

**GOVERNOR'S ENERGY POLICY TASK FORCE
MEETING MINUTES**

NOVEMBER 27, 2000

**IOWA UTILITIES BOARD HEARING ROOM
350 MAPLE STREET
DES MOINES, IOWA**

MEETING MINUTES

This Governor's Energy Policy Task Force meeting was called to order by Co-Chair Lee Clancey at 9:30 a.m. on Monday, November 27, 2000, at the Iowa Utilities Board, 350 Maple Street, Des Moines, Iowa.

MEMBERS PRESENT	MEMBERS ABSENT
David Hurd	Joyce Mercier
Lee Clancey	Lisa Davis-Cook
George VanDamme	
Roger Amhof	
Brenda Dryer	
Howard Shapiro	
Lana Ross	
Don Wiley	
Kevin Eekhoff	
Sandy Opstvedt	
John Sellers	
Kent McLaughlin	

Lee Clancey:

First thing on the agenda this morning will be the panel on consumer-owned utilities. With us are Roger Arthur, Dale Arends and Bob Swindell. We welcome you all this morning. What we have been doing is conducting our panels in an informal manner. Task Force members may interrupt you as you go along in order to ask questions.

PANEL DISCUSSION – ENERGY POLICY FOR IOWA

CONSUMER-OWNED UTILITIES

ROGER ARTHUR, PRESIDENT, ALLAMAKEE-CLAYTON ELECTRIC COOPERATIVE BOARD AND PRESIDENT, IOWA ASSOCIATION OF ELECTRIC COOPERATIVES BOARD

I want to thank you for the opportunity to meet with you. I have worked with several of the people in this room over the past two years. I am not an employee of the utility. I am first and foremost an independent businessman, a farmer. I farm in central Fayette County. I think farmers as a whole are excellent stewards of the land. I am a member/owner of several different types of co-ops. I am on the board of a supply/grain co-op and an electric co-op. I do believe very strongly in competition. Co-ops allow me as an individual to compete in the world we are in. Why were electric co-ops founded? In the 1930s when power lines were coming through for rural areas it was not economically feasible for investor-owned utilities to build in areas with low population density. The people in those areas with no power supply formed electric co-ops. They were built, owned and controlled by the co-op members. That is still the case today. Business platforms in co-ops are different than investor-owned. Co-ops are service driven. Electric co-ops are non-profit entities. Any extra money goes back to the owners.

From 1940 through 1976 rates for co-ops were set by the local boards--1976 through 1986 the Iowa Utilities Board approved rates set by local boards--1986 to present rates are set by local boards, member-consumers or the local board may vote to have Iowa Utilities Board approve rates set by local board. The reason the rate regulation went back to the local boards in 1986 was that both the Iowa Utilities Board and Legislature felt it was an unneeded layer of regulation.

The flyer in your packets "How Iowa Electric Cooperatives Work for You" will help you follow the co-op business platform. Co-ops are formed and owned by the members. Each member has a vote in electing a Board of Directors. The Board of Directors generally serves without pay. The electric co-op is owned by the consumers that buy its electricity. The principle task of the Board of Directors of an electric cooperative is to supply its members with safe, reliable power at reasonable rates. The electric co-op buys electricity from a larger, power-supply cooperative. Power-supply cooperatives are often referred to as generation and transmission cooperatives. The Board of Directors is directly responsible to the people who elect them. The emphasis is on service.

David Hurd:

Do you see any capacity problems with your organization in the next few years where you won't be able to supply all the demand?

Roger Arthur:

Speaking personally, I think that is definitely one of the problems. I think the need for more power is going to be a major issue this Task Force will discuss. If it is not built in the state, it will have to be imported. I am part of the Dairyland system. Dairyland has distribution co-ops within Iowa, Wisconsin, Minnesota and Illinois. There are 27 distribution co-ops that joined together to form Dairyland. That is one of Dairyland's major concerns. They are trying to get a couple of new generation units on-line. This is also a concern of the G&Ts within the state of Iowa itself.

George VanDamme:

I will probably ask all on the panel the same question. How are you planning to solve those problems?

Roger Arthur:

I would ask that Dale Arends answer that question.

Dale Arends:

It may be better to ask that question after I finish my presentation. I have a couple of comments with regard to how we are planning for it. That may answer your question.

Kent McLaughlin:

If I understand your brochure correctly, each local co-op owns its own sub-station and transmission lines within that area?

Roger Arthur:

It may vary as far as sub-stations; your G&Ts may own some of those. The sub-station may either be rented or owned by the local distribution co-op. It is all a part of the big family of co-ops. Co-ops do own their own transmission lines. Bob Swindell may be able to address that a little better.

Bob Swindell:

I would just like to point out that the transmission system that Iowa operates on is an inter-connected system. I am the general manager of Access Energy Cooperative headquartered in Mount Pleasant, Iowa. Our G&T owns their own transmission and sub-stations. We also have sub-stations that are being served from Alliant's transmission facilities in southeast Iowa. When you get on the transmission level, everyone is operating on an inter-connected system, in that the electric co-ops, municipals and investor-owned utilities are using that one resource.

Lee Clancey:

Does anyone have any other questions?

BOB SWINDELL, GENERAL MANAGER AND CHIEF EXECUTIVE OFFICER, ACCESS ENERGY COOPERATIVE

We serve in parts of 10 counties in southeast Iowa. Our responsibility is to deliver power to the homes and businesses that we serve. The handout you have in your packets deals with electric cooperative distribution reliability. We are consumer-owned and directed. I think this is important from a reliability standpoint that our directors are customers of the system. They set the policy and budgets for the co-op. The customers are in charge of setting the budget and policies on reliability. Another thing I would like to

point out is that we do operate on a non-profit basis. This eliminates us from the conflict that exists between shareholders and customers in some businesses. There is not a conflict between whether a shareholder gets a dollar in return or a customer gets a service and benefit. Distribution system reliability requires two things. It requires planning and it requires implementation of that plan. I will talk about three areas of reliability planning this morning.

First is the power requirement study. Distribution co-ops do a power requirement study to project the load on their distribution system. This determines the amount of generation that we forecast we are going to need in the future. These plans are scheduled to project over a 10-15 year period in the future how our loads are going to grow. Often these are performed in conjunction with your generation and transmission co-op.

Second is the construction work plan. These determine the amount of construction we anticipate we will need to perform in the next 2-4 years. To provide reliable electric service is one of the main goals of this plan. It also allows us to determine annual construction budgets and schedules. We can then anticipate what our capital requirements will be over the next 2-4 years.

The third piece is the operations and maintenance plan. As a rural electric utility service, we are required to file a Form 300 with the Department of Agriculture. This document outlines our maintenance goals for our system. It also includes certain standards we must meet or it puts us in violation of our loan covenants with the Department of Agriculture. It is also a system to evaluate how well you are performing that system maintenance.

There are implementation plans for all three of these planning schedules. The first is the power requirements, our system is growing and the fellow cooperatives that make up of G&T family are growing. Our power requirement study is showing a need for new generation. In the last 4 years our G&T, Associated Electric in Springfield, Missouri, added 950 megawatts of new capacity to meet that project load growth. We have another 500 megawatts that is presently under construction. It is scheduled to come on line summer of 2001 and summer of 2002. Our long-range planning shows that this generation will carry us through until around 2010. To give you an idea of our construction work plans. This includes building new lines and the upgrading of existing lines. A typical electric co-op distribution plant system grows about 4.5% per year. That averages out to about \$644,000 a year going into building new plants. That is on a typical system that has about \$13 million worth of plants to begin with. Electric co-ops in Iowa tend to be small, averaging about 3,500 customers per co-op. Our customer growth is at only 0.74%. Most of that new plant growth is going into upgrading facilities we already have in service. Some of it is going to serve new load, but our plants are growing much faster than our number of customers. I think it is reasonable to assume that this is going into plants that already exist. We also maintain our system beyond building new ones. The typical co-op is spending about \$562,000 on maintenance projects, which averages \$160 per customer per year. This is for things like trimming trees and replacing poles, which is routine maintenance that is required when operating an electrical system.

We are customer focused. Reliability to our customers is up there on the priority list. Our board prioritizes our duty as one to operate a safe reliable system, then an affordable system. Customers want reliability and will trade that for a few pennies in price. We are planning for this reliability issue. We have a process to analyze what our requirements are going to be. We plan for upgrading our existing system. We budget annually to maintain these systems.

Dave Hurd:

Do you have any problems in getting the capital that is needed to do these upgrades and expansions?

Bob Swindell:

We are fortunate that our capital comes from two places. We operate on a non-profit basis; but we do retain earnings and reinvest them in upgrading our system. We are able to finance construction projects through the Department of Agriculture, Rural Utilities Service (RUS) program and our own cooperative finance corporation, CFC, which is owned by cooperatives throughout the United States. We are also able to access Co-Bank. Those are the four primary sources of funding for construction. Maintenance is an expense that comes directly off the electric rate.

Howard Shapiro:

Your total capacity is what in the G&T?

Bob Swindell:

Our G&T have peak demand of approximately 3,800 megawatts right now. That includes the 950 megawatts that were added in the last four years. It does not include the 500 megawatts we are building. On September 1, 2000, the system peaked at 3,900 megawatts.

Howard Shapiro:

Is part of your plan that you will have excess capacity that you could sell?

Bob Swindell:

What we are building for is to meet our requirement needs now. There are four or five hours out of the year when you are hitting that peak, the rest of the hours you are not on that peak. Sure we are going to sell capacity into the market. Our G&T does sell capacity.

George VanDamme:

Do you belong to MAPP or MAIN?

Bob Swindell:

In Iowa we would be in MAIN. The G&T is part of the Southeast Reliability Council. They operate in both reliability areas.

George VanDamme:

Are you required to keep a reserve margin of capacity?

Bob Swindell:

Yes

George VanDamme:

Is that about 17% reserve in MAIN?

Bob Swindell:

Yes

Roger Arthur:

Dairyland is in the MAPP area.

DALE ARENDS, EXECUTIVE VICE-PRESIDENT AND GENERAL MANAGER, CORN BELT POWER COOPERATIVE

Corn Belt Cooperative is a G&T. G&Ts are the wholesale provider for the distribution co-ops that serve the retail customers. We serve 27 counties in north-central Iowa. I will try to give you a general overview of how we do generation planning at the G&T level of the cooperatives. From the generation perspective the G&Ts serving in Iowa are required to have enough generating capacity to serve all the needs of members and have 15% reserve margin. These requirements are dictated to us by MAPP of which Corn Belt Cooperative is a member. We do power requirement studies in order to determine our members' needs. Those power requirements studies are load forecasts that take into account area economies, weather patterns, appliance saturation, new or projected industrial loads and the price of competitive energy. All of this data is then input into an econometric model to get the load forecast of what our estimated needs for generating capacity is for the next 10-15 years. We then do a sensitivity analysis to see what impact there might be on the forecast, should any of our assumptions be incorrect. With this information we will then make a decision of what our next source of generating capacity might be. The Corn Belt Cooperative is a borrower from the RUS. One of the RUS requirements is to have an up-to-date and approved power requirements study on file at all times. The power requirement studies not only look at what our future generating capacity might be but they also support any loans that we might obtain from the RUS. Once the forecast is completed, we then try to match the increased need for generating capacity with a strategy for adding that capacity. We look not only at what additional generation is needed but also at what type of generating capacity we will need. This strategy will review load duration curves. This takes a look at how much energy will be needed out of each generating facility. Based upon the generating capacity study and the energy study we can determine what type of future generating capacity and what our alternatives are for adding that. Our latest power supply study was completed in 1999. In this study, based upon the load forecast, power requirements and energy requirements, we investigated all of our alternatives for producing the amount of energy and capacity that our members will need for the next 10 years. The things we looked at in this study were purchasing capacity from others, building our own facilities, and we looked at putting distributive generation units through our system.

Dave Hurd:

Did that factor in what you might get by doing energy efficiency work?

Dale Arends:

Yes, we looked at all the energy efficiency. It comes more on the energy part of it than the capacity part of it. We also looked at renewable resources on the energy side, not the capacity side. We factor all that in to see what we might get in those areas. All those are factored into the econometric log.

