

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: RULE MAKING FOR RATEMAKING PRINCIPLES PROCEEDING [199 IAC CHAPTER 41]	DOCKET NO. RMU-2019-0041
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ORDER COMMENCING RULE MAKING

(Issued December 26, 2019)

PROCEDURAL BACKGROUND

The Utilities Board (Board) is commencing a rule making to set filing requirements for applications for advance ratemaking principles (ARPs) associated with the construction of electric power generating facilities pursuant to Iowa Code § 476.53 and ARPs associated with the acquisition of water, sanitary sewage, and storm water systems pursuant to Iowa Code § 476.84. On November 30, 2017, the Board opened a rule-making docket identified as Docket No. RMU-2017-0003 to consider rules related to Iowa Code § 476.53. Prior to the adoption of any rules, the Board chose to close that docket and to open this docket to allow for further comments from stakeholders and for the inclusion of rules related to Iowa Code § 476.84.

On April 12, 2019, the Board issued an order in this docket requesting stakeholder comment on a draft Notice of Intended Action (NOIA). The Board received comments on the draft NOIA from the Office of Consumer Advocate (OCA),

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a division of the Iowa Department of Justice; Iowa Association of Municipal Utilities (IAMU); Facebook, Inc., and Google LLC (the Tech Customers); MidAmerican Energy Company (MidAmerican); Interstate Power and Light Company (IPL); and Iowa American Water Company (IAW).

PROPOSED RULES

An NOIA showing the proposed new rules is attached to this order. The NOIA will be published in the Iowa Administrative Bulletin (IAB) with any edits made by the Code Editor. The NOIA published in the IAB is the official version of the proposed rules. The published version of the NOIA will include a deadline for the filing of comments and a date for an oral presentation at which interested persons may make oral comments and respond to questions from the Board. The Board will file a copy of the published NOIA in this docket.

Below is a summary of comments the Board received on the draft NOIA and a description of significant changes the Board is making from the draft NOIA. A side-by-side comparison with the draft NOIA is also attached to this order.

A. Rule 41.1 Definitions

MidAmerican suggested that the definition of “Facility” in the draft NOIA was too narrow and would exclude wind projects with capacity less than 25 megawatts. MidAmerican suggested that the definition should be revised so as to track directly with Iowa Code § 476.53(3)(a). The Board agrees and has made this change.

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IPL, MidAmerican, and the Tech Customers each suggested that the rules should be broadened so as to apply to energy storage facilities. They argued that doing so would implement the intent of the legislature, as expressed at Iowa Code § 476.53, to “attract the development of electric power generating and transmission facilities within the state in sufficient quantity to ensure reliable electric service to Iowa customers and provide economic benefits to the state.” OCA opposed this suggested change and argued that Iowa Code § 476.53 does not authorize the Board to establish ARPs for energy storage facilities. The Board is proposing to include energy storage systems in the definition of the term “facility.” The Board believes this is consistent with the intent of the legislature expressed at Iowa Code §§ 476.53(1) and (2). The Board welcomes further comments on this topic.

B. Rule 41.2 Applicability and purpose

IPL suggested that repowering of alternate energy production facilities should be mentioned in the description of the applicability of rules 41.3 and 41.4. The Board agrees and has made this change. The Board has also replaced the phrase “minimum filing requirements” with “initial filing requirements” in order to clarify that the information described in this chapter is required in order to obtain ARPs, but will not necessarily be sufficient to obtain ARPs.

IAMU suggested that the scope of the rules should be broadened so as to establish ARPs that would apply when a rate-regulated utility acquires a municipal gas or electric utility. OCA opposed this suggestion and noted that Iowa Code

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§§ 476.53 and 476.84 do not contemplate the establishment of ARPs for acquisitions of municipal gas or electric utilities. The Board agrees with OCA and has not made the proposed change.

