BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott	Chair
Edward A. Garvey	Commissioner
Marshall Johnson	Commissioner
LeRoy Koppendrayer	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of a Petition by Alliant Energy for Approval of a Renewable Energy Rider

ISSUE DATE: April 22, 2002

DOCKET NO. E-001/M-01-1954

ORDER APPROVING RENEWABLE ENERGY RIDER AS MODIFIED

PROCEDURAL HISTORY

On September 28, 2001, Interstate Power Company (IPC or the Company), a wholly owned subsidiary of Alliant Energy, filed its implementation plan for a renewable energy program to meet the requirements of Minn. Stat. § 216B.169. In its plan, IPC proposed to file a renewable rider for its Minnesota customers by December 28, 2001.

On December 24, 2001, the Company filed a proposed rider for its Second Nature Renewable Energy Program (SNP).

On January 23, 2002, the Department of Commerce (the Department) filed comments recommending approval of the rider with the modifications.

On February 1, 2002, IPC filed reply comments.

On February 6, 2002, Minnesotans for an Energy-Efficient Economy (ME3) filed comments.

The Commission met to consider this matter on April 11, 2002.

FINDINGS AND CONCLUSIONS

I. THE COMPANY'S PROPOSAL

IPC proposed to provide for its Minnesota customers the same renewable energy program that it and its fellow subsidiaries of Alliant Energy (IES Utilities and Wisconsin Power and Light) have implemented for their customers in Iowa and Wisconsin. That program (Second Nature Renewable Energy Program or SNP) allows customers to increase the amount of clean, renewable energy that is produced. Customers can choose from three participation levels: 25%; 50% or 100%.

IPC stated that it will use energy that is generated from renewable resources, such as wind, solar, biomass, geothermal, or low-impact hydro. IPC reported that it currently has in place enough renewable energy to meet the anticipated demand during the program's initial launch in Minnesota, and the period immediately following. The Company stated that in Minnesota it will initially offer SNP to residential customers, as was the case in Iowa and Wisconsin.

The price of SNP's energy is based on the cost of the renewable energy, compared to the cost of traditional generation, and on the amount of renewable energy each customer uses. The unit price is a $0.0200 premium per kWh, added to the customer's base rate.

IPC stated that it will evaluate the renewable energy purchased from suppliers for SNP to determine the avoided cost of traditional energy supply and exclude from the Energy Cost Adjustment (ECA) any cost paid for renewable energy in excess of the avoided traditional energy supply costs. This, the Company stated, will ensure that only participating customers pay the additional costs associated with SNP energy.

IPC noted that since this is a new product that charges a premium, active, aggressive, effective marketing will be the key to its success. IPC's marketing campaign will focus on education, on targeting environmentally concerned customers, on being efficient with financial resources, and on creating alliances with other organizations, such as environmental and community groups.

To adequately fund the marketing necessary to launch and sustain the program, IPC plans to split program costs 80-20 split of program costs: 80% for purchasing renewable energy and up to 20% for administration and marketing. The Company stated that this is the same proportion that is applied to SNP in Iowa and Wisconsin.

IPC advised that its marketing costs may exceed 20% in early years of the program and that any unrecovered costs will be rolled forward and recovered in later years. This recovery mechanism will allow IPC to invest more money up-front to launch SNP in the early years, and recover this investment through SNP revenue during following years. This approach will accelerate the growth of the program, and speed the adoption of renewable energy in Minnesota.

II. THE DEPARTMENT'S COMMENTS

The Department noted that IPC's renewable energy sources for SNP (wind and landfill gas) comply with Minn. Stat. § 216B.169, subd. 1, and Minn. Stat. § 21613.2422, subd. 1(c) and that IPC will be able to meet the renewable energy needs of its SNP customers, including those requiring 100% of their energy from renewable sources.

The Department reported that if specific assuring language were added to the SNP rider to assure that the power supply is sold only once to retail customers, that the Department could certify as required by Minn. Stat. § 216B.169, subd. 3 that the Company's sales arrangements are such that the power supply is only sold once to retail customers.

The Department concluded that IPC's method of calculating its green-pricing premium complies with Minn. Stat. § 216B.169, subd. 2, noting that the Commission has consistently found that the incremental administrative and marketing costs associated with a green-pricing program is allowed under Minn. Stat. § 216B.169, subd. 2.