We then evaluate all the alternatives available to us. We place a price on those alternatives. That ends up being what dictates the decisions of our Board of Directors. They will make their decisions on what source of power they will use in the future. We have done this procedure for many years at Corn Belt Cooperative. It is not a simple process. Many times our plan has had to be a joint plan with other utilities. In the past, we have worked on other generating facilities with our fellow utilities in the state of Iowa. Corn Belt Cooperative is involved in three generating units in Iowa which are owned by investor-

owned utilities, municipal utilities and cooperatives. We have worked well with our fellow utilities in planning generation for the state of Iowa. I may caution you that there is a great deal of uncertainty in our industry today. It is getting much more difficult to make power supply decisions. Lead times on some types of generating facilities are as long as ten years. With short planning horizons in our business today, those types of generation alternatives are no longer practical based upon the fact that we can no longer plan that far in advance anymore. I have been very general in my comments on generation. I can assure you that the process for adding generation on the G&T level in Iowa is a very detailed and challenging process. The decisions we are making for up to ten years in the future have an impact on our members who are also our owners.

The other issue I want to talk about is transmission. When I refer to transmission, I am talking about those lines that carry 69,000 volts and above. Transmission can be thought about that kind of line that delivers large quantities of power to sub-stations. It is at the sub-station that the co-op will pick that power up and deliver it to the consumer. We generally plan our transmission on two criteria. One is a new large industrial load. That is something that comes up periodically that we have to provide transmission for that load on a case-by-case basis. When we are requested to supply power for a new large load in our area, we analyze the power requirements and load patterns for that load. Then we plan the necessary transmission and sub-station facilities required to serve that need. We use computer models and do load flow analysis in order to reduce the impact system of other utilities in the area. The second type transmission planning is the on-going type planning that we continuously do because the circumstances within our system do change from time to time. We are constantly trying to evaluate what our transmission system needs will be from a reliability standpoint. The key for us is the fact that we look very carefully at the reliability of our system. One of the things we do each year is sit down with our counterparts at Alliant and MidAmerican to jointly plan our systems together. It does not make sense to duplicate facilities where it is not necessary. We can also take advantage of other system strengths to improve reliability. I can point to many instances that loads that are served by Corn Belt Cooperative come off of either Alliant or MidAmerican facilities or vice versa. Joint planning is important in Iowa. We are very fortunate in Iowa that the utility systems work, plan and get along very well with each other. To further coordinate our transmission system in Iowa, we participate in the transmission working group. This group presents the transmission plan for Iowa to the MAPP planning sub-committee. This transmission planning sub-committee then assembles the overall MAPP that is submitted to the regional transmission committee. We also participate in the MAPP reliability studies committee. This committee is responsible for the MAPPs ten-year transmission forecast. This committee also oversees MAPP outage reports, reserve margin requirements and the modeling process. We have a representative on the National Electric Reliability Council (NERC) planning committee. This committee oversees the planning, studies, model billing and the reliability assessments for all the North American Electric Reliability Council in the entire United States. We will also have a member on the newly created NERC Adequacy Issues Task Force. This Adequacy Issues Task Force will look at the difficulties of expanding the existing transmission system and propose potential solutions. Corn Belt Cooperative has been heavily involved in transmission planning. We believe that a solid, reliable transmission system is the key to future reliability. We have been fortunate in the past to be able to work with all phases of the utilities business in Iowa to plan a system that has operated reliably and efficiently. However, we are beginning to question whether this process can continue in the future. More and more of the decisions are being removed further from the people that are really impacted by them. I would like to thank you for the opportunity to be here. I hope I have given you some insight into generation and transmission planning. I assure you that the G&Ts in Iowa will continue to work to provide a reliable and safe system for our members.

DISCUSSION OPENS UP FOR QUESTIONS TO ALL THREE INDIVIDUALS ON PANEL

Roger Amhof:

You mentioned in your load planning analysis that you paid attention to prices of other types of fuel available for home heating. Would the reason be that when the price goes high that people tend to move to electric?

Dale Arends:

Yes, most of the heating in our primary area, which is rural, is basically propane with some oil. I think the last statistics we ran on our system showed about 14% used electric for heat. If you see a big swing in propane prices, you might see that shifting if our electricity prices are steady or going down. What happens if propane goes up to double what it is today? What will that translate into electric heat for us? We have to factor that in.

Roger Amhof:

Have you seen any kind of indication that is happening?

Dale Arends:

We keep getting asked that question, "Are you seeing a lot of new electric heat?" The answer to that is that we haven't seen it yet, but we haven't had a lot of heating days yet.

Roger Arthur:

I believe when LP gets up to \$.70 per gallon consistently for an extended period that it becomes more economically feasible to switch to electricity.

Lee Clancey:

Can you give me a ball park number of what percentage of your generation capacity is generated from your own facilities and what is generated from capacity that you buy from other sources?

Dale Arends:

Corn Belt Cooperative owns all our own capacity. The Duane Arnold Energy Center is jointly owned. We own 10% of that plant. It is owned by Alliant, Central Iowa Power and us. The Neal 4 unit in Sioux City and Leon, we own about 12% of that. Council Bluffs #3 is owned by many utilities, we own about 4% of that. So we own all our own generation. Especially the three coal fire plants we can call and have them operate how we want them to. Bottom line is we get about 80% of our energy from those resources. We do have an allocation of hydropower from the Missouri River which provides about 10%. The balance comes from all the other sources we have.

Howard Shapiro:

In terms of capacity planning, I know that Corn Belt Cooperative in that past has been involved in promoting, for example, ground source heat pumps. I am wondering if you are still looking at those types of strategies? Do you have time-of-day pricing, seasonal rates?

Dale Arends:

Yes, we have all of the above. I think in today's world we have to provide for those sorts of things. We have interruptible rates, time-of-day rates, contract rates. There are many different rates available to our members. They can select which ones of those works for them. Keep in mind when I say our rates, those

are the rates we charge the distribution co-op. The distribution co-op must dovetail that in some fashion on their own system. Our rates go to the distribution co-op. Corn Belt Cooperative has 11 distribution co-ops. We send out 11 bills in a month. Those rates are available if the distribution co-ops want to use them.

Howard Shapiro:

Do they help you in terms of avoiding additional capacity?

Dale Arends:

They are all designed to help do that. Interruptible rates are great in concept but our experience has been when someone calls the customer at 2:00 p.m. in July to tell them to shut off, they are not very excited about it, but they will do it. They have mixed results is the best way to put it.

Brenda Dryer:

Bob Swindell shared with us what his G&T is planning to add for generation. Can you give us an idea what Corn Belt Cooperative is doing?

Dale Arends:

Corn Belt Cooperative is growing and looking at additions. That is the reason we did a power supply planning study. We have a small coal-fired facility in Spencer, Iowa, which was built in the 1960s. This plant is not very efficient so we don't run it a lot. The bottom line is that we do need some more capacity. We are looking very seriously as a result of this power supply planning study, of adding a combustion turbine at our Wisdom facility outside of Spencer. We will be adding that sometime in the 2005 time frame once we get all the approvals. We are doing this in conjunction with another utility. Primarily, one factor why it is going to end up there is transmission. The transmission issue is one area which is becoming very difficult for utilities. Sometimes there are roadblocks to where facilities are located. This is getting back to the philosophy of not burdening other utilities with what you do. If you would put a generator at a certain location in our system, it would overload the transformers in Omaha. We are not allowed to do that. That is one of the other things that entered into our decision in locating this plant where it is, transmission.

Don Wiley:

When we think about energy in Iowa do you think the major focus needs to be on generation or transmission? Does one of those two present more of a problem than the other?

Dale Arends:

My response would be both, but maybe lean more towards transmission. The reason I say that is, if you have the right transmission you can build a unit anywhere and get it delivered. On the other hand, I think you have to be able to do both. I don't think you can depend on a long transmission line. You have a plant over here and there is a transmission line that is 200 miles long. If that line goes down, that plant does you no good. You have to combine the two in some logical fashion.

Don Wiley:

We are not an island. All three of you are talking about different states. We have to have power coming in as well as going out. However, we are beginning to question the process as we move away from the

people that make the decisions. The process we have had for the last few years working on transmission lines and working with each other, do you feel that is in danger of breaking down?

Dale Arends:

I think there is some risk in that. We have done joint planning with Alliant and MidAmerican for years. The system has worked very well. But, for some reason, there are problems with the transmission system today. What has caused that? I cannot tell you that I know why. But, I can tell you that regional transmission organizations and some of the other things we are being required to consider become a bigger transmission planning issue in which the decisions will not be made by us. A regional transmission organization or some other entity, whoever that may be, will make the decisions. Some of the methods that seem to have worked in the past I am not sure will work in the future.

Roger Arthur:

I have just one other point regarding this present question. There are seven G&Ts in Iowa. All of them are dealing with the same thing. This is not just affecting the two that we have heard from today.

ENERGY POLICY AND RELIABILITY

BOB HAUG, EXECUTIVE DIRECTOR, IOWA ASSOCIATION OF MUNICIPAL UTILITIES

I am here today to present the views of the Municipal Utilities Association. Our job is to represent municipal utility interests before the Legislature, state and federal regulatory agencies. Like the Task Force members, we are in a learning mode, observing what is happening in other states and trying to draw some conclusions from that. Most of our concerns are still in the form of questions rather than conclusions. Iowa has more municipal utilities than any other state. Seventeen of our member utilities have been in operation for over a hundred years. Municipal utilities own a little over 1000 megawatts of generating capacity, 602 megawatts of base-load coal generation. Twenty-five of our member utilities own coal-fired generation. Most of that is jointly owned with other utilities. Eighty of our member utilities own internal combustion, peaking generators or combustion turbine generators for peaking purposes. Many of them who own generation can cover their own loads so that they can buy energy in the wholesale market on an interruptible basis. Eight municipal utilities own wind turbines including seven that jointly own and operate a wind farm near Algona. Municipal utilities account for 13.4% of the retail sales by 1999 figures.

Municipal utilities are established by election. We are governed by City Council or a Board of Trustees appointed by the mayor or city council. We are locally governed because we are part of the local government. Regulation is through represented democracy. Bob Swindell talked about the differences between consumer-owned utilities and investor-owned utilities. There is no conflict in consumer-owned utilities, like the municipals and co-ops, between owners of the utilities and the customers; they are one and the same. Consequently, there is not the need for external regulatory authority over those consumer-owned utilities. The rate chart illustrates that. If municipal utilities need external regulations, there would not be a 37% spread in our rates. If decisions were being made on behalf of the cities, separate from the consumers, our rates would be a lot more like the rates of investor-owned utilities. We need municipal utilities because neither markets or regulations are perfect. Municipals provide a competitive yardstick to check market and regulatory failures when we provide a credible threat of displacing another form of utility. That force is very powerful in making the other utility more efficient. The threat of

displacement by public utilities is a more important force than regulations in controlling the rates of investor-owned utilities. I think you can see that too in the development of municipal telecommunications utilities. A number of cities have held elections to establish telecommunication utilities. They have not moved forward in many cases but have established the credible threat to pressure the higher level of service from the incumbent utility. I think we need municipal utilities because they are models of local control.

Our concerns about reliability are numerous. We wonder if the failure of the wholesale market in California is an omen. Will there be enough electric generation and transmission capacity built? Are there too few competitors in the market? Can manipulation of the market be stopped? Will there be too little fuel diversity in new generation? Can we make progress in developing regional transmission organizations? How can reliability be priced on a system not designed to provide customer reliability?

I serve on the Board of Directors of our national affiliate, The American Public Power Association. We heard some presentations that really changed my thinking about what is going on. There are two assumptions behind what California has done in restructuring their electricity industry. First, is that the restructured industry could deliver reliability that was equal to the level of reliability under the old system. Second, competition for generation will bring greater efficiency to the generation market and bring prices that are market based. The reality is somewhat disappointing in terms of reliability. This year alone California has had 35 days with system emergency alerts, 35 stage-1 alerts, 20 stage-2 alerts, and 1 stage-3 alert with rolling blackouts. There are also some pricing concerns from California. The investor-owned utilities in California are required to purchase wholesale supplies from the California Exchange. In 1998, the annual average price of that power was 2.6 cents per kilowatt-hour. It went as high as 18.7 cents per kilowatt-hour in August 2000. Utilities are capped on their ability to recover those costs. Something in excess of \$3 billion is waiting to be billed at some later date. San Diego Gas & Electric is an exception to the rule in California. It has completed divestiture on cost recovery, so it is no longer subject to the same price caps. Rates paid by consumers of San Diego Gas & Electric in 1999 included 3.5 cents per kilowatt-hour for the average wholesale generation costs, in 2000 the rate was 21 cents per kilowatt-hour.

