

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. RPU-2010-0001
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FINAL DECISION AND ORDER

(Issued January 10, 2011)

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I. PROCEDURAL HISTORY

On March 10, 2010, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) proposed electric tariffs, identified as TF-2010-0034 and TF-2010-0035. In TF-2010-0034, IPL proposed a temporary annual increase in its Iowa retail electric revenue of approximately \$119 million, or about 10.1 percent over current Iowa retail electric revenue. Pursuant to Iowa Code § 476.6(10), IPL implemented its proposed temporary rates ten days after its March 10, 2010, filing; the rates are subject to refund, with interest. In TF-2010-0035, IPL proposed a permanent annual increase in its Iowa retail electric revenue of approximately \$162.5 million, or about 13.8 percent over its current revenues.

The Board docketed IPL's filing as Docket No. RPU-2010-0001 and set a procedural schedule by order issued April 6, 2010. In addition to the Consumer Advocate Division of the Department of Justice (Consumer Advocate), Ag Processing Inc. (Ag Processing), the Large Energy Group (LEG), the Iowa Consumers Coalition (ICC), and Northern Natural Gas Company (Northern) intervened in the proceeding. The LEG consists of 25 major IPL customers, largely in the former Iowa Electric service territory. The ICC consists of three large customers from the former Iowa Southern and Union Electric service territories.

The Board held eight consumer comment hearings throughout IPL's service territory. Prefiled testimony was submitted by all intervenors except Northern and Ag Processing.¹

¹ Ag Processing is also a member of LEG.

On June 29, 2010, the Board issued an order requiring IPL to file additional information regarding IPL's announced restructuring of its energy delivery business that would eliminate between 60 and 70 jobs in Iowa and Wisconsin. IPL filed the requested information.

In its rebuttal testimony, IPL reduced its request for final rates to an annual increase of approximately \$149.9 million. The changes were the result of modifications to IPL's original filing and some issues being agreed to or dropped by IPL and intervenors. (IPL Initial Brief, p. 6, footnote 4). Consumer Advocate's final recommendation is for IPL to receive no rate increase, or perhaps a slight reduction, depending on the size of any management efficiency adjustment.

IPL proposes to complete the rate equalization process among its different pricing zones with final rates in this docket. Only one equalization step (out of five) remains for residential and general service classes. Equalization was completed in 2008 for the large general service and lighting classes; for those classes, equalization consisted of three steps. The fourth rate equalization step for residential and general service classes was effective on September 16, 2009.

A hearing was held beginning September 20, 2010. Simultaneous initial (October 25, 2010) and reply (November 8, 2010) briefs have been filed by the parties. The statutory ten-month decision deadline is January 10, 2011. Iowa Code § 476.6(10).

The primary drivers for IPL's rate case filing include capital costs related to IPL's Whispering Willows – East (WWE) wind farm and emissions controls at Lansing Generation Station Unit 4, one of IPL's coal-fired plants. Total capital costs for these two projects are over \$650 million. ITC Midwest LLC (ITC Midwest) transmission costs paid by IPL are also a significant driver for the proposed increase.

While management efficiency is once again an issue, the proposed dollar impact is not as significant as it was in IPL's last rate case (Docket No. RPU-2009-0002), in which Consumer Advocate proposed a \$50 million reduction to revenues because of IPL's alleged management efficiency; in this docket, the requested penalty is \$5 million. Although IPL opposes the management efficiency reduction, it has not requested a management efficiency reward.

Based on the Board's decisions on the various issues discussed in this order, IPL's annual Iowa retail revenue will increase by \$114,789,722, or about 9 percent. This is less than the increase IPL implemented in temporary rates, which was approximately \$119 million, or 10.1 percent..

II. INTRODUCTION

This is IPL's second rate case in two years. In each of these cases, IPL requested significant increases in electric rates. Last year's rate case (Docket No. RPU-2009-0002) was driven in part by damage caused by the 2008 flood. In this proceeding, IPL has brought significant investments in wind generation and emissions control on line. Both cases have occurred during challenging economic times. While some indicators show economic improvement, unemployment remains

at historically high levels. At the consumer comment hearings, the Board heard about the impacts of the flood and the economy on the daily lives of many of IPL's customers, both residential and business.

