

STATE OF IOWA
BEFORE THE IOWA UTILITIES BOARD

IN RE:)
) DOCKET NO. RPU-2023-0002
)
INTERSTATE POWER AND LIGHT)
COMPANY)
)
)
)
)

DIRECT TESTIMONY OF
STEVEN C. GUYER
ON BEHALF OF
ENVIRONMENTAL LAW AND POLICY CENTER
AND IOWA ENVIRONMENTAL COUNCIL

APRIL 16, 2024

1 **I. INTRODUCTION**

2 **Q. Please state your name, business name and address, and role in this**
3 **proceeding.**

4 A. My name is Steven C. Guyer. I am the Energy Policy Counsel with the Iowa
5 Environmental Council, located at 505 Fifth Ave, Suite 850, in Des Moines, Iowa.
6 I appear here in my capacity as a witness on behalf of the Environmental Law and
7 Policy Center and the Iowa Environmental Council.

8 **Q. Please describe your background.**

9 A. I have an Associate of Arts degree in Electronics Engineering from Hawkeye
10 Institute of Technology in Waterloo, Iowa, a Bachelor of Arts degree in Physics
11 from the University of Northern Iowa in Cedar Falls, Iowa, and a Juris Doctorate
12 from the University of Iowa in Iowa City, Iowa. I have been working in the
13 energy field since 1988. From 1988 through 2007, I worked in legal and
14 environmental positions at Iowa Southern Utilities, IES Industries, Alliant
15 Energy, and MidAmerican Energy. Since 2008, I have designed and built solar
16 energy systems across Iowa as the owner and president of GWA Solar. In addition
17 to my continued work at GWA Solar, I have worked for the Iowa Environmental
18 Council (IEC) since 2019. The Iowa Environmental Council is a 501(c)(3) non-
19 profit, member-based corporation that works to advance public policies that
20 provide a safe, healthy environment and sustainable future for all Iowans. In my
21 capacity at IEC, I work primarily on renewable energy, energy efficiency, and
22 climate policy.

23 **Q. Have you testified with the Iowa Utilities Board before?**

1 A. Yes. Most recently I testified in Docket No. E-22436, the petition for an electric
2 transmission line franchise submitted by Soo Green HVDC Link Project Co,
3 LLC, Docket No. RPU-2022-0001, the application for advanced rate making
4 principles submitted by MidAmerican Energy, Docket No. RPU-2021-0003, the
5 application for advanced rate making principles submitted by Interstate Power and
6 Light, Docket No. EPB-2020-0150, the emission plan and budget proceeding for
7 Interstate Power and Light, and Docket No. EPB-2020-0156, the emission plan
8 and budget proceeding for MidAmerican Energy.

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is to give a brief overview of the testimony
11 submitted by the witnesses sponsored by ELPC and IEC, discuss the potential
12 impact to customer rates based on IPL proposed spending, provide some
13 recommendations, and comment on the proposed changes to rate design.

14 **Q: Please provide a brief overview of the testimony submitted by the other witnesses**
15 **sponsored by ELPC and IEC in this Docket.**

16 A. 1) Devi Glick provides an economic analysis of IPL's current fossil generating
17 fleet and provides recommendations for how to manage uneconomic units.
18 2) Cody Davis provides analysis and recommendations regarding IPL's proposed
19 distribution system capital investments and process for managing grid
20 modernization.

1 **II. BALANCING CUSTOMER AND SHAREHOLDER INTERESTS**

2 **Q: What statutory obligations must IPL meet regarding the service provided?**

3 A: Iowa code 476.8 requires every public utility to provide reasonably adequate
4 service and facilities charging reasonable and just rates.

5 **Q: What are reasonable and just rates?**

6 A: In broad terms, for investor-owned utilities, rates should be set such that they
7 balance the interests of the ratepayer with the interests of the shareholder.

8 **Q: Do you believe IPL is appropriately balancing the interests of the ratepayers
9 and shareholders?**

10 A: Not necessarily. Although IPL notes that its investments support a customer
11 focused purpose, it is clear from the presentations made for investors that the
12 purpose is to maintain earnings per share (EPS) with a 6% compound annual
13 growth rate (CAGR). See EI Guyer Direct Exhibit 1 – Powering What’s Next
14 Investor Material November 2023.

15 **Q: Is there reason to believe that investor interests are being prioritized over
16 customer interests?**

17 A: Yes. As shown in Powering What’s Next Investor Material November 2023, executive
18 compensation is based 70% on earnings per share and 30% on ESG and customer
19 metrics. See EI Guyer Direct Exhibit 1, page 34.