Market power is the ability of a competitor to collect monopoly prices for a sustained period of time. Traditionally that is measured in terms of concentration of how many competitors are there in the market place. When there are fewer than five competitors, there is a risk of market power. California shows that electricity markets are subject to transient and location market power.

There are a number of unintended consequences. There is a disconnection between supply and demand. Electricity prices have increased in neighboring states. Utility crews have been attacked. Utility executives are under close security due to bomb threats. Environmental policy and competitive generation may not be compatible. The market does not reward fuel diversity.

The California issue is and is not an aberration. California is an aberration in the respect that the population grows by 600,000 persons per year. That is more than the total of Iowa's population every five years. California legislation is a model of errors. California is not an aberration in the respect that New York is California waiting to happen. Montana and Connecticut are also at risk. Connecticut needs 6,000 megawatts of generation. It has a 4,000 megawatt generation capacity. This leaves a 2,000 megawatt import capacity. This market will not work.

The current transmission regulations do not support either a wholesale or a retail competitive market. California clearly demonstrates the susceptibility of our industry to market power. It is a system designed to deliver generation to customers of the owner of that generation. Making retail or wholesale work over that system is a very difficult trick. Like California we have transmission constraints. MAPP has defined 12 constrained areas in our region. Fundamentally, California's problem is the Not In My Backyard (NIMBY) problem. Nobody wants a power plant or transmission line built by their home or business. I think this is an issue everywhere, not only in California.

How do we get wholesale competition over a system that is not designed to provide it? How do we get progress on developing regional transmission organizations? We are not sure where the regional boundary lines will be. There is a proposal to build a regional transmission organization by public power entities and co-ops called Crescent Moon. This would include the federal transmission facilities that the Western Area Power Administration (WAPA) operates primarily in the Dakotas but in some areas of Iowa. If that regional transmission organization develops separate from what takes the place of MAPP, we would have a situation where we would have load on one side and generation in another. The rate pancaking possibilities there are really scary. Can we mitigate constraints within the transmission system without giving away the store? How do we avoid new forms of rate pancaking? I previously mentioned the seven municipal utilities jointly own a wind farm near Algona. The wind farm is located on the distribution side of Algona's system. Consumers inside Algona utilize generation from the wind turbines. It does not go over the transmission line, which is fortunate because as it turns out, we can produce electricity from that farm for about 2 cents a kilowatt-hour. For Cedar Falls, one of the owners of the wind farm, to take delivery of energy from the wind farm puts the delivery price at 12 cents. You have to take it over the Algona distribution system, Corn Belt Cooperative system, then over the MidAmerican system. That is the kind of rate pancaking that has us concerned. We are not sure where the regional boundary lines will be. Our transmission wish list for the short-term is progress in relieving current constraints and greater regulatory authority to ensure comparability. For the long-term, we need a strong and broad regional transmission organization. It needs to be all-inclusive; needs to be independent; needs to be strong with a fast-track authority to fine and punish anti-competitive behavior. Then finally, ideally, we need a system where there is no common financial interest between transmission and generation owners.

Lee Clancey:

I understand the whole concept of open access to transmission capability. I am curious about the term pancaking. How would you propose rates being set if you are going over several different transmission provider areas?

Bob Haug:

The important thing is to have a broad regional transmission area defined.

Lee Clancey:

That means a lot of capital outlay to build that, right?

Bob Haug:

No, it means defining a regional transmission organization that is large in area.

Lee Clancey:

Who does that?

Bob Haug:

The Federal Energy Regulatory Commission ultimately approves the regional transmission organizations. You may have heard about MAPPs plan to merge with MAIN and then fold into what is supposed to be the Midwest Independent System Operators (MISO) system. There seems to be some sense that it is kind of imploding. Commonwealth Edison has announced that it will go with a for-profit Transco that is east of our area. Illinois Power has given notice to pull out. There is some concern as to what kind of entity will replace the MAPP/MAIN. Whatever replaces it needs to be broad enough geographically to limit the number of layers of pancake rates that a customer can have.

With respect to generation, we wonder what impact less-stringent reserve requirements will have on regional reliability. Nominally, the MAIN reserve requirements are higher. There are no penalties that are attached to them as there are in MAPP. I think most people view MAIN as having less stringent reserve requirements. There is always the questions as to who will build the generation reserves when we have seen in California that marginal scarcity in generation will produce monopoly prices. That question has yet to be answered. Another possibility will be that we will go through cycles where we will have limited capacity and in all likelihood be the exercise of market power. The domino will fall, we will have a period of market-based rates. It could be very cyclical. We believe that generation costs will go up substantially in the coming years and that they will be much more volatile. Some of the reasons that lead us to that conclusion are: new generation is going to be gas fueled; gas prices will rise to meet higher production costs; gas transportation costs will rise to meet higher demand; costs will rise to reduce environmental impacts; opportunities for monopoly pricing will be found; and price spikes will become common place. How much higher will generation go? Right now in Iowa our generation costs from steam generation are about 1.4 cents. If new baseload generation comes on in 2006, generation costs are likely to be as high as 4-10 cents per kilowatt-hour. We do not think there will be a lot of new coal generation. It will be difficult to obtain the air permits to do it. Most units to go in will probably be combined cycle gas units. A 250-megawatt combined cycle operating 90 percent of the time, assuming gas is \$10/MMBtu, will cost about 8.7 cents per kilowatt-hour. With gas at \$12/MMBtu, it will cost 10 cents per kilowatt-hour.

Dave Hurd:

What is the gas price currently?

Bob Haug:

Gas price on the spot market is around the \$5-6 range. That does not include transportation. I am talking about delivered MMBtus so you would have to add something to that.

Policy implications of the higher priced energy are separating consumers from the low-cost generation that was built to serve them will have enormous financial impact. Low-income assistance levels and program participation rates will need to increase. The value of demand site programs will increase. There will be a lot of short paybacks when the residential consumer is paying 18 cents per kilowatt-hour compared to 6 cents per kilowatt-hour currently. Renewables should play a larger role. Our generation wish list is advancement of clean coal technology, reasonable siting possibilities for coal units, renewables with fair cost of delivery, municipal joint action authority to secure longer-term contracts and/or ownership in diverse portfolio. I would say that our energy policy needs to include attention to physical and market structures that enable a robust wholesale market. Although much of the burden for that falls on the federal government, there is a role for the state to play. The Iowa Utilities Board needs to be active in the regional transmission organization development. The Board may need authority to direct entities into a regional transmission organization.

PANEL DISCUSSION – ENERGY POLICY FOR IOWA

INVESTOR-OWNED UTILITIES

Lee Clancey:

Now with us we have the panel for investor-owned utilities. Eliot Protsch, President, Alliant Energy-IES Utilities, Inc. and Ron Stepien, President, MidAmerican Energy. We welcome both of you. We appreciate you sharing your insights with the Task Force.

ELIOT PROTSCH, PRESIDENT, ALLIANT ENERGY-IES UTILITIES, INC.

Copies of my presentation are being distributed. This is an important undertaking you are all involved with. I appreciate you taking it seriously. As you have no doubt heard in your previous meetings, there are a lot of opinions as to what is going on in this industry and what it should look like going forward. In order to have more discussion versus talking at you, I will try to go through my prepared remarks quickly. Let me give you the points that time will probably not permit me to make up front. We believe that it is time to put some iron in the ground in the form of transmission lines or power plants to meet the needs of our customers in the upper Midwest. Not much has been built in the last 10 years for many good reasons. The time is approaching where facilities need to be constructed. Our company believes that there is a need for greater incentive for regulated utilities to invest money in generation plants if it is to be done in a traditional based rate asset as opposed to contract in the open marketplace for generating capacity which we have been doing. The next point I would make is that energy efficiency, renewables, energy investments, and new technologies will play a role in meeting the needs of the future. They will have to be supplemented by what we have traditionally relied upon. It cannot achieve the objective by themselves. We also believe there is a need for greater incentives to be applied to these areas as well to stimulate more investment. The final point is in view of what is a pretty significant gap between prices on the margin for peak electricity and what has been built and is in our rates today. The difference between those two is so significant that it may be we need to look at our rate design to send better price signals to customers. We are not charging 27 cents per kilowatt-hour during those few hot summer days for people to run their air conditioners. The signal we are sending them is “Turn it up, its OK.” That is perhaps a subject for another day.

Iowa’s current situation for electric demand continues to grow. We believe that the municipals, co-ops, and investor-owned utilities have built a strong system here in Iowa. We need to continue to maintain it. It is getting old. That age is somewhat a function of the fact that we haven’t built much in terms of the transmission system because it is very difficult to build. We have been working off the investments of the past. Our distribution system is in somewhat the same situation, responding to low growth and we are adding new infrastructure all the time in these areas as well as conservation, renewable, and distributed energy resources areas. We believe that we should not focus on any one solution to closing any of the gaps we have with respect to the need for more generating capacity in Iowa. We want to continue to use a portfolio approach. We need to balance the positive and negative aspects of all the various supply and demand alternatives. When you look at air quality concerns associated with coal, high-prices associated with gas, political challenges associated with building new nuclear plants continued evolution of existing nuclear plants... we are going to need to balance all of that going forward. We believe that we should apply incentives to supplement current technologies with new emerging technologies like fuel cells, micro-turbines, sterling engines, and new battery technologies that are just beginning to enter the

marketplace; but are no where near in sufficient quantities or economic form that will make a difference in the next five to seven years. Most of all as we go forward, we cannot forget about the customer's perspective. Are we providing the right price signals? Are we working effectively with our customers to help them manage their energy needs? Are we going to rely on markets or regulation or some hybrid combination of the two? I think through your comments, deliberations of the Task Force, and materials prepared by the Iowa Utilities Board that there is a need to build a new generating plant some where in the Midwest. We would like to see plants built in Iowa. It is a good economic development opportunity for the state. It could be sited to enhance the transmission system. There is some work being done on the policy side to streamline the siting process for generation and transmission. I think Iowa also has to recognize that it is not automatic that Iowa would become an attractive place for capital to be deployed in this industry. There are things we can do to attract capital to the state in the transmission and generation areas if we choose to do so. Who should build these plants? When you look at what is going on across the nation, most of the new power plants are being built by independent power producers. You might also hear of them being referred to as merchant plants. The entrepreneur or the unregulated generating company builds a plant and contracts with the utility to sell energy into the grid. Without getting into a long dissertation as to why that is happening, there are two themes to keep in mind. These people are competing in the capital markets for money to build these plants. They perceive and the stock market perceives that they are enjoying a higher rate of return on those investments than your traditional utility. That has implications for us because we compete in those same capital markets for capital to build power plants. Given a choice, IPP or rate-based plant, if one enables the shareowner to earn more money than the other, the capital will flee to where it gets the greatest rate of return. Whether you are a municipal, cooperative or investor-owned utility, that is the reality when it comes to raising money for new generation investments. That is something we are grappling with in our industry, working with the Board and others. We are subject to regulated rates and depreciation schedules. We have expertise, a track record and an obligation to serve. We would like to use all of that to meet our customers' needs for energy going forward and at the same time reward our shareholders for the capital that we would deploy in this part of the business. Our policy recommendation in this area is that financial treatment for utilities should be consistent with independent power and merchant plants so that it should not make any difference whether we build the plant or an IPP builds the plant. The same rate of return on that capital is enjoyed by both because we compete in the same market place for that capital.

Dave Hurd:

What does it take to cause that to happen?

