

**199—20.10(476) Ratemaking standards.**

**20.10(1) Coverage.** Standards for ratemaking shall apply to all rate-regulated utilities in the state of Iowa. The commission may, by rule or by order in specific cases, exempt a utility or class of utilities from any or all ratemaking standards. The standards are recommended to all service-regulated utilities in this jurisdiction.

**20.10(2) Cost of service.** Rates charged by an electric utility for providing electric service to each class of electric consumers shall be designed, to the maximum extent practicable, to reasonably reflect the costs of providing electric service to the class. The methods used to determine class costs of service shall to the maximum extent practical permit identification of differences in cost-incurrence, for each class of electric consumers, attributable to daily and seasonal time of use of service, and permit identification of differences in cost-incurrence attributable to differences in demand, energy, and customer components of cost.

The design of rates should reasonably approximate a pricing methodology for any individual utility that would reflect the price system that would exist in a competitive market environment. For purposes of determining revenue requirements among customer classes, embedded costs shall be preferred. For purposes of determining rate designs within customer classes, long-run marginal cost approaches are preferred although embedded cost approaches may be considered reasonable.

Nothing in this rule shall authorize or require the recovery by an electric utility of revenues in excess of, or less than, the amount of revenues otherwise determined to be lawful by the commission.

Guidelines for use in evaluating the acceptability of methods of class cost of service estimation include but are not limited to the following:

- a. All usage of customer, demand, and energy components of service shall be considered new usage.
- b. Customer classes shall be established on the primary basis of reasonably similar usage patterns within classes, even if this requires disaggregation or recombination of traditional customer classes.
- c. Generating capacity estimates or allocations among and within classes shall recognize that utility systems are designed to serve both peak and off-peak demand and shall attribute costs based upon both peak period demand and the contribution of off-peak period demand in determining generation mix. Generating capacity estimates and allocations among and within classes shall be based on load data for each class as described in 199—subrule 35.5(4).
- d. Transmission and distribution capacity estimates or allocations among and within classes shall be demand-related based upon system usage patterns and the load imposed by a class on the transmission or distribution capacity in question.
- e. Customer cost component estimates or allocations shall include only costs of the distribution system from and including transformers, meters, and associated customer service expenses.
- f. Methods of cost estimates or allocations among customer classes shall recognize the differences in voltage levels and other service characteristics and line losses among customer classes.
- g. Methods of class cost of service determination that are consistent with zero customer, demand, or energy component costs or major categories of these, such as generation, transmission, or distribution, shall be considered unacceptable methods.
- h. Long-run marginal cost methods of class cost of service determination shall clearly reflect changes in total costs to the utility with respect to changes in the outputs of customer, demand, or energy components of electric services.
- i. The use of an inverse elasticity approach to adjust long-run marginal cost-based rates to the revenue requirement shall be unacceptable. Other approaches will be considered on a case-by-case basis.

**20.10(3) Declining block rates.** The energy-related cost component of a rate, or the amount attributable to the energy-related cost component of a rate, charged by an electric utility for providing electric service during any period to any class of electric consumers, shall not decrease as kWh consumption by such class increases during the period except to the extent that the utility demonstrates that the energy costs of providing electric service to such class decrease as consumption increases during the period.

**20.10(4) Time-of-day rates.** The rates charged by any electric utility for providing electric service to each class of electric consumers shall be on a time-of-day basis that reflects the cost of providing electric

service to that class of electric consumers at different times of the day unless such rates are not cost-effective with respect to the class. These rates are cost-effective with respect to a class if the long-run benefits of the rate to the electric utility and its electric consumers in the class concerned are likely to exceed the metering costs and other costs associated with the use of the rates. Cost-based time-of-day rates shall be offered on an optional basis to electric consumers who do not otherwise qualify for the rates if consumers agree to pay the additional metering costs and other costs associated with the use of the rates.

**20.10(5)** *Seasonal rates.* The rates charged by an electric utility for providing electric service to each class of electric consumers may be on a seasonal basis that reflects the costs of providing service to the class of consumers at different seasons of the year to the extent that costs vary seasonally for the utility, if the commission determines that seasonal rates are appropriate in an individual case.

**20.10(6)** *Interruptible rates.* Each electric utility shall offer an interruptible rate that reflects the cost of providing interruptible service to the class of which the consumer is a member and the eligibility requirements for that interruptible service.

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