

**IOWA UTILITIES BOARD
FISCAL YEAR 2004 REGULATORY PLAN
Prepared pursuant to
EXECUTIVE ORDER NINE
August 1, 2003**

Current Regulatory Objectives and Priorities

The objectives and priorities of the Iowa Utilities Board (Board) derive from its statutory duty to "regulate the rates and services of public utilities..." established in Iowa Code § 476.1. This broad grant of authority is refined by specific directives throughout chapters 474 (establishes the Board), 476 (primary rate and service regulatory authority), 476A (electricity generator certification), 477C (dual party relay and equipment distribution), 478 (electric transmission line franchises), 479 (intrastate pipeline and underground gas storage permits), 479A (interstate natural gas pipeline inspection as federal agent, damages, and land restoration), and 479B (hazardous liquid pipeline and storage permits). A summary of the Board's primary general objective is found in § 476.8. The Board must assure that public utilities within its rate regulatory jurisdiction charge Iowa customers just and reasonable rates and that all public utilities within the Board's jurisdiction provide reasonably adequate service and facilities.

Telecommunications

The Iowa legislature in 1995 established six new objectives concerning telecommunications regulation. Section 476.95 provides: 1) communication services throughout the state should come from a variety of providers; 2) to the extent reasonable and lawful the Board shall act to further the development of competition; 3) to encourage competition, the Board should move prices to cost and remove subsidies for incumbent local exchange carriers; 4) regulatory flexibility is appropriate in a competitive environment; 5) the Board should respond with speed and flexibility to telecommunications changes; and 6) economic development can be fostered by advanced telecommunications. These procompetitive policy objectives were furthered by the passage of the Telecommunications Act of 1996, 47 U.S.C. § 251 *et seq.* That federal statute provided an extensive role for the Board in opening the local exchange market to competition.

Under 47 U.S.C. § 271, the Board consulted with the Federal Communications Commission (FCC) concerning Qwest Corporation's (Qwest's) compliance with a 14-point checklist to demonstrate it has opened up its Iowa local exchange service market to competition. The FCC found that Qwest demonstrated compliance in Iowa; accordingly, the FCC allowed Qwest to begin providing interLATA long distance service on calls originating in Iowa. The Board is now participating in multi-state proceedings with the FCC to monitor Qwest's

continuing compliance with the requirements of the federal act. Opening up the local exchange and long distance markets to competition is an important statutory objective for the Board.

Electricity

Change is the watchword in electricity regulation. There has not been legislation encouraging electric retail competition in Iowa similar to that of the telecommunications industry. However, other significant changes are underway:

1. Changes in electricity wholesale markets.
2. Changes caused by the enactment of Iowa Code § 476.53 in 2001.

Electricity Wholesale Markets

- In summer 2002, the Federal Energy Regulatory Commission (FERC) published its Notice of Proposed Rulemaking on Standard Market Design (SMD). SMD will require that FERC jurisdictional utilities be members of either Regional Transmission Organizations (RTO) or Independent System Operators (ISO). RTOs will operate wholesale electric markets and assure that electric transmission systems are independently and fairly operated. Interstate Power and Light Company has joined the RTO run by the Midwest ISO (MISO). MidAmerican Energy is expected to be in MISO, possibly through participation in the Independent Transmission Company named TRANSLink. Because of the importance of participating in these activities, the Board is currently a member of the MISO Advisory Subcommittee and attends its monthly meetings. Additionally, the Board helped form and is a member of the Organization of MISO States (OMS), the regional state committee that advises MISO and FERC on electric transmission issues.
- The Board plans to institute a new process to inform and involve electric transmission stakeholders in Iowa in the OMS and MISO processes. Stakeholders to be invited to participate in the new process include Iowa's electric cooperatives and municipal utilities, as well as interested electric utility customers.

The enactment of Iowa Code § 476.53 in 2001

Iowa Code § 476.53 established significant regulatory changes. Most importantly, the Board must conduct contested case proceedings to establish ratemaking principles for certain new Iowa generating facilities to be leased or owned by rate-regulated public utilities. The Board will complete its consideration of MidAmerican Energy's application for ratemaking principles for its new wind project during fiscal year 2004.