The Department reported that it initially found IPC's pricing approach (i.e. different premium levels depending on the participation level) to be slightly confusing and possibly misleading. However, in light of the lack of customer confusion experienced in Iowa and Wisconsin, the Department recommended approval of IPC's approach, at least initially, for Minnesota. The Department stated that the issue could be revisited if Minnesota customers experience difficulty with this approach.

The Department objected to the level of marketing expenses proposed by IPC. The Department noted that IPC's marketing costs were significantly higher than in the three approved green-pricing programs in Minnesota. Although the Department acknowledged that given different population densities, different media expenses, etc. it could not say what a reasonable level of marketing costs for starting a green-pricing program would bee, it recommended that absent a better justification from IPC showing the need for such a level of costs, the Commission should order IPC to lower its costs to a level more consistent with previously approved green-pricing programs.

The Department found IPC's 1% participation goal for SNP is reasonable, consistent with the Company's experience with other green-pricing programs and the goal set by Minnesota Power for its green-pricing program.

The Department concluded IPC's pricing of the green-price premium, with the proposed amendments, is just and reasonable because participants will be charged the incremental cost of service.

The Department reviewed three green-pricing models (including IPC's) for how they accommodated rising and falling nonrenewable fuel costs. The Department favored Wisconsin Power and Light's (WP&L's) model because it only applies the fuel clause to the percentage of kWh consumption from non-participating energy[1] and removes the renewable energy kWh units from the application of the fuel clause. However, the Department acknowledged that IPC's billing system cannot accommodate WP&L's model. In this circumstance, the Department stated that in the spirit of experimentation it would recommend that the Commission approve IPC's proposal to use a fixed fuel charge ($0.00282 cents per kWh) to SNP customers on a pilot basis and encourage IPC to explore implementing WP&L's approach in the future.

The Department concluded that IPC's proposed tariff complies with the nondiscrimination provisions under Minn. Stat. § 216B.03, since it is offered to all residential customers. The Department noted that the rate also encourages renewable energy use as required under statute. And since all incremental costs attributable to the renewable energy rider are to be recovered from participating customers, the proposal does not place an unnecessary risk of cost recovery on non-participating customers.

[1] In this context, “non-participating energy” is energy viewed as derived from non-renewable fuels. Hence, a customer participating in WP&L’s green pricing program at the 25% level would be using 75% “non-participating energy”, to which the fuel clause would apply.

In sum, the Department recommended that the Commission approve IPC's renewable rider with modifications, as follows:

1. add the following language to the proposed tariff:

   > "The sales arrangements of renewable energy from the Second Nature program supplies are such that the power supply is only sold once to retail customers."

2. lower IPC's estimated marketing costs and remove the rounding-up provision, by setting the premium at 1.11 to 1.55 cents per kWh

3. since the program is a pilot, order IPC to file a compliance report within sixty days of the end of the first twelve-month period under the rider. At a minimum, the report should include:

   - the number of "banked" renewable energy credits under the Second Nature program (from Iowa, Wisconsin and Minnesota's Second Nature-participating utilities);
   - the actual level of unrecovered marketing and administrative expenses from the Second Nature program;
   - the actual level of unrecovered renewable energy sales stemming from the Second Nature program;
   - the actual number of Second Nature participants from each state, i.e. Iowa, Wisconsin and Minnesota (and a comparison of these participation levels with the original projected levels of Second Nature participation of 56% for WP&L, 32% for IES, 9% for IPC-Iowa, and 3% for IPC-MN);
   - any reported customer confusion regarding the pricing of Second Nature program in Minnesota or regarding the fixed ECA credit;
   - any unanticipated problems associated with the Second Nature program;
   - any plans to expand the Second Nature program; and
   - an evaluation of the possibility of implementing WP&L's green-pricing model.

III. ME3's COMMENTS

ME3 stated that minimizing the renewable energy premiums charged in green pricing programs will help these programs be more successful. ME3 noted two places where IPC's program did not minimize the green pricing premium: 1) its pursuit of small-scale (hence more expensive) power projects and 2) rounding up the cost-justified premium ($0.0193 per kWh) to 2 cents per kWh. While supporting small-scale wind development, ME3 expressed concern for the resulting higher procurement costs and so urged use of larger, potentially lower cost, wind developments also. ME3 opposed rounding up the premium to 2 cents, cautioning that prices that consumers perceive to be arbitrarily inflated could reduce customer acceptance of this new product.