C. Rule 41.3 Content of application

In the introductory paragraph of rule 41.3, the Board has clarified that the information described in the rule is only required to the extent that such information is reasonably available. MidAmerican and IPL suggested that such language was needed in order to preserve the flexibility of the ARP process. The Board agrees. However, the new language makes clear that omissions due to unavailability must be adequately justified by a utility. The Board notes that these rules establish only the initial filing requirements which must accompany an application. The omission of information from an application, which is ultimately deemed necessary by the Board, will only serve to slow the process. It is therefore in the interest of all parties to initially provide as much information as is reasonably available.

In subrule 41.3(1), the Board has included a new requirement that the applicant describe the purpose of the proposed facility, as suggested by the Tech Customers. The Board has also limited the scope of information that must be provided regarding planned financial and contractual commitments, as suggested by MidAmerican. Instead of requiring a description of all such commitments, the proposed rules now require a description only of those commitments which are material.

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In subrule 41.3(2), the Board has made two changes proposed by MidAmerican. First, the Board has clarified that the economic evaluation required by paragraph “a” should focus on the facility’s impact on “Iowa retail customers,” as opposed to “customers” generally. Second, the Board has clarified that if a utility projects revenue deficiencies, the economic evaluation should describe the effect of the proposed facility on those deficiencies. The Board has also made a change proposed by the Tech Customers which requires a utility to disclose all assumptions regarding costs and benefits that were used in its economic analysis.

In subrule 41.3(5), the Board is proposing to change the introductory sentence in order to clarify that the filing requirements established in the subrule represent only that information which is necessary in order to have a complete application, and that the Board is not precluded from requiring additional information based on the specific circumstances of the application. The Board is also proposing to modify several of the principle-specific filing requirements established in subrule 41.3(5) based on suggestions from MidAmerican. These proposed changes are generally intended to be simpler than the filing requirements proposed in the draft NOIA. The Board is also proposing to remove the filing requirements which would apply to requested principles for capital structure, cost of debt, and Construction Work in Progress (CWIP). Utilities are unlikely to seek ARPs regarding capital structure and cost of debt, and the Board is unlikely to grant ARPs regarding CWIP. Initial filing requirements addressing those issues do not need to be established by rule.

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The Board is declining to make several changes to rule 41.3 which MidAmerican suggested. At subsection 41.3(1)(h), MidAmerican suggested eliminating the requirement that a utility submit an analysis of the existing transmission system's capability to reliably support the proposed additional generation. MidAmerican argued that such analyses are frequently not available at the time a utility files an ARP application. MidAmerican suggested replacing the requirement for an interconnection analysis with a requirement that the utility pledge to abide by any interconnection requirements of the area transmission authorities. The Board does not agree with MidAmerican's suggestion. The ability of the transmission system to support generation from the proposed facility is an important piece of information that will inform the Board's decision whether to approve the project and whether to grant ARPs. The costs of interconnecting to the grid could be a significant factor in determining the prudence of the project. A utility may choose to omit the analysis on the grounds of unavailability as discussed above, or it may file a waiver request. Either option would require adequate justification by the utility.

The Board is also declining MidAmerican's suggestion to remove a sentence from section 41.3(2) which requires that the utility's economic analysis include a comparison of the proposed project to other feasible sources of supply using a range of alternative assumptions and scenarios. MidAmerican argues that this requirement amounts to a "least cost" planning process which contradicts the intent of the legislature. The Board does not agree. Iowa Code § 476.53(3)(c)(2) provides that,

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before granting ARPs, the Board shall make a finding that the utility “has considered other sources for long-term electric supply and that the facility or lease is reasonable when compared to other feasible alternative sources of supply.” The analysis proposed in the rule is necessary in order for the Board to make such a finding.

D. Rule 41.5 Acquisition of a water, sanitary sewage, or storm water utility

OCA suggested the addition of language in the introductory paragraph of rule 41.5 to clarify that the acquisition itself, not just the proposed ARPs, must be approved by the Board. The Board has made this suggested change. The Board has also added language describing the type of acquisition which requires Board approval. The added language more closely tracks the provisions of Iowa Code § 476.84.

