POST-CHARRETTE 1 COMMENTS

CLEAN ENERGY DISTRICTS OF IOWA

House File 617 of the 90th General Assembly of 2023, directed the Iowa Utilities Board to “initiate and coordinate an independent review of current Iowa Code provisions and ratemaking procedures.”[1] The Board opened docket NOI-2023-0001, created a docket schedule that included three, two-day policy charrettes, and invited parties to submit policy statements prior to each charrette, and post-charrette comments following each charrette. The first charrette was held August 30 and 31, 2023, to address “evaluation of the adequacy of current ratemaking law and procedure”.

Clean Energy Districts of Iowa did not submit a policy statement prior to Charrette #1. We have reviewed statements submitted by other parties, and participated in the charrette, and offer these post-charrette comments in response.

[1] Iowa Utilities Board; Order Establishing Schedule and Delegating Authority; August 7, 2023
The Docket Scope, Including Policy Objectives and Recommendations, Should Be Broad

CEDI appreciates the invitation outlined in the recent Board filing “RE: NOI-2023-0001 Policy Charrette #1 Subsequent Filings & Policy Charrette #2 Information”\(^2\) to discuss policy objectives, terms, and definitions.

House File 617 stated that the aforementioned “independent review” shall “take into account the policy objectives of ensuring safe, adequate, reliable, and affordable utility services provided at rates that are nondiscriminatory, just, reasonable, and based on the utility’s cost of providing service to its customers within the state”\(^3\).

We note that the legislative charge to review “current Iowa Code provisions and ratemaking procedures” is not limited to the specifics of ratemaking dockets, but appears to include the full range of Iowa code and policy that may impact customer rates. We similarly note that the charge to “take into account the policy objectives of ...” is not exclusive to these objectives, but inclusive of those and potentially other existing and related policy objectives of the State that may impact customer rates.

A couple examples of common language in Iowa Code Chapter 476 are worth considering in relation to ratemaking policy objectives. The term “public interest” is utilized over a dozen times in the chapter, mostly in a very broad and inclusive sense referring to Iowa customers and communities. Chapter 476 also makes repeated mention of the primary responsibility of regulators and procedures to serve “Iowa consumers”, and “ratepayers”. Taken together, this language makes it abundantly clear that a fundamental principle implicit in rate regulation is to protect Iowans from the tremendous moral hazard and inherent economic inefficiency of monopoly service territories with fully captive customers granted to private investors by the State of Iowa.

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\(^2\) Iowa Utilities Board; idcplg (iowa.gov); September 6, 2023
\(^3\) Iowa Utilities Board; Order Establishing Schedule and Delegating Authority; August 7, 2023
More specifically, Iowa Code Chapter 476.41 states “It is the policy of this state to encourage the development of alternate energy production facilities and small hydro facilities in order to conserve our finite and expensive energy resources and to provide for their most efficient use.” And Chapter 476.53 states “It is also the intent of the general assembly to encourage rate-regulated public utilities to consider altering existing electric generation facilities, where reasonable, to manage carbon emission intensity in order to facilitate the transition to a carbon-constrained environment.” Clearly, the reduction of emissions from the power sector and the move towards low or zero emissions energy sources must be prioritized in all resource planning and ratemaking activity, and included in analyses of cost-effectiveness and efficiency.

Finally, we note the importance of Iowa Code Chapter 473.2:

The general assembly finds that the health, welfare, and prosperity of all Iowans require the provision of adequate, efficient, reliable, environmentally safe, and least-cost energy at prices which accurately reflect the long-term cost of using such energy resources and which are equitable to all Iowans. The goals and objectives of this policy are to ensure the following:
1. Efficiency. The provision of reliable energy at the least possible cost to Iowans in such manner that:
   a. Physical, human, natural, and financial resources are allocated efficiently.
   b. All supply and demand options are considered and evaluated using comparable terms and methods in order to determine how best to meet consumers’ demands for energy at the least cost.
2. Environmental quality. The protection of the environment from the adverse external costs of an energy resource utilization so that:
   a. Environmental costs of proposed actions having a significant impact on the environment and the environmental impact of the alternatives are identified, documented, and considered in the resource development.
   b. The prudently and reasonably incurred costs of environmental controls are recovered.