20 **Q: Does IPL provide an explanation for executive compensation that is heavily
21 weighted towards earnings per share?**

22 A: Not really. IPL witness Yocum testified that “The Executive and Director long-
23 term Incentive plans are designed to ensure there is a long-term focus on the

1 financial health of the organization. Similar to the financial metrics in the short-
 2 term incentive plan, *the focus on financial benefits customers by aligning*
 3 *employees’ incentives to ensure the financial health of the company which enable*
 4 *access to capital at a reasonable cost, thereby helping keep debt and equity costs*
 5 *down for customers.”* (emphasis added) (Yocum Direct at 8). However, this
 6 neither explains how 70% is the appropriate balance, nor does it provide a basis
 7 for maintaining the financial health of the company.

8 **Q: Is an EPS with a 6% CAGR necessary to be an attractive investment?**

9 A: Currently, most investors have set the bar for EPS growth at 6% annually or
 10 higher. See EI Guyer Direct Exhibit 2 – Bain Brief New Strategies for Utility
 11 Growth page 2.

12 **Q: What growth strategy has IPL provided to investors?**

13 A: To support an EPS with 6% CAGR, IPL intends to continue making significant
 14 capital investments. In the November 2023 Alliant Energy Investor Fact Book,
 15 the following IPL capital expenditures through 2027 are projected.¹

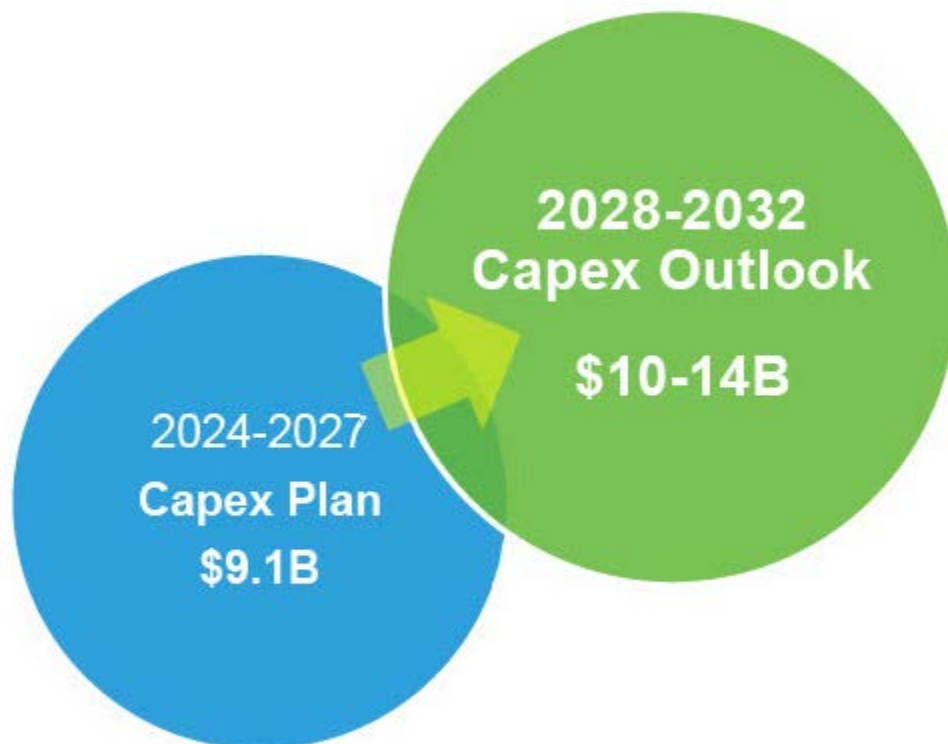
IPL | Planned Capital Expenditure Forecast

\$ in millions	2023	2024	2025	2026	2027
Renewables and battery storage projects	\$350	\$575	\$275	\$445	\$205
Gas projects	10	55	135	310	125
Other generation	55	55	40	20	15
Electric distribution	305	355	365	380	395
Gas distribution	35	40	40	40	40
Other	50	45	50	50	45
Capital Expenditures	\$805	\$1,125	\$905	\$1,245	\$825

16

¹ Alliant Energy Investor Fact Book, p.2 (Nov. 2023), available at https://s201.q4cdn.com/991130938/files/doc_presentations/2023/Nov/10/fact-book-november-2023_rate-base_combined.pdf (last visited April 15, 2024).

