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STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

PUBLIC SERVICE COMMISSION

IN RE:

INTERSTATE POWER AND LIGHT
COMPANY AND MIDAMERICAN
ENERGY COMPANY

DOCKET NO. AEP-07-1

**ORDER APPROVING FACILITIES AND ASSOCIATED CAPACITIES, ADOPTING
REQUIREMENTS FOR M-RETS PARTICIPATION, AND REQUIRING REPORT**

(Issued November 21, 2007)

INTRODUCTION

The Utilities Board (Board) has been monitoring the growing number of states in the Midwest that have adopted renewable portfolio standard (RPS) mandates for their regulated electric utilities. While the various RPS mandates have been adopted on a state-by-state basis, there appears to be growing recognition among regulators, utilities, and others of the multi-state nature of wholesale energy markets, which include renewable energy markets. In order to ensure verification of compliance with the various RPS mandates in a regional market, the Board (and many others) believes it is appropriate to have one or more centralized accounting systems that link specific renewable resources with specific state RPS requirements. These systems could also allow Iowa investor-owned utilities to sell all or some of the attributes of renewable power to utilities in states with RPS mandates, with the resulting revenues benefiting Iowa ratepayers.

Because of the laws of physics that govern operation of the electric transmission system, it is impossible to ensure that electricity produced by a particular renewable source is specifically and exclusively directed, in a physical sense, to the purchasing entity. An accounting system that verifies compliance must therefore rely on an agreed-upon abstract medium of exchange similar to the way the financial markets rely on money to represent value. In the renewable energy area, Tradable Renewable Certificates (TRCs) have been developed as a medium of exchange representing the renewable attributes of renewable energy. TRCs can be used to show compliance with energy-based RPS mandates.

In 2003 the Izaak Walton League, the Center for Resource Solutions, and Great Plains Institute, all non-governmental organizations, organized an effort to form a centralized exchange for creating, tracking, and transferring ownership of TRCs in the Midwest region, known as the Midwest Renewable Energy Tracking System (M-RETS). Several utility regulators in the Midwest, including those from Iowa, Wisconsin, Minnesota, Montana, North and South Dakota, and the Canadian province of Manitoba, expressed interest in M-RETS, either as a way to verify compliance with an individual state's energy-based RPS requirements or as a means for individual utilities to export surplus in-state renewable resources for meeting other states' RPS requirements (with resulting revenues benefiting the utility's customers). The state of Wisconsin contracted to implement and operate M-RETS. M-RETS was launched in July 2007 and has begun registering participants and generating facilities, with the cost funded by a participant-based fee structure.

POTENTIAL BENEFITS TO IOWA UTILITIES

Iowa does not have an energy-based RPS requirement. Iowa's statutory alternate energy production (AEP) requirements are found in Iowa Code §§ 476.41 through 476.45 and were adopted before energy-based RPS standards achieved widespread use in other states. Iowa's requirement is capacity-based and relates to specific AEP facilities either owned or contracted by utilities, rather than an energy-based portfolio requirement. Iowa's investor-owned electric utilities, Interstate Power and Light Company (IPL) and MidAmerican Energy Company (MidAmerican), are, among other things, required by the AEP statutes to own or purchase, at any one time, their share of 105 MW of power from AEP production facilities or small hydro facilities. Iowa Code § 476.44(2). The Board allocates this percentage between the two utilities; 49.8 MW is allocated to IPL and 55.2 MW to MidAmerican, based on total Iowa retail peak demand. Iowa Code § 476.44(2) and 199 IAC 15.11(1).

Because Iowa's AEP requirements are capacity-based and related to specific AEP facilities, IPL and MidAmerican cannot use energy-based TRCs to comply with their Iowa AEP statutory mandates; TRCs are not mentioned in either the Iowa AEP statutes or Board rules. However, based on information filed with the Board, both IPL and MidAmerican currently own or contract with AEP facilities for more than the statutory 105 MW mandate. IPL and MidAmerican could become net exporters of TRCs, with the resulting TRC sales revenues providing a net benefit (after participation fees) to IPL and MidAmerican customers. In the case of IPL, benefits to customers could flow through the energy adjustment clause. In the case of

MidAmerican, benefits to customers would flow through the revenue sharing mechanism approved in Docket No. RPU-03-1 and most recently extended in Docket No. RPU-07-2.

In the event IPL or MidAmerican decide to export TRCs by participating in M-RETS, they will need an authoritative basis for differentiating renewable resources used for meeting the Iowa AEP requirements from those resources available for TRC export. Without this, TRC purchasers in M-RETS would have no way of knowing whether a particular Iowa-based resource is being double-counted; that is, a renewable resource cannot be used to satisfy both the Iowa AEP requirement and, through export of TRCs, the energy-based RPS standard in another state.