This policy statement reinforces the Iowa energy policy objectives of decarbonization through reference to “environmentally safe” and the inclusion of “environmental impact” in the resource planning and development process.
Chapter 473.2 also makes it crystal clear that the ultimate purpose of energy and rate regulation is the “health, welfare, and prosperity of all Iowans”, and “prices which accurately reflect the long-term cost of using such energy resources and which are equitable to all Iowans”.

Proximate objectives may be described variably as “adequate, efficient, reliable, environmentally safe, and least-cost energy” (as in Chapter 473.2), or “safe, adequate, reliable, and affordable utility services provided at rates that are nondiscriminatory, just, reasonable, and based on the utility’s cost of providing service to its customers within the state” (as in House File 617), but the policy vision and outcome intended by these proximate objectives is the “health, welfare, and prosperity of all Iowans”.

We encourage the Board, staff, consultants, and other parties to keep the scope of this docket open to a broad range of policy options that could affect the health, welfare, and prosperity of Iowa energy customers, whether currently contemplated within ratemaking code and rules, elsewhere in Iowa statute, or not yet considered in Iowa Code or rules, for the outcome of this docket to be of broadest use to legislators. These policy options should include mechanisms to more effectively counter the moral hazard and inherent inefficiencies of state-granted monopolies, to accelerate the decarbonization of Iowa’s power supply, and to reduce energy burden on both individual ratepayers, and on communities served by unreasonably high-cost utilities.

**Current Policy Benefits Monopoly Investors Over Iowa Customers and Communities**

Pre-charrette written policy statements and charrette discussion make it clear that existing ratemaking procedures and related energy policy are meeting neither the proximate nor ultimate policy goals described above. Inadequacies have been identified related to general ratemaking, advanced ratemaking, transparency and stakeholder involvement, and elsewhere.
CEDI has participated as an intervenor in multiple rate dockets in both the electric and natural gas sectors, and agrees with many inadequacies in general ratemaking identified by the Environmental Intervenors, Iowa Economic Alliance, Large Energy Group, and the Office of Consumer Advocate, including:

- The failure of current ratemaking mechanisms to fairly account for generation assets that are no longer “used and useful”, for example fossil fuel plants that are or should be retired, for which ratepayers may pay for years (even after the plants have been closed) while investors share no economic burden

- The failure of the future test year mechanism to adequately project future costs or to mitigate those costs through recovery mechanisms, and to simultaneously decrease process transparency and increase complexity and costs for all non-utility stakeholders

- The failure to adequately value and incentivize customer, distribution-level, and third party owned energy resources, and to allow utilities to discriminate against such resources

- The proliferation of riders and other mechanisms that reduce risk to utilities and investors without concurrent reduction in state-approved profits (through Board-approved ROE)

- The failure to prevent significant and accelerating unjust and unreasonable rate discrepancies to develop between utilities, with serious cascading impacts on the health, welfare, and prosperity of customers and communities served

Many of these factors reflect the significant imbalance of power in general ratemaking that exists between customers, their communities, and investor-owned utilities. Even the Office of Consumer Advocate is severely disadvantaged compared to the resources of a multi-billion-dollar corporation. This imbalance is reflected in specific details and components of rate structures, as well as in broader issues of management inefficiency that may be outside the regular ratemaking
process yet significantly impact rates. These include business decisions related to transmission, non-regulated activities, and business structure and tax characteristics that can be manipulated outside of rate dockets in ways that benefit investors over customers and their communities.