Eliot Protsch:

I don't think there is anything in the Iowa Code or Administrative Rules that would preclude us from building a power plant through our unregulated affiliate and contracting back with the utility; provided of course, that it would pass affiliated interest test and be construed to be an arm's length transaction. Which in essence, means we would go out for bids and take the lowest price that would be available to us. If it happened to be our affiliate, great, if it happened to be MidAmerican, Utilicorp, NRG, Southern Co. Duke, Florida Power & Light or Joe's Generating Co., the consumer should be indifferent as long the most competitive price was obtained. In theory, in competitive markets when you have many bidders, the price is bid to a point where you would think it would even be lower than what you could earn as a regulated utility. A lot of what is going on in the market today is based on perceptions on where future prices are going. We are proud at Alliant Energy to be a part of Iowa's renewable energy accomplishments. About 2% of the electricity we sell comes from renewable energy. I don't think the wind industry and other technologies would be as far along if it were not for the stimulus that Iowa's utilities, as a matter of public policy, have given to this industry. The prices were higher than

conventional generation but because a demand was created, technology moved forward and investments were made. These technologies can continue to play an important role. The challenge we have, as you probably know with wind, solar and some of the other technologies, they are not as dispatchable as power plants where you can shovel in more coal, turn the gas valve a little further and produce more electricity. We cannot make the wind blow or the sun shine any more than mother nature meant it to. We have to incorporate that into our supply picture. That is a challenge but we have found a way to do that to some extent. There are many opportunities in going forward with renewable energy. I just want to hit on the policy recommendations here and that is we believe there is an opportunity to apply more market forces in this area to find out whether or not the consuming public would like to have more of their energy represented by renewable forms than maybe what the law or public policy currently suggests. Why don't we let them choose? Why don't we offer choices to customers in the form of making a selection on your bill, a pricing menu? Our company has a proposal in front of the Board to do just that. We are hopeful that we will get a chance to put that out into the marketplace.

A great deal of money has been spent on energy efficiency accomplishments. A great deal of infrastructure has been constructed, both within our companies and market. This improves the use of our product. We believe more can be done here as well, but perhaps more done in the way in which the programs are designed and operated opposed to spending more money. The focus should be how do we get the most out of every dollar spent in this area. Our company believes that a greater use of incentives would help us move toward that.

I just want to say a little about distributed resources. This is one of the hottest areas in the market these days. Companies that produce fuel cells, micro-turbines, battery storage and fly-wheel technologies have had billions of investment capital are going to develop some of these technologies. I am amazed by that because the economics for these technologies are not yet cost effective. What is really driving this is the need for reliability. Our grids have a 99.9% reliability, which is what our grid central station transmission distribution electric power is designed to deliver to the customer. This statistically means that you are apt to have an outage once a year for 8 hours. Internet server farms and the microchip economy want to have 99.99% to 99.9999% power of reliability. This is an outage of approximately 30 seconds. Clearly, no matter what kind of technology we might deploy on the grid, absent putting generation or storage closer to the customers, cost-effectively we could not meet those kind of numbers. These technologies are getting a big push in the marketplace for the need of reliable power. It is conceivable in 5-7 years that we will be in a position to deploy these devices out near the customers use area. The theme I want to leave you here with today is that Alliant Energy wants and expects to be a part of that market. Therein lies the policy issue. Are these appliances or are these a part of the electrical infrastructure that should be incentives such that they can be deployed along with conventional technology to keep the lights on and the factories humming?

No matter what we do in the next 35 years, the demand will be there for electrical energy usage, probably in the 2½ - 3½% range in our opinion. Our company believes we should use all potential energy solutions in the most appropriate way, be aware of the environmental impacts and affordability. We need to continue to maintain what we have and be cognizant of any changes we make to the rules of the game, such that we can encourage the existing players and to bring others into the marketplace where it makes sense to do so. I think all the companies you have heard from take the obligation to serve seriously. With respect to generation, we don't believe the obligation to serve is the obligation to build; it is the obligation to procure and deliver. If the incentives are not fair to our investors, our course of action would be to go out for bids, take the lowest bid, certify that as a legitimate cost of service and move on using those contracts to meet the needs of our customers. That is a very important point we are having discussions

on as of late. We recognize that something needs to be built. We want to see it built in a way that the customers have the reliability they have the right to expect and the investors receive a fair return on their capital investments to build this plant.

Lee Clancey:

It is my understanding that there are a number of building projects going on in the state of Illinois. What is the difference between Illinois compared to Iowa? What incentives are being given there that are not being given here?

Eliot Protsch:

Ron Stepien would be in a position to offer an informed view on that as well. From Alliant Energy's perspective we have a merchant plant we are attempting to build with some partners in Illinois. At this point we do not have any contracts for the output of that plant. It is our belief that the market for the electricity in Illinois will be much more vibrant than in Iowa, because that is a restructured market. Bilateral contracts between individual consumers, aggregators and utility companies will be allowed. The plant will make it economically based on the performance of its owners in how these contracts are structured. How the plant operates to meet the steam needs of Argo Power--that is what is driving the Illinois market. It is a free and open market. There is good access to other markets to the east. Plants being built in Illinois are good for Iowa because we can move the power back into Iowa. As state policy, I think it would be good to have some plants in Iowa as well. When you move power over any distance, there is some reliability benefit of having it close to the load source. Illinois is one of 27 restructured states that investments are flowing into those states to meet the perceived needs of the future.

RON STEPIEN, PRESIDENT, MIDAMERICAN ENERGY

For every one of the comments you have heard today, there are nuances. Those of us in the industry can sit and debate those issues. You are getting a very rapid view, but all of it is not good quality. I was anticipating that and thinking about what I could talk about that would be relevant and useful. So I took a little different view from some of the other presenters. The overview I would like to present is what is relevant about MidAmerican and our experience that will be useful to you. I also want to put a perspective on how did we get here. That is from the view from someone who has been in the industry for 33 years. Finally, I have one page of recommendations.

I would like to first talk about MidAmerican generation perspective. MidAmerican Energy has a capacity of 4,400 megawatts in this state. Most of which we run, but not all of it. We do not run the nuclear plants. We run a majority of the coal plants we have and all of our gas plants. MidAmerican is also an Independent Power Producer (IPP). They are not utilities here in Iowa but are affiliates of MidAmerican. I run those as the Chief Operating Officer of U.S. operations. You will recognize some state names that are very popular these days. In California we have 350 megawatts of geo-thermal generation. This has been a very interesting and supportive environmental approach in California. In New York we have combined cycle which has been raised here running on natural gas serving into New York Central Electric Generation Company. In Texas we have a plant that generates 4 TXU. In Arizona we sell off of combined-cycle 56 megawatts to San Diego Gas and Electric. In Illinois we are completing construction on Cordova. This is 540 megawatts of combined-cycle which we be sold to El Paso and MidAmerican Energy Company. Most of these sales have been to utilities on a long-term contract. Although we are selling 350 megawatts in California, we are not enjoying the fantastic prices that others, who might be in

the open market, are. We are on a long-term contract to South-Cal-Edison for those assets, although we have added some capacity that is open market on these facilities. The great preponderance is in the long-term contracts. We talked about the fact that there is a format for being able to buy long-term contracts for utilities from independent power producers whether they are affiliates or an independent. This is not something new. This is an option to states as well as some sort of rate-based approach recognizing that 26 states have gone to retail competition. What happens to a rate-based asset when in fact Iowa goes to a retail competition? That is something we need to think about when we are putting \$250 million to \$1 billion of assets into the state. The focus of MidAmerican – U.S. generations operations is to run the plants. That is what they do well. Environmental compliance and safety issues are their primary responsibility.

MidAmerican – Transmission & Distribution side. I did want to identify for you that in fact one of the affiliates in Northern Electric in the United Kingdom. This group is primarily a distribution company and a retail company. They are actually separate. The distribution company has 1.5 million customers. The retail company has 2.5 million customers. They are about double in count to us. In physical size we are large, which simply says that they have a tighter system. They pack them closer. We have very similar sources of operating parameters. This particular group in the United Kingdom has been operating in the competitive market for 10 years. They have learned how to operate a reliable, safe system under that environment. They have specific reliability criteria. We compare ours to them. They are not foreign in the sense of characteristics to what we see in the United States. We compare design criteria, response times and customer service.

MidAmerican – Retail Experience side. We faced the issue last year of were we going to address the fact of retail competition in Iowa. We decided not to do so. Northern Electric has been active in that market. Primarily it has been a step-wise expansion of that concept. We are exposed to some of that activity in Illinois as MidAmerican Energy company were required to go into Illinois as a utility-based retail organization due to Illinois rules. We are about to enter Ohio. This is a group of 120 people that focus on going into retail markets.

Far more interesting, from my perspective, is how did we get here? You are being flooded at a time of great agitation in the utility industry. This is not the first time this has happened in the industry. This is one of the more interesting and exciting times. In the 60s and 70s the demand in the United States was about 7% demand growth. People planned and thought this was what it was. Electric appliances and air conditioning being added to the system that didn't have it before. Generation technology was allowing power plants to go from 100 megawatt to 800 megawatt in size. We have rapid demand growth and rapid technology development. That led to rapid construction. In Iowa there was joint ownership in plants. Most of the utilities were small so that if you wanted to go from a 100 megawatt plant to a 800 megawatt plant utilities had to join together. That is how we wound up with a lot of municipal and co-ops buying into these large plants. That was the only way they could justify an 800 megawatt increase in the state. This was common across the United States. At the same time nuclear energy was coming in. This was an energy source that was supposed to be almost too cheap to meter. It obviously did not come through. But, people were planning on the basis that it would be cheap, the units would continue to improve in efficiency and that we would have 7% growth. This was a virtual cycle. This was a 10-year period of price declines; not much pressure on utilities, or utilities boards since things were going in the right direction. In the mid 70s and 80s demand dropped precipitously from 7% to the range of 0-1%. There are many ideas on why it dropped like that. It was dropping because we had air-conditioned everything that people could afford to air-condition. The problem was, that it wasn't seen. When you see an economic downturn and the demand drops for a year or two you assume that the demand will come

back. It takes 5-7 years to build these plants. By the time they were finished the demand was not there. In addition, there were rising environmental issues, the Mid-East embargo and prices were rapidly rising. In the mid 80s and 90s consumer prices stabilized. This doesn't mean everything was OK, just that customers had not been seeing any price increases. There was a 0-2% nationwide increase in demand. Iowa itself had essentially zero demand during the 80s-90s so utilities were not putting load demand increases on their systems. There was also a lot of environmental politics resulting from the previous 10 years. The high increases, everyone said, cut the demand--we can't afford the increases. The nuclear plants are unsafe. Environmentally we cannot emit this into the air. This led to the fact that utilities recorded a position that they were not allowed to build. They were locked into legislation rules that made siting very difficult. Not that it was wrong or right. Iowa has very difficult siting requirements for utilities which came from this period. The concept of the federal independent power producer came at this time from federal legislation. The attempt was to create another supplier besides utilities. Utilities facing restrictive permitting saw supply margins begin to decline. From 1978-92 the capacity margin across the country was in the range of 25-30%. Now it has dropped below 15%. Many things were developing in the background. In the mid-90s we had recovered substantially in demand growth. The internet and technology companies are now 12-14% of national demand. That is more than steel and paper combined as industries. It is expected to grow to 25% of demand over the next 10 years. This "clean" internet technology is now driving demand of what people perceived as a "dirty" generation technology. At the same time FERC began to pursue wholesale competitive markets having created the concept of the independent power producer. FERC then had to develop a plan of how to move that power into the grid which is owned by the utilities. This started the leverage to opening up the utilities. State legislatures in 26 states have started to pursue state retail markets. We did not anticipate that California would make such a spectacle of itself. Much of how they structured that market is in FERC documents because it was the first state to do that. There are some things that need to be cleaned up by all entities in federal regulation and we need to go there over the next several years. Generation and transmission capacity margin was dropping. You would not see it in the prices. The capacity reserve went from 25% to below 15% nationwide. The transmission capacity issue of interconnection. This transmission system was designed primarily to connect the 800 megawatt plants we talked about seeing 20 years ago. It was not designed for transactions across states. Five years ago there were 25,000 transactions that went across NERC boundaries, last year there were 2 million. Those are independent transactions from independent power producers, utilities, co-ops and municipals selling across those historic boundaries. A lot of things are changing that are driving the future. I cannot see 10 years ahead. Growth has been pretty steady the last five years. Barring an economic recession we will probably have 2-3% demand growth generally and 4-5% in some areas. The wholesale market risk is increasing for all players. Utilities have the obligation to serve, there is a lot of volatility in the markets and some states have retail access, so everything is insured. The reaction to California is going to do something. This will drive behavior and these pricing signals will certainly do something that will muddy how an IPP sees potential returns--if FERC drives prices down, how utilities see buying wholesale, and how regulators feel about the risks associated with this. This is not the first time gas has gone very high. It may be the longest time to be at this level. Gas prices have been at the \$4-5 range in the recent past. Clearly this is an issue for everyone today but no one was complaining a year ago, when it was at \$1, and people were shutting in wells. It is a natural market cycle. People stopped developing their wells and the supply is short now. The second thing is that with all these gas turbine-based combined-cycle there will be more demand and a different floating pattern so that is going to change. Environmental policy impacts, we need to anticipate where EPA may go in the future. There are some issues that need to be addressed and will be addressed with regard to particulate sulfur. When and how is unclear. That will have a significant influence on if people build new coal plants and what they have to do to clean up existing coal plants to the next level. My view is that customer price trends will be mixed, some will go up and some will go

