Iowa Ratemaking Process Review

Public Policy Charrette #1 – Day One

Prepared for the Iowa Utilities Board

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August 30-31, 2023

Filed with the Iowa Utilities Board on August 31, 2023, NOI-2023-0001
## Agenda

<table>
<thead>
<tr>
<th></th>
<th>Introduction and schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Charrette overview</td>
</tr>
<tr>
<td>3</td>
<td>Town hall discussion*</td>
</tr>
<tr>
<td>4</td>
<td>Next steps</td>
</tr>
</tbody>
</table>

*The town hall discussion aims to provide an open forum for participants to discuss about certain topics in a Q&A format*
<table>
<thead>
<tr>
<th></th>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>9:00 am – 9:40 am</td>
<td>Introduction and schedule</td>
</tr>
<tr>
<td>2</td>
<td>9:40 am – 12:00 pm</td>
<td>General discussion about ratemaking procedures</td>
</tr>
<tr>
<td>3</td>
<td>1:00 pm – 3:00 pm</td>
<td>Electric industry specific discussion</td>
</tr>
<tr>
<td>4</td>
<td>3:15 pm – 4:15 pm</td>
<td>Gas industry specific discussion</td>
</tr>
<tr>
<td>5</td>
<td>4:15 pm – 5:15 pm</td>
<td>Water industry specific discussion</td>
</tr>
<tr>
<td>6</td>
<td>5:15 pm – 5:20 pm</td>
<td>Closing remarks and next steps</td>
</tr>
</tbody>
</table>
LEI will review relevant state legislation and accepted principles of ratemaking to assess the current ratemaking procedures.

**Description of study**

- Assess current ratemaking laws, procedures, and administrative rules
- Examine Iowa utilities’ rates and tariffs
- Review ratemaking laws and procedures of other MISO and/or SPP states
- Identify potential changes in law, procedures, or administrative rules to Iowa legislation to support the policy objectives

Gather inputs from stakeholders through the policy charrettes and written comments

Deliver final report with recommendations regarding policy and any areas for additional research or investigation.
LEI is an economic, financial, and strategic advisory professional services firm specializing in energy and infrastructure.

- Exhaustive sector knowledge and a suite of state-of-the-art proprietary quantitative modeling tools
- Market design, market power and strategic behavior advisory services
- Reliable testimony backed by strong empirical evidence
- Market review, revenue forecasts, ratemaking, performance evaluation, transaction assessment
- Renewable energy policy design, procurement, modeling, and asset valuation
- Designing, administering, monitoring, and evaluating competitive procurement processes
The Project Team at LEI has many years of experience working on issues relevant to this engagement

Julia Frayer  
Managing Director, LEI  
Project Lead

Ma. Cherrylin Trinidad  
Director, LEI  
Project Manager

Donald Osborne-Moss  
Senior Consultant, LEI  
Team Member

Hannah Braun  
Consultant, LEI  
Team Member

Max Lee  
Consultant, LEI  
Team Member

Luna Dou  
Consultant, LEI  
Team Member

Other consultants, if needed
## Agenda

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction and schedule</td>
</tr>
<tr>
<td>2</td>
<td>Charrette overview</td>
</tr>
<tr>
<td>3</td>
<td>Town hall discussion</td>
</tr>
<tr>
<td>4</td>
<td>Next steps</td>
</tr>
</tbody>
</table>

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Charrette #1

Purpose of charrette #1 is to evaluate the adequacy and efficiency of Iowa’s current ratemaking laws, procedures, and administrative rules

Day 1 - Townhall-style

- Prompts for discussion are based on written comments submitted by stakeholders
- Discussion between stakeholders of each key prompt covering the following topics:
  - current ratemaking law, regulations, and procedures
  - terminology for use throughout the project study and in follow-up public policy charrettes
- Industry specific discussions that center on ratemaking procedures and principles applicable to each industry with additional discussion on general ratemaking procedures

Day 2 - Breakout sessions

- Breakout sessions to dive deeper into specific topics in a small group format
- Prompts are also based on written comments submitted by stakeholders
- Participants will be assigned to a breakout group to achieve a balanced representation of stakeholders in each group
Agenda

1. Schedule and project description
2. Charrette overview
3. Town hall discussion
4. Next steps
**Instructions and ground rules for town hall discussion**