Advanced ratemaking dockets, even when meeting policy goals of stimulating investment, are also effective tools for monopoly utilities to “stack the deck” against customers and communities in the rate-making process. As described by Iowa Economic Alliance, Environmental Intervenors, Iowa Business Energy Coalition, Large Energy Group, and Office of Consumer Advocate, these dockets

- Dramatically reduce risk to the utility and investors, while shifting risk to customers
- Approve fixed, premium ROEs that are higher than those awarded to a utility’s other rate-based assets, which increase moral hazard and incentivize a monopoly utility to over-invest without robust participatory planning processes in place to identify and justify need
- By considering only the next utility-preferred resource addition, these dockets fail to identify most critical resources, prevent investment in unnecessary resources, and adequately identify uneconomical resources in need of retirement and replacement

The issues identified are likely an incomplete list of the inadequacies that have contributed unreasonably high and out-of-control rates for Alliant/IPL customers, and a growing distrust of both IOUs and the regulatory process among many Iowa customers and communities. Solutions are clearly needed to more effectively counter the inherent inefficiency and anti-competitive nature of state-granted monopolies, to accelerate the decarbonization of Iowa’s power supply, to improve general transparency and reduce risk imbalance, and to reduce energy burden on both individual ratepayers, and on communities served by unreasonably high-cost utilities.
When proposing solutions, adjustments, or reforms to Iowa ratemaking and related policy we suggest the following principles – related to broad policy objectives discussed earlier – as a starting point by which proposed solutions should be judged:

- The public interest will always be served by increased transparency into utility operations, finances, and planning processes
- Broad-based stakeholder participation is critical to a just and inclusive ratemaking process and to provide checks and balances; reforms must reduce complexity, reduce the cost of participation, and increase accessibility
- State-granted monopolies carry tremendous moral hazard; it must be clear that the role of the state (the Board, OCA, and others) is to further the “health, welfare, and prosperity of all Iowans”, not to “balance the interests” of investors and ratepayers
- State-granted monopolies are inherently anti-competitive; reforms should introduce competitive pressures where possible, including and especially non-utility ownership of resources and provision of services on fair and beneficial terms
- Stewardship of our natural resources and environment must be central to the mission of energy regulation, not an afterthought. This includes – as Iowa law requires – stewardship of our climate via accelerating the decarbonization of our energy systems
- Iowans understand well that the “health, welfare, and prosperity” of our citizens is inextricably linked to the health, welfare, and prosperity of our communities. Rate and energy regulation should facilitate and promote local participation in and local control of the process and outcomes of the clean energy transition.

Utilities in this docket have proposed solutions including “flexible” or “innovative” ratemaking, and “multi-year rate plans”. Few details have yet been presented, but it is unlikely
these approaches would address the problems identified, or further the policy objectives and principles, contemplated in this docket and discussed here. Innovative rate proposals that we have seen elsewhere appear to represent either favoritism toward a specific customer class (generally large business/industry), and/or a mechanism to avoid full rate dockets in favor of something less transparent. Multi-year rate plans have shown some promise (especially in other countries), but also hold significant potential to reduce transparency and increase complexity and cost of stakeholder participation.

Potential reforms to ratemaking and energy regulation cover a wide gamut of approaches and policies that are being tested around the country. Workable improvements to Iowa ratemaking procedures suggested by the problems identified in this docket above that could be rapidly and efficiently implemented include

- Disallow the use of a future test year, and utilize only an historical test year, in rate dockets
- Consider creating a regular, staggered cycle for rate dockets, such as every 3-4 years, to create certainty for all parties, increase transparency, and potentially reduce costs
- Increase funding for the Office of Consumer Advocate, supporting creation of a stronger team with greater capabilities and expertise to engage fully in current rate-related dockets, and in processes such as integrated planning, on behalf of Iowa customers and communities
- Strengthen the ability of regulators to impose management inefficiency penalties and take other action related to utility business decisions generally not considered in rate dockets, in situations of unreasonable and accelerating rate discrepancies between utilities
- Disallow the use of enhanced or premium ROEs in advanced ratemaking dockets, and create a responsibility and supportive mechanisms for regulators to create downward pressure on utility ROEs to rebalance risk between customers and investors
• Clarify that investors must share risk and economic burden with ratepayers in cases where utility assets are no longer “used and useful”, or are uneconomical, and should be retired.