down very slightly for a period of time as states force restructuring. Many of them are forcing temporary price declines. Some people will see price declines for 2 years. Some places will be steady if they have good, older capacity in abundance. If they are short of capacity, prices are likely to go up. Our company recommendations would be to secure a role for Iowa on a regional basis as well as a statewide basis. Selective capacity additions to the state would be appropriate if done appropriately. But, don't forget that you are tied into a transmission and wholesale supply system that is huge. We need to also encourage economic supply and demand alternatives. Pricing will help with that but appropriate public policy allocated on an economic basis for not only facility siting, but energy efficiency would be appropriate. I think whatever we do, we need to anticipate trends in environmental issues. They are not clear and they are long-range. We are looking at 10-15 year outlooks on many of these plants. That will drive pricing for all fuels. That will change the relationship of fuel costs depending on what is done in that arena. We need to maintain a reliable distribution system, replace or reinvest distribution and transmission system. Our system is 40 years old. That is when we started building the large plants. That is when we started giving air conditioning, building all the co-op and municipals. All the utilities here have a plan for reinvesting. You need to add technology to systems so that systems may be better used. There are ways to do more today with the systems with regard to informing ourselves on how they operate. We need timely approval for expansion. That is not always easy due to the "Not in My Backyard" attitude. Clarity in that area would take costs out over a period of time and make it more straightforward and easier on everyone.

Sandy Opstvedt:

Are you saying that siting restrictions is strictly on the logic of demand and on environmental restrictions and if so, how do you view your answer to this? To completely lift the restrictions alternately relate?

Ron Stepien:

If I look at the patterns of what was going on at the time and read the rules, it made it very difficult to site a power plant in the state without a very detailed, sophisticated forecast of what their needs were, and justification for every single assumption. It was clearly an effort to control utility expansions in the state of Iowa. I do not know the history since I was not here at the time, but that would be how I would read it. It was right at the same time that Louisa was coming on which increased costs, and there were a lot of environmental DSM sorts of programs. Presuming the two came together because that's the way it reads. That is not required for anyone else that wanted to build in the state. If you want a utility to build in the state, it would make it a lot easier if that approval process was reviewed.

Sandy Opstvedt:

So just review the siting requirements, but not do away with them completely?

Ron Stepien:

I think you need siting requirements, rules and regulations and environmental protections. My suggestion is that those requirements be similar for anyone who would site a power plant in the state.

PANEL DISCUSSION – ENERGY RELIABILITY IN IOWA

Dave Hurd:

I think we are going to ask you all questions in order to further educate ourselves. I will start with a general question. Is the cost of avoiding the building of a plant by creating capacity through energy efficiency the same as the cost of building a new plant? Is it roughly the same or is there a big difference?

Ron Stepien:

It depends. That is a lousy answer but some of the DSM programs are cost efficient and effective. Some additions of power plants are cost efficient and effective. The extreme of either will work. Take for example power plants. Building coal plants today may be very expensive depending on the load pattern of the state. A gas-turbine addition may be much less expensive. If you went down one path versus another it could be economically feasible and it may not be economically feasible. The same thing with DSM, there are certain programs that are more cost effective than others. Ten years ago when I arrived in the state it was very difficult to justify energy efficiency primarily because we had a large supply of generation in the state that was low cost. We do not have that situation now and the next addition will be more expensive. Programs on DSM that may not have been very attractive in 1990 might be much more attractive today. That is why it really depends and deserves closer analysis.

Howard Shapiro:

We saw a presentation from Gordon Dunn showing us how \$500 - \$700 million of savings have been generated by the original Energy Policy legislation in 1991. Did you receive a rate of return on that or did savings go straight back to the rate payer? What were the savings? Was there a rate of return?

Eliot Protsch:

I think one of the issues, speaking for Alliant, is if we collect \$20 million dollars from our electric customers in Iowa for energy efficiency programs, we employ a lot of people to administer those programs. A large percentage of that money finds its way back to customers to incent customers for light bulbs, better refrigerators, air conditioners, industrial motors. We are a collection and distribution mechanism. We don't really earn any money as a business for this. It certainly helps us establish a relationship with customers. It helps us help them to be more efficient in order to compete in a global economy. To have a true tradeoff, would you rather spend money on energy efficiency or build power plants, a major policy issue in my opinion is what kind of incentives can be built into creating a marketplace where a utility could be truly indifferent between building a power plant or conserving energy. There are states that have done that. Wisconsin has done that. Since 1987 we have invested \$152 million into customer facilities and earned a return on that money in some form. In comparison between a power plant or building energy efficiency investments and financing those investments inside the customers premise to achieve societal least cost does work. There are models out there and we are going to pursue that in Iowa. George VanDamme can attest to that because some of those investments have been made in John Deere's facilities.

Howard Shapiro:

Can you provide us with something that would suggest what Iowa would need to do in order to move ahead?

Eliot Protsch:

We are working towards that end as we speak with the Board. If it is the wish of the Task Force to have someone from Alliant Energy come back and describe that to you, we would certainly be willing to do that.

Lisa Stump:

In 1990 when the law was passed for energy efficiency, it did allow to capitalize expenses, and utilities were allowed a return for those expenses over a three-year period. Returns were given and some of the expenses were capitalized. The Board was also allowed to offer rewards as an incentive to what Eliot Protsch is talking about. When the law changed in 1997, it took away the return on those expenses, expenses now flow through. They are real time expenses and they are recovered in rates on a real-time basis. The reward factor has also been taken away. The investor-owned utilities talked to the Iowa Utilities Board about this program they developed which would have some sort of incentive approach in it. We need to look at the statute to see if it would allow us to reward the utilities, because there was that change in the statute that took that ability away.

Howard Shapiro:

Thank you for that comment. I know we were perhaps sold a bill of goods in 1990. I remember very clearly that the concept was that there would be benefits to the utilities to participate in that original program. I have a sense that we took those away. That we really took the guts out of the system. I am not advocating that we go back to that program. The whole landscape has changed. Within the new landscape there may be something there if we could come up with some policy in order to work with the utilities to find ways to reduce our energy use particularly from the environmental benefits derived.

Eliot Protsch:

I think the first decisions that should be made are: How much money should be spent? From where is it collected? What are the various options to spend it? There is controversy associated with each of those three dimensions.

Sandy Opstvedt:

At the last meeting we had quite a bit of discussion about the money that comes from utility customers into the Iowa Utility Board for energy efficiency. That was primarily investor-owned utilities billing of customers. Our discussion involved the fairness issue in whether or not it should apply to all utilities. Why or why not? Would each of you address that point?

Bob Swindell:

From a cooperative viewpoint, we do invest in energy efficiency. Everything is done on a cost analysis basis. We have no incentive not to work with our customers to see that they operate in an energy efficient manner. Since there is no profit to take funds from, there is no way of encouraging that other than a cost/benefit basis. That is how we have approached energy efficiency. We offer rebates on heating systems and low interest loans for weatherization extended to our members. As far as a fund of money collected from everyone distributed back out to a certain few, we really don't operate in that manner.

Eliot Protsch:

My view is that it should not be only some players that are taxed in this area. It should not be just electricity and natural gas. The public policy answer I would advocate is something that is spread across all energy merchants. The money should be spent in a way that the highest value conservation initiatives get funded first. That is not what we do now. We are very egalitarian about how we collect and spend the money. I'm not saying that is right or wrong but that is the policy judgment that has been made. This is opposed to saving kilowatt hours in a John Deere factory by putting in new energy efficient motors, then everyone gets the benefit of that because we don't have to build another power plant. You could argue that the benefit is spread through all customers but the energy efficiency subsidy went toward a small segment of the market. That is a very significant policy issue that has received a lot of discussion both in this state and countless others. There are several issues there. Who do you collect the money from? How do you put it out into the market place to get the most value from it?

Ron Stepien:

From our perspective, we deal with it as state policy issue. We are a vehicle for delivering that service. It can be done in several ways. I think the energy efficiency industry has matured over the last 15 years. The value and the benefits of various alternatives and serving various classes with this energy efficiency product can be calculated and is known. It is certainly not something I do on a regular basis. I think it has increasingly become an issue of how you apply this tax and how you deliver it. I think the utilities can play a significant role or not. It can still be done. I treat it basically as a state policy issue. How would the State like this done for their constituents?

Bob Haug:

As you heard, the \$44 million is really an artifact of ratemaking. Utilities were required to spend before they were allowed to recover. That is going to go away or stay depending on public policy. Investor-owned utilities, when they were required to make those expenditures early on, were required to spend revenues for energy efficiency. Municipals were not under that same requirement. We have filed two-

year plans. Our spending levels have been at, or nearly at, the level of investor-owned utilities. Spending has been done on a pay-as-you-go basis by plans that were locally developed and administered. We would like to keep that ability. We see municipal utilities as laboratories for innovation. Different utilities are doing different programs. Municipal utilities were among the first to install load management systems back in the 70s. We have been leaders in wind energy. Local citizens making local choices has been a part of that. We would like to keep that a part of energy efficiency in our section of the industry.

Lee Clancey:

There has been a question about continuing the collection of the deferred energy efficiency costs after those costs are deferred in the coming year and using it for other societal programs on energy efficiency, weatherization and that sort of thing. We have a split Task Force on what kind of recommendation we will be sending to the Governor. We would like your thought on continuing that collection.

Ron Stepien:

The source of that current collection rate is the fact that the early four-year expenditures were not concurrently collected. There was a catch-up agreed to in the 1996-97 update to bring those current. Technically the catch-up is ending. If you continue it, you would perceive that as a long-term ruling increase in the original legislation compared to what the current rate is because that was never the current rate. That was the current rate plus a 3-4 year catch-up. I think at that point is where I disconnect from the process. It is truly, in my view, a public policy recommendation as to whether you go with the higher rate. I don't know whether my company should have any more weight in the debate than any other company or citizen. I view it as strictly as a tax or state policy.

Eliot Protsch:

I agree with much of what Ron Stepien has said. Let me throw in a few more factors to consider. How much is in rates today for funding public benefits? This varies considerably across the nation. I believe Iowa needs to take this into account. The customers only see the cost per kilowatt hour. Everybody is our customer that we are connected to by wire. They probably all have different views on this subject. This could, philosophically speaking, be viewed as taxation without representation because we do not break it out on the bill, there is no option to pay. My company has always resisted being a tax collector but at the end of the day we are regulated and we are an instrument of public policy. We have our opinions and views. Someday I would like to totally unbundle the bill so customers can see what they are paying for. I think we might get different reactions in venues like this, capital, and utility board meetings if that was the case. Having said all that, I do think the \$44 million is in part a fact of ratemaking; it is a cost recovery issue. It should not be viewed as a pool of money available from which to do other things. If public policy makers decide that is what they want done, then my company will deliver.

David Hurd:

What should be the way the state should collect money--to agree it was going to use that money to encourage utilities to build plants, energy efficiency, renewables? What should be the source of that capital?

Eliot Protsch:

Clearly I think the mechanism we are using now has a place. It may not be the only potential source of revenue. There have been proposals like BTU taxes, taxes on emissions or you can go to the point of assessing oil fields for their nitric oxide emissions and using that money to encourage energy efficiency through better light bulbs. I think what Iowa should strive to accomplish is to create a viable market for energy efficiency where vendors are interested in finding better ways for customers to use energy, not just the utilities having money and going around stimulating rebates. We should create an industry. A lot of that has been done. There are many good things to point to in this state and other states. In fact we have built a business in Wisconsin around energy efficiency because we have incentives. Not that Wisconsin has to be the model for Iowa, but there are many models available out there. The chair of the Edison Electric Group gave a speech that was entitled "The Rat Has to Smell the Cheese." Create an incentive and things will happen. That is my message when it comes to energy efficiency. We should look to create greater incentives, and I think you will see good things happen.

