

Substituted for ~~HB~~ SF2246  
(P.624) 3/11/98

FEB 18 1998  
Place On Calendar

HOUSE FILE **2331**  
BY COMMITTEE ON COMMERCE

(SUCCESSOR TO HSB 581)

Passed House, <sup>(P.392)</sup> Date 3/2/98 Passed Senate, <sup>(p.624)</sup> Date 3-11-98  
Vote: Ayes 93 Nays 0 Vote: Ayes 47 Nays 1  
Approved March 17, 1998

**A BILL FOR**

1 An Act relating to utility cost reviews associated with a rate-  
2 regulated public utility's procurement of natural gas or fuel  
3 for use in generating electricity.

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

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HF 2331

1 Section 1. Section 476.6, subsections 15 and 16, Code  
2 1997, are amended to read as follows:

3 15. NATURAL GAS SUPPLY AND COST REVIEW. The board shall  
4 ~~periodically, but not less than annually,~~ conduct a proceeding  
5 for the purpose of evaluating the reasonableness and prudence  
6 of a rate-regulated public utility's natural gas procurement  
7 and contracting practices. The natural gas supply and cost  
8 review shall be conducted as a contested case pursuant to  
9 chapter 17A.

10 Under procedures established by the board, each rate-  
11 regulated public utility furnishing gas shall periodically  
12 file a complete natural gas procurement plan describing the  
13 expected sources and volumes of its gas supply and changes in  
14 the cost of gas anticipated over a future twelve-month period  
15 specified by the board. ~~The plan shall describe all major  
16 contracts and gas supply arrangements entered into by the  
17 utility for obtaining gas during the specified twelve-month  
18 period. The description of the major contracts and  
19 arrangements shall include the price of gas, the duration of  
20 the contract or arrangement, and an explanation or description  
21 of any other term or provision as required by the board. The  
22 plan shall also include the utility's evaluation of the  
23 reasonableness and prudence of its decisions to obtain gas in  
24 the manner described in the plan, an explanation of the legal  
25 and regulatory actions taken by the utility to minimize the  
26 cost of gas purchased by the utility, and such other  
27 information as the board may require. The utilities shall  
28 file information as the board deems appropriate.~~

29 During the natural gas supply and cost review, the board  
30 shall evaluate the reasonableness and prudence of the gas  
31 procurement plan. ~~In evaluating the gas procurement plan, the  
32 board shall consider the volume, cost, and reliability of the  
33 major alternative gas supplies available to the utility, the  
34 cost of alternative fuels available to the utility's  
35 customers, the availability of gas in storage, the appropriate~~

~~1 legal and regulatory actions which the utility could take to~~  
~~2 minimize the cost of purchased gas, the gas procurement~~  
~~3 practices of the utility, and other relevant factors.~~ If a  
4 utility is not taking all reasonable actions to minimize its  
5 purchase gas costs, consistent with assuring an adequate long-  
6 term supply of natural gas, the board shall not allow the  
7 utility to recover from its customers purchase gas costs in  
8 excess of those costs that would be incurred under reasonable  
9 and prudent policies and practices.

10 16. ~~ANNUAL-ELECTRIC~~ ELECTRIC ENERGY SUPPLY AND COST  
11 REVIEW. The board shall periodically conduct ~~an annual~~ a  
12 proceeding for the purpose of evaluating the reasonableness  
13 and prudence of a rate-regulated public utility's procurement  
14 and contracting practices related to the acquisition of fuel  
15 for use in generating electricity. The evaluation may review  
16 the reasonableness and prudence of actions taken by a rate-  
17 regulated public utility to comply with the federal Clean Air  
18 Act Amendments of 1990, Pub. L. No. 101-549. The proceeding  
19 shall be conducted as a contested case pursuant to chapter  
20 17A. Under procedures established by the board, the utility  
21 shall file information as the board deems appropriate. If a  
22 utility is not taking all reasonable actions to minimize its  
23 fuel and allowance transaction costs, the board shall not  
24 allow the utility to recover from its customers fuel and  
25 allowance transaction costs in excess of those costs that  
26 would be or would have been incurred under reasonable and  
27 prudent policies and practices.

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## EXPLANATION

29 This bill amends provisions relating to the natural gas  
30 supply and cost review, and the electric energy supply and  
31 cost review of rate-regulated public utilities. The bill  
32 strikes the requirement that a natural gas supply and cost  
33 review be conducted at least annually. The bill also strikes  
34 language requiring a gas public utility to include a  
35 description of all major contracts and gas supply arrangements

1 entered into by the utility for obtaining gas during a 12-  
2 month period as specified by the board in its natural gas  
3 procurement plan. The bill strikes certain specific items the  
4 board is to consider in evaluating the gas procurement plan  
5 including the volume, cost, and reliability of the major  
6 alternative gas supplies available to the utility; the cost of  
7 alternative fuels available to the utility's customers; the  
8 availability of gas in storage; the appropriate legal and  
9 regulatory actions which the utility could take to minimize  
10 the cost of purchased gas; the gas procurement practices of  
11 the utility; and other relevant factors. The bill provides  
12 that utilities shall file information as the board deems  
13 appropriate regarding the evaluation of the gas procurement  
14 plan.

15 The bill also provides that the utilities board is to  
16 periodically, rather than annually, conduct a proceeding for  
17 the purpose of evaluating the reasonableness and prudence of a  
18 rate-regulated public utility's procurement and contracting  
19 practices related to the acquisition of fuel for use in  
20 generating electricity.

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Sukup  
Van Tassen  
Koenigs

HSB 581

COMMERCE AND REGULATION

succeeded by

SENATE/HOUSE FILE \_\_\_\_\_

BY (PROPOSED DEPARTMENT OF  
COMMERCE/UTILITIES DIVISION  
BILL)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_

Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_

Approved \_\_\_\_\_

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TERRY E. BRANSTAD, GOVERNOR

IOWA UTILITIES BOARD  
DEPARTMENT OF COMMERCE

DATE: January 12, 1998  
TO: Members of the General Assembly  
FROM: Iowa Utilities Board  
SUBJECT: LSB NO. 3265DP 77

Iowa was a national leader in beginning the annual review of gas utility natural gas purchasing and procurement practices in the early 1980's. At the time the natural gas market was entering a period of significant and dynamic change. With federal regulatory changes, the commodity market for natural gas is now fully competitive at the wholesale level. Because the market continues to evolve, the Board proposes to change the Annual Review of Gas (ARG) statute. Based on the experience and knowledge the Board has gained, the proposed changes would give the Board more flexibility in reviewing the procurement practices of Iowa investor owned natural gas utilities. This is achieved by giving the Board the discretion to determine the interval between reviews rather than requiring annual filings by Local Distribution Companies (LDCs). The proposal also removes the specific review criteria in order to allow the Board the discretion to replace obsolete criteria with timely and relevant information.

In addition, this bill would eliminate the need for an annual cost review of rate-regulated public utility procurement and contracting practices relating to the acquisition of fuel for use in generating electricity.

The bill would still allow the board to conduct a proceeding on an as needed basis. With passage of this bill the burden of preparing an annual filing is eliminated, however, the utilities would still be required to maintain records in the event the board commenced a review of a particular utility.