In addition to these very specific reforms, we believe there are two broad categories of fundamental reform to utility and energy system regulation that deserve extensive study and consideration in this docket: Performance-Based Regulation (PBR), and Integrated Resource Planning (IRP). PBR includes a series of tools meant to reduce perverse incentives in traditional cost-of-service models (such as capex bias, throughput incentive, and resistance to non-utility ownership), and better align utility interests with the public interest. We will discuss these further in the next round of comments.

Integrated Resource Planning is a tried and true approach to improving transparency and participation and achieving policy goals. We believe it holds tremendous potential to reform Iowa ratemaking, and that now is a great time for policymakers to engage a broad spectrum of stakeholders in designing a robust IRP process for Iowa’s 21st century energy systems.

Iowa Has a Unique Opportunity to Create a Trusted, Comprehensive, and Aligned Electricity System Planning Process and Toolkit for the 21st Century

Resource Planning emerged in the 1970s and evolved into Integrated Resource Planning (IRP) in the 1980s as a response by regulators to address a number of challenges to the electricity system, and competing interests4. The process was developed in large part to ensure that during a time of rapid change in the electricity industry, regulated monopoly electric utilities serve the public interest, especially regarding rates and the long-term reliability of the electric grid. As explained by the Rocky Mountain Institute5:

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4 The Future of Electricity Resource Planning; Lawrence Berkeley National Laboratory; 2016
5 Reimaging Resource Planning, p6; Rocky Mountain Institute; 2023
Utility IRPs have historically been tools for utilities and regulators to determine the portfolio of generation and demand-side resources that can meet projected peak and energy demand over a determined planning horizon at least cost, while mitigating risk and meeting policy objectives. This portfolio is intended to inform a utility’s resource decisions — driving accountability toward actions that result in affordable rates and desired utility performance. Typically, IRPs have a planning horizon of 10 to 30 years, and utilities file new plans every two to five years."

The vast majority of states currently have IRP requirements for investor-owned monopoly electric utilities. Some have moved away from IRP in the 21st century, but most of those are in states with restructured and de-regulated electric markets where resource mix is often determined by markets and not owned by utilities. Of the 19 states without IRP requirements, most are restructured states, and Iowa is one of only eight states with traditional, vertically integrated electric utilities that does not have an IRP requirement.

The lack of a robust IRP requirement in Iowa has contributed to many of the inadequacies in current Iowa ratemaking identified by parties in this docket, and summarized earlier in these comments. The lack of a comprehensive, transparent, inclusive IRP process in Iowa has been clear in multiple rate-related dockets in recent years, and often required ex post facto rectification. A major element in the settlement agreement and the Board’s final order in Alliant/IPL’s 2019 rate docket, for example, was the requirement for a one-time resource planning process.

"IPL has agreed to conduct a resource planning process for its generation fleet. ... IPL has agreed to consult with the Settling Parties on modeling inputs and retirement scenarios considered in the planning process. ... The Board finds that the planning process agreed to by the Settling Parties is a reasonable and prudent approach for evaluating such decisions. However, given the importance of these decisions, the Board requires that participation in the process be open to all parties to this case, not just those parties that signed the Settlement."
The lack of a comprehensive, transparent, and inclusive IRP process in Iowa was similarly evident in the 2022 MidAmerican Energy application for advanced ratemaking principles for the company’s “Wind Prime” proposal. MidAmerican proposed building 2,042 megawatts of new wind generation, and 50 megawatts of solar, while intervenors submitted extensive evidence demonstrating that less wind, more solar, and the addition of significant battery storage would better serve the capacity needs of ratepayers, and the public interest. The Board’s final order included a Resource Evaluation Study (RES) requirement:

“While the RES is proposed as part of the Size Cap principle, the RES is better understood as a stand-alone principle. The Size Cap authorizes the scope of the Wind PRIME project, while the RES creates a process that could be used in part to identify the scope of future advance ratemaking principles proposals. The record indicates a high degree of interest by multiple parties in having MidAmerican engage in transparent resource planning, and the RES, while not ideal, is reasonable. The Board would prefer greater transparency and disclosure regarding resource and capacity planning from MidAmerican. The record as a whole supports the RES as reasonable, the proposed implementation of the RES is consistent with the law, and it is in the public interest for greater transparency and engagement regarding MidAmerican’s capacity planning.”