In determining the rates of a regulated public utility, regulation does not assure that the utility make a profit, but regulation must give the utility the opportunity to operate successfully. Davenport Water Co., v. Iowa State Commerce Comm'n, 190 N.W.2d 583, 601 (1971), citing Market St. Ry. Co., v. Railroad Commission, 324 U.S. 548, 566-567. In Davenport Water, the Iowa Court at 590 quoted favorably from 43 Am.Jur., Public Utilities and Services, § 186:

In general, a rate fixed by an authorized rate-making body for a public utility is presumed to be valid and reasonable. Accordingly, the courts will not enjoin or interfere with the collection of rates established under legislative sanction unless they are plainly and palpably unreasonably, confiscatory, or excessive

In Davenport Water, the Iowa Court at 602 cited and quoted a treatise by Nichols, who indicated that "[c]hanges in economic conditions, as indicated in an earlier chapter, must be considered in determining a proper return allowance." Nichols went on to say that when interest rates are low, the cost of capital to a public utility is correspondingly low; when interest rates are high, the cost of capital to a public utility is correspondingly higher.

In setting rates, the Board must balance the interests of the utility and its shareholders and ratepayers. As the Board considers the various issues in this proceeding, it is mindful of the economic consequences of its decisions on IPL's ratepayers, but at the same time the Board recognizes that a utility must make

substantial long-term investments in its system so that it can continue to provide safe and reliable service at the lowest reasonable long-term cost. However, the utility must make these investments with prudence and reasonableness and ratepayers must be assured that the utility is managing its business appropriately and making the necessary infrastructure investments at a reasonable cost. Over the long term, both ratepayers and shareholders are best served by a financially healthy utility that is able to invest in its infrastructure and new technology so that customers continue to receive reliable service at a just and reasonable price. Cutting costs on such things as operations and maintenance or capital projects can produce savings in the short term, and can be appropriate short-term responses in difficult economic times, but over the long term the failure to maintain existing facilities and invest in appropriate new facilities can have negative impacts both on the utility and its ratepayers. The Board must consider both the short-term and long-term impacts of its decisions, and well as inquire as to whether the utility is implementing its decisions in a reasonable and prudent manner.

III. RATE BASE ISSUES

Whispering Willows – East (WWE)

Introduction

On September 28, 2007, IPL filed with the Board an application for the determination of advance ratemaking principles for WWE, a proposed 200 MW wind powered generation project. The case was identified as Docket No. RPU-07-5. On February 6, 2008, the Board approved a settlement between IPL and Consumer

Advocate which included approval of a cost cap for WWE of approximately \$417 million, or \$2,086 per kW, inclusive of costs associated with reliable interconnection, and excluding Allowances for Funds Used During Construction (AFUDC). The settlement agreement which established the ratemaking principles requires IPL to:

establish the prudence and reasonableness of any IPL Wind Project investment and transmission costs in excess of the foregoing calculated amount before the Iowa jurisdictional portion of such excess can be included in rates.

The final estimated WWE costs were over \$468 million, exclusive of AFUDC. (Tr. 845). This exceeds the Board approved cost cap by more than \$51 million. The primary reason for exceeding the cap was because the cost of the wind turbine generators exceeded IPL's estimates. There were also additional costs for civil construction and substation design.

IPL Position

IPL asked for rate base treatment and full recovery of its investment in WWE, which was placed in service on December 11, 2009. (Tr. 468). IPL argued that it has provided evidence to establish the prudence and reasonableness of costs over the cost cap and its decision to go forward with WWE.

IPL said the primary driver for costs exceeding the cost cap was the price of the wind turbine generators (WTGs). IPL negotiated with WTG vendors throughout 2007-2008. IPL said that this process was difficult and the number of vendors limited; there was a seller's market at that time. (Tr. 474, 525). IPL stated it received a firm proposal from General Electric (GE) in February 2007 for WTG's, with a 2008-

2009 delivery date. (Tr. 474). IPL said the following provisions were attached to the GE proposal:

- A 30-day expiration. The GE proposal was valid for only 30 days, which IPL argued was not enough time to do a thorough due diligence review, and would have expired prior to IPL's ability to obtain ratemaking principles. (Tr. 474, 548).
- Subject to availability. The proposal was subject to the availability of those turbines – IPL said that merely because GE had provided a proposal it did not mean GE was precluded from selling the turbines to fulfill any subsequent order to another pre-existing GE customer. (Tr. 547-48).
- Pre-determined, non-negotiable terms. IPL said that if IPL had accepted the proposal, it would have been bound by pre-determined, non-negotiable contract terms that it could not review before contract execution. (Tr. 590).

Under these contract terms, IPL said it decided not to move forward with the GE proposal.