AEP REPORTING REQUIREMENT

In order to facilitate voluntary M-RETS participation by IPL and MidAmerican, and to ensure compliance with Iowa's AEP statutory mandate, the Board issued an order in this docket on July 12, 2007, that required IPL and MidAmerican to each file reports designating specific AEP generating facilities (or fractional facilities), and associated capacity and energy production, that the utility exclusively dedicates to meeting its AEP requirements under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1). The facility designations were subject to Board approval.

IPL filed its report on August 13, 2007, designating the following:

A 62 percent fraction of the 80.3 MW "Buena Vista Wind Farm" (49.8 MW capacity and 117,833 MWH estimated annual energy production) contracted with Storm Lake Power Partners, located in Buena Vista County near Storm Lake, Iowa.

The capacity (49.8 MW) and associated energy production of this designated fractional facility matches IPL's AEP requirements under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1).

MidAmerican designated the following in its report filed on August 14, 2007, as amended on August 27, 2007:

1. A 42.3 percent fraction of the 112.5 MW "Storm Lake/BV Wind" facility (47.54 MW capacity and 117,047 MWH estimated annual energy production) contracted with Storm Lake Power Partners LLC, located near Alta, Iowa;
2. The 6.4 MW "DSM Waste Management" methane facility (54,677 MWH estimated annual energy production) contracted with Waste Management Inc., located near Mitchellville, Iowa; and
3. The 1.28 MW "Davenport Waste Water" methane facility (6,243 MWH estimated annual energy production) contracted with the City of Davenport, located in Davenport, Iowa.

The combined capacity (55.2 MW) and associated energy production of these designated facilities matches MidAmerican's AEP requirements under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1).

The facilities and associated capacities and energy production identified by IPL and MidAmerican satisfy their AEP requirements under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1). The designations will be approved. IPL and MidAmerican are reminded that any changes in these designations will require Board approval.

M-RETS PARTICIPATION REQUIREMENTS

To provide further authoritative basis for voluntary participation in M-RETS, the Board in its July 12, 2007, order invited interested persons to file comments on draft requirements for M-RETS participation by IPL and MidAmerican. IPL, MidAmerican, and the Iowa Industrial Energy Group (IIEG) filed comments.

At the outset, the Board wants to emphasize that any participation in M-RETS by IPL or MidAmerican is voluntary as far as Iowa regulatory requirements are concerned. As MidAmerican noted in its comments, there are other TRC tracking systems that may have greater value to MidAmerican's customers, particularly if the multiple identifiable attributes associated with renewable energy are unbundled; M-RETS currently issues certificates that bundle all the attributes associated with a MWh of renewable energy. In issuing M-RETS participation requirements, the Board is not seeking to mandate participation but to facilitate participation. IPL and MidAmerican are free to market their excess TRCs through other tracking systems. In the event Iowa adopts an energy-based RPS, the Board might need to revisit the issue of whether M-RETS participation should remain voluntary.

In its July 12, 2007, order, the Board set out four draft requirements for Iowa's investor-owned electric utilities that choose to participate in M-RETS. These were:

1. Register with M-RETS those AEP facilities and associated capacities designated by the utility for meeting its AEP requirement under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1), with the registration information identifying the facilities and associated capacities as such.

2. Transfer the M-RETS Certificates associated with energy produced from these facilities and associated capacities, to an M-RETS retirement subaccount specifically established to record the utility's compliance with its AEP obligation under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1).

3. Register with M-RETS those AEP facilities and associated capacities dedicated to the utility's Alternate Energy Purchase Program under Iowa Code § 476.47 and 199 IAC 15.17, with the registration information identifying the facilities and associated capacities as such.

4. Enter the net revenues from sale of M-RETS Certificates in account 447 of the Uniform System of Accounts if the utility has an energy adjustment clause under 199 IAC 20.9.

Initially, IPL raised a concern with requirements 1 and 3 because it could not determine how to identify the facilities and associated capacities using the M-RETS facility registration fields. M-RETS has since developed additional facility registration fields to accommodate this requirement. Information about the additional registration fields has been provided to IPL and it is the Board's understanding that the issue has been resolved. With this resolution, no one opposed the first three requirements.

Although no one opposed the first three requirements, the Board believes that requirement 3 as originally drafted was too restrictive because it would require a utility to register AEP facilities with M-RETS that might not otherwise be registered. Requirement 3 should only apply to AEP facilities that a utility chooses to register with M-RETS. In other words, if an M-RETS registered facility also happens to be dedicated to a utility's Iowa Code § 476.47 green power program, then the utility should be required to identify it as such in the facility's registration information, which will allow other state regulatory agencies to treat the facility's M-RETS certificates in

accordance with their specific requirements. The Board will change requirement 3 to read as follows:

3. For any Iowa AEP facility that is registered with M-RETS and is wholly or partially dedicated to the utility's Alternate Energy Purchase Program under Iowa Code § 476.47 and 199 IAC 15.17, identify the dedicated facility capacity as such in the facility's registration information.