These are just two examples of the significant negative impacts in very consequential Iowa ratemaking dockets that non-utility stakeholders and regulators had to scramble to rectify with the inclusion of ex post facto resource planning processes that should have been done well in advance of – and been foundational to – the ratemaking dockets themselves.

While Iowa ratemaking, ratepayers, and the public interest have clearly suffered negatively from the lack of a formal IRP process, this reality also presents a silver lining opportunity for policymakers at this point in time. As some states (mainly restructured markets) have moved away from IRP, many more have been struggling to adjust their 20th century IRP rules and process to include the challenges and opportunities of the 21st century electric system. The Rocky Mountain

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9 Final Decision and Order, Docket RPU-2022-0001, p72; Iowa Utilities Board; April 2023
Institute has described this challenge by comparing utility resource plans to a camel: They already carry a lot of weight, and “[t]oday, resource planning is being asked to carry even more straw. IRPs are seen as an important place to integrate a growing set of policy objectives, ensuring that utilities can deliver carbon reductions, energy equity, and economic development, in addition to reliability, affordability, and safety. But how much can we pile on before the process breaks? Now is a critical time for regulators and utilities to consider how to modernize planning processes in a way that avoids breaking the camel’s back.”

Iowa need not worry about overloading a non-existent camel, and has the opportunity to create an IRP process for the 21st century from a clean slate. Iowa can build a robust, transparent, and participatory IRP process that incorporates best practices and principles from other states, which solves problems and serves broad policy objectives as identified in the current study docket. CEDI (and assuredly other parties) will further discuss these best practices and principles in future comments, but we begin by featuring here the recommendations of an excellent recent report from the Rocky Mountain Institute (RMI) entitled “Reimagining Resource Planning”11. RMI has identified the core qualities of Trusted, Comprehensive, and Aligned as critical to effective IRP, and identified a set of best practice “enhancements” (to traditional more limited IRP) that contribute to and support each quality. These qualities and best practices are presented visually in Exhibit 3, on page 11 of the report, which is shown here below.

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10 A Utility Investment Plan Is Like a Camel; Rocky Mountain Institute; January 2023
11 Reimaging Resource Planning, Rocky Mountain Institute; 2023
It is worth highlighting that many best practices included in this RMI vision for a most effective IRP process support solutions to inadequacies identified in existing Iowa ratemaking, including

- Meaningful stakeholder involvement and the prioritization of transparency, which are problems in current Iowa ratemaking that have been repeatedly referenced by multiple commenters
• Including the reduction of carbon emissions from the power sector, which as we explained above (as have other commenters), is an existing, fundamental Iowa policy objective

• Promoting economic development and reducing household energy burdens, which meshes with the Iowa policy objective of promoting the “health, welfare, and prosperity of all Iowans”

• Including and properly valuing distributed energy resources (such as energy efficiency, demand response, and demand flexibility) as resources in the planning process

• Using all-source solicitations to bring competition into the resource development process, and open ownership to the full spectrum of non-utility parties

• Broadening the scope of planning to include the distribution system, including needs of the distribution grid, and its potential to host a growing volume and diversity of energy and capacity resources (both utility and locally owned), thereby reducing demands on the transmission grid, promoting local grid resilience, and customer and community prosperity

As noted, we will delve more deeply into some of these values, best practices and principles, with examples from other states, in future comments, and we look forward to robust dialogue on this opportunity from other parties and in the next charrette and comment set.

Respectfully submitted this 8th day of September 2023.

/s/ Andrew Johnson

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