IPL said it did, however, use the price component of the GE turbine proposal to establish its costs and cost cap in its ratemaking principles application. (Tr. 475). IPL argued that it was appropriate to use the GE price in the September 2007 ratemaking principles application since the price was validated by a May 2007 Clipper proposal with comparable pricing. (Tr. 475).

IPL said that in October 2007, after submission of its ratemaking principles application and one month before its settlement agreement with Consumer Advocate, IPL entered into negotiations with Vestas. (Tr. 476). IPL stated that turbine prices began escalating at this time. (Tr. 477-79, 498-99). In June 2008, IPL entered into a

Master Supply Agreement (MSA) with Vestas for 500 MW of WTGs, which included 200 MW for WWE. IPL maintained that the WTG price received from Vestas was considered appropriate based on a market analysis report conducted by Garrad Hassan, which determined the Vestas price was within the normal range of WTG pricing for the time period. (Ex. 13).

In addition to the cost overruns on WTGs, IPL said a second category where Consumer Advocate recommended disallowance are construction costs related to getting WWE in service by December 31, 2009. (Tr. 1714-15). IPL argued that Consumer Advocate gives no basis for this proposed disallowance other than these costs "should be limited to the Board's approved settlement cost cap" (Tr. 1715). IPL pointed out that Consumer Advocate acknowledged all of the selection criteria for the contracts awarded appeared to be reasonable. (Tr. 1771-73).

IPL stated that there are several other factors that provided IPL an incentive to move forward on WWE that should be considered in determining whether to include costs above the cost cap in rate base, such as potential renewable portfolio standards (RPS) at the state and federal level, renewable requirements imposed by the Board's Final Order in Docket No. GCU-07-1, production tax credits (PTCs), and the availability of bonus depreciation for tax purposes. IPL pointed out that the federal Emergency Economic Stabilization Act (EESA), which was passed in October 2008, provided tax credits for renewable production facilities if the facilities were in place by December 31, 2009. Additionally, IPL said the federal American Recovery and Reinvestment Act of 2009 provided, in part, for a 50 percent bonus depreciation

deduction for eligible energy production facilities placed in service by December 31, 2009; the bonus depreciation benefit to customers totals \$23 million on a present value basis. (Tr. 495). Finally, IPL noted that in 2007 and 2008 there were movements at the state and federal level to establish a national RPS, as well as expand Iowa's RPS (Tr. 60-61) and the Board's order in Docket No. GCU-07-1 "required IPL to build even more wind generation than WWE would provide." (IPL Initial Brief, p. 41).

Consumer Advocate Position

Consumer Advocate noted that IPL has been seeking to add renewable energy generation to its supply resource portfolio since at least 2005 and that policies supporting renewable energy sources, such as the PTC and advance ratemaking principles, have been in place since 2003. (Ex. 110). As a result, Consumer Advocate argued IPL had ample time and a stable policy environment in which to assemble its strategy for procuring new wind generation.

Consumer Advocate recognized that the cost of wind generation has increased substantially since 2003. (Tr. 504). Consumer Advocate said that while the intent of Iowa's advance ratemaking principles statute, Iowa Code § 476.53, is to encourage Iowa-built generation by rate-regulated utilities, the legislative intent is not to have this generation built at any cost, as noted by the Board in MidAmerican Energy Co., Docket No. RPU-01-9, p. 4 (5/29/2002). Consumer Advocate said the settlement agreement between IPL and Consumer Advocate provided for a cost cap of approximately \$417 million and that the final capital costs for WWE, including

associated transmission costs, exceed the approved cost cap by approximately \$61.6 million. (Tr. 469-70, 1709-10). Consumer Advocate recommended disallowance of all costs in excess of the approved cost cap. (Tr. 1709-15).

In order for IPL to recover WWE capital costs in excess of the approved cost cap, Consumer Advocate said that ratemaking Principle No. 4 requires IPL to prove the prudence and reasonableness of costs above the cost cap. Similarly, Consumer Advocate said that ratemaking Principle No. 3 requires IPL to prove that its proposed O&M costs for WWE are reasonable and prudent in order to recover such costs as part of its approved Iowa jurisdictional revenue requirement.

Consumer Advocate argued that IPL has not met its burden of proof. (Tr. 1711, 1713, 1715, 1718, 1727). First, Consumer Advocate said that IPL did not adequately justify its failure to secure the firm WTG proposal from GE that served as the basis for the ratemaking principles and associated O&M costs. (Tr. 1712, 1721-22). Second, Consumer Advocate said that IPL failed to justify its decision to move forward on the higher-priced Vestas WTC contract with an expedited winter construction schedule. (Tr. 1713-14, 1726-27).