In addition, the Board must review and approve multiyear plans and budgets for rate-regulated utilities to regulate emissions from coal-fired plants. The plant-siting decision criteria in chapter 476A were changed in 2001, but the Board continues to be required to issue certificates to certain new plants. Also, the statute now requires electric utilities to offer alternate energy purchase programs to customers pursuant to Board-approved plans. An underlying statutory objective is to attract the development of electric power generating and transmission facilities within the state to ensure reliable electric service and provide economic benefits to the state. The Board must harmonize that objective with its traditional duty to assure just and reasonable rates.

Apart from § 476.53, the Board also has statutory duties relating to the purchase or wheeling by utilities of electricity from alternate energy production facilities. Iowa Code §§ 476.42-476.46.

Natural Gas

In June 2003, the Board issued a white paper entitled "Natural Gas Price Volatility." Due to expectations of volatile natural gas commodity prices in fiscal year 2004 and beyond, the Board will continue to monitor the industry closely, working with regulated utilities to ensure that consumers are appropriately informed, and will continue to issue its own updates as needed. A Board objective is to provide a regulatory environment where gas utilities can develop procurement policies that mitigate the volatility in the short-term markets, which caused hardship to customers in the winter of 2000-2001. To that end, the Board meets regularly with utilities on their natural gas procurement practices and plans. The Board projects a significant chance that gas prices will be significantly higher in the winter of 2003-4, and especially so if the weather is adverse. The Board will continue to track gas prices and work with utilities and their customers to mitigate the effects of high gas prices, to the extent possible.

Natural gas prices are deregulated and the market sets the price. Long-term issues concerning natural gas supply and transportation, which affect prices, will need to be addressed at the federal level. The Board has taken the following measures to mitigate the potential increases and volatility in fiscal year 2004:

- The Board has encouraged the rate-regulated utilities to hedge and has agreed that prudent hedges will be allowed in rates.
- The Board has reviewed all of its consumer rules in light of the experience with high natural gas prices of several years ago to ensure that customers are aware of and understand their rights and responsibilities.
- The Board has initiated a review of levelized billing programs to assure their effectiveness.

- A rulemaking is being initiated to consider the appropriate temperature trigger for cold weather protection.
- The Board is reviewing the automatic adjustment used to pass through gas costs to assure that it is being done in a manner fair to both consumers and the utilities.
- The Board has worked with the Department of Human Rights to tie LIHEAP certification to Lifeline eligibility for federal assistance on telephone bills. In this way additional federal dollars are flowing to Iowa's low income customers.
- Energy efficiency programs have been expedited and money available for weatherization for low-income customers has been increased substantially.

Safety

Another objective is to ensure that gas and electric service complies with state and federal safety requirements. Implementation of federal pipeline safety regulations on operator qualification and integrity management will require significant resources by both staff and utilities in this fiscal year.

Energy Efficiency

The Board has statutory duties relating to energy efficiency programs for both electricity and natural gas. Iowa Code §§ 476.6(17), (19), and (21). The Board objectives in this area are: (1) obtain accurate reports on energy efficiency programs from consumer-owned utilities, without unduly burdening these smaller utilities; (2) conduct a review of investor-owned utilities' proposed energy efficiency plans offering a range of cost-effective programs for all customer classes and determine performance standards for those plans, in consultation with the Department of Natural Resources; (3) assure that each investor-owned utility carries out its approved energy efficiency plan; (4) provide for timely and equitable recovery of the costs of energy efficiency programs incurred by investor-owned utilities; (5) assure that peak-load energy conservation programs are offered by investor-owned utilities to their customers; and (6) ensure that all utility-owned outdoor lighting in Iowa meets efficiency standards established by the Board.

Customer Satisfaction

Any discussion of Board objectives is incomplete without inclusion of the agency's efforts to resolve customer complaints under Iowa Code § 476.3(1). The agency devotes a significant amount of resources to providing customers timely, just, and lawful resolution of the oral and written complaints that come to the agency annually from approximately 7,000 customer contacts. The Board is in a unique position to provide customers with an effective opportunity to resolve

issues with the utilities, who are often in a superior position because the services they provide are necessities.