1 And in the November 2023 Powering What's Next investor materials, the
2 investors are being advised that the company plans to continue increasing the
3 capital expenditures to support the EPS 6% CAGR as shown below.²



4
5 **Q: Why should IPL investments of \$4.9 billion from 2023 through 2027, and an**
6 **equivalent amount through 2032, be of concern?**

7 A:

8

9 It simply is not clear that IPL's proposed level of investment is necessary nor that
10 the investments IPL is proposing today are the right investments to prepare IPL

² Powering What's Next Investor Materials, at p.16 (Nov. 2023), available at https://s201.q4cdn.com/991130938/files/doc_presentations/2023/Nov/12/eei-2023-draft-presentation-final.pdf.

1 for the future. The sparse justification for existing and new investment in the
2 record, coupled with IPL's public growth targets, make clear that these
3 expenditures are shareholder-driven rather than ratepayer-driven. To maintain the
4 perpetual increase in EPS, IPL will have to collect more money from the same
5 customers. The projected level of investment will dramatically increase the rates
6 without support that these are the right investments in the right amount.³

7 **Q: What kind of rate impact could result from an investor commitment of an**
8 **EPS 6% CAGR?**

9 A: By committing to an EPS 6% CAGR, the past EPS for 2016 through 2023 can be
10 projected forward through 2032. Similarly, the revenue requirement for 2016
11 through 2026 can be projected forward through 2032. If little to no load growth
12 occurs through 2032, then the revenue requirement required to support the EPS
13 target will also increase at a 6% CAGR. As shown in EI Guyer Direct Exhibit 3, if
14 there is little to no load growth, the residential rate would also increase by 6%
15 CAGR and in 2032 could increase by 65% from 2022 to \$0.34 / kwh. Although
16 rates are ultimately established based on cost of service, the underlying principle
17 remains that rates will need to increase significantly if IPL prioritizes the
18 commitment to investors of an EPS 6% CAGR over what is a reasonable and
19 affordable rate for customers.

³ Mendyk Direct Testimony p. 11.

1 **III. RATE DESIGN CHANGES**

2 **Q: Has IPL proposed changes to the rate design?**

3 A: Yes. IPL is proposing to eliminate declining block rates for energy and demand
4 charges. Additionally, IPL is proposing to modify its on-peak and off-peak
5 periods for energy and demand. Other significant rate design changes include
6 simplification of the Large General Service (LGS) rate structure and aligning the
7 Supplementary and Standby rate designs. IPL is also proposing to discontinue the
8 Renewable Energy Rider. These changes will result in simplification on bills for
9 customers.⁴

10 **Q: Do you support the changes to the rate design?**

11 A: Yes. IPL should be commended for rethinking their rate design. Simplification of
12 the rates will result in bills that are more easily understood. Eliminating the
13 declining block rates reduces the incentive to use more electricity, while revising
14 the optional time of day periods and rates provides a substantial incentive to shift
15 consumption to off-peak and super off-peak periods.

16 **IV. RECOMMENDATIONS**

17 **Q: Do you have recommendations given the possible impact to rates by 2032 of
18 billions of dollars in new capital investment?**

19 A: Yes. The London Economics International (LEI) report filed in NOI-2023-0001,
20 noted IPL had the highest rate base per customer among the selected peer utilities.
21 In reviewing the relationship between the rate base per customer and average
22 electric rates (from the same year as the approved rate case), it shows that there is

⁴ Farlinger Direct Testimony page 22.

1 a positive correlation between these two metrics. Holding the other components of
2 a utility's revenue requirement from a rate case proceeding constant, this would
3 mean that a higher rate base per customer equates to higher rates for a utility. IPL
4 is a clear example of this correlation, aligning with the understanding that a higher
5 rate base per customer indicates that a utility is increasing its capital investments
6 which leads to an increased need to recover costs from its customer rates, leading
7 to higher overall rates.⁵ With the projection of billions of dollars in new capital
8 expenditures by IPL, it is recommended that IPL utilize integrated resource
9 planning (IRP). Such a process could provide greater insight into the current
10 status and future needs of the system—in addition to addressing the policy
11 objectives of adequate and reliable service and just and reasonable rates.⁶

12 **Q: Do you have specific recommendations regarding integrated resource and**
13 **distribution system planning?**

14 A: Yes. IPL, at a minimum, needs to conduct transparent participatory planning
15 processes consistent with the recommendations provided by EI witness Devi
16 Glick and EI witness Cody Davis. Balancing the interests of ratepayers with the
17 interests of investors requires processes to protect ratepayer interests where it is
18 clear that IPL has a primary objective is maintaining an EPS goal of 6% CAGR.
19 The resource and distribution plans should have a minimum planning horizon
20 through 2032, and proposed capital expenditures should be based on need and
21 prioritized based on value to the system.

⁵ NOI-2023-0001, London Economics International, Review of Current Iowa Code Provisions and Ratemaking Procedures at page 127 (filed Dec. 21, 2023) (hereafter LEI Review).