With respect to the wind turbine generators, Consumer Advocate argued that IPL did not justify its failure to secure the GE bid or a comparably priced alternative. Consumer Advocate maintained that customers and regulators relied on IPL's assertions in the ratemaking principles proceeding that the cost cap was achievable and the proposed wind project would be beneficial to customers. (Tr. 1710). In the ratemaking proceeding, Consumer Advocate noted that IPL witnesses filed testimony

supporting the economic analysis of the wind project, which was predicated on the GE price proposal; IPL witnesses also confirmed the cap was achievable. (Ex. 110). Consumer Advocate questioned IPL's insistence on a 2009 in-service date, given the high demand for turbines at the time and IPL's assertions that IPL's installation date was flexible. (Tr. 472-74). Consumer Advocate also questioned IPL's failure to move forward on the GE proposal in February 2007 and its subsequent use of the GE proposal as the basis for IPL's cost cap in its September 2007 ratemaking principles filing. (Tr. 474-75).

Consumer Advocate said that IPL purchased higher-priced Vestas turbines in June 2008 despite some indications that turbine prices might abate. Consumer Advocate also pointed out that MidAmerican Energy Company (MidAmerican) was in the market for WTGs in 2007 and 2008 and MidAmerican was able to secure WTGs during this time on terms comparable to the GE offer received by IPL.

With respect to construction cost, which Consumer Advocate said was another factor in IPL exceeding its approved cost cap, IPL made the decision to continue construction activities during the freeze-thaw cycle. (Tr. 471, 480-81). Consumer Advocate said that winter construction resulted in additional foundation and road work necessary to build during the freeze-thaw cycle of the winter and spring seasons. (Tr. 480, 483). While IPL contended that it accelerated its construction plans in October 2008, when Congress acted to extend the PTC through 2009, Consumer Advocate said it was revealed during cross-examination that IPL believed as early as June 2008 that the federal PTC would be extended through 2009.

(Tr. 481, 512). Given IPL's belief that the PTC would be extended and IPL's decision to enter into a higher priced WTG contract than assumed for its cost cap, IPL had the opportunity to begin civil construction activities before the freeze-thaw cycle in order to mitigate civil construction costs but did not do so, according to Consumer Advocate.

Board Discussion

In 2001, the Iowa Legislature adopted Iowa Code § 476.53, which allowed advance ratemaking principles for the construction of certain generation plants built in Iowa by rate-regulated utilities. The intent of the legislation was "to attract the development of electric power generating and transmission facilities within the state." Iowa Code § 476.53(1).

One of the typical advance ratemaking principles is a cost cap. The dispute between IPL and Consumer Advocate is whether there should be any recovery of amounts expended by IPL in excess of the cost cap awarded in the ratemaking principles proceeding in Docket No. RPU-07-5. Iowa Code § 476.53(4)"g" provides that ratemaking principles are binding with respect to the subject generation facility in future rate proceedings. The Board said in its order in Docket No. RPU-2009-0003, another ratemaking principles case, that costs exceeding a cost cap established in a ratemaking principles proceeding can only be recovered if those costs are shown in a later rate proceeding to be reasonable and prudent; the Board indicated that ratemaking principles are not a blank check and the burden is on the utility to establish the prudence and reasonableness of any cost overruns. In looking at

whether those expenditures are reasonable and prudent, the Board can examine both the expenditures themselves and the management process used in planning and constructing the project.

Prudent utility investment has long been defined in accord with the definition offered by Justice Brandeis in his separate opinion in Southwestern Bell Telephone Co. v. Public Service Comm'n, 262 U.S. 276 (1923). Justice Brandeis said:

The term prudent investment is not used in the critical sense. There should not be excluded from the finding of the base, investments which, under ordinary circumstances, would be deemed reasonable. The term is applied for the purpose of excluding what might be found to be dishonest or obviously wasteful or imprudent expenditures. Every investment may be assumed to have been made in the exercise of reasonable judgment, unless the contrary is shown.

Under this definition, there is normally a presumption of reasonableness attached to utility investments. However, when advance ratemaking principles are established, including a cost cap, the burden is shifted with respect to costs in excess of the cap. Thus, the burden is on IPL to show that the cost overruns were reasonable and prudent.

