC recommend is approximately $10 million.

There is no justification for receiving a 10 percent ROE for interim rates, while proposing a 9.8 percent ROE for final rates and agreeing to a settlement providing for a 9.5 percent ROE for final rates. Use of an ROE for interim rates higher than the

ROE proposed for final rates is on its face unreasonable. In this instance, using the 9.8 percent ROE proposed by IPL for final rates and removing a flotation cost adjustment of 20 basis points would have supported an ROE for interim rates of 9.6 percent.

IPL has overcollected interim rates using a 10 percent ROE at an annualized rate of $10 million over the nine months since interim rates were implemented.[16] Based solely on the excessive ROE, IPL should be required to refund to customers the sum of $7.5 million plus interest. Perhaps the Settlement provision requiring a refund of $7.5 million is based on the excessive charges for ROE ($10 million per year for nine months equals $7.5 million), but the Board has no way to know that. In its Final Decision and Order, the majority establishes a regulatory principle that an ROE used for interim rates cannot exceed the ROE requested for final rates. Yet, the majority fails to apply the very principle it just established by failing to deny IPL's 10 percent ROE for interim rates, while IPL requested a 9.8 percent ROE for final rates. In any event, as explained below, the amount of the refund to IPL's customers should be more, and it should include interest as required by statute.

Long-Term Performance Pay

IPL included in interim rates long-term performance pay of approximately $8 million, stating that the Board had not disallowed long-term performance pay for interim rates in past rate decisions and, therefore, recovery is based upon previously established regulatory principles. (IPL Ashenfelter Rebuttal, p. 13.) OCA argued that long-term performance pay was hidden in FERC Account 920, which previously had

[16] The majority recognizes that the use of the 10 percent ROE in interim rates was not based on established regulatory principles; however, the Board makes no adjustment in interim rates for ROE.

not been noticed. IPL was not transparent that it was included in that account in this case and in previous cases. (OCA Kruger Rebuttal, p. 7.) Thus, OCA correctly asserted this issue previously has not been presented to the Board and could not be considered to be a previously established regulatory principle. (*Id*.) IBEC agreed with OCA that this adjustment should be removed from interim rates. (IBEC Meyer Rebuttal, p. 15.)

The Settlement disallows recovery of long-term performance pay in final rates, and yet the majority, without justification, fails to explicitly disallow IPL from recovery of long-term performance pay in interim rates. The Board has not specifically addressed long-term performance pay in interim rates, and the apparently inadvertent acceptance of those expenses in prior rate cases does not establish a regulatory principle. The Board has not found previously that long-term performance pay is a reasonable expense to be recovered from customers. Inclusion of the amounts associated with long-term performance pay in interim rates is not based upon previously established regulatory principles and is neither just nor reasonable.

The majority seems to assume, without evidentiary support, that the reduction in the settled revenue requirement from $203 million to $127 million includes the refund of $8 million to customers for long-term performance pay in interim rates. If that is the majority's assumption, the evidence proves otherwise. There is no question that long-term performance pay was in fact included in interim rates based on a 2018 historic test year and are still being collected from IPL's customers. With respect to permanent rates, Settlement Attachment A, Schedule B, page 2 of 12, shows clearly that $20,361,310 for "Short-term and Long-term Performance Pay" was eliminated as part of the reduction in revenue requirement from $203 million to $127 million based on a 2020 future test year. No similar adjustment is shown in interim rates for performance pay recovered by IPL from customers in 2019. Thus, the final rate is not decreased by the elimination of performance pay from interim rates.

The amount of long-term performance pay included in interim rates is $8,026,330; it was paid by IPL's customers in 2019, it is not deducted from final rates, and it should be included in the refund to IPL's customers.

Outside Services Costs

IPL proposed to use a five-year, inflation-adjusted average and included $11,474,699 in interim rates for outside services. (IPL Ashenfelter Rebuttal, pp. 11-12.)

OCA argued that, based on an established regulatory principle in Docket No. RPU-2010-0001, IPL should have normalized this test year expense because it was 24 percent above the five-year average. OCA proposed a $2.2 million normalization adjustment to O&M expense for interim rates. (OCA Kruger Direct, pp. 31-32.)

IPL disagreed with OCA's proposed adjustment and argued that outside services costs are a direct correlation to internal staffing costs. (IPL Ashenfelter Rebuttal, pp. 11-12.)