OCA suggested that the Board change subsection 41.5(1)(b) so as to increase the time period over which the utility must describe capital investments and operating expenses associated with the acquisition. OCA suggested increasing the time period from three years to five years. IAW opposed this change and asserted that these investments and expenses are difficult to estimate beyond three years. The Board acknowledges that it is more difficult to estimate expenses over a longer time period. However, the Board finds that a five-year time period is not unreasonable in light of the significant cost of these acquisitions. The Board has therefore replaced the phrase “within three years of the date of the acquisition” with the phrase “anticipated within five years of the date of the acquisition.” This change is intended to extend the

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time period considered while acknowledging that the costs will not be known with certainty.

The Board is proposing to remove language from subsection 41.5(1)(c) which encouraged applicants to discuss the proposed procedural schedule with OCA and with potential interveners. IAW requested this change and argued that it cannot know which parties will intervene until they have done so. The Board is proposing to remove the language because it finds that rules are not an appropriate venue for “encouraging” actions by regulated entities. Although the language will be removed from the rule, the Board nonetheless does encourage utilities to coordinate procedural schedules with other parties to the greatest extent practicable.

At subrule 41.5(2) the Board is proposing to add two new pieces of information which the utility must submit regarding the proposed acquisition. The proposed rule now requires the submittal of the final negotiated price for the acquisition and a copy of the proposed acquisition contract. These changes were suggested by OCA and were not opposed by IAW.

In subrule 41.5(3), the Board is proposing to make two changes suggested by OCA. First, the Board is proposing to eliminate the requirement that the utility analyze the impact of the acquisition on the public interest, including the economy of the state and the communities in which the utility is located. OCA pointed out that this type of wide-ranging, qualitative analysis is not contemplated by Iowa Code § 476.84. The Board agrees. Second, the Board is proposing to add a requirement

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that the utility describe the financing of the proposed acquisition and analyze its impact on the utility's ability to maintain a reasonable capital structure. OCA suggested this change and the Board agrees it would be helpful.

The Board is declining to make several changes to subrule 41.5(3) which IAW proposed. These proposed changes would have made several of the general filing requirements applicable only to acquisitions which exceeded 3 percent of the acquiring utility's revenue. IAW argued that the required information may not be available for acquisitions of small systems due to inadequate recordkeeping by the acquired utility and that making some of the required forecasts for a small acquisition would be prohibitively expensive. IAW also proposed that if rates of existing customers were projected to increase by less than 2.5 percent due to the acquisition, then the acquisition should be deemed to satisfy the ratepayer interest standard of Iowa Code § 476.84(2)(d). OCA opposed these suggested changes. The Board declines IAW's proposed 3 percent threshold for certain of the filing requirements. If IAW is unable to provide any of the required information, it may request a waiver and provide a justification for why the information could not be obtained. The Board also declines IAW's proposed 2.5 percent threshold for satisfying the ratepayer interest standard. The Board will determine whether acquisitions will result in just and reasonable rates on a case-by-case basis.

In subrule 41.5(4), the Board is proposing to delete the filing requirements which would apply to proposed principles for capital structure and cost of debt. IAW

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proposed this change. The Board agrees that these principles are unlikely to be sought by a utility and that filing requirements do not need to be established by rule. At paragraph (d), "Ratepayer allocations," the Board is proposing to add a requirement that any proposed principle for allocating the cost of the acquisition between the utility's existing customers and the acquired customers must include information showing that the proposed allocation will result in rates that are reasonable for both groups of customers. This change was proposed by OCA and the Board agrees it would be helpful.