Ron Stepien:

I think we probably have a peer review opportunity on the demand side. Other states are doing it they are funded at various levels. It is easy to stack Iowa up as to its expenditure rate. It is very strong compared to many other states in the nation. I think from the stand point of generation requirements DSM and generation and DSM requirements are not connected. The reason they are not connected is because the customer does not care that you are doing DSM. If the customer wants to move into your state and needs power they connect to the grid. Yes in total DSM may in fact decrease the peaks and the loads but customers decide they want power, they want power. You can have very rapid growth and demand at the same time you are having very effective DSM. Take California, we will never grow as fast on load as California will. Not because of difference in DSM, but because more people want to move out to California to do internet stuff. They are not necessarily connected, what we need is a portfolio of solutions that are driven by their own set of economics. In generation, it is the need to be able to understand the long term, to understand returns, and the need to understand customer demands or I will not have customers. On DSM it is different, it can be a whole number of intermediate term policy decisions, whether you direct it at low-income, industrials or whether you try to encourage departure from or addition to your state. I think the issue is one of flexibility and to not overextend in any particular area because it will be a balance. We don't know what is going to happen the next 3 years, let alone the next 10. That is the problem.

Lana Ross:

We had a question about equity and the fact investor-owned utilities do collect that money and your organizations don't. I think there was a compromise reached in last year's bill that you would collect some type of fund. I don't know about the municipals. Is that spirit of compromise still alive so that there could more equity throughout the state?

Bob Haug:

I am not sure that was ever resolved. But there was an understanding that all utilities would be collecting funds for social programs with respect to the energy efficiency spending, this may sound disingenuous, but I say it without apology, for investor-owned utilities when they collect money from consumers. There needs to be some kind of bidding process. To ensure the spending gets the most megawatts per dollar as possible. It may be an affiliate of an investor-owned utility, but it ought to be a different company. Municipal utilities have been spending on energy efficiency voluntarily. We are collecting that money from our consumers as part of our rates. We want to maintain the right to continue to do that. To have local programs that meet our needs. We have municipal utilities, a majority of which buy wholesale and sell

retail. There is no incentive not to assist our customers in being more efficient. It just means buy less wholesale and sell less retail. We face, as municipal utilities, a lot of different needs depending on our power supply, depending on our local growth. We ought to have the flexibility to determine locally what kind of programs we are going to invest in.

Lana Ross:

What kind of programs are you investing in now?

Bob Haug:

We have been active in load management programs for a long time. Those continue to be an important part of our activities because they reduce peak. When you are buying in a wholesale market, there is a penalty for your peak demands. We have always been operating residential programs. We are stepping up our activities again in the residential sector. We have been doing commercial and industrial programs over the years as well.

Lana Ross:

The residential is like rebates on furnaces?

Bob Haug:

Appliance rebates and appliance sizing. I think you heard from Glen Cannon that Waverly is operating a program we think would represent a good model for our members to follow. That is one where we are measuring the reduction in peak in the investment of those appliance. Waverly actually sizes air conditioners to meet the needs of a particular home or business. I think that is an important part. Too often appliance dealers and contractors will over-size appliances which has a detrimental impact on our energy demands.

Bob Swindell:

I would say there is a spirit of compromise among the co-ops. One thing that is very important to us during the debates over the last two years over these issues was that we retain local control of those dollars. I will be real candid with you, one thing we don't want to see in rural parts of the state is dollars leaving rural parts of the state and flowing into the urban parts of the state for energy efficiency. That was a problem for co-ops over the last few years and I think it will continue to be a problem in the future. If we can retain local control of those funds, and use those dollars that are collected locally in programs that benefit our members, I don't think we would be opposed to that.

Howard Shapiro:

Earlier when I was asking about this, I think Eliot you and I were talking about, I was actually talking about whether it be investor-owned or all the utilities. I guess I am in favor if all of the utilities are going to do something. That we think about solutions that do involve the utilities implementing them for a number of reasons. The utilities have the expertise. This is what utilities are all about, you already have the expertise. Another thing is, it addresses this issue, it doesn't send it back centrally and there is another sort of administration. The programs that the utilities themselves develop are for the rate payers who pay the rates. It seems to me there is a model that can get at that that would allow incentives to the utilities to do this. Maybe we got a better model, then what we tried which I think at this point had it benefits, but I think it has been pretty much been shelved or decided that we don't want to do it that way anymore. Maybe there is something we could still resurrect of it.

Bob Swindell:

I guess I would respond that the electric co-ops, and it is my impression that the municipals, that is how we operate our energy efficiency programs today. We look at those programs that give a return on investment to our members. Ultimately they are the ones that are making the investment in that energy efficiency technology. In those that make sense, we try to encourage and get them to do that. The ones that don't, we won't fund.

Eliot Protsch:

I would like to offer another comment on Howard Shapiro's point. The world seems to be moving toward a model where shared savings and performance contracting is taking the place of rebates. The benefit there is that you have somebody on the hook to deliver the savings. They are taking more risks so therefore many of us would assume that they should be allowed a greater rate of return, because you are on the hook. Is the saving going to be delivered over the length of the performance contract, thereby allowing me to earn more? That happened to be the model in general my company is promoting because it is bankable capacity. With performance contracting and longer lived assets you have greater certainty and it starts to look more like a power plant. Having the obligation to serve is the way we look at it. It does end up being in the commercial and industrial segments.

Ron Stepien:

Probably in the residential area it would not be as easy to create a market incentive. Therefore, on low-income and others you have a special interest in helping with their energy efficiency issues. I think that lends itself more directly to a public policy process than funding or supporting a commercial entity to be more productive. Sometimes I wonder why we would do that. To get those products into the marketplace was a good reason. Once those products are here it is not clear to me why you need a pull incentive for commercial/industrial. I think you have much more flexibility then 10-12 years ago when a lot of these technologies needed to be pulled into the marketplace.

Howard Shapiro:

You certainly already have a big financial interest particularly those large customers and serving them because you want to keep them. If we open up competition more, you are clearly positioning yourself to keep those customers.

Ron Stepien:

We would provide services like that anyway. Remember again, that as you go forward, if you unbundle the business you are now talking about the regulated end being the distribution company, not the supply or generation company. You are not talking about the distribution company having a marketing arm. That would be retail-suppliers of these sorts of incentives or products. So it does complicate the issue while utilities have the skill sets to do that. Looking forward 7-8 years utilities may not look that way state by state. Certainly in 26 states they are not going to look the same because of what the others do.

Lisa Stump:

I would like to follow up on the consumer-owned issue? The \$44 million, the only connection that it really has to energy efficiency is that it is recovering old costs that were related to energy efficiency. On the spirit of compromise issue, I know this Task Force has been very interested in low-income support, if some of that \$44 million were to be used to support low-income energy bills, would the consumer-owned utilities be willing to contribute to a low-income fund through a public purpose charge on a customer's bill?

Bob Haug:

We had agreed to that in part of the legislation. My remarks are in the energy efficiency part of it. The desire to keep the spending local. We have always viewed the low-income protection part of it as something that would flow through local cap agencies as it does now with our voluntary collections.

Bob Swindell:

I would agree with that. Once again we want to see those dollars remain local so they serve a local need and not fund projects in other parts of the state.

Lee Clancey:

I want to get back to capacity and transmission issues. I appreciate the fact that all of you gave us some policy recommendations for consideration. The fact remains that there is going to be a critical capacity issue coming up in the next 10 years. It also sounds as though there will be some transmission issues that we need to address due to not only the capacity of transmission but the age of the transmission equipment. Maybe you can't even answer this questions today. We really need to give some specific recommendations to the Governor with regard to how we are going to address these needs in the future and how we can encourage all the utilities to develop further generation and transmission capacity.

Ron Stepien:

May I suggest two things you might consider as guidelines in your process. Number one, you consider Iowa part of a whole as the map on the back indicated with regard to transmission and generation that put us in the context of utilizing appropriate assets from the outside as well as providing appropriate assets inside, I think would be one way to approach that. If you do a stand alone, this is only an Iowa issue, you in fact cannot control your environment because that is not the way it is going to happen.

Lee Clancey:

What would a recommendation like that look like?

Ron Stepien:

In my view, I would suggest that we consider coordinating with policy groups in Minnesota and Wisconsin that are doing similar work with transmission. Utilize the resources of the regional reliability councils like MAPP as to what are the overall plans. I think you then could address the issue of what does Iowa want to do. There is a potential in Iowa to be an over provider. So that you are long in capacity 10 years from now because you are close to coal assets or central to many of the regions around you. Or you can play the game as an under-supplier. Those are issues that need to be recognized. That you are a part of a bigger entity and then what role do you think we should play in the supply and transmission situation. It is not much different than what we do in agriculture where we want to be a value-added strong supplier. That is a decision we made. We certainly happen to have some of those assets to do that given we are close to western clean coal assets, a significant number of transmission pipelines and are reasonably interconnected. That would not have to be the policy of the state but it tends to be. Do we want to be a strong supplier or be light on the supply side. How do we play in the regional approach that we know what everyone else is doing. I would approach it from those two points of view and gather the appropriate information.

Eliot Protsch:

I have similar thoughts. I intentionally stayed away from the transmission issue in my presentation because it is a very important subject in and of itself. Whoever wins the presidential election may have more to do with U.S. transmission policy than anything that will occur in the next 2-3 years because of the appointments to the Federal Energy Regulatory Commission. The Federal Energy Regulatory

Commission's current path toward applying more federal control over the transmission grid under the Federal Power Act that created the Federal Energy Regulatory Commission and the interstate commerce clause in U.S. Constitution, over the use of those facilities and the pricing of the movement of that energy. In fact, the rates that we have on our transmission grid that deal with wholesale customers are all controlled by the federal government. The states get involved in the siting of the facilities. That is a subject in and of itself too in terms of how transmission is different than the interstate gas pipeline system in terms of the application and domain. The point I am trying to make here is that I think this Task Force could go far in that arena if you wanted to. The policy questions that need to be answered are: Should Iowa seek to encourage its transmission grid to be part of a regional transmission organization or should it favor a more vulcanized approach? I think what Ron Stepien was alluding to is certainly directionally the right answer, is that Iowa should recognize that it is at the crossroads of electrical commerce by virtue of our geographic location. You would expect me to say this since I am in the industry, but more may well be better when it comes to transmission assets unless it is in your backyard. It is not NIMBY it is BANANA, Build Absolutely Nothing Anywhere Near Anyone, when it comes to transmission. That is what we are dealing with in society. That is our challenge.

Howard Shapiro:

I want to take Lee Clancey's question and turn it around. Given the fact that 26 states have restructured and the uncertainty of federal policy we are in a state of continuous change here. The idea that we can come up with a 10-year plan is a little daunting in that environment. What policies do we have that are in the way of you dealing with that, that we might address to try to suggest removing barriers that you have?

Ron Stepien:

I think that opening up generation siting so that there is a level playing field for whoever participates whether it is some totally separate company, a utility or an affiliate of the utility. To the extent that you could make those a level playing field would be helpful. With regard to the inequity of rates across the state which I did mention is in fact an artifact of the 70s and 80s when people were building power plants versus when the growth rate, environmental, nuclear issues happened. If you were building a nuclear plant at the time of 3-Mile Island, the cost of that plant just went up substantially. In the Wall Street Journal today one of California's PG&E plants went from \$320 million dollars to \$5.3 billion dollars during their construction phase because of nuclear regulatory requirements related to 3-Mile Island. So depending on where you were, that is how rates became very different. That is true in the state as well. Depending on which power plant you happen to be in at the time determined your last significant rate increase which was the mid-80s. Since then it has been drifting or flat. If you didn't have rate-based it went down, if you had rate-based, because of these plants, it stayed up. For 16 years we have never said you are using all your plants now to the customer, not just this plant. That is how we managed to keep our costs down by consolidating. That will facilitate going forward. Those are the two key issues that were obvious to us that need addressed.

