

F I N A L R E P O R T

PUBLIC UTILITY RATE REGULATION AND POLICY SUBCOMMITTEE OF THE COMMITTEES ON COMMERCE

January, 1980

The Legislative Council created the Public Utility Rate Regulation and Policy Subcommittee of the Standing Committees on Commerce to examine (1) current statutes that establish policies for natural gas and electric utility rate structures; (2) policies of the Iowa State Commerce Commission; (3) alternative methods of rate design; and (4) the effects of utility rate structures on energy use. Legislators appointed to the Subcommittee were:

Senator Edgar H. Holden
Senator Irvin L. Bergman
Senator Rolf V. Craft
Senator Patrick J. Deluhery
Senator Cloyd Robinson
Representative Laverne W. Schroeder
Representative Ned Chiodo
Representative Thomas J. Jochum
Representative Robert M. L. Johnson
Representative George R. Swearingen

The Subcommittee was authorized and held four meetings. Senator Holden was elected Chairperson at the first meeting.

ACTIVITIES

The first meeting focused on utility rate structures and laws which affect them and was primarily informational. Representatives from the Iowa State Commerce Commission including Chairman Fred Moore, Commissioner Mary Holstad, Commerce Counsel James Maret, Robert Osborn, Chief Rate Analyst and Ray Vawter, Administrator of the Public Utilities Division discussed general rate design concepts and the status of state compliance with the federal Public Utilities Regulatory Policies Act of 1978 (PURPA). The Subcommittee had requested information on the latter so that any testimony and recommendations received or considered could be evaluated to avoid either duplicating or negating federal policies and mandated activities.

Title I of PURPA relates to regulatory policies of electric utilities. The purposes of Title I are: (1) conservation of electric energy; (2) optimum efficiency of use of facilities and services by electric utilities, and equitable rates to electric customers. These goals are important because all of the standards required to be considered by the state regulatory agency must be

evaluated in terms of their appropriateness and success in achieving these goals. Utilities with retail sales in excess of 500 million kwh per year are subject to the Act. In Iowa this includes Iowa Electric, Iowa Public Service, Iowa Power and Light, Interstate Power, Iowa-Illinois, Iowa Southern and Union Electric. The Act requires state regulatory agencies to consider certain rate making standards and make a determination regarding the appropriateness of implementing the standards. The standards are cost of service, declining block rates, interruptible rates, time of day rates, seasonal rates and load management techniques. Hearings must be scheduled on the standards by November 9, 1980. Implementation of a standard is left to the discretion of the regulatory agency. A standard which is inconsistent with state law cannot be implemented. If the regulatory agency determines that implementation of a particular standard is inappropriate, a written explanation of the reasons for the decision is required. November 9, 1981 is the final deadline for determinations required by the Act. PURPA also includes a second set of standards not directly related to utility rate structures but which affect the terms and conditions of service. These standards:

1. Prohibit or restrict master metering of new buildings;
2. Prohibit automatic rate adjustment clauses unless there is periodic review to insure that there are incentives for efficient use of resources and maximum economies;
3. Provide rate structure information to consumers;
4. Set procedures for termination of service, including reasonable prior notice and conditions on terminations when the state authority determines they would endanger health;
5. Prohibit utilities from recovering the cost of promotional or political advertising from anyone other than shareholders.

State regulatory agencies must consider and determine the appropriateness of these standards within two years of enactment. Also, within two years of enactment, state regulatory authorities must consider lifeline rates for essential electricity needs.

The Iowa State Commerce Commission presented to the Subcommittee a staff report that details current activities of covered utilities in each area affected by a standard and staff recommendations for Commission activities to achieve compliance with PURPA. The Commission reported that hearings on lifeline rates are currently being held across the state and cost of service activities are also underway. Several members of the Subcommittee indicated initial concern that the federal government has usurped or interfered with state regulatory authority. Commissioner Moore opined that the state still has the flexibility to operate its regulatory programs as it determines is appropriate.