IAW suggested the inclusion of three additional principles in subrule 41.5(4). The first principle relates to the initial depreciable value of an acquired system. The second principle relates to the rate which will be used to depreciate the system. The Board agrees that it would be helpful to establish initial filing requirements for these two principles. The Board has simplified the language proposed by IAW. The third additional principle proposed by IAW relates to the treatment of improvements the acquiring utility makes to the system after acquisition. The Board is declining to include this principle because Iowa Code § 476.84 does not contemplate the establishment of ARPs for costs incurred subsequent to acquisition.

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ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. A rule making is commenced in Docket No. RMU-2019-0041 as shown in the attached Notice of Intended Action, which is incorporated into this order by reference.
2. The Notice of Intended Action attached to this order shall be sent to the Administrative Code Editor for review and publication in the Iowa Administrative Bulletin.

UTILITIES BOARD

/s/ Geri D. Huser

/s/ Nick Wagner

ATTEST:

/s/ Kelsie Vanderflute

/s/ Richard W. Lozier, Jr.

Dated at Des Moines, Iowa, this 26th day of December, 2019.

The following rule-making action is proposed:

Adopt the following **new** 199—Chapter 41:

CHAPTER 41

RATEMAKING PRINCIPLES PROCEEDING

199—41.1(476) Definitions.

“*Affiliate*” means a party that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with a rate-regulated public utility.

“*AFUDC*” means allowance for funds used during construction.

“*Alternate energy production facility*” means any or all of the following:

1. A solar, wind turbine, waste management, resource recovery, refuse-derived fuel, agricultural crops or residues, or woodburning facility.
2. Land, systems, buildings, or improvements that are located at the project site and are necessary or convenient to the construction, completion, or operation of the facility.
3. Transmission or distribution facilities necessary to conduct the energy produced by the facility to users located at or near the project site.

A facility which is a qualifying facility under 18 CFR Part 292, Subpart B, is not precluded from being an alternate energy production facility under this chapter.

“*Baseload generation*” refers to generating units designed for normal operation to serve all or part of the minimum load of the system on an around-the-clock basis. These units are operated to maximize system mechanical and thermal efficiency and minimize system operating costs.

“*Combined-cycle combustion turbine*” means an electric generating technology in which the efficiency of electric generation is increased by using otherwise lost waste heat exiting from one or more combustion turbines. The exiting heat is routed to a boiler or to

a heat recovery steam generator for utilization by a steam turbine in the production of electricity.

“*Control*” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an enterprise through ownership, by contract or otherwise.

“*CWIP*” means construction work in progress.

“*Emission allowance*” means an authorization, allocated by the federal Environmental Protection Agency under the Acid Rain Program, to emit up to one ton of sulfur dioxide, during or after a specified calendar year.

“*Facility*” means a facility for which advance ratemaking principles may be sought pursuant to Iowa Code section 476.53(3)(a). The term includes energy storage systems.

“*kWh*” means kilowatt-hour.

“*Opportunity sales*” means sales of electricity from a particular facility at market price after all contracted and firm transactions have been met.

“*Repowering*” means either the complete dismantling and replacement of generation equipment at an existing project site or the installation of new parts and equipment to an existing alternate energy production facility in order to increase energy production, reduce load, increase service capacity, improve project reliability, or extend the useful life of the facility.

“*Utility*” means either a rate-regulated electric public utility selling to retail customers in Iowa or a rate-regulated public utility acquiring a water, sanitary sewage, or storm water utility.

199—41.2(476) Applicability and purpose.

a. Rules 199—41.3 and 199—41.4 apply to any rate-regulated public electric utility proposing to build or lease in Iowa, either in whole or in part, a new baseload generating

facility with a nameplate generating capacity equal to or greater than 300 megawatts, a new combined-cycle combustion turbine of any size, a new or repowered alternate energy production facility of any size, or any combination of the above, and desiring predetermination of ratemaking principles to be used in establishing the retail cost recovery of such a facility. These rules set the initial filing requirements in a ratemaking principles proceeding depending on the specific circumstances of a filing.

b. Rule 199—41.5 applies to any rate-regulated public utility acquiring a water, sanitary sewage, or storm water system with a fair market value of five hundred thousand dollars or more from a non-rate-regulated entity described in Iowa Code section 476.1(4). Rule 199—41.5 sets the initial filing requirements in a ratemaking principles proceeding related to the acquisition.