With the above changes to requirement 3, the Board will adopt Requirements 1, 2, and 3.

No one opposed the fourth requirement, but IPL asked for clarification that "net revenues" would be M-RETS certificate revenue in excess of the utility's M-RETS participation fees and expenses. The Board will adopt IPL's proposed clarification and will amend requirement 4 as follows (changes underlined):

4. Enter the net revenues from sale of M-RETS Certificates in excess of participation fees and associated expenses in account 447 of the Uniform System of Accounts if the utility has an energy adjustment clause under 199 IAC 20.9.

The IIEG also offered comments on the fourth requirement. The IIEG noted that if MidAmerican decides to participate, the benefits of TRC sales revenues would be passed on to customers through MidAmerican's revenue sharing mechanism previously approved by the Board, under which the customers' share is used to offset allowance for funds used during construction and depreciation expense for coal, gas, and wind generating facilities. The IIEG does not want to undo the prior settlements that resulted in the current revenue sharing mechanism, but it does oppose the use of renewable-related revenues to subsidize coal and gas-based generation and is

concerned that utility costs could be recovered twice, first through utility base rates and again as offsets to TRC revenue.

The IIEG will have an opportunity to raise its concerns about using TRC revenue to subsidize coal and gas-based generation in the next docket that addresses the revenue freeze and revenue sharing settlement adopted in Docket No. RPU-07-2; the IIEG stated it had no desire to undo the current settlement. Similarly, the IIEG can explore whether TRC revenues are double counted in IPL's and MidAmerican's next full rate cases; double counting is not an issue now because neither utility recovers any M-RETS participation fees in base rates.

As suggested by MidAmerican, rate-regulated electric utilities that do not participate in M-RETS will be required to file on an annual basis, as part of their 199 IAC 15.11(3) report, a statement that they have not sold any TRCs or renewable energy attributes associated with energy produced from the facilities designated for meeting their AEP obligations under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1). This will ensure that all utilities continue to comply with Iowa's AEP purchase requirements and that the resources used for meeting these requirements will not be double counted elsewhere.

The Board recognizes, as noted by MidAmerican in its comments, that there is a difference between a utility's renewable energy purchases and production and the renewable energy used by its customers. To the extent a utility exports its renewable energy, either as a bundled product or in the form of TRCs, that renewable energy can no longer be claimed as renewable energy used by the utility's customers. The

Board's current reporting requirements in 199 IAC 15.11(3) and 15.17(5) relate only to renewable energy purchased and produced by the utility, not renewable energy used by the utility's customers.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The facilities and associated capacities and energy production identified and described in the body of this order, designated by Interstate Power and Light Company on August 13, 2007, and MidAmerican Energy Company on August 14, 2007 (as amended on August 27, 2007), as exclusively dedicated to satisfying the utilities' AEP requirements under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1) are approved. Any changes to these designations are subject to Board review and approval.

2. The following requirements are adopted for any rate-regulated electric utility that participates in M-RETS, either on a voluntary basis or pursuant to another state's regulatory requirements; specifically, an M-RETS utility must:

a. Register with M-RETS those AEP facilities and associated capacities designated by the utility for meeting its AEP requirement under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1), with the registration information identifying the facilities and associated capacities as such.

b. Transfer the M-RETS Certificates associated with energy produced from these facilities and associated capacities to an M-RETS retirement subaccount specifically established to record the utility's compliance with its AEP obligation under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1).

c. For any Iowa AEP facility that is registered with M-RETS and is wholly or partially dedicated to the utility's Alternate Energy Purchase Program

under Iowa Code § 476.47 and 199 IAC 15.17, identify the dedicated facility capacity as such in the facility's registration information.

d. Enter the net revenues from sale of M-RETS Certificates in excess of participation fees and associated expenses in account 447 of the Uniform System of Accounts if the utility has an energy adjustment clause under 199 IAC 20.9.

3. Any rate-regulated electric utility that does not participate in M-RETS must annually file a statement with the Board, as part of its 199 IAC 15.11(3) report, that it has not sold any TRCs or renewable energy attributes associated with energy produced from the facilities designated for meeting its AEP obligation under Iowa Code §§ 476.41 through 476.45 and 199 IAC 15.11(1).

UTILITIES BOARD

/s/ John R. Norris

/s/ Krista K. Tanner

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

Dated at Des Moines, Iowa, this 21st day of November, 2007.