⁶ LEI Review, pages 5-7.

1 **Q: Why do you believe integrated distribution system planning is necessary?**

2 A: For the years 2023 through 2027, IPL disclosed the intent to invest \$1.8 billion in
3 the distribution system.⁷ This will significantly increase the rate base and
4 consequently the rates. Integrated distribution system planning provides a process
5 to ensure investments are in the best interest of the customers. As discussed by
6 ELPC and IEC witness Davis, Integrated grid plans (also called integrated
7 distribution plans) provide a systematic approach to satisfying customer service
8 expectations and state grid planning and design objectives such as reliability,
9 resiliency, operational efficiency, the integration of DER, and other elements of
10 distribution planning, investment, and operational decision-making. The
11 integrated grid plan provides a constructive, technically focused venue where
12 distribution planning methods, investment planning, reliability and resiliency
13 goals, and long-term strategies can be presented and discussed with public
14 stakeholders.

15 **Q: Why do you believe integrated resource planning is necessary?**

16 A: As discussed by EI witness Glick, all of IPL's coal-fired power plants have
17 incurred net revenue losses in at least two of the past five years (based on fuel
18 costs, O&M, capacity market revenues). The Neal units have incurred negative
19 net revenues in three of the past five years, including in 2023 where all plants
20 were either uneconomic or barely marginal. An IRP process produces results that
21 are in the best interest of customers using portfolio modeling to select resources

⁷ Alliant Energy Investor Fact Book, p.2 (Nov. 2023), available at https://s201.q4cdn.com/991130938/files/doc_presentations/2023/Nov/10/fact-book-november-2023_rate-base_combined.pdf (last visited April 15, 2024).

1 that will result in a balanced generation portfolio with a lowest overall average
2 long-term NPVRR, including replacing uneconomic units rather than continuing
3 operating units that are not in the best interest of customers. Although IPL agreed
4 to conduct a resource planning process through settlement in docket RPU-2021-
5 0003 filed on August 7, 2023,⁸ this rate case was filed two months later before the
6 resource planning process had started, rather than waiting for the results.

7 **Q: Did the LEI report have other noteworthy recommendations?**

8 A: Yes. LEI recommends that the IUB explore the feasibility of adopting
9 performance-based regulation (PBR) ratemaking principles. The lack of
10 performance metrics are seen throughout IPL's rate case as testimony offers high
11 level justifications for massive investment rather than connecting the investment
12 directly to targeted outcomes. The Board should reject IPL's generalized support
13 as insufficient and start a process of providing more guidance on its expectation
14 for performance. This exploration could involve establishing a Notice of Inquiry
15 ("NOI") docket to collect insights from stakeholders and facilitate knowledge
16 exchange to determine if PBR is the best approach for ratemaking in Iowa.⁹

17 **Q: Do you have recommendations to improve performance?**

18 A: Yes. The IUB should consider implementing scorecards that not only focus on
19 reliability and safety, but incorporate financial incentives through performance
20 incentive mechanisms (PIMs) as part of PBR. Scorecards would introduce
21 specific reliability, safety, and customer service targets for the utilities to meet;

⁸ RPU-2021-0003, Settlement and Exhibit A, filed Aug. 7, 2023.

⁹ LEI Review at p. 10-11.

1 with PIMs, rate-regulated utilities would be penalized or rewarded for failing to
2 meet or exceeding targets, respectively¹⁰.

3

4 **V. CONCLUSION**

5 **Q: Are you concerned about IPL's proposed rates satisfying the requirement to**
6 **be reasonable and just?**

7 A: Yes. Prioritizing investor interests over ratepayer interests creates the real
8 potential of rates that are unaffordable and untenable. Although simplifying rate
9 design is supported and provides customer value, this rate review must consider
10 whether IPL's proposed investments are reasonable and just, given the clear intent
11 to focus on earnings rather than customer needs, as evidenced by investor
12 presentations to make substantial capital investments through 2032.

13 **Q: Does this conclude your testimony?**

14 A: Yes.

¹⁰ LEI Review at p. 14-15.

AFFIDAVIT OF STEVEN GUYER

STATE OF Iowa)
) ss.
COUNTY OF Polk)

I, Steven Guyer, being duly sworn on oath, state that I am the same Steven Guyer identified in the testimony being filed with this affidavit, that I have caused the testimony to be prepared and am familiar with its contents, and that the testimony is true and correct to the best of my knowledge and belief as of the date of this affidavit.

/s/ Steven Guyer
Steven Guyer

State of Iowa

County of Polk

Subscribed and Sworn before me this 16 day of April, 2024.

/s/ Bailey Lilly
Notary Public in and for the State of Iowa