Eliot Protsch:

My company's perspective is that it is time for the vertically integrated electric power industry to break-out into its component pieces. The generation business is really a separate business with a unique set of fundamentals. The transmission business is probably going to be more controlled by the federal government, probably more than any of us would like but that seems to be the trend. The distribution business, the best way of looking at that is the municipal utilities, they are very focused on the distribution business. They do not have to worry about what they might do with rate structure, how it might affect their generation plants or transmission because they are focused on distribution. The fourth piece is the merchanting side of business. If we had those pieces all separate and operating in a different market

place I think many of these issues would be easier. But clearly we create a whole new set of challenges. The 168-page bill we worked on last year was designed to at least get that process rolling. I don't see that returning in January. My point is that we need to give consideration that a bundled business looks a lot differently at these issues than an unbundled business.

George VanDamme:

One of the last things I remember working on in that bill was that there was no resolution as to where the money was going to come from. As we were trying to tweak that bill, I got tremendous push-back at any switches on these things that were going to cause competitive disadvantages between the consumer-owned and the investor-owned. Now I just heard through a spirit of cooperation that everything is OK. This is a far cry from where the rubber hits the road and who pays what. I got hit from both sides trying to reach an agreement. There was even an amendment that all customers pay. I know the RECs and Municipals were real unhappy with me. Fortunately the bill was tabled before it was ever introduced.

Bob Haug:

Part of that is, I believe you are talking about extending the \$44 million. In the bill we were talking about not only the deferred revenue to cover past expenses in energy efficiency but also the ongoing collection. We are talking about a pot of money of some \$70 million. If municipal utilities were to pay at the same rates that investor-owned utilities were, we had industrial customers that were taking enormous hits in their rates. The premise of the bill was to have legislation that would not increase costs. We were seeing increases, in the teens, of the cost of energy for industrial customers. I think that is mitigated when you are talking about \$44 million instead of \$70 million.

George VanDamme:

We are really talking about societal benefits over the whole. We are talking about who pays what? It is the whole state of Iowa? Many of your members are very progressive. Also, many of your members on your boards say, if we have to pay anything we are going to kill this bill. It wasn't paying a nickel it was.....

Bob Swindell:

I hope that you understand when you're talking these dollars. The investor-owned are already collecting these and have been imbedded in their rates for many years. These are new charges to consumer-owned utilities that are not in their bill. In essence what you are doing is the state is mandating a rate increase on all of our customer base.

George VanDamme:

That was OK when it went into effect for the investor-owned utilities.

Ron Stepien:

That was OK when the state paid for all customers of investor-owned.

Bob Swindell:

I wasn't here at that time. I am just stating the fact that you are asking us to go out and raise our rates.

George VanDamme:

What I'm saying is that when the \$44 million started being collected, it was an increase of all the investor-owned utility customer rates at that time. They got it three years ago. There is a spirit of compromise until you get the numbers. Compromise is just a word at this point.

Bob Haug:

If you are talking about the level of collection for municipal utility customers, that is roughly equivalent to the 1.5% percent for gas and 2% for electric. I think collectively, with gas and electric, we are in the \$1.8 million range. If we are collecting for the energy efficiency part of the picture, the dollars that are roughly equivalent to the percentage we are spending, we should be indifferent to it. There should be room to compromise there. It was a double whammy that we are talking about. Both the \$44 million and the current level of spending hurt us a lot. I think with respect to low-income customers, our members are more understanding of the need to collect new dollars. There has not been an equivalent there. All that money was going to energy efficiency before. If we are talking about money for low-income customers and that money we believe will come back to our citizens as well as other electric payers, I think we are in a better position to collect those dollars. It is a tough sell though.

David Hurd:

We need to come to a close here. I want to thank you for your time that you have given us. We hope that we will be able to come back to you with questions we have in order to continue the process of educating ourselves. I would like to move us along today on the general subject on short-term recommendations. We propose that we divide this into two pieces. Those short-term recommendations that we have already taken action on and those that we haven't. Those ones that we have already taken action on; at the last meeting, we voted 6-5 to continue the \$44 million until we have had a chance to study the issues in greater depth; voted unanimously to provide extra assistance to low-income families; voted unanimously to increase the weatherization program for low-income families; and voted unanimously to look for a secure source of funding for those two issues (affordability and energy efficiency for low-income families). Lee and I would propose that what we do with those is that we make an appointment with the Governor and present them. With each recommendation will be attached explanations as to the pros and cons of each recommendation. We will get that into the Governor's mill to let him start considering what to do with our advice. Secondly, Sandy Opstvedt has a recommendation to study safety, reliability and capacity for electric and gas. We have not had a chance to consider that. Clearly, we are not going to get that done today. At our next meeting on December 12 we will have presentations on renewables. We don't know at this point, but it is possible that something may come to us that looks pretty urgent that we need to get to the Governor as a recommendation. We will say in this first meeting with the Governor, that this is the first round of recommendations. We may have one or two more for you, if we do, we will be back. That way we can keep our process moving along here.

Sandy Opstvedt:

Wisconsin did a study through the Customers First Coalition and the Legislature did another study. Each hired different outside consultants to do their studies. Now there is another study that is just being implemented now. I have copies of those that I will provide to Joan Conrad and the Iowa Utilities Board members. I think this would be good to continue to the next meeting then they would have an opportunity to review those studies.

Lana Ross:

There was some e-mail discussion on the wording of those recommendations. Did we agree on final wording?

David Hurd:

My recollection was that you were going to re-label them as "possible" strategies. We were going to offer 2-3 possibilities rather than just one.

Lana Ross:

Would you read the first recommendation that you read today.

David Hurd:

The extra assistance for low-income families?

Lana Ross:

When we talked about that, there were two things. One had to do with the urgent need for something this winter and the other was a short-term goal of securing ongoing funding.

David Hurd:

That was the fourth one. We have both of them. Actually numbers two, three and four relate to the low-income issue. Two is extra assistance in bill payments this winter. Three is increasing the weatherization program for the low-income. Four was to look for a secure source of ongoing funding for both of those programs. You had a piece that already spoke about those.

Lana Ross:

I remember we talked about some of the ideas we had for generating that money to be listed as optional strategies.

David Hurd:

The other strategies we have not thought of. I am not hearing a lot of dissent.

Kent McLaughlin:

Do I understand on that 6–5 vote that we are recommending to continue the \$44 million at this point?

David Hurd:

My thought is we are going to tell him what we did. We voted 6-5 to continue the \$44 million. These are the reasons against it and these are the reasons for it.

Howard Shapiro:

Did we have any discussion on what we would do with the \$44 million?

David Hurd:

The basic starting point was that the \$44 million was going to drop away on varying dates during 2001 unless some action was taken to keep it going for awhile. The recommendation is to continue it only temporarily until such time that we can determine that yes, here are some important uses for that money or no, there are not important uses for that money or that the collection of that money is so badly flawed that we should not continue. It is a temporary recommendation, not a final recommendation for ongoing collections into the future.

Roger Amhof:

Wouldn't that require some sort of legislative action?

David Hurd:

This is going to take legislative action. That legislative action would have to specify how it was collected.

Roger Amhof:

There would have to be more to it than “let’s just collect it and put it into a fund.” We need to come up with a recommendation as to what we are actually doing.

David Hurd:

OK, for possible uses in renewable energy or energy efficiency. That is the reason for hanging on to it until we are sure whether or not that is a source we do or do not want.

Sandy Opstvedt:

At this point we are recommending by a vote of 6-5 going forward with collecting it. Then further on into the process we will have more information to make a decision whether or not we feel there is a need to continue it.

David Hurd:

I think we are going to struggle in the future on the issue of where we are going to raise money to provide incentives for these various activities. Whether it is siting plants in Iowa or whether it is improving transmission lines, etc. etc. We are not going to get that settled in the next six to nine days.

Lee Clancey:

My feeling is that there is no debate on the comment. We are going to struggle about where to find the funds. I just have a problem with extending a tax on investor-owned utility customers, when we don’t even know what it is for. If it is incentives for renewable energy. If it is incentives for energy efficiency. If it is incentives for building new plants. I don’t care what it is. That is an important piece of energy policy we are going to be recommending then it ought to be out there in front so that everybody understands that that is what that money is going for. As it stands right now it is hidden in an existing tax that is paying for energy efficiency programs that have already been paid for. I don’t think that is fair.

Dave Hurd:

That is in the arguments that George VanDamme has prepared.

Roger Amhof:

That is my main argument, too. To collect this money from around 71% of the billpayers and distribute it among 100% is simply not fair in my opinion. The second point I would make is that existing programs under which the \$44 million is collected will expire next year. Companies have made whole on their prior investments. We are really not talking about the continuation of collecting the \$44 million under the current program. We are talking about a new program. We might as well state it as it is.

David Hurd:

This is very clearly stated in the document George VanDamme has prepared.

Roger Amhof:

In affect we are saying we want to create a new program that is exactly the same amount of money as what has been collected before.

David Hurd:

The people that were in favor of this were not saying it in quite that way. They are saying that this is already in the rates. It is already being collected. Let’s keep it going for a little bit more until we have a

chance to make up our minds whether we want to make use of it or not. The Governor can then choose whether or not to take the advice of the Task Force.

Howard Shapiro:

Something it seems to me we are not understanding is that this rate is not legislated. The rate is regulated. This rate was determined as a cost recovery for something that was legislated which was the energy efficiency programs. It's not like the Legislature has a rate that they have established here and we are asking them to keep it going. It should be clear that we are asking them to essentially make a rate.

Roger Amhof:

Right, because what is there will expire.

Howard Shapiro:

Which they don't do actually. They don't make the rates.

Kent McLaughlin:

What Lee Clancey is saying in essence, if we come up with the need of that money, whatever that dollar amount is, we disclose that amount and make the recommendation to leave that on the current bills to fund the programs. The option is there. Howard Shapiro has pointed out that it is coming off of there. We do not have the ability to continue collecting that \$44 million. That was something put in place for another program. That will end. There would have to be a recommendation or other legislation to continue that on the utility bills under the current form that it is currently in. Just to make sure I'm understanding, we are recommending that we continue the collection so that we cannot continue energy efficiency programs, but possibly using those funds as other means of funding other programs such as low-income, renewables, possibly some energy efficiency. Is that a fair explanation?

Lana Ross:

Our concern is that the money is being collected from the utility customer. To quit collecting that money and begin collecting it again may be damaging. We would just continue to collect it at the same rate we are now and use that money for new programs. There would be no impact to the customer. There would be no increase or decrease in rates. It would just be used for a new purpose.

Roger Amhof:

Aren't we misleading the consumer by not exposing what this really is? Right now it is buried in the rates. Consumers don't even realize it is being charged. The damage that I think you are referring to is the fact that they would get used to the idea of not paying it. Then they would revolt at the addition of a new tax later. In my mind, that is misleading the general public into thinking that there is no change when effectively there is a change.

Lana Ross:

I am not interested in doing that. I think we need to be completely honest and let the customer know. I think we need to be upfront about the fact that they have been paying this. It has been paying for past efficiency programs that have now ended and we would like to continue to collect this money to pay for these programs. Whatever "these" programs might be.

Sandy Opstvedt:

I agree with that. The \$44 million cannot be treated like \$44. \$44 million is extremely significant to the rate payers and the state as a whole. Besides the fact that you have your taxes with the state gain so that \$44 million is actually way above that. It is just too large of an amount to do away with without being totally informed of whether there will be a need or what the needs are like David Hurd was talking about. Do we need this? What are the uses for it? If we do this on short-term will it have a huge impact? Then we can look at the whole picture and make an informed recommendation through the Task Force.

Don Wiley:

David, what you are suggesting in the presentation to the Governor is that on the suggestions number 2, 3 and 4, that those were unanimous decisions. On the number 1 suggestion, there is a split consensus and here are the reasons for and against this recommendation. The Governor gets only that information. I don't think that we are going to have anything but a split consensus and it is not worth the effort to try and go any further. You would give the information of where we are at and move on.

Lee Clancey:

It will be accompanied with position papers on both sides of that issue. There are two points that I think are important to understand with regard to this particular recommendation. My first point is that we are asking to extend payments for past debts for something new. As much as I would want to be open and enlighten customers on this issue, I don't know how you are going to do that. First, customers won't read it. Secondly, they won't understand it. My second point is the issue of just charging the investor-owned utility customers. I have a real problem with this. This is going to be used for societal programs for statewide benefits that everybody can benefit from. That is not fair. We heard Bob talking this morning about the fact that they did not want to pay extra because they thought it would go into the urban areas. The same is true, I don't want rates I am paying, going to places where they have not paid. It is a fairness issue. If we are going to extend it, then it ought to be extended to everybody. I have not heard that discussed.

