Review of Interstate Power and Light Company's Transmission Rider Monthly Report

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Introduction

When a rate-regulated utility has fluctuating costs for a certain category, it may be difficult for the utility to recover a representative amount of those costs through its base rates in a general rate proceeding. In such cases, an automatic adjustment clause or rider may be the appropriate method to recover those costs to assure that no over- or under-recovery of costs occurs. The Board's rules allow for the use of an automatic adjustment clause.

Transmission Rider Proposal

Interstate Power and Light Company (IPL), an investor-owned utility that is rate-regulated by the Iowa Utilities Board, sold its transmission system to ITC Midwest LLC, an independent transmission company, in 2007. IPL is billed monthly by MISO (Midwest Independent Transmission System Operator, Inc.,) for costs that ITC Midwest incurs to provide IPL transmission service. MISO is a Regional Transmission Organization. MISO exists to provide an independent platform for transparent regional energy markets. MISO provides for open access and non-discriminatory operation of the bulk power transmission system. MISO pays ITC Midwest for revenue that it collects from IPL.

In IPL's last rate case, IPL proposed an automatic adjustment clause for transmission related costs, including costs paid to ITC Midwest for transmission service.[1] IPL provided information showing that transmission costs are expected to fluctuate for the next few years. The reason for this fluctuation is that ITC Midwest is making investments and upgrades to the transmission system at a faster pace than IPL had previously done. Given that circumstance, IPL said that the traditional ratemaking model is not well suited to address changes of such magnitude where IPL has no control over the costs. An automatic rider would allow for a one-to-one matching of costs incurred and recovered so there is no over- or under-recovery. Whereas, without a separate transmission rider, if costs increased substantially, the only recourse IPL had to recover those costs was to initiate a general rate proceeding. It would be difficult for IPL to recover a representative level of costs through base rates with fluctuating costs.

IPL proposed the transmission rider as a separate line item on the customer's bill. IPL said for customers billed on a kWh basis, the recovery would be based on a kWh basis; for customers billed on a per kW basis, recovery would be on a kW basis.

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[1] IUB Docket Number RPU-2010-0001

The Board's rules allow an electric utility to recover its costs from consumers through an automatic adjustment clause or rider if it meets certain requirements.[2] The requirements are that a utility shall recover from customers only those costs which:

(1) Are incurred in supplying energy;
(2) Are beyond direct control of management;
(3) Are subject to sudden important change in level;
(4) Are an important factor in determining the total cost to serve; and
(5) Are readily, precisely, and continuously segregated in the accounts of the utility.

Transmission Rider Approval and Implementation

The Board decided that IPL met the requirements and allowed IPL the opportunity to implement the transmission rider as a pilot project. In return for the opportunity to implement the rider, IPL agreed not to file an electric rate case for at least three years. IPL is also required to file detailed monthly cost information showing transmission costs that are being passed through the rider.[3] At the conclusion of its rate proceeding, IPL made its first tariff filing containing cost recovery factors in March 2011.[4] Below are the transmission rider cost recovery factors for of the applicable customer classes:

Residential	$0.01712 per kWh
General Service	$0.01652 per kWh
Large General Service	$5.13 per kW
Lighting usage	$0.01700 per kWh
Standby	$5.03 per kW

The cost recovery factors are calculated by dividing the estimated transmission expenses for the next calendar year by the estimated kWh or kW to be delivered for the next year for each customer class.

IPL files transmission reports each month for the previous month. Each month staff reviews the report to verify the revenues, expenses, and over- or under-recovery. The revenues are reported for each class of customers. Each customer class has a separate cost recovery factor. The kWh sales for each class are provided and these are used to verify the revenue for the class. The verification is accomplished by multiplying the factor for each class by the kWh sales for that class. IPL submitted its first monthly report in April 2011, for the month of March 2011.

Most of the transmission charges in the report are from MISO, although a small amount of charges are from other transmission providers. The MISO charges are broken down by MISO rate schedules. The non-MISO charges are supported by invoices from the transmission provider.

[2] 199 IAC 20.9(1)
[3] Monthly transmission reports are filed as IUB Docket Number EAC-2011-0007
[4] IUB Docket Number TF-2011-0010

Each monthly report lists the year-to-date over/under-recovery, which keeps the Board informed of the rider balance.

The cost recovery factors will be revised annually with new factors becoming effective January 1 of each year and remaining in effect for the calendar year. In the future, a tariff filing will be made in November showing the proposed factors, in order to allow time for the Board to review the proposal. Under the rider procedures, each November the revenues and expenses for the year are reconciled to determine a final over- or under-recovery balance for the year (from the previous 12-month period ending in October) for each customer class. This balance is then added to (in the case of an under-recovery) or subtracted from (in the case of an over-recovery) the estimated expense for the next year in calculating the cost recovery factors for the upcoming year. The balance was assumed to be zero at the start of the rider. The reconciliation assures that no over- or under-collection will occur for more than one year.