ME3 also objected to IPC's plan to offer the green pricing initially only to residential customers. ME3 argued that the statutory language suggests that the offer must be to all customers and cited the U.S. Department of Energy's National Renewable Energy Laboratory (NREL)'s recommendation that non-residential customers must be eligible for green pricing programs. ME3 stated that larger users (non-residential customers) have been good customers for green priced energy nationwide and IPC's residential customers comprise only 1/3 of its Minnesota customers.

ME3 supported IPC's proposal to exempt green pricing customers from fossil fuel price increases. ME3 stated that this is an important way to create value for green pricing customers and was equitable because green pricing customers have opted to buy the higher priced renewable (non-fossil fuel) energy and, therefore, to the extent that they have switched to green energy (25%, 50% or 100%) should not be required to bear the burden of price swings in fossil-fuel.

ME3 said it wanted green pricing programs to be well marketed and advertised, but objected that IPC's proposed marketing and administrative costs seemed unjustifiably high. Lowering the marketing costs, according to ME3, should result in a lower, more reasonable premium, comparable to what Minnesota cooperative and municipal utilities charge their customers for green power.

ME3 recommended that because selling green power to large customers would require less marketing costs per kWh sold than would be required to market the same amount of green power to smaller customers (more bang for the buck by marketing to the large users) the Commission should consider ways that the lower marketing costs required to sell to large customers could be reflected in lower green premiums for these large customers.

IV. COMMISSION ANALYSIS AND ACTION

IPC agreed to several proposed modifications that the Commission finds reasonable and will approve and reflect in the Ordering Paragraphs. Other issues raised by the Department and/or ME3 are discussed below.

A. Marketing Costs

The Department and ME3 argued that IPC's proposed marketing expenses are too high and have not been justified. The Department recommended that IPC's marketing and administrative expenses be lowered to a point somewhere in a range between 6.1% and 14% of total renewable purchases to reflect the marketing costs approved for other Minnesota utilities. ME3 simply recommended that the Commission order lower marketing costs but did not suggest a level it deemed appropriate.

The Company noted that marketing cost per new participant decreases over time and that its projected cumulative marketing costs per new participant ($79) are in line with other utilities' experience in offering renewable energy riders. The Company stated that marketing costs nationally range from $50 to $100 per new customer, with some figures even higher. The Commission notes that neither the Department nor ME3 challenged any aspect of IPC's marketing plan as wasteful. Given the crucial role of marketing in introducing a new product (especially one which costs more than the current offering), the Commission is not inclined to second-guess the Company on this point at this time, especially since the Company has had experience introducing SNP elsewhere, knows the difficulty of the task, and appears to be proceeding in good faith.

B. Premium Level

The Commission finds that IPC's proposal to round the cost-justified figure ($0.0193/kWh) up to 2 cents per kWh is reasonable and will approve it.

- The round up amounts to $4,332 per year and if not needed to cover legitimate program costs, will be rolled forward to defray future costs of the program.

- Using the 2 cents level in Minnesota (as well as in Iowa and Wisconsin) allows the Company to realize economies of scale in that the same marketing materials may now be used in Iowa, Wisconsin **and** Minnesota.

- A uniform green premium wherever the Company serves avoids having to explain to customers why the Company is charging less in one state (Minnesota) than it is in the others, potentially damaging a nascent program that does not deserve any possible credibility problem weighing it down.

- Finally, IPC's 2.0 cent premium is below the national median of 2.5 cents and below those premiums approved for other Minnesota utilities .[2]

C. Exemption from the Fuel Clause Adjustment

Under IPC's proposal, SNP customers will pay a fuel clause adjustment, on the green portion of their load, that is frozen at the October 2000 level. This reflects a fuel clause adjustment prior to the run-up in gas prices during the 2000/2001 winter. The intent is to ensure that SNP customers do not pay for cost increases associated with non-renewable energy sources.

Both the Department and ME3 emphatically supported exempting green customers from fuel adjustment clauses and while the Department favored a more flexible model than was proposed by IPC, it ultimately did not oppose the Company model once the Company indicated that its billing system was incapable of handling the more flexible model favored by the Department.