Also at the first meeting the Subcommittee heard from the Iowa Energy Policy Council regarding the class A energy auditor certification program offered by Iowa State University. This program is basically an intensive training course designed to teach architects, engineers and other professionals how to conduct a comprehensive energy audit of a commercial or industrial structure.

The second meeting emphasized innovations in rate design and state energy consumption patterns and the purposes, methods and effects of efforts by regulators, utilities, and consumers to conserve energy. Essentially the issue was: Is energy conservation achievable under the existing regulatory framework? A list of specific questions was sent to prospective participants in advance of the meeting.

The regulators, i.e., the Iowa State Commerce Commission, presented information on state energy consumption patterns and a more detailed explanation of the theory and mechanics of rate design. The Commission also arranged a presentation by Mr. J. Robert Malko of the Electric Power Research Institute (EPRI) who is project manager for an electric utility rate design study sponsored by EPRI and other utility industry and regulatory groups. The study is examining time differentiated rates including calculation of rates and costs, consumer response and social impacts. Mr. Malko also presented information he had personally prepared on time of day rate structures being used in other states. Mr. Malko concluded that time of day rates may be helpful in providing a more accurate cost based rate under some circumstances but that rate structures changes should be made only when policy objectives would be served and cost data shows time of day pricing to be cost effective.

The "consumer" viewpoint was presented by representatives of the following groups: Legal Services Corporation of Iowa, Community Action Research Group, Iowa Manufacturers Association, Citizens United for Responsible Energy and Agri-Industries. Representatives of residential consumers advocated legislation creating an office of consumer rate counsel and offered other suggestions for energy conservation programs and utility rate structures that accurately reflect the cost of providing service to a class of customers. Representatives of industrial and commercial customers presented information on current energy conservation efforts by industrial and commercial users including statistics on energy savings.

Representing the utility sector were persons associated with investor-owned utilities, municipal utilities and rural electric cooperatives. All presented information on current rate design innovations and energy conservation programs developed by their respective businesses. The Subcommittee afforded additional time to Mr. Wes Birdsall, general manager of the municipal utility in Osage, Iowa, to present information on an experimental load management program designed to reduce peak use and consequently forestall

the need for additional generating capacity. The pilot program which is completely voluntary, involves the installation of equipment that can shut off air conditioners and water heaters for a given period of time each hour. The Osage experiment has been enthusiastically received by consumers (which Mr. Birdsall attributes to the local control of the project) and results appear promising. The load management experiment is being coupled with a highly successful general energy conservation effort.

The third meeting was devoted to energy conservation efforts, in particular, weatherization programs. While recognizing that other subcommittees are also working in this area, the Subcommittee feels that rate structures and conservation are so closely related that an examination of the former would not be complete without an assessment of the status and impacts of current conservation efforts. Persons attending the meeting were: Walt Pickett and Joel Peterson, Office for Planning and Programming and Mary Ann Olson and Ron Beane, Commission on the Aging.

Mr. Peterson explained the Energy Crisis Assistance Program (ECAP) formerly called Crisis Intervention which is a federally funded program of cash payments to low-income households to cover a portion of winter heating costs. Only households with incomes equal to or less than 125 percent of poverty guidelines are eligible with the maximum level of assistance being \$400. Federal funds for the program are channeled through the Office for Planning and Programming to community action agencies for distribution. Iowa expects to receive \$5.8 million for ECAP for the 1979-80 heating season. In addition federal funds for similar grants to supplemental security income recipients plus funds for grants to others in need as determined by the state Department of Social Services will be available with the total including ECAP funds being around \$28 million.

The federal government has also since 1975 provided funds to states for weatherizing homes occupied by low-income persons. Mr. Pickett explained that like the ECAP, weatherization funds are received by OPP and distributed through the community action agencies. Approximately 13,000-14,000 homes have been completely winterized which includes attic insulation, storm windows and doors, caulking and weatherstripping since the program's inception. Eligibility requirements are the same as ECAP and recent changes in the guidelines allow a maximum expenditure of \$1,000 per home of which \$560 can be used for materials and \$440 for support. Federal rules require that Comprehensive Employment Training Act (CETA) employees be used as a labor force when such CETA positions are available. Iowa has received \$6.8 million to date under the program and expects an allocation of \$4.4 million for the current federal fiscal year. Representatives from the Commission on the Aging also reported that a portion of the funds appropriated in 1979 for elderly care are being used for weatherization, often to match federal funds available under the program described by Mr. Pickett. The exact amount of funds distributed by the Commission on the Aging and being used for weatherization is not available.