How The Board's Objectives Relate to the Governor's Agenda

These objectives relate directly to the Governor's agenda. Iowa cannot be a leader in the new economy without the telecommunications infrastructure and the necessary energy to make change possible. Reasonably adequate service at just and reasonable rates involves changing concepts and the Board is striving under its statutory mandates to make utility service in Iowa an engine for positive economic change. In addition, the Board's objectives regarding energy efficiency and alternate energy sources are important factors in achieving the Governor's goals of increasing environmentally sustainable business practices and using energy efficiently.

The Governor's agenda also requires that the Board assume national leadership roles in telecommunications and energy regulation. More than ever, policies are controlled at the federal level. Iowa's interest must be advanced in Washington. In addition, markets for telecommunication services and wholesale energy extend beyond our borders and regional cooperation is necessary to protect our interests. To that end the Board devotes significant resources to leading and serving on national and regional bodies.

Satisfying these objectives allows the Board and its staff to carry out the Board's mission statement, which provides:

The Iowa Utilities Board regulated utilities to ensure that reasonably priced, reliable, and safe utility services are available to all Iowans, supporting economic growth and opportunity.

This description of the Board's objectives and priorities has necessarily hit only the high points. Every day, the Board and its staff make scores of individual decisions in areas such as resolution of customer complaints, review of tariff changes for more than 200 utilities, informal advice to the public as to application of Board rules, pipeline and electric transmission line inspections, and review of information affecting the public interest filed by the utilities with the Board. Our objective is to do all of these daily tasks in a sound, helpful, and timely manner, consistent with our mission statement.

Significant Rule Makings Expected In FY 2004:

1. **Title of Regulatory Action** Alternate Energy Purchase Programs, Docket No. RMU-03-4

Rule Chapter(s) that may be involved

199 IAC ch. 15

Description of Contemplated Regulatory Action

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

Legislation adopted in 2001 (HF 577, now Iowa Code §476.47) requires Iowa electric utilities, by 2004, to offer programs that allow their customers to contribute voluntarily to the development of alternate energy in Iowa. Utilities must file tariffs to implement the programs according to Board rules. The Board will adopt new rules that set forth criteria and procedures for utilities' alternate energy purchase programs.

Legal Basis

(Include whether action is required by statute or court order)

Rules are required to implement new Iowa Code Section 476.47 (HF 577).

Need for Regulatory Action

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

This rulemaking is a result of a statutory directive.

Other Affected/Interested Rule Making Authorities

Because the issues involve choices of fuel and alternate energy, the Department of Natural Resources may be interested.

Potential Public Groups Impacted

Electric utilities and groups interested in the development of alternate energy in Iowa.

Schedule:
(Actions & month/year)

The rulemaking was initiated in February, 2003, and will be completed during calendar 2003. New Iowa Code Section 476.47 requires electric utilities to begin offering alternate energy purchase programs to customers by January 2004.

**Staff Contact/
Phone #**

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2. Title of Regulatory Action

Iowa Broadband Initiative,
Docket No. RMU-03-9

Rule Chapter(s) that may be involved

199 IAC ch. 22

Description of Contemplated Regulatory Action

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

These rules implement the provisions of Senate File 458, which allow rate-regulated local telephone utilities to collect up to \$2 per access line per month to fund the cost of providing broadband services in areas where such service are not currently available. Each company that elects to participate in the Broadband Initiative must file a plan with the Board proposing the manner in which the funds will be expended. The plan is subject to the Board's review and approval. These rules describe the procedural requirements for the Board's review of the plans.

Legal Basis

(Include whether action is required by statute or court order)

Rules are required to implement parts of Senate File 458 from the most recent legislative session.

Need for Regulatory Action

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

This rulemaking is a result of a statutory directive. It is also supported by the Board's ongoing survey of broadband availability in Iowa, which provides a measure of the pace at which broadband availability is increasing.

**Other
Affected/Interested
Rule Making
Authorities**

None.

**Potential Public
Groups
Impacted**

Rate-regulated local exchange carriers (Qwest, Iowa Telecom, and Frontier) and their customers.

Schedule:
(Actions &
month/year)

The rulemaking was initiated in July of 2003 and will be concluded in fiscal year 2004.