The Commission sees merit and equity in exempting green customers from fuel clause adjustments since they are specifically paying a premium to receive energy generated by fuels which are **not** fossil fuels and hence are not receiving energy from the fossil fuels that are subject to the price swings that are assessed automatically through the fuel adjustment clause. In addition, carving out this legitimate benefit for green customers may help offset the hurdle posed by having to pay extra (the green premium) for green energy.

As part of a pilot project the Commission will accept Company's proposed model for achieving this exemption, but will ask it to explore ways to implement the more flexible model (WP&L's) favored by the Department.

D. Offering SNP to Non-Residential Customers

IPC proposed to offer green power only to residential customers, at least initially. IPC stated that it is currently evaluating the best way to make a renewable energy rate available to non-residential customers, including small business, farm, wholesale, commercial and industrial customers.

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[2] Minnesota Power and Otter Tail Power have premiums approved at the 2.5 cent level. Also: the economies of scale realizable in marketing due to IPC having a uniform green premium in three states contributes to the lower green premium paid by SNP customers.

The Commission agrees with ME3 that the green pricing program is to be eventually offered to all customers and that overall reduction in the green pricing costs per kWh is likely to be achieved by securing larger users of electricity (non-residential customers) as green pricing customers.

The Commission will accept a phased roll-out of the program, however, allowing IPC to concentrate on introducing the SNP to residential customers first. The Commission will require, however, that the Company roll out a green pricing program to nonresidential customer groups no later than April 1, 2003.

The Commission notes that an April 1, 2003 roll out date means, of course, that the Company will need to file its proposal for such a program far enough in advance of April 1 to allow for comment by the Department and any other interested parties and Commission review and approval of the program to be rolled out on or before April 1, 2003. The Company should gauge the date for filing its nonresidential green pricing proposal accordingly.

E. Monitoring and Reporting on the SNP

The Commission will want to evaluate this pilot program. As a basis for that evaluation, the Commission will require the Company to file a report within 60 days of the end of the first twelve-month period under the rider. The Department proposed a list of compliance information, which IPC has agreed to file, and the IPC proposed to monitor and make available to the Commission additional data. The Commission will require this data to be included in the compliance report as well.

In addition, the Commission will ask the Department to monitor program participation levels associated with IPC's proposed marketing budget and to report back to the Commission on marketing costs after IPC has filed its first compliance report.

To provide program continuity and adequate time to evaluate the program, the Commission finds it best that the program remain in effect during the evaluation period.

ORDER

1. The Commission approves IPC's Second Nature rider, as an ongoing pilot rider, at the 2.0 cent per kWh premium level, with the additional tariff language proposed by the Department and agreed to by IPC, as follows:

    > "The sales arrangements of renewable energy from the Second Nature program supplies are such that the power supply is only sold once to retail customers."

2. The Department shall monitor program participation levels associated with IPC's proposed marketing budget and to report back to the Commission on marketing costs after IPC has filed its first compliance report.

3. The Commission adopts IPC's proposal for a schedule to roll out a green pricing program to nonresidential customer groups no later than April 1, 2003;

4. Within sixty days of the end of the first twelve-month period under the rider, the IPC shall file a report about the program. At a minimum, the report should include:

   a) the renewable energy purchased from contracts or generated by Alliant Energy facilities for the Second Nature program, the renewable energy sold to Second Nature customers, and the number of "banked" renewable energy credits under the program (from Iowa, Wisconsin and Minnesota's Second Nature-participating utilities);

   b) the level of marketing and administrative expenses, and the level of unrecovered marketing and administrative expenses from the Second Nature program;

   c) the level of unrecovered renewable energy sales stemming from the Second Nature program;

   d) the actual number of Second Nature participants (and at what participation levels) from each state, i.e. Iowa, Wisconsin and Minnesota (with a comparison of these participation levels with the original projected levels for Second Nature participation of 56% from WP&L, 32% from IES, 9% from IPC-Iowa, and 3% from IPC-MN);

   e) customer response to marketing efforts, and any reported customer confusion regarding the pricing of the Second Nature program in Minnesota or regarding the fixed fuel adjustment clause;

   f) any unanticipated problems associated with the Second Nature program;

   g) any plans to expand the Second Nature program;

   h) an evaluation of the possibility of implementing WP&L's green-pricing model; and

   i) IPC should explore the potential for using WP&L's method of not applying the fuel adjustment clause to its green priced energy, and include a discussion of this issue in its compliance report.

5. The rider approved in this Order will remain in effect during the evaluation period.

6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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