The Settlement does not specifically address outside services costs included in interim rates. IPL's assertion that outside services costs directly correlate to internal labor costs is not necessarily true since many times costs related to outside services are for specialized labor for which IPL generally would not hire a full-time employee. Circumstances in this case do not excuse IPL from normalizing test year expenses for outside services. In this case, outside services employed by IPL were 24 percent higher than the five-year average. The outside services employed expense should have been normalized. The $2.2 million O&M adjustment proposed by OCA to normalize outside services costs is reasonable, is based upon a previously established regulatory principle, and should be part of the refund to IPL's customers.

Conclusion With Respect to Interim Rates

Based upon the discussion above, the $7.5 million refund agreed to in the Settlement is not reasonable. The Settling Parties appear to have agreed that some amount of refund is necessary because of the failure of the total interim rate increase to be based upon previously established regulatory principles. Pursuant to Iowa Code § 476.6(9)(a), the total amount that should be subject to refund to customers is an annualized sum of $20 million ($10 million for ROE; approximately $8 million for performance pay; and approximately $2 million for outside services costs).

Because interim rates have been in effect for nine months, a refund of $15 million to IPL's customers is consistent with the finding that the interim rates are not just and reasonable and are not based upon previously established regulatory principles. Fifteen million dollars is the amount which has been overcollected from customers in interim rates during the process of determining final rates, and that amount should be refunded to customers.

Refunds should be made, as closely as possible, to the customers that have been paying the interim rates and should be made as a one-time credit or check. Returning the refunds through the TBR could create a mismatch between those customers who have been paying the interim rates and the customers who will receive the refunds since the interim rate increase did not apply to all customer classes.[17] Issuing refunds by means of the TBR is not acceptable. Section 476.6(9)(a) provides that overpayments by customers should be refunded to each individual customer, class, rate zone, or customer group. The Board should require IPL to file for Board approval a proposed plan to refund $15 million plus interest to the customers who have been paying interim rates, based on actual customer usage during the time period interim rates were in effect.

The majority criticizes the dissent for failing to recognize that a settlement is a compromise of all disputed issues – not just the amount of the refund, citing to 199 IAC 7.18 requiring the Board to consider whether a settlement is "reasonable in light of the whole record." The majority makes no effort to explain how it is able to consider "the whole record," when, as explained above, the underlying bases of the Settlement are contained in a black box. Notably, the majority does not dispute the dissent's calculation that the proper amount of the refund should be $15 million, accepting instead, without explanation, that $7.5 million was simply compromised away. Instead, IPL should refund $15 million to IPL's customers who have been paying since interim rates were implemented on April 1, 2019.

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[17] Although the majority eliminates any refund to the standby class which addresses some of the mismatch, the majority recognizes that refunds through the TBR creates a mismatch between customers who paid interim rates and those that will benefit from the refund.

Management Efficiency

The majority opinion adequately summarizes the positions of the parties regarding management efficiency, but I reach a different conclusion. The majority is content to require IPL to submit a plan for management improvement and to "monitor" IPL's ongoing management efficiency performance. I find more is required. It may never be known whether Decorah would have been better served by IPL or a municipal electric utility, but given Decorah's loss in the municipalization election by only three votes, the outcome of the election most certainly would have been different if IPL had corrected CEA's representation regarding IPL's plans for future rate case proceedings.

The actions taken by IPL in opposition to the Decorah municipalization demonstrate a lack of management efficiency by not providing accurate information to the citizens of Decorah about anticipated rate increases. While a rate-regulated electric utility is a monopoly in its service territory, it has a corresponding duty to provide accurate and timely information to customers and communities in that service territory. The evidence in this case shows that IPL did not fulfill this responsibility, and this is evidence of a failure of management efficiency.

In addition to IPL's shortcomings in Decorah, evidence in this docket regarding IPL's numerous customer complaints, including complaints regarding AMI rollout, and IPL's declining customer satisfaction evaluations, supports a finding that IPL has not managed well its customer relations, particularly when it comes to new technology.

In spite of the foregoing and the authority the Board has pursuant to § 476.52(2), the majority chooses only to require IPL to file a management improvement plan and will monitor IPL's management efficiency performance.

The majority's position is unacceptable. Instead, the Board should reduce the level of IPL's profit or adjust the revenue requirement until IPL demonstrates it has corrected its inefficient operations.

RESPECTFULLY SUBMITTED,

/s/ Richard W. Lozier, Jr.

Richard W. Lozier, Jr.

ATTEST:

/s/ Kelsie Vanderflute

Dated at Des Moines, Iowa, this 8th day of January, 2020.