

PURCHASED POWER CONTRACTS

NARUC Energy Regulatory Partnership Program

The Public Services Regulatory Commission of Armenia
and The Iowa Utilities Board



by David Lynch
General Counsel
Iowa Utilities Board
June 17, 2010

Overview

- Industry structure: State vs. Region
- Legal frameworks
- Structure of purchased power contracts
- Retail tariff issues



Industry Structure – State

- The Board regulates different distribution utilities in different ways
- Two investor-owned utilities – full rate and service regulation
- Rural electric cooperatives – full service regulation, no rate regulation
- Municipal electric utilities – limited service regulation, no rate regulation
- No retail choice



Obligation To Serve

- Distribution utilities must have sufficient resources to provide adequate service
 - Can own generation or purchase electric power by contract
- Traditionally, utilities preferred to have their own generation
 - Financial incentives
 - Reliability Concerns



Industry Structure – MISO Region

- Iowa is part of Midwest Independent System Operator's control area
- 13 US states, 1 Canadian province
- 159,000 MW generating capacity (138,556 MW capacity for market)
- MISO is regulated by Federal Energy Regulatory Commission (FERC)



MISO Structure

- Non-profit, member-based organization with three major responsibilities:
 1. Operating bulk electric power system
 2. Managing the wholesale electric power market
 3. Long-term regional resource planning
- Members include generators, transmission companies, distribution companies



Legal Framework for Purchased Power

- Iowa law does not require advance review of purchased power contracts
- In contrast, advance Board approval is required for power plants over 25 MW
- Advance ratemaking principles also available for larger power plants, renewable energy facilities, and some leases



Structure of Purchased Power Contracts

- Contracts may include any terms the parties agree to
- Some common features:
 - Product
 - Price
 - Delivery location
 - Risk allocation
 - Length of contract



Products

- Energy and capacity are the most common products
- For renewable energy sources, may also include environmental benefits
- Unit-specific vs. system power
- Peak power vs. off-peak
- Full requirements
- Standard products typically assume delivery at a regional "hub"



Energy Prices

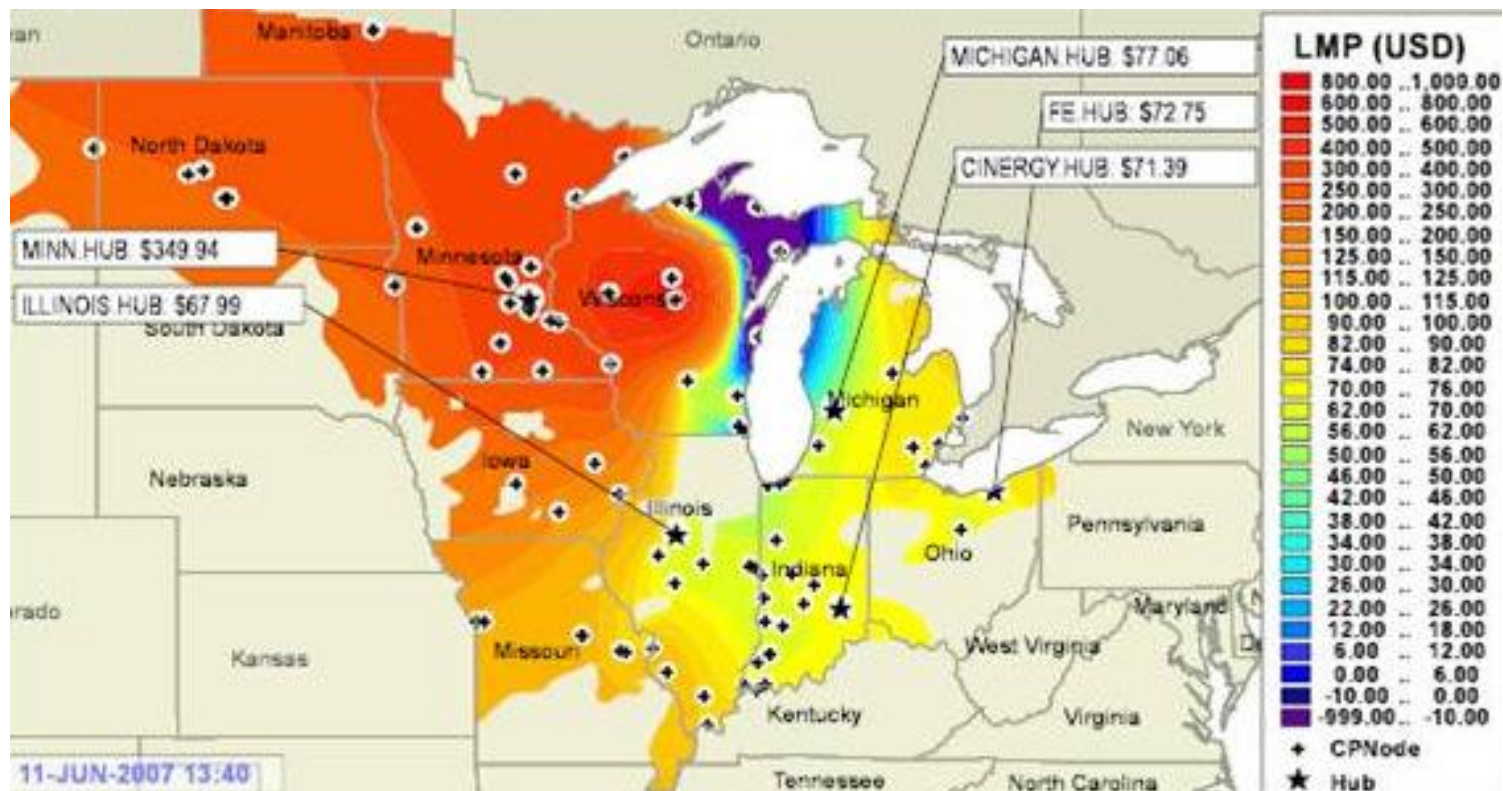
- MISO market has made prices more transparent
- Energy prices can be fixed or variable (indexed to spot market, fuel, or other)
- May also vary by time of day
- Capacity prices tend to be per kW/month; new "voluntary capacity auction" underway



Typical MISO "bubble map":



Transmission Constraints



Delivery Location

- Within MISO region
- Outside MISO region



Length of Contract

- Historically, long-term contracts (20 years) were available
- Now? Increasingly difficult to obtain long-term contracts



Retail Tariff Issues

- Purchased Power Adjustment (flow-through)
 - Allows pass through of actual power costs to customers
 - Automatic adjustments appropriate for costs that are:
 1. Volatile
 2. Significant
 3. Beyond utility management's direct control
 - Reduced regulatory lag
 - Reduced risk for company/increased risk for customers
- Special tariffs to reflect unique customer circumstances, maintain load, encourage economic development



Questions?



David Lynch
Iowa Utilities Board
david.lynch@iowa.gov

NARUC Energy Regulatory Partnership Program

The Public Services Regulatory Commission of Armenia
and
The Iowa Utilities Board