David Hurd:

I am in agreement with you if you've got an ongoing permanent arrangement with all the players ought to be having to pay it. The temporary situation we have at the moment. We have 74% that are paying it and 26% that are not. We are talking about continuing that inequity for a few months until we can decide whether this is something we want to expand and continue with or whether it is something we want to abandon because we see some better source of capital.

Lee Clancey:

I don't know that there is a better source. I just think that this is something that we need to stop it now and decide what it is we want the money for. Then go back and say, this is a new program, here is what the money will go for. It may not equal \$44 million or it might be more. To me this is not the right way to fund something. Extending an existing rate that is for an existing purpose for an unknown purpose.

David Hurd:

I understand your argument but that is what we voted on.

Sandy Opstvedt:

What we are doing is just taking what we did in those comments with position numbers to the Governor. We can sit here and discuss it all day, but you have somewhere to go and I don't think anybody is probably going to change their mind.

Lee Clancey:

Are there any other comments with regard to recommendation numbers 2, 3 or 4? Any other comments on recommendation #1?

Howard Shapiro:

I want pick up on this \$44 million number. It is a totally bogus number. It has to do with the 3-4 years of which these rates are now paying back an investment. You said earlier we should abandon any talk of the \$44 million. The questions is: Do we want to continue whatever incremental rate is being associated with that for some period of time? My guess is that we are talking about a period of months. We are only talking about a few million at most. We are not talking about \$44 million. Another thought I had was, that we do do that then five months from now we say we don't want to do it anymore. What do we do with the money collected?

Roger Amhof:

It is better to let one program end and then begin a new one.

Kent McLaughlin:

I don't recall from the information that this \$44 million is going to drop off the books January 15th or something is it?

Lee Clancey:

It drops off June, July and October something like that. But if we are going to do something about it, and the Legislature is going to be involved, it has to be done in the spring. That is the need for urgency on this particular recommendation.

Roger Amhof:

I cannot see the Legislature coming up with a bill that says we want to continue to collect at the rate of \$44 million from our two IOU's. We don't know what we are going to do with the money but we just want to keep it going. I just don't see a bill like that ever making it anywhere. I think it is ridiculous.

Sandy Opstvedt:

When the Legislature convenes, we may have addressed the information we need to make a recommendation. All we are doing at this point is just saying this is what we voted on and this is what the vote was. Here are the position papers for this recommendation. We are not doing anything further than that.

Lana Ross:

If we had more time we would be able to answer those questions. We would be able to say these are the things we want to use these funds for. Our deadline is December 1. We don't have the time at this point to determine what those priorities are. That doesn't mean we won't have that done in the near future. It just means we are not going to meet our December 1 deadline.

Howard Shapiro:

What I have trouble with is making a recommendation to Governor that is really not a recommendation. I don't know why we don't recognize we don't have a recommendation on this subject yet. Sure we have a 6 to 5 vote but it is pretty clear that we are not of one mind yet of what we want to recommend. There is not weight whatsoever to a recommendation that we don't agree on. Why don't we wait and discuss the issue more and determine what we want to recommend? I don't see why December 1 is an issue on this. If we can't come up with a recommendation now we will come up with one later.

Sandy Opstvedt:

I guess I see it as something we voted on as a Task Force. We voted to take it forward in this light. This is what the two positions are and this was the vote. We will provide additional information when we get it ourselves. This is something for the Governor to look at. He has requested the December 1 deadline. As a Task Force, are going to vote one time and then the next time let those that weren't there vote? How many times do we continue to re-vote? It is not doing anything adverse to go ahead and follow through with what we decided to do at the last Task Force meeting.

Howard Shapiro:

My reading of the minutes of the last meeting was that we did not decide to take this recommendation to the Governor, I think it was decided to talk about it at this meeting. That is what I read in the minutes.

Roger Amhof:

That is what I read in the minutes.

Kent McLaughlin:

That is why I asked Dave Hurd about the recommendation. I wanted to make sure I understood that recommendation because I wasn't aware that was what we were going to do. I think the wording is probably the most important part. From what I am hearing here, we are splitting hairs a little bit. It is not that we are going to continue the \$44 million program. What I am hearing Lee Clancey and Lana Ross saying is that there could be some programs out there that we want to fund. We don't know what the dollar amounts are. It could be \$20 million, it could be more than \$44 million. You are saying keep that \$44 million in there, not as a repayment of the debt, but just as a number that we may want to continue this rating for other programs. Is that kind of what you mean? If the recommendation is worded carefully it could really put a stop to the funding of the old program but still say that we may still want to continue in the rate funding to fund other potential programs that at this point we have not come up with an evaluation on.

Roger Amhof:

Really what you are saying is we would like to promote a levee of some sort, of a similar amount, we just don't know what it is.

Kent McLaughlin:

That is the way it sounds. We don't know the amount. We don't know what it is.

Roger Amhof:

We don't know anything. So why are we evening suggesting it.

Sandy Opstvedt:

All we are saying is continue collecting the rate as we are already doing.

Roger Amhof:

We are not collecting it.

Sandy Opstvedt:

It may all be a moot point because we may come up with a decision before this runs out. That decision may be that this is not something we want to do.

Roger Amhof:

The IOUs are actually collecting and keeping the money to make them whole. So what you are proposing is a new tax levee. We might as well say it like it is. If you want to levee 70% of the electric consumers of the state at the rate of \$44 million per year, that is what you have to say. I don't think there continuation of this other levee that is currently in place by the IOUs. I don't see how you can call it that. It is a new tax.

Brenda Dryer:

Most of us around this table a served by either MidAmerican or Alliant. I don't want to pay anymore than I have to pay, whether it is a good enough program. Let's go in and ask for a source of funding then. I guess I really struggle with it. Much less have Alliant tell Polaris Industry in Spirit Lake you are going to continue to pay this, when if they moved five miles north they would not have to pay. It is a competitive disadvantage. It is paying off past debt. I live in Alliant territory and never had an idea I was be charged that until I sat on this Task Force.

Roger Amhof:

It gives the appearance that we have never seen a tax that we didn't like and we can never see one go away. I hate to lose that minute amount of credibility.

Sandy Opstvedt:

It still comes back to the same point. We voted at the last meeting, 6 to 5, that we would support the position of continuing this with the short-term planning. We did that in the context that we were discussing, this is what the short-term plans are that we will provide to the Governor of December 1. The way I see it, it is done. We need to go ahead and present this in the light that David Hurd explained it.

Lee Clancey:

We did vote but then I also asked that we consider discussing it again when we got more information. I asked both Lisa Davis-Cook and George VanDamme to put together position papers on each position so that we could discuss those in hopes that people would have a better understanding of exactly what we were voting on. I think there was some level of discomfort that people really didn't know what we were voting on. I have to tell you from my position as an elected official, anytime the state mandates something, and you don't know what it is for it is extremely disconcerting. I think investor-owned utilities do have a responsibility to their investors but they also have a responsibility to their customers. They are the ones that will be collecting it. They will have to be able to explain why they are still collecting this even though it is buried in the rate. It is putting them in an awkward position. I'll go back again and say, unless we are going to require that it be collected from all utilities in the state, this is an unfair tax placed on investor-owned utility customers.

Sandy Opstvedt:

I understand the position from both sides. But what we are saying is, Governor Vilsack we voted 6 to 5, this is the opponent position, this is the proponent position. That is all we are saying.

Roger Amhof:

Is there no reconsideration possible? Is that what we are saying? We can never visit this again?

Lee Clancey:

It is not as though we can't. We just don't have any rules that say if we can or can't. If you want to make rules as we go along that's fine.

Roger Amhof:

We need to make up some rules.

Don Wiley:

It was not my understanding that when we voted 6 to 5 to send that. I thought that was the vote. We were asking further information to discuss this week. We were also asking for an estimate of the amount of money that might come from the increased sales taxes that might offset that. We didn't have a number. Joan Conrad was going to gather some information on that. I think the Governor is perfectly capable of taking the different sides and looking at it. I don't think that it is probably, in the way we voted, practical to send that to the legislature anyway. He would have to look at that and decide some way to reword it because it is a dead issue. I think it is important that he understand we are very split as a Task Force on this issue.

Lana Ross:

Because this would be a short-term, one year, the way I understood it, we would begin to collect a fund for the next year equivalent to what has been collected for the past, however many years to pay off our debt, during the next year we would address the equity issue and that is only the investor-owned utilities that are collecting this money. We need to address that either the investor-owned utilities no longer collect it or that we bring in the consumer-owned utilities in. There may be some possibilities to do that based on the panel discussion today. If just for the next year we continue with just the investor-owned utilities, but we will have a decision within the next year about either keeping with investor-owned and bringing the consumer-owned on or discontinuing altogether. Does that help at all?

Lee Clancey:

Not for me. I think there is a credibility issue.

Howard Shapiro:

Are we going to make a recommendation to the Governor that we do something, we don't know what it is, we don't know how much, we don't know for how long, and we are not sure what we want to do with it, but keep it there just in case and we will let you know later. What does he do with that? What kind of legislation is he going to propose? What is the Legislature going to do with that? They can't do anything with that.

Brenda Dryer:

We have some really specific short-term recommendations that we want to make with regard to low-income assistance, weatherization and finding a stable funding source for those things. Those are very specific things. Easily understandable. Easily implementable if the Legislature has the will to do so.

Sandy Opstvedt:

I am not sure why we voted in the first place. The point made before we ever voted was that we are looking at \$44 million here and it is a lot of money to just do away with or not do away with without have the information and knowing what we are going to do with it. Even hearing those comments, we as a Task Force went ahead and voted. To come back now, after voting 6 to 5, and say we don't have enough information right now. When it was that brought up before we voted, we should have stopped the vote at that time.

Lee Clancey:

That is right. David Hurd called for a show of hands to see how split the Task Force was on this issue. After it was clear it was very split, I asked Lisa Davis-Cook and George VanDamme to put together position papers so that we could discuss it again. I don't think it is our best interest for the credibility of this Task Force, and the recommendations we want to make in the long term, to put forward a recommendation that none of us understands. I will have trouble explaining. Actually I won't explain it, David Hurd can explain it. I think there is enough knowledge around this table to put together some pretty decent recommendations that I think can get the State of Iowa along the path that it needs to be with regard to energy policy for the future. I don't want to hurt our credibility by proposing something that really doesn't have any substance. I don't know if legally it can be enforced. We can take it but I think it would be a mistake.

Roger Amhof:

Is there any reason we could not vote to table this and not include it in our December 1 communication with the Governor at this point. If we were operating under parliamentary procedure, I would make a motion at this point.

Lee Clancey:

Motion to table is not discussible. It there a second?
(seconded by Howard Shapiro)

All those in favor? All those opposed?
(Mixed result of vocal vote)

Let me have a show of hands.
(Vote ???)

We will table this issue for inclusion in the discussion of the recommendation that you have made that we need more information on at the next meeting. Any discussion on the other recommendations we have listed?

(No further comments by Task Force members)

We will be taking the three recommendations on low-income assistance, weatherization and finding a permanent funding source for low-income assistance to the Governor on your behalf sometime in the next two weeks.

Howard Shapiro:

Can I suggest that we authorize you to tell the Governor what we are discussing the utility rate issue of investor-owned utilities and that we might want to extend that to the consumer-owned utilities. We may or may not be proposing some uses for it, but that has been a part of our discussions. I have no problem with you informing him that we are talking about this issue.

Lee Clancey:

That is fine with me but I don't want to do it unless I have both position papers.

Don Wiley:

That was what I was going to say. I think the word recommendation is a little bit of a problem. It is not a recommendation. You can vote on it every week and it will be slightly different. It is a definite discussion and it is a concern. I think it would be OK to inform the Governor that we are discussing this issue without any recommendations to it. We need both sides of the issue.

Lee Clancey:

We will see how quickly Lisa Davis-Cook can put together that position paper. Any other discussion? Our next meeting is December 12, 9:30 – 1:30. We will be having a panel on renewables and finish up our short-term recommendations.

NEXT MEETING:

Task Force members look at options for meetings dates after the December 12 meeting. Decision for following meeting is January 3, 10:00 a.m. to 2:00 p.m. at the Iowa Utilities Board.

MEETING ADJOURNED 1:50 PM