1. Raise your hand if you want to participate in the discussion.

2. State your name and affiliation when you speak for the first time.

3. Each participant will have up to 4 minutes to share his/her views on each discussion topic.

4. Speak loudly and clearly and answer the specific question succinctly.

5. Stick to the discussion subject; other topics can be discussed in their relevant discussion sessions.

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Prompt 1: evaluation criteria

This assessment of Iowa ratemaking procedures will focus on reviewing the policy objectives defined in House File 617. Specifically, the House File seeks to:

- Ensure utility services that are safe, adequate, reliable, and affordable
- Provide rates that are nondiscriminatory, just, reasonable, and based on the utility’s cost of providing service to Iowa customers
- Evaluate the adequacy and efficiency of Iowa’s current ratemaking laws

We view the concepts behind the policy objectives are essentially identifying important criteria for this investigation. Therefore, it would be important to have a common understanding or definition of what is meant by the terms.
1. We would like to start the discussion and get collective feedback from stakeholders on the following terms:

   o With respect to utility services, how should we evaluate:
     ▪ “safety”
     ▪ “reliability”
       • Does “resiliency” need to be separately defined from “reliability”?  
       • Does “stability” need to be separately defined from “reliability”?  
     ▪ “affordability”

   o With respect to rates, how should we define:
     ▪ “just and reasonable”  
       • How should stakeholder engagement and satisfaction be evaluated when considering “just and reasonable” rates?
     ▪ “nondiscriminatory”

   o And specifically, regarding ratemaking laws, procedures, and rules how should we think about:
     ▪ “adequacy”
     ▪ “efficiency”
Prompt 1: evaluation criteria (continued)

2. We see the possibility that the various terms (or criteria) captured in the policy objectives can sometimes conflict with other criteria – there may be a natural tension. Should certain criteria in the policy objectives – for example, reliability – be given greater weight than other criteria – for example, affordability? If so, why?

3. Multiple stakeholders provided suggestions for metrics that should be considered when evaluating the current ratemaking procedures. If evaluated, how would these metrics relate to the evaluation criteria per the policy objectives?

   o Examples from the written comments include comparing the return on equity for Iowa utilities against those of surrounding states, comparing Iowa rates against regional and national rates to determine competitiveness, evaluating the content included in determining utility costs, evaluating the costs and benefits of what is included in consumer rates

4. How would evaluating the effectiveness of the current ratemaking procedures to promote advanced technologies and alternative resources address the policy objectives?

5. Are there any other terms or criteria that you believe are important to consider relative to evaluating the current legislation per the policy objectives?
Prompt 2: Iowa ratemaking procedures

The current authority and responsibilities of the Board are a critical element of the ratemaking process. So, we would like to get stakeholder feedback on whether and how those responsibilities and authority of the Board should change.

1. **Should the Board’s authority and responsibilities be expanded?**
   - For example, should they be given the authority to initiate rate cases after a determined period of time and why?
   - Should the Board have the authority to open an inquiry into utility rates at its own discretion?
   - What other authorities/responsibilities should be bestowed to the Board?

2. **How often should the Board review the ratemaking regime?**
   - For example, should market rules changes, approved investments, or transmission tariff at the MISO or SPP regional transmission organizations trigger a review?
   - Should certain events such as the Inflation Reduction Act or other federal legislation trigger the Board to review its the ratemaking authority?
Prompt 3: advance ratemaking procedures

The following questions focus on the advance ratemaking principles set forth in Iowa Code 476.53. The legislation was introduced in 2002 with the intent to provide greater certainty to utilities to build additional generation, specifically renewable generation, and to promote the development of electric power generation and transmission facilities in Iowa.

Given this background, we would like to discuss additional information on the advance ratemaking procedures since its inception:

1. Can you describe how the current advance ratemaking legislation affects the utilities in the state of Iowa?

2. In your view, how does the current advance ratemaking legislation benefit or negatively impact customers?

3. Are there any unintended benefits or negative consequences that have arisen from the advance ratemaking legislation that you have observed?
Prompt 3: advance ratemaking procedures (continued)

4. Multiple stakeholders provided suggestions in their written comments for potential modifications to the advance ratemaking legislation. We would like to have a discussion around those proposals. What would be the advantages and disadvantages for the following changes:

- Expanding qualifying facilities to include other renewable sources, battery storage, natural gas units, water and wastewater facilities
- Implementing long-term resource planning for generation portfolios and infrastructure upgrades
- Introducing a set decision timeline for the Board to review advance ratemaking proceedings
- Implementing a baseline metric for the reliability plans and data required from utilities
- Expanding ratemaking mechanisms to include monitoring and control systems, infrastructure upgrades, safety measures, and backup systems
- Are there other changes that you want to see?