**Staff Contact/
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3. Title of Regulatory Action

Temperature Trigger For Cold Weather Protection, Docket No. RMU-03-10

Rule Chapter(s) that may be involved

199 IAC ch. 19 and 20

Description of Contemplated Regulatory Action

(Including, to the extent reasonable and practicable, alternatives to be considered and preliminary estimate of costs and benefits of the Action)

The Iowa Community Action Association filed a petition for rule making on July 8, 2003, asking that the Board amend its rules that prohibit disconnection of residential utility service when the temperature is forecasted to be below 20°. ICAA proposes to raise the trigger temperature to 32°. The Board intends to grant the petition and initiate a rule making to consider the proposed changes.

Legal Basis

(Include whether action is required by statute or court order)

Action is not required by statute or court order.

Need for Regulatory Action

(Include if applicable how the action will reduce risk to public health, safety, or the environment)

If initiated and adopted, the amended rules would increase protection against disconnection of residential utility service in low-temperature situations. However, it might also increase the bad debt expense of the affected utilities, potentially resulting in higher gas and electric service rates.

**Other
Affected/Interested
Rule Making
Authorities**

None.

**Potential Public
Groups
Impacted**

Consumer groups; public utilities.

**Schedule:
(Actions &
month/year)**

The rulemaking may be initiated in fiscal year 2003.

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In addition to the rulemakings listed above, the agency has completed its review of all its rules pursuant to Executive Order Eight. We have suggested a significant number of rules to be added, deleted, or modified to make Board rules more reflective of current conditions. We submitted the assessment report on November 1, 2001, and the implementation of the rulemakings was approved by the Governor's office. The rule making proceedings necessary to update the Board's rules are now underway.

The Board is also likely to have to initiate one or more rule making proceedings associated with review of the FCC's "Triennial Review" Order, which has not yet been issued (but is expected to issue soon). In this order, the FCC is expected to revise some of the standards that apply to state public utility regulatory commission actions to implement the federal Telecommunications Act

of 1996. Those revisions may require matching revisions to the Board's rules, but that will not be certain until the FCC issues its order.

The Board is required by statute to implement rules to change the Board rules on consideration of evidence in rate change proceedings. The changes would require the Board to consider cost changes related to either (1) cost of capital or (2) infrastructure improvements that occur within nine months of the end of a test year. A notice of proposed rule making will be issued in fiscal year 2004.

Finally, the Board may also initiate a rule making proceeding to update certain of its natural gas safety regulations to reflect expected changes in the Federal safety standards. However, the Board will not initiate its own proceeding until the federal agency has made further progress with its rule making.

Significant Contested Cases FY 2004

While the emphasis of this regulatory plan is on rule makings, the Board expects some significant contested cases will occur during the fiscal year. These include a proposal by Qwest Corporation to deregulate local exchange services in 37 Iowa exchanges (Docket No. INU-03-4); a request by MidAmerican Energy Company for regulatory principles associated with a proposed wind power project (Docket No. RPU-03-1); and an electric rate case that may be filed by Interstate Power and Light Company in March or April of 2004.

Other Significant Proceedings FY 2004

The Board opened an investigation into the levelized payment plans offered to residential customers by rate-regulated gas and electric utilities in Iowa, to determine whether they are functioning as intended or whether they need to be modified in light of the increasing volatility of wholesale energy markets. The matter is identified as Docket No. NOI-03-3.

The Board is also conducting an investigation of the Board's rate making principles, pursuant to Senate File 458, § 150. On or before January 5, 2004, the Board will file a report with the Legislature concerning its existing ratemaking principles. The matter is identified as Docket No. NOI-03-2.

On July 18, 2003, the Board initiated an inquiry into the purchased gas adjustments (PGAs) used by natural gas utilities in Iowa, identified as Docket No. NOI-03-1. PGAs allow gas utilities to pass the cost of the gas they purchase straight through to customers, without markup. While the PGA rules have been reviewed and updated in the past, the basic PGA mechanism is the same as it was in the early 1980s. The natural gas market has changed significantly in that time frame, making a fundamental review of the PGA appropriate.

Finally, the Board is conducting a survey of the state of local exchange telecommunications competition in Iowa. The survey is intended to help the Board and the public measure the progress of competition in the local service marketplace and to help identify possible trends so that the Board can continue to prepare for changes in a timely manner.

August 1, 2003

/s/ Diane Munns

Diane Munns

Chairman