The WWE cost overruns are, in some ways, similar to the excess capacity adjustments made by the Board in the early 1980s, prior to adoption of Iowa Code § 476.53, which specifically provided for an excess capacity adjustment, and was later repealed.

In Iowa-Illinois Gas & Electric Co. v. Iowa State Commerce Comm'n, 347 N.W.2d 423 (Iowa 1984), the Commission (the predecessor to the Board) imposed an

excess capacity adjustment on Iowa-Illinois because its electric generating capacity exceeded 125 percent of its actual annual peak in 1980. The excess was largely due to Iowa-Illinois' investment in the new Ottumwa Generating station, which the Commission found was a prudent investment when the initial decision to build was made. The Commission also found the investment was used and useful because Ottumwa could operate more efficiently than other Iowa-Illinois facilities. Nevertheless, because the Commission found Iowa-Illinois had excess capacity overall, the Commission reduced the return on that portion of the company's generating investment that was determined to be excess; Iowa-Illinois challenged that decision, claiming that once a particular investment was found to be used and useful and prudent when made, the due process clause prohibited a reduction of the utility's return on its investment.

The Court found that due process does not require a regulatory agency to adopt a particular rate of return, and that for courts to interfere with agency decision making on a due process basis, the rate must be outside a zone of reasonableness, which gives that agency an area of freedom "to devise methods of regulation capable of equitably reconciling diverse and conflicting interests." 347 N.W.2d at 428. The Court recognized that the fixing of rates requires a balancing of investor and consumer interests, even if the balancing should result in no net revenues to the utility. Id., quoting FPC v. Hope, 320 U.S. 591 (1944).

The Court found that nothing prohibits a lower return from the ratepayers when part of an investment turns out to be unnecessary, even though the utility's original

decision to make the investment was prudent. As the Court said, "[u]tility investors are not insulated from the consequences of diseconomies resulting from a management decision that was prudent when made but which later events prove to have been mistaken." 347 N.W.2d at 429. The Court said there is a distinction between the usefulness of particular facilities and the usefulness of the total of those facilities.

A Board decision on the prudence of some costs associated with Union Electric's Calloway nuclear plant is also instructive. There, the Board said it would not pass judgment on each individual management decision as to its prudence, but rather focus its concern on the total outcome of the building process and decide whether, when taken as a whole, the project was prudently managed. The Board said:

If we were to make judgments as to the proper number of portable toilets or the proper volume of potable ice water that should be made available to workers, the result in future building projects would require an inordinate amount of management time spent documenting individual decisions, no matter how insignificant, instead of concentrating on completing the plant as efficiently as possible.

Union Electric Company, "Decision and Order," Docket No. RPU-85-9, p. 8

(2/10/1986). In looking at the record as a whole, the Board concluded that construction time could have been reduced had management given early completion a higher priority, as there were regular and almost routine delays in the construction schedule. The Board focused on the overall project management, not the prudence of individual decisions.

In the current case, the Board must balance the intent of advance ratemaking principles, which is to promote construction of generation in Iowa, with the requirement that IPL demonstrate that costs in excess of the established cost cap were the result of reasonable and prudent decisions. IPL acknowledged exceeding the cap, with the most significant reason being the cost of wind turbine generators.

IPL had a bid from GE in early 2007 but allowed the bid to expire. IPL used the expired bid as the basis for the cost cap in the ratemaking principles proceeding because IPL deemed the expired bid to be the most developed and representative information that IPL had at the time it filed its September 28, 2007, ratemaking principles application. (Tr. 475, 471, 479, 499-500). IPL then settled the case with a cost cap based on the expired bid, without a firm WTG proposal and in a market where IPL believed prices were escalating. In the ratemaking proceeding, IPL asked the Board to rely on IPL's expertise in determining that the cost cap it was proposing was achievable.

It is unclear in this record why IPL decided not to act on GE's bid. Throughout this proceeding, the number and frequency of IPL's arguments varied so widely, it only intensified the confusion regarding IPL's actions. Listed below are several of IPL's attempt to explain why it did not accept the GE bid:

1. IPL did not have authority from its Board of Directors. (Tr. 474).
2. The GE turbine was not a good fit for the site. (Tr. 550).
3. The GE bid was subject to other sales. (Tr. 548).