5. How would these proposed changes impact utility services in the short and long-term?

6. How would these proposed changes impact rates in the short and long-term?
Electricity industry specific discussion

1. **Should Iowa adopt an Integrated Resource Planning (“IRP”) process for electric utilities to review their generation portfolios?**

   o What would be the advantages and disadvantages of adopting an IRP process?
   o What impact would a mandate to participate in an IRP process have on utilities?
   o What impacts – negative and positive – could you foresee from instituting an IRP requirement on customers?
   o If implemented, should the IRP process focus on short-term planning (5 years), long-term planning (20 years), or both, and why?

2. **Are the risks associated with renewable generation and advance ratemaking procedures appropriately quantified between the shareholders of utilities and customers?**
Electricity industry specific discussion (continued)

3. Concerning the retirement of fossil fuel plants and development or repowering of renewable generation assets, should undepreciated plant balances be included in general rate cases or advance ratemaking procedures if investment costs for new development will also be included?
   
   o How to define “used and useful” regarding renewable generation?

4. Comments in the responses to the charrette prompts differ regarding whether electric and gas utilities require similar ratemaking approaches. Why would electric utilities require different ratemaking procedures, if they do at all?
   
   o What makes the electric industry similar or different enough from the gas or water industries to justify having similar or separate ratemaking procedures?

   o Should exemptions be included in separate electric ratemaking procedures for commercial and industrial customers?
1. What specific criteria should be used to evaluate the ratemaking procedures for gas utilities with respect to the policy objectives?

2. Comments in the responses to the charrette prompts differ regarding whether electric and gas utilities require similar ratemaking approaches. Why would gas utilities require different ratemaking procedures if they do at all?
   - What makes the gas industry similar or different enough from the electric or water industries to justify having similar or separate ratemaking procedures?
   - Considering how commercial and industrial gas customers can purchase supply at market rates, should exemptions be included in separate gas ratemaking procedures for commercial and industrial customers?

3. Should gas utilities and LDCs be required to submit long-term plans for forecasting future gas demands, expanding service areas, investing in infrastructure changes, and other services, and why?
1. **What specific criteria should be used to evaluate the ratemaking procedures for water utilities with respect to the policy objectives?**
   - What makes the water industry similar or different enough from the electric or gas industries to justify having similar or separate ratemaking procedures?

2. **Should water utilities be required to submit long-term plans for expanding service areas, investing in infrastructure changes, and other services, and why?**

3. **Comments in the responses to the charrette prompts proposed that advance ratemaking mechanisms should be adopted for water utilities. What specific investment categories do you believe should be covered by advanced ratemaking mechanisms for water utilities?**
   - Please explain why this aligns with the legislative intent of advanced ratemaking?
   - What would be the benefit and potential consequences from adopting advance ratemaking mechanisms? How would this change align with the policy objectives in the House File?
4. In Written Comments, we saw a proposal that the threshold for Board approval of an asset acquisition should be higher than the current $500k threshold for water utilities. What would be the expected benefits and/or potential negative consequences of the threshold being increased? How would such a change complement the policy objectives in the House File?

5. In Written Comments, we read a proposal that transaction costs and external expenses in acquisition be included in approval cases for water utilities. How would such inclusions align with the policy objectives in the House File?
<table>
<thead>
<tr>
<th></th>
<th>Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction and schedule</td>
</tr>
<tr>
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</tr>
<tr>
<td>3</td>
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</tr>
<tr>
<td>4</td>
<td>Next steps</td>
</tr>
</tbody>
</table>

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Day 2 of Charrette #1 will start at 9 am

Breakout session procedure:
- Participants will be split into groups consisting of stakeholders representing each of the three industries.
- There will be at least 1 LEI staff in each breakout group to facilitate the discussion.
- Each breakout group will choose a leader to report the key takeaways from each discussion to the entire group.

Post-charrette written comments due on September 7, 2023

Important dates:

<table>
<thead>
<tr>
<th>Month</th>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>August</td>
<td>30-31</td>
<td>1st Charrette</td>
</tr>
<tr>
<td>September</td>
<td>26-27</td>
<td>2nd Charrette</td>
</tr>
<tr>
<td>November</td>
<td>1-2</td>
<td>3rd Charrette</td>
</tr>
<tr>
<td>January</td>
<td>1</td>
<td>Deadline - Legislative Report</td>
</tr>
</tbody>
</table>