199—41.3(476) Application for predetermined ratemaking principles; contents.

Each person or group of persons proposing to construct, repower, or lease a facility and desiring predetermination of ratemaking principles for costing that facility shall file an application with the board. An application may be for one facility or a combination of facilities necessary to meet the current and future resource needs of the utility. An application for ratemaking principles must demonstrate that the utility has considered other sources for long-term electric supply and that the facility or lease is reasonable when compared to other feasible alternative sources of supply. At a minimum, an application shall substantially comply with the following informational requirements, to the extent such information is reasonably available.

41.3(1) *General information.* An application shall include the following general information:

- a.* The purpose of the proposed facility.
- b.* A complete description of the current and proposed rights of ownership in the

proposed facility and current or planned purchased power contracts with respect to the proposed facility.

c. For a baseload electric power generating facility with a nameplate generating capacity equal to or greater than 300 megawatts, a combined-cycle electric power generating facility, or repowering of a facility, a general site description including a legal description of the site; a map showing the coordinates of the site and its location with respect to state, county, and other political subdivisions; and prominent features such as cities, lakes, rivers, and parks within the site impact area. For an alternative energy production facility, to the extent feasible, a general site description including a description of the site location or locations; map(s) showing the coordinates of the site(s) and location(s) with respect to state, county, and other political subdivisions; and prominent features such as cities, lakes, rivers and parks within the site impact area(s).

d. A general description of the proposed facility including a description of the principal characteristics of the facility such as the capacity of the proposed facility in megawatts expressed by the contract maximum generator megawatt rating, the net facility addition to the system in megawatts, by net to the busbar rating, and the portion of the design capacity, in megawatts, of the proposed facility which is proposed to be available for use by each participant; the number and type of generating units; the primary fuel source for each such unit; the total hours of operation anticipated seasonally and annually and output during these hours; the expected capacity factors; a description of the general arrangement of major structures and equipment to provide the board with an understanding of the general layout of the facility; and a schedule for the facility's construction and utilization, including the projected date when a significant site alteration is proposed to begin and the projected in-service date of the facility. For this purpose, a group of several similar generating units operated together at the same location such that segregated records of energy output are

not available shall be considered a single unit.

e. A general description of all raw materials, including fuel, used by the proposed facility in producing electricity and of all wastes created in the production process. In addition to describing the wastes created in the production process, the applicant shall determine annual expected emissions from the facility and provide a plan for acquiring allowances sufficient to offset these emissions. The applicant shall describe all transportation facilities currently operating that will be available to serve the proposed facility, and any additional transportation facilities needed to deliver raw materials and to remove wastes.

f. An identification, general description, and chronology of all material financial and other contractual commitments undertaken or planned to be undertaken with respect to the proposed facility.

g. A general map and description of the primary transportation corridors and the approximate routing of the rights-of-way in the vicinity of the settled areas, parks, recreational areas, and scenic areas.

h. An analysis of the existing transmission system's capability to reliably support the proposed additional generation interconnection to the system. The analysis must also show that the proposed interconnection to the transmission system is consistent with standard utility practices and that the proposed interconnection does not degrade the adequacy, reliability, or operating flexibility of the existing transmission system in the area.

i. Identification of the general contractor for the proposed facility and the method by which the general contractor was selected. If a general contractor has not yet been selected, the utility shall identify the process by which the general contractor will be selected and the anticipated timeline for selecting a general contractor.

j. Identification of the plant operator for the proposed facility and the method by

which the operator was selected. If a plant operator has not yet been selected, the utility shall identify the process by which a plant operator will be selected and the anticipated timeline for selecting a plant operator.

41.3(2) *Economic evaluation of proposed facility.* An application shall include an overall economic evaluation of the facility using conventional capital evaluation techniques and the proposed ratemaking principles. The analysis shall include a comparison to other feasible sources of supply using a range of alternative assumptions and scenarios. All assumptions used in the analysis shall be disclosed. At a minimum, the evaluation shall include:

a. Net present value calculations. An application shall include annual and total net present value calculations of projected revenue requirements and capital costs over the expected life of the facility. If a traditional revenue requirement analysis does not account for revenue-sharing arrangements, riders, or other mechanisms that impact Iowa retail customer bills, the utility shall also provide annual and total net present value calculations that show the impact on amounts that will actually be paid by Iowa retail customers accounting for such mechanisms. To the extent the utility has projected revenue deficiencies within the period of analysis, the utility shall also provide the estimated effect the proposed facility will have on these calculations. In making these calculations, the utility shall detail the following cost assumptions:

(1) Installed cost. The utility shall provide an itemized statement of the total costs to construct the proposed facility. Such costs shall include, but not be limited to, the cost of all electric power generating units; all electric supply lines within the facility site boundary; all electric supply lines beyond the facility site boundary with a voltage of 69 kilovolts or higher used for transmitting power from the facility to the point of junction with the distribution system or with the interconnected primary transmission system; all appurtenant

or miscellaneous structures used and useful in connection with said facility or any part thereof; all rights-of-way, lands, or interest in lands the use and occupancy of which are necessary or appropriate in the maintenance or operation of said facility; engineering and development; sales taxes; and AFUDC (if applicable). The costs of all electric power generating units shall include all costs of transmission and gas interconnection (if applicable). Facility costs shall be expressed in absolute terms and in dollars per kilowatt. The absolute and per-kilowatt construction costs shall be adjusted by the expected rate of inflation from the time the construction costs are calculated to the time the facility is scheduled for operation.

(2) Fixed expenses. For each year of the facility's expected life from the time of application to the end of the facility's expected life, the utility shall file expense factors for fixed operation and maintenance costs; property, income, and other taxes; and straight-line and tax depreciation rights.

(3) Variable expenses. For each year of the facility's expected life from the scheduled time of operation to the end of the facility's expected life, the utility shall file expected variable operation and maintenance costs including the cost of fuel and emission allowances. These costs shall be reported in absolute terms and on a kilowatt-hour basis assuming expected annual capacity factors for the facility.

b. Cost of capital. The utility shall provide its projected costs of capital for the proposed facility for each year of the facility's expected life from the time of application to the end of the facility's expected life. All assumptions used in the projections shall be provided including, but not limited to, capital structure, cost of preferred stock, cost of debt, and cost of equity.

c. Cash flows. The utility shall provide the estimated maximum, minimum and expected cash inflows and outflows associated with the facility in each year from the date

of the application throughout the facility's expected life.

41.3(3) *Risk mitigation factors.* At a minimum, the following information regarding contractual risk mitigation factors shall be included in an application:

a. Construction risk mitigation factors. The utility shall provide a general description of the contractual standards with which the general contractor, if not the utility, must comply to mitigate construction risks including, but not limited to, cost overruns, labor shortages, failure to meet deadlines, and the need for replacement power if operational deadlines are not met. If the facility will be leased by the utility, the utility shall identify the above factors for both the lessor and the general contractor constructing the facility. The general description shall include all remedies, financial and otherwise, available to the utility for noncompliance with the construction standards and schedules.

b. Operational risk mitigation factors. The utility shall provide a general description of the contractual standards that the general contractor or the plant operator, if not the utility, must comply with to mitigate operational risks of the facility including, but not limited to, low-availability factor and higher-than-expected operation and maintenance costs. The general description shall include a list of all contractual inspections the general contractor must meet before the utility leases or takes ownership of the facility and all remedies, financial and otherwise, available to the utility for noncompliance with the operating standards. If the utility leases the facility from an affiliate, the lease shall contain specific performance standards that the affiliate must meet to avoid financial consequences.

41.3(4) *Noncost factors.* The utility shall include in its application a comparison of the proposed facility with other feasible sources of supply related to the following noncost factors:

a. Economic impact to the state and community where the facility is proposed to be located including job creation, taxes, and use of state resources.

b. Environmental impact to the state and community where the facility is proposed to be located.

c. Electric supply reliability and security in the state.

d. Fuel diversity and use of nontraditional supply sources such as alternate energy and conservation.

e. Efficiency and control technologies.

41.3(5) *Filing requirements for proposed ratemaking principles.* Each ratemaking principle proposed shall be supported as described in this subrule. Proposed ratemaking principles not envisioned by these rules shall be supported by sufficient evidence to justify the use of such principles in costing the facility for regulated retail rate recovery.

a. Cost of equity. Proposals for establishing the cost of equity shall be supported with analyses which demonstrate the reasonableness of the proposed equity rate for the proposed facility. If sufficient information is available, the analyses shall include a comparison with similar facilities built in the region in recent years.

b. Depreciable lives. Proposals for establishing the depreciable life of the facility shall be supported by board precedent for the depreciable lives of similar facilities, the manufacturer's opinion of depreciable life, the applicant's general depreciation study or analysis, or an engineering study of the depreciable life of the type of facility proposed.

c. Jurisdictional allocations. Proposals for allocating the cost or output of the proposed facility among jurisdictions shall be supported by jurisdictional allocation studies.

41.3(6) *Additional application requirements for leasing arrangements.* The following additional information shall be filed when a utility is proposing an arrangement in which the utility leases a facility from an affiliate or an independent third party:

a. Identification of the method used in selecting the affiliate or independent third party to build the facility (i.e., competitive solicitation, sole source, etc.)

b. A copy of the lease agreement

c. A detailed description of the lease agreement including, but not limited to, the following:

(1) Commitment of capacity from the proposed facility to the utility under the lease agreement.

(2) Description of the final disposition of the leased facility at the end of the lease arrangement including any options available to the utility and the terms of those options.

(3) Identification of the party responsible for operating, dispatching, and maintaining the facility.

(4) Identification of the party responsible for the cost of capital improvements, renewals and replacements, environmental compliance, taxes, and all other future costs associated with the facility.

(5) Identification of the party responsible for contracting capacity from the proposed facility.

(6) Identification of the party benefitting from revenues received through contracted capacity and opportunity sales.

d. If the lessor is an affiliate, a detailed description of the affiliate including the affiliate's corporate structure and the utility's ownership stake in the affiliate, if any.

e. If the lessor is an affiliate, identification of utility assets transferred to the affiliate for use by the proposed facility and the cost at which those assets were transferred.

f. If the lessor is an affiliate, identification of any financial benefits and cost savings, including any tax advantages, accruing to the utility from leasing an affiliate-owned facility versus building a facility itself.

199—41.4(476) Coincident filing. The utility shall have the option of filing its application for ratemaking principles, as required by this chapter, coincident with the utility's

application for a certificate of public convenience, use, and necessity under 199—Chapter 24. Identical information required by both chapters need only be included once in a joint principles and certification application.

199—41.5(476) Acquisition of a water, sanitary sewage, or storm water utility.

