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**IOWA UTILITIES BOARD**  
Energy Section

Docket No.: TF-2015-0007  
Utility: Interstate Power and Light  
Company  
File Date/Due Date: January 29, 2015 –  
February 28, 2015  
Memo Date: February 24, 2015

**TO:** The Board

**FROM:** Andrew McGrean

**SUBJECT:** Recommendation to Docket TF-2015-0007

**I. Background**

On January 29, 2015, Interstate Power and Light Company (IPL) filed with the Iowa Utilities Board (Board) its annual Electric Energy Efficiency Cost Recovery (EECR) Report, along with a new tariff to implement revised electric cost recovery factors to be effective April 1, 2015. The filing reflects a set of factors developed from estimated 2015 contemporaneous expenditures to be incurred in the next 12 months and reconciliation of the 2014 actual EECR collections compared to the actual 2014 contemporaneous expenditures.

The filing also includes corrections for two significant, prior period errors discovered subsequent to IPL's approved 2014 EECR filing. One of these corrections is related to a 2012 under-recovery created by a misstatement of revenues from IPL's 2013 filing; the other correction relates to misstated 2013 interruptible credits from IPL's 2014 EECR filing.

OCA Objection

On February 18, 2015, the Consumer Advocate Division of the Department of Justice (OCA) filed a Conditional Objection. In its Conditional Objection, OCA states that it has no issues with the proposed corrections. OCA is, however, concerned whether IPL's proposed EECR factors sufficiently reflect the anticipated levels of direct cost assignment to IPL's Large General Service (LGS) and General Service (GS) classes as agreed to in Settlement Issue 17 approved in IPL's current Energy Efficiency Plan (EEP). IPL's approved EEP budget is based on allocations determined in its most recent rate case, which differs from the directly assigned costs. This also makes it difficult to compare IPL's direct assignment spending versus budget for these customer classes. This comparison is used to determine whether a plan modification or waiver for spending variance is needed under 199 IAC 35.6(4).

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

## II. Legal Standards

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

**Iowa Code §476.6(16)"g"**. A gas or electric utility required to be rate-regulated under this chapter may recover, through an automatic adjustment mechanism filed pursuant to subsection 8, over a period not to exceed the term of the plan, the costs of an energy efficiency plan approved by the board, including amounts for a plan approved prior to July 1, 1996, in a contested case proceeding conducted pursuant to paragraph "e". The board shall periodically conduct a contested case proceeding to evaluate the reasonableness and prudence of the utility's implementation of an approved energy efficiency plan and budget. If a utility is not taking all reasonable actions to cost-effectively implement an approved energy efficiency plan, the board shall not allow the utility to recover from customers costs in excess of those costs that would be incurred under reasonable and prudent implementation and shall not allow the utility to recover future costs at a level other than what the board determines to be reasonable and prudent. If the result of a contested case proceeding is a judgment against a utility, that utility's future level of cost recovery shall be reduced by the amount by which the programs were found to be imprudently conducted. The utility shall not represent energy efficiency in customer billings as a separate cost or expense unless the board otherwise approves.

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

**Iowa Admin. Code 199—35.12(476) Energy efficiency cost recovery.** A utility shall be allowed to recover the previously approved costs, deferred past costs, and estimated contemporaneous expenditures of its approved energy efficiency plans through an automatic adjustment mechanism. The utility may

propose to recover the portion of the costs of process-oriented industrial assessments related to energy efficiency. Only unrecovered costs may be recovered through the automatic adjustment mechanism, and costs may be recovered only once.

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

**35.12(2) *Automatic adjustment mechanism.*** Each utility required to be rate-regulated shall file by March 1 of each year, subject to the board's approval, energy efficiency costs proposed to be recovered in rates for the 12-month recovery period beginning at the start of the first utility billing month at least 30 days following board approval. Each utility may elect to file its first energy efficiency automatic adjustment up to 120 days after the effective date of these rules.

**35.12(3) *Energy efficiency cost recovery (ECR) factors.*** The utility shall calculate ECR factors separately for each customer classification or grouping previously approved by the board. For all plans current at the time this rule becomes effective and for all future plans, if a utility desires to use customer classifications or allocations of indirect or other related costs other than those previously approved, such customer classifications or allocations of indirect or other related costs must be approved as part of a plan filing or of a modification thereof. ECR factors shall use the same unit of measurement as the utility's tariffed rates.

**35.12(4) *Filing requirements.*** Each utility proposing automatic recovery for its energy efficiency costs shall provide the following information:

- a. The filing shall restate the derivation of each ECR factor previously approved by the board.
- b. The filing shall include new ECR factors based on allocation methods and customer classifications and groupings approved by the board in previous proceedings.
- c. The filing shall include all worksheets and detailed supporting data used to determine new ECR factors. Information already on file with the board may be incorporated by reference in the filing.
- d. The filing shall include a reconciliation comparing the amounts actually collected by the previous ECR factors to the amounts expended. Overcollections or undercollections shall be used to

compute adjustment factors.

e. If in a prudence review, the board has determined that previously recovered energy efficiency costs were imprudently incurred, adjustment factors shall include reductions for these amounts.

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

### III. Analysis

The specific formulas or proportions used by each utility to allocate costs were developed through settlements between OCA and each utility, either in contested cost recovery cases in the 1990s, or in subsequent general rate cases. The Board's orders regarding these settlements approved methods of distributing energy efficiency costs among customers that provide utility-specific interpretations of the statutes and the Board's rules on cost recovery.

In the case of IPL and its predecessor companies, energy efficiency cost recovery allocations were designed and continue to be implemented as follows:

- Program implementation costs for most programs are allocated directly to the customer class which is eligible to participate in the program.
- Exceptions to the direct assignment method are made for the costs of the IPL residential load control and nonresidential interruptible program, which are distributed to all classes per a settlement between Consumer Advocate and IPL in Docket No. EEP-02-38.
- The previously-approved non-residential load management allocation factors used in assigning costs to the Bulk Power class were based upon data from IPL's compliance filing in Docket No. RPU-04-1. These factors continue to be used for the current IPL energy efficiency plan under Docket No. EEP-08-1.

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

Staff recognizes OCA's concerns regarding the investigation of the nonresidential factors and recommends docketing the tariff in order to allow time for further investigation.

#### **IV. Recommendation**

Staff recommends the Board issue the attached order docketing TF-2015-0007 for investigation.

/AM