RECOMMENDATIONS

Having recognized the interrelationships between utility rate structures, regulatory policies and conservation programs, the Subcommittee tried to identify what state action, if any, might be appropriate in each area at this time to encourage the efficient effective use of energy in Iowa. The Subcommittee's recommendations are as follows:

Weatherization and Assistance Programs

1. The Subcommittee recommends an appropriation of \$750,000 for the current fiscal period and continuing through June 30, 1981 to be used to hire supervisors in particular and other employees under the federal weatherization programs. (Bill I attached) The funds would be channeled through OPP to the community action agencies. The general rationale behind support for weatherization as opposed to cash assistance programs is that the investment in permanent energy conservation improvements is long term and will hopefully decrease the need for cash assistance. The decision to provide funds for supervisory employees is based on the following problems with the federal requirement that CETA labor be used:

a. CETA workers cannot be paid more than a \$3.41 average hourly wage.

b. CETA is a training program and individuals cannot be employed for more than one year. This creates high turnover and results in inexperienced weatherization work crews.

c. CETA workers often have poor work habits.

Therefore, program sponsors (OPP and the community action agencies) recommended and the Subcommittee agreed that the most valuable state contribution at this time would be funds to hire qualified and experienced supervisors so that the work crews can make more effective use of the federal funds that are available to the state for weatherization.

Rate Structures and Regulatory Policies

1. The Subcommittee recommends that the Iowa State Commerce Commission evaluate the benefits of developing and maintaining a continuing audit program of public utilities and report to the 1980 General Assembly whether such a program would be cost effective. The report should include cost estimates, staff estimates and any statutory changes that would be required to implement the program. The Subcommittee views the ongoing audit as a valuable tool in evaluating rate tariffs submitted by public utilities.

2. The Subcommittee recommends that the Iowa State Commerce Commission that public utilities be requested to present time of

day and load management tariffs at their next tariff hearing for Commission consideration.

3. Finally, the Subcommittee feels that changes in statutory requirements that would alter rate-making procedures and policies would be premature given the studies that are currently being conducted pursuant to PURPA requirements. Upon the completion of these studies, data and supporting rationale will be available so that policies that may decrease fuel and power consumption can be developed.

PROPOSED SENATE/HOUSE FILE _____

By (PROPOSED COMMITTEE ON COMMERCE
BILL RECOMMENDED BY THE PUBLIC
UTILITY RATE REGULATION AND
POLICY SUBCOMMITTEE OF THE
COMMITTEES ON COMMERCE OF THE
HOUSE AND SENATE)

Passed Senate, Date _____ Passed House, Date _____

Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

1 An Act making an appropriation to the office for planning
2 and programming to be used to hire personnel for
3 weatherization programs.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. There is appropriated from the general fund
2 of the state to the office for planning and programming for
3 the fiscal period commencing with the effective date of this
4 Act and ending June 30, 1981, the sum of seven hundred fifty
5 thousand (750,000) dollars, or so much thereof as may be
6 necessary to be distributed to community action agencies and
7 used to employ supervisors and other labor for weatherization
8 programs. Funds appropriated by this section shall be used
9 to supplement and shall not replace federal funds available
10 for weatherization.

11 Sec. 2. This Act, being deemed of immediate importance,
12 shall take effect from and after its publication in _____
13 _____, a newspaper published in _____,
14 Iowa, and in _____, a newspaper published
15 in _____, Iowa.

16 EXPLANATION

17 This bill appropriates \$750,000 to the office for planning
18 and programming available immediately and through June 30,
19 1981. The money shall be distributed to community action
20 agencies and used to employ supervisors and other labor for
21 weatherization programs.

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