A rate-regulated public utility proposing to acquire, in whole or in part, a water, sanitary sewage, or storm water system with a fair market value of five hundred thousand dollars or more from a non-rate-regulated entity described in Iowa Code section 476.1(4) shall file an application for approval of the acquisition with the board. If the acquisition is approved, ratemaking principles that will apply when the costs of the acquisition are included in regulated rates shall be determined as part of the board's review of the application. At a minimum, an application made under this rule shall substantially comply with the following informational requirements:

41.5(1) *General information.* An application shall include the following general information:

a. A general description of the system to be acquired, including the total number of customers, a description of the general arrangement of major structures and equipment, maps of the system, and a general description of the scope of the system.

b. The identification and general description of all material capital investments and operating expenses associated with the proposed acquisition anticipated within five years of the date of the acquisition.

c. A proposed procedural schedule that, at a minimum, provides proposed dates for direct testimony, rebuttal testimony, and a hearing for cross-examination of all testimony. The proposed schedule should generally comply with the board's procedural rules in 199—Chapter 7.

41.5(2) *Acquisition Information.* An application shall include the following information

related to the acquisition:

a. The final reports of both appraisals prepared pursuant to Iowa Code section 388.2A(2)(a)(2).

b. Final fair market value of the system as identified in Iowa Code section 388.2A(2)(b).

c. The final price for the system as negotiated pursuant to Iowa Code section 388.2A(2)(c).

d. An inventory of the acquired system's real and personal property, as identified in Iowa Code section 388.2A(2)(d).

e. A financial information sheet prepared pursuant to Iowa Code section 388.2A(2)(e).

f. An affirmation that the acquiring utility and the acquired system have complied with the applicable components of Iowa Code section 388.2A.

g. The proposed acquisition contract.

41.5(3) *Impact of Acquisition.* An application shall include the following information related to the acquired system and its potential impact on the acquiring utility:

a. If the acquired system is not in compliance with applicable local, state, or federal standards, estimates of the approximate cost and time required to put the system in compliance with such standards.

b. Any anticipated staffing changes due to the proposed acquisition.

c. A description of the proposed accounting to be utilized in any transfer of assets necessary to accomplish the acquisition.

d. A description of the anticipated effects of the acquisition, including a cost-benefit analysis which describes the projected benefits and costs of the acquisition, quantified in terms of present value and identifying the sources of such benefits and costs.

- e.* An analysis of the projected financial impact of the acquisition on the ratepayers of each of the affected utilities for each of the first five years after acquisition.
- f.* Historical and projected fixed expenses for the acquired system, including expense factors for fixed operation and maintenance costs.
- g.* Historical and projected variable expenses for the acquired system, including expected variable operation and maintenance costs.
- h.* The estimated maximum, minimum, and expected cash inflows and outflows for the acquired system.
- i.* A description of the financing components of the acquisition and an analysis of the impacts on the acquiring utility's ability to attract capital on reasonable terms and to maintain a reasonable capital structure.

41.5(4) *Ratemaking Principles.* Each ratemaking principle proposed shall be supported as described in this subrule. Proposed ratemaking principles not envisioned by these rules shall be supported by sufficient information to justify the use of such principles.

a. **Cost of equity.** The utility shall file financial models demonstrating the proposed equity rate or range of equity rates necessary to attract equity capital for the proposed acquisition. The financial analysis shall include a risk assessment of the proposed acquisition including a comparison with similar acquisitions.

b. **Ratepayer allocations.** Proposals for allocating the cost of the acquired system to customers of the acquired system and the utility's existing customers shall include information showing that the proposed allocation will result in rates that are just and reasonable for both groups of customers.

c. **Initial depreciable value.** Proposals for establishing the value of the acquired system to be used as the initial gross asset balance for depreciation shall be supported by the fair market value of the system as determined consistent with Iowa Code section 388.2A(2)(b).

The utility shall also provide the accumulated depreciation balances for the assets.

d. Depreciable life. Proposals for establishing rates which will be used to depreciate the acquired system shall be supported by a depreciation study or by depreciation rates applied in the utility's last general rate case.

199—41.6(476) Waiver. A utility may seek a waiver of any requirement of this chapter. The request for a waiver shall include the utility's reasons it believes a requirement is not applicable or necessary. A request for a waiver shall also comply with rule 199—1.3(17A,474,476).

These rules are intended to implement Iowa Code sections 476.53 and 476.84.