4. IPL could not get a proposal from [GE] that lasted long enough to act upon. (Tr. 572, 548).

5. IPL had not conducted due diligence on the GE turbines. (Tr. 569).

6. IPL did not have commercial terms and conditions for IPL stakeholders to review. (Tr. 583).

7. GE had other customers it would rather sell turbines to. (Tr. 587).

8. IPL did not deem it prudent to proceed with a turbine purchase prior to making its rate making application. (Tr. 548).

IPL was inconsistent in its explanation. For example, the first explanation for IPL's failure to move forward with the GE bid was IPL's inability to secure Board of Director approval within 30 days. However, this explanation changed at hearing when an IPL witness testified that the board of directors had a capital improvements committee to deal with these issues and he couldn't "imagine the capital improvements committee not being able to meet." (Tr. 137). No IPL witness testified about such a meeting and no minutes or other memorialization of such a meeting were introduced as an exhibit.

Another example of IPL's inconsistent explanations for the failure to move forward on the GE contract is that IPL initially said that it knew GE turbines would work for the proposed site. (Tr. 498). At the hearing, IPL said that the GE turbines were not a good fit for the site. (Tr. 550). During cross-examination of an IPL witness, the explanation changed again:

Q. But there wasn't some particular flaw with GE turbines that caused you to consider them to be not a good manufacturer?

A. No, not at all. We just simply couldn't get a proposal from them that lasted long enough to act upon.

(Tr. 572).

It is difficult to accept IPL's argument that the GE turbine was in some way inadequate given that after IPL let the first GE proposal expire, IPL then asked GE for a second proposal. After IPL received the requested second GE proposal, it also let that proposal expire. (Tr. 549). Throughout this proceeding, IPL has offered various reasons for not accepting the GE bid only to later contradict its own statements. As a result, the record does not support a finding that IPL was reasonable and prudent when it decided to let the GE bid expire.

The Board is also concerned about the apparent lack of management oversight over the WWE turbine procurement process. One IPL witness, who is director of wind energy development but not an executive officer of IPL or Alliant Energy, stated that it was her decision to let the GE bid expire:

Q: And then who actually made the decision to let the GE bid expire?

A: I did.

Q: You did?

A: Uh-huh. (Tr. 591).

In response to further questioning by the Board, the IPL witness stated she does not recall if anyone in upper management ever asked specifically why the GE bid was allowed to expire and that, to the best of her knowledge, the Board was not informed of the decision to allow the GE bid to expire (Tr. 585, 592), even though it later formed the basis of IPL's application for ratemaking principles.

No IPL witness could recall IPL performing any internal review of the WTG purchase from Vestas and the resulting project cost overruns. Apparently, based on this record, a single person in the company had the authority to spend hundreds of millions of dollars on wind turbines without upper management review and approval, either before or after the purchase. This does not appear to be a prudent management situation.

IPL has urged the Board to be mindful of the competitive environment that existed when IPL was making its WTG purchase decisions. IPL witnesses testified that during the relevant time frame there was high demand for WTGs, significant supply constraints, and prices were projected to continue escalating. (Tr. 59, 109-10, 473, 499, 504). IPL offered testimony that buyers were "standing in line" for an opportunity to purchase WTGs during this time. (Tr. 474, 525).

Even if IPL's characterization of the WTG market is accepted, the fact remains that IPL was able to obtain a WTG proposal from GE in February 2007. (Ex. 105). If IPL was soliciting firm bids, it should have been prepared to act on them, and the fact that IPL's wind team was also working on a project in Wisconsin is not an excuse for IPL's failure to act on the Iowa project. (Tr. 582).

Because of the numerous, changing, and conflicting reasons offered for the overrun in turbine pricing, IPL has not established the prudence and reasonableness of WWE turbine costs in excess of the cost cap. Based on this record, management oversight of the WWE project was inadequate and the decision-making process flawed. IPL said it rejected the GE bid because it did not have time to evaluate the bid. Yet on the bid IPL accepted it was unaware of the warranty provisions (which required Vestas to do operations and maintenance) (Tr. 505-06); apparently IPL accepted the Vestas bid without a full evaluation of the bid, further demonstrating the inconsistency of IPL's management of this project.

Although IPL's decision making process and management oversight were flawed, the actual results of the project are not as flawed as the process used to get to the results. In fact, the evidence demonstrates that the costs incurred from the time the Vestas bid was accepted until WWE was completed were reasonable and prudent; the primary issues are with the management process associated with the WWE project. The Garrad Hassan market research report submitted by IPL indicated the Vestas bid was within the price range suggested by the report. The Department of Energy (DOE) report submitted by Consumer Advocate, which Consumer Advocate said supported its position that WWE costs were imprudent, excluded utility-owned projects that do not sell their power into the wholesale market and some other projects; therefore, the data is not complete. More importantly, the DOE report was issued in August 0f 2010 and was not available to IPL when it made the decision to accept the Vestas bid. (Ex. 102).

WWE was not completed within the limits of the cost cap, but it still represents a useful addition to IPL's electric generation portfolio. Iowa policy is supportive of utility-owned generation and renewable energy in general; § 476.53. However, this support cannot be at any cost, and a utility does not have a blank check to build renewable generation and charge all costs to ratepayers. The Board must balance the interests of various stakeholders in determining the appropriate recovery of the cost overrun. (Recovery of the investment up to the cost cap was established at the time of the ratemaking principles docket.) In balancing the various interests and taking Iowa's public policy supporting renewable energy into consideration, the Board will allow IPL to recover its investment in the cost overrun associated with WWE turbine costs over a 20-year term, but the Board will not allow IPL to earn a return on its investment and the amount of the WTG cost overrun will be excluded from rate base. WWE is providing benefits to IPL's customers, but because IPL has not shown the reasonableness and prudence of the management process related to the WTG expenditures in excess of the cost cap, stockholders will be denied any profit on that investment.

A second reason that WWE costs exceeded the cost cap, apart from the cost of the WTGs, is IPL's decision to pursue a December 31, 2009 in-service date for WWE. IPL states that its discussions with WTG vendors in early 2007 "centered on the availability of WTGs for delivery to IPL in order to support a December 2009 in-service date." (Tr. 474). Consumer Advocate argues that IPL was not required to

have the WWE facility in-service by 2009 and that IPL's commitment to a December 31, 2009, date motivated IPL to incur unnecessary costs.

IPL's original plan was to begin construction in the spring of 2009. However, IPL ultimately began construction in late 2008 in order to be in a position to place WWE in service before year-end 2009. (Tr. 480-81). IPL then made the decision to continue construction through the winter months of 2008-2009, which resulted in additional foundation and road work necessary to build during the freeze-thaw cycle of the winter and spring seasons. (Tr. 480, 483). The foundation work costs exceeded the cost cap by \$4.6 million. (Tr. 501). When IPL's witness was asked to explain IPL's decision that working through the winter months was necessary, the reply was that from a practical and cost standpoint, it did not make sense to demobilize construction crews and IPL personnel and abandon the site during the winter months. (Tr. 482). Abandonment of the site would allegedly have resulted in maintenance costs, as well as the eventual remobilization costs of contractors, equipment, and IPL personnel. (Tr. 482). IPL, however, did not provide any analysis to show that the benefits of continuing construction outweighed the costs of stopping for the winter. In fact, IPL could not state with any certainty if this decision led to increased costs. (Tr. 483, 500).

Similar to the GE contract situation described above, IPL offered several arguments why WWE needed to be in-service by December 31, 2009. First, IPL testified that the December 31, 2009, date was to ensure the receipt of production tax credits and bonus depreciation. (Tr. 60, 199-200, 494-95, 469). However, IPL also

testified that at the time IPL purchased WTGs in June 2008 its expectation was that PTCs would expire at the end of 2008. (Tr. 110, 511-12), so the PTCs cannot have been a factor in the decision to purchase WTGs above the cost cap for installation by December 31, 2009.

Consumer Advocate's argument that tax benefits did not impact IPL's purchase decision is supported by the various timelines that IPL provided in this proceeding. (Ex. 105, IPL Initial Brief, p.43, IPL Reply Brief, p.13). Additionally, in its reply brief IPL admits that its decision on WTGs was made before the PTCs and bonus depreciation were passed. (IPL Reply Brief, p. 13, footnote 20).

Another argument IPL puts forward is that the December 2009 in-service date was the result of the Board's Order in Docket No. GCU-07-1 regarding IPL's proposed coal plant. The Board's decision meeting in that docket was in April 2008 and the written order issued on August 25, 2008. Again, IPL entered an agreement with Vestas for WTGs above the cost cap several months prior to this decision. (Ex. 105). Further, IPL acknowledged that the Board's Order in Docket No. GCU-07-1 did not require wind generation be installed prior to 2013. (Tr. 510-11). In other words, the GCU order could not have been the basis for IPL's decision with respect to a December 31, 2009, in-service date. (Tr. 104).

While IPL in the ratemaking principle proceeding said that its goal was to have WWE operational by December 31, 2009, this was not a Board requirement. The ratemaking principles approved in Docket No. RPU-07-5 did not impose time

constraints or a deadline for IPL building the wind project under the applicable principles. (Tr. 102).

The precise reasons for IPL's commitment to a December 31, 2009, date are not clear in this record. Nevertheless, the Board believes that the costs associated with winter construction are appropriately recovered. While the Board has some concern about IPL's decision to begin WWE construction early and continue construction through the winter, ultimately this early start allowed WWE to qualify for bonus depreciation; it is possible that the December 31, 2009, date could not have been met absent the winter construction or other accelerated construction measures that could have cost as much. The bonus depreciation might not have been the initial impetus for the early construction, but ratepayers ultimately benefited when WWE qualified for the bonus depreciation. While the decision making process with regards to construction again appears to be flawed, in this case the result was that IPL and its customers were fortunate and the final costs were reasonable and prudent. There will be no disallowance of costs related to WWE's civil construction.

Injuries and Damages

Utilities incorporate estimates for injuries and damages claims into their cost of service. IPL and ICC appear to agree that 50 percent of injuries and damages should be incorporated into rate base, but they disagree on whether a five-year, inflation adjusted average or a three-year average, with no inflation adjustment, should be used. The Board believes that it is appropriate, consistent with past Board precedent, to use IPL's five-year, inflation adjusted average.

Post-Test Year Capital Additions in Service September 30, 2010

There were initially two contested issues regarding post-test year capital additions in service on September 30, 2010, and the related cost of service schedule. The first issue was the depreciation rate used by IPL for the Lansing Unit 4 emission control project. This issue has been resolved by IPL's agreement to use the 3.61 percent depreciation rate recommended by ICC rather than the 10 percent rate proposed by IPL in its initial direct testimony.

The remaining contested issue relating to post-test-year capital additions is intertwined with the cost cap approved for WWE in the ratemaking principles proceeding. IPL included \$10.55 million for transmission upgrades related to WWE in its post-test year capital additions in service on September 30, 2010. These costs were for necessary improvements to transmission owned by MidAmerican; these improvements were required before WWE could interconnect to the transmission system.

Consumer Advocate argued that these capital additions for transmission costs were part of the cost cap proposal in the ratemaking principles proceeding and should be included as part of that cap when evaluating the total capital costs for WWE. This would make the overall cost overrun associated with WWE even larger. Consumer Advocate argued that previous cost caps for wind projects built by MidAmerican were "inclusive of AFUDC (allowance for funds used during construction) and associated transmission costs necessary for the reliable integration of the project into the delivery systems." (Consumer Advocate Initial Brief, p. 36).

Consumer Advocate did not recommend disallowance of the transmission costs related to the upgrades on MidAmerican's system, but maintained those costs were part of the cost cap proposal. (Tr. 1909-10).

IPL said these transmission upgrades were not part of the WWE cost cap because the costs were related to network upgrades to MidAmerican's system and were required by MISO before WWE could interconnect to the transmission system. (Tr. 1047). IPL said it would have been impossible to know the amount of network upgrades at the time of its ratemaking principles proceeding because the WWE site had not been selected at the time IPL and Consumer Advocate executed their settlement agreement.

Principle No. 4 of the Settlement Agreement filed by IPL and Consumer Advocate in the ratemaking principles docket states, in part:

IPL shall be permitted to include in rates the actual costs of the IPL Wind Project and associated transmission ... (inclusive of associated costs necessary for the reliable interconnection of [WWE] into IPL or other providers' delivery systems and exclusive of AFUDC)

The amount of network upgrades required by MISO before WWE could interconnect to the transmission system could not have been known at the time of the ratemaking principles proceeding because IPL had not selected a site for WWE, and network upgrades are site-dependant. Because the costs could not have been known, it is reasonable to interpret the settlement as not addressing MISO-required network upgrade costs, but only transmission costs associated with transporting

WWE's output to the transmission system.² Those costs would be incurred wherever WWE was built; the unknown variable was the network upgrades required before WWE could interconnect and begin delivering its output for transport over the transmission system. These costs were prudently incurred. It would not be reasonable to interpret Principle No. 4 to include network upgrade costs that were unknowable at the time of the ratemaking principle proceeding.

However, the Board does not need to decide whether the costs are included in the cost cap. No party argued that the costs were unreasonable or imprudent. Cost caps in ratemaking principles proceeding are not absolute, