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Executive Summary of
Terry Kouba Written Testimony, Alliant Energy

- Alliant Energy is a Midwest company that provides electric and natural gas service to approximately 1.4 million customers throughout more than 1,300 Iowa and Wisconsin communities.
- Our commitment to deploying cost-effective renewable resources is strong: we currently have more than 1,000 MWs of wind capacity from our existing wind farms purchase power agreements and are in the midst of executing a plan to install up to an additional gigawatt of wind resources, up to a $1.8 billion investment.
- PURPA is an outdated law that can financially harm customers and impact the reliability of the grid.
    - While states across the country – in organized or unorganized markets – are able to competitively solicit renewable energy, utilities are still subject to PURPA's outdated mandatory purchase obligation. The price paid for this energy is administratively determined, and project locations are chosen for the benefit of the investor of the QF, not the customer, which has led to increased electricity costs for our Iowa customers.
    - QF developers do not approach placement of generation from the holistic perspective that a utility does for system planning purposes. When operational issues on the system associated with the interconnection of these QFs occur, the party responsible for identifying and proving the source of the problem is not the QF developer, but the utility.
- PURPA's intentions are no longer necessary; instead, QFs are manipulating PURPA's rules and FERC's associated regulations to increase customer costs.
    - We are required to purchase power from PURPA-designated QFs, without going through a competitive bid process, despite having access to the MISO market.
    - These QFs violate the intent of PURPA by structuring their projects into separate LLCs to get around FERC's 20MW size cap in organized markets.
    - The burden imposed by FERC's one-mile rule makes it difficult to challenge the presumption that individual LLCs should not qualify as "small power producers" under PURPA.
    - Iowa customers are paying a 20% price premium for wind energy, and may pay up to $45 million in increased electric costs due PURPA.
- We believe that large QFs should be treated like any other independent power producer, and be required to sell energy directly into the organized markets, or negotiate PPA contracts with the utility like any other independent power producer. Doing so would reduce costs to customers and minimize system impacts that might impair grid reliability.
- Aside from full repeal of PURPA, Congress can take steps to improve implementation, mitigate negative impacts on customers and the grid, and better reflect current market conditions by modernizing the law.

Introduction

Good morning, Chairman Upton, Ranking Member Rush, and members of the subcommittee.

My name is Terry Kouba and I serve as Vice President of Iowa Operations for Alliant Energy. My company is a Midwest transmission-dependent energy company that provides electricity and natural gas service to 1.4 million customers in Iowa and Wisconsin, and is a Midcontinent Independent System Operator (MISO) participant.

Thank you for the opportunity to testify today, and for holding this timely oversight hearing to examine whether there is still a need for the Public Utility Regulatory Policies Act of 1978 (PURPA) in light of energy market changes over the past 40 years, and, in particular, the law's unintended consequences in increasing wind energy costs for our Iowa customers. I also look forward to discussing potential congressional reforms to the law and Federal Energy Regulatory Commission (FERC) regulation changes, which, if implemented, would ensure fair, transparent, and cost-effective deployment of renewable energy nationwide.

Iowa is the national leader in wind energy deployment, deriving 36% of the state's electricity from wind, a statistic to which Alliant Energy is a proud contributor. At Alliant Energy, our commitment to deploying cost-effective renewable resources is strong. Currently, we have more than 1,000 MW of wind capacity from our existing wind farms and purchase power agreements (PPAs). We are also in the midst of executing a plan to install up to an additional *gigawatt* of wind resources; an investment of more than $1.8 billion by 2020. We feel that clean energy is good for the environment and a good investment for our customers and the more than 1,300

communities we serve in Iowa and Wisconsin. That is why we are working hard to increase the energy we generate from cleaner sources. By 2030, we have a target to reduce our fossil-fueled generation carbon dioxide (CO2) emissions 40% from 2005 levels.

In addition to our $1.8 billion wind energy investments, part of our renewable energy strategy has been, and continues to be, the delivery of wind resources through competitively solicited PPAs with independent power producers on behalf of our customers. Despite the market-driven deployment of renewable energy in Iowa, Alliant Energy is still subject to PURPA's mandatory purchase obligation, the federal implementation of which has increased electric costs for our Iowa customers. The law, therefore, can result in the deployment of less economic renewable generation in lieu of more cost-effective renewable generation procured in an open market.

A Brief History of PURPA

As a response to the 1970s energy crisis, Congress enacted PURPA to promote energy conservation and foster greater use of domestic energy sources, including renewable energy sources.

The environment in which Congress originally enacted PURPA in 1978 is vastly different from the ways in which energy is produced and used today. Improvements in technology lowered the cost of installing wind and solar energy. Additionally, state-level policies such as Renewable Portfolio Standards, changing customer expectations, and societal demands have all helped create a new energy environment. As a result of these changes, generation from renewable energy resources, such as wind and solar, has increased substantially since PURPA was enacted, and that trend shows no sign of slowing. In 1978, robust energy markets like MISO did not

exist. Now, about half of newly constructed renewable generation capacity in the United States participates in energy markets that provide clear price signals. Additionally, the Energy Information Administration estimates that output from renewable energy will more than triple between 2010 and 2040, while oil-fired generation, the original driver of PURPA, has decreased from 16.5% of all U.S. electric generation in 1978 to just 1% of all current U.S. electric generation resources.

Section 210 of PURPA requires all electric utilities to purchase electricity at state-approved avoided cost rates from qualifying small power producers or qualifying co-generation facilities, referred to as Qualifying Facilities (QFs). QFs in many areas of the country have ample opportunity to bid renewable energy into the energy markets through a state's competitive bidding process, or a region's organized markets. However, some QF developers have chosen to rely on PURPA's mandatory purchase obligation. As a result, electric utilities often purchase renewable power at a premium compared to other available renewable energy resources, such as utility-owned generation or competitively bid PPAs, and our customers bear that premium.

Without updates to the law, Americans may continue to pay more for PURPA power than for similar generated renewable energy available at lower cost in wholesale markets. While the law needs to be changed, it would also be useful for Congress to require FERC to change its regulations that implement PURPA's requirements. Currently, under FERC's regulations, utilities' opportunities to make market-based decisions that ensure renewable energy is deployed in the most cost-effective and transparent manner are limited, as I will detail below.

Gaming of the One-Mile Rule

Under PURPA and FERC regulations, the must-purchase obligation governing organized markets, such as those administered by MISO, applies to QFs that are 20 MW or less. However, QF developers and owners circumvent the 20 MW cap by creating separate corporate entities (such as limited liability companies or LLCs) for each individual wind turbine or small grouping of wind turbines, or disaggregating large projects and siting each turbine at locations more than one mile apart, or utilizing a combination of these two strategies. While these arrangements may conform to the requirements of PURPA and FERC regulations, they violate the intent of PURPA, causing financial harm to customers.

As an example, in Alliant Energy's Iowa service territory, QF developers and foreign-financed owners are developing large wind farms that exceed the 20 MW threshold. These developers then intentionally disaggregate the large projects into individual or smaller groupings of wind turbines and place them greater than one mile apart from each other. These actions circumvent the 20 MW cap established by FERC as authorized by PURPA – gaming the one-mile rule.

I can cite to three recent examples in which this gaming of the system through disaggregation has occurred:

- First, a 30 MW wind farm in central Iowa was disaggregated into ten separate LLCs, where each LLC owns a single 3 MW wind turbine. All ten LLCs are under common ownership. The wind turbines are sited in small groupings that are greater than one mile apart from each other. Under PURPA's current regulations, Alliant Energy is required to

purchase energy at avoided cost rates from each of these turbines, which in this example was above market price.

- Second, a 28 MW wind farm in central Iowa was disaggregated into fourteen separate LLCs, where each LLC owns a single 2 MW wind turbine. As with the previous example, the LLCs are under common ownership, and the wind turbines were sited in small groups that were greater than one mile apart from each other. Again, current law requires Alliant Energy to purchase power from these disaggregated units.

- Finally, this same QF developer is seeking to install another 24 MW wind farm, which the developer will disaggregate into eleven individual LLCs to meet the requirements of a QF.

In none of the above examples is Alliant Energy able to challenge the presumption that these QFs are separate because of the safe harbor provided by FERC's one-mile rule, which is irrebuttable.

These examples cause Alliant Energy's Iowa customers to pay above market rates for wind energy under PURPA. For example, the 30 MW wind farm referenced above causes customers to pay a 20% price premium over a 10-year contract term. PURPA's mandatory purchase obligation forces Alliant Energy to purchase 30 MW of wind power at avoided cost rates instead of allowing Alliant Energy to procure that same 30 MW through either a competitive bid process or the MISO markets, both of which provide the opportunity to more accurately determine a market-based price for contracts. Simply put, PURPA creates an incentive for QFs to avoid

competitive resource procurement processes in favor of organizing their business under PURPA, allowing them to ultimately procure above-market rates for renewable energy in a state known for competitively priced wind energy. PURPA was never intended to be a mechanism to guarantee financing for large-scale renewable energy projects.

In one of the examples we cited, the QF developer and owner propose to build a 24 MW wind farm that will be disaggregated in Alliant Energy's Iowa service territory. The QF developer and owner are challenging Alliant Energy's avoided cost rate of approximately $25/MWh, instead seeking an inflated rate of $49.50/MWh for a term of 25 years. If they are successful, Alliant Energy's customers will pay more than $45 million more for energy than if Alliant Energy were to enter into a PPA obtained through a competitive process.

One argument sometimes made by QFs for retaining their privileged position is their claimed lack of access to markets or their claim that participating in organized markets is overly burdensome. In response, Alliant Energy would note that all QFs in the MISO footprint have the option to interconnect directly to the transmission system as an independent power producer and participate in the market. Many QFs could take advantage of the processes available in MISO that allow a small generator of 5 MW or less to use MISO's Fast Track Process in its Tariff (Attachment X) to interconnect directly to the transmission system. However, QF developers have generally chosen *not* to connect directly to the transmission system nor directly participate in the electricity markets available to them, but to circumvent the markets by taking advantage of state-level distribution-related interconnection processes made available to end-use customers that require timely interconnections.

While smaller QFs, like combined heat and power facilities, may be correct in stating that participating in markets is burdensome, the QFs with whom Alliant Energy deals are larger, sophisticated enterprises. We believe that these QFs should be treated like any other independent power producer, and be required to sell energy directly into the market or negotiate for PPA contracts with the utility like any other independent power producer.

The situations we describe are not unique to Alliant Energy; other electric companies in non-RTO regions, where the mandatory purchase obligation is capped by statute at 80 MW, also experience PURPA abuse. QF developers that disaggregate larger renewable projects that lose a competitive bid process in order to take advantage of PURPA's mandatory purchase obligation and force utilities to purchase higher-cost QF energy. The real losers in these situations are not utilities, but customers who are forced to pay higher costs for renewable generation that can otherwise be procured at competitive prices.

System planning

PURPA can have some secondary impacts, especially on a system like Alliant Energy's that consists only of generation and distribution, not transmission assets. Information and models that are common and expected at the transmission level are not as readily available or easily created at the distribution level. For example, Alliant Energy has over 40,000 miles of lines to operate that constantly change resulting in models that quickly become outdated and need to be refreshed. Often, engineering and due diligence is necessary to evaluate the impact of a QF facility. If a QF developer is sophisticated enough to evaluate and understand the impacts of their facility, as they might on the transmission system, then the challenge for utilities is to maintain engineering models that are readily available.

PURPA does not encourage developers to focus on system reliability and long-term grid stability; instead, it generally encourages developers to connect at the site providing the quickest, cheapest access regardless of grid impact. For example, the size and scale of these new PURPA projects often virtually guarantees the backflow of energy from the distribution system to the transmission system. QF developers do not approach placement of generation from the holistic perspective that a utility does for system planning purposes. When subsequent operational issues with the system associated with the interconnection of these QF facilities occur, the party responsible for identifying and proving the source of the problem is not the QF developer, but the utility. Sometimes resolving operational issues can lead to jurisdictional issues as state regulations apply to the distribution system, but PURPA applies to the generator. Thus, interconnecting a QF that was not part of a broader system planning effort can result in increased costs to customers because utilities are responsible for maintaining system reliability – with all of its associated costs – while providing little value to the overall grid.

Policy Recommendations

Aside from full repeal of PURPA, Congress can take steps to improve implementation, mitigate negative impacts on customers and the grid, and better reflect current market conditions by modernizing the law. We are encouraged by legislative interest to reform the law in several key areas, and we encourage FERC to implement several of these recommendations on an administrative basis.

- Congress and FERC should allow utilities to challenge abuses of FERC's one mile rule as described in the above examples;

- Congress should consider exempting utilities from PURPA's mandatory purchase requirement if a state regulatory commission finds (1) that the utility's customers do not need the additional power to meet their customers' needs or (2) the utility employs integrated resource planning and conducts a competitive resource procurement process that provides an opportunity for QFs to participate;

- Congress and FERC should consider lowering the 20MW threshold to 2MW in organized markets. These markets, like MISO, already provide nondiscriminatory access to transmission and interconnection services to two-thirds of all Americans today where they did not exist 40 years ago;

- Congress and FERC should lower the regulatory burden associated with challenging entities' ability to disaggregate larger QF projects into smaller project in order to meet PURPA's size thresholds.

These policy recommendations, if adopted, will benefit all stakeholders in the marketplace by providing greater transparency and logical resource integration, while preventing PURPA abuses that lead to higher energy costs to our customers and all Americans subject to uneconomic QF power. If Congress and FERC take meaningful steps to reform PURPA, we can take advantage of deploying cost-effective renewable energy resources nationwide, while encouraging market competition to better ensure cost fairness for the American people.

Alliant Energy is committed to providing cost-effective renewable energy to our customers as part of a diverse energy mix. We embrace the integration of renewable energy resources, and see the value of those resources for our customers when procured in a competitive manner.

Thank you again for the opportunity to appear before the Subcommittee today, and I look forward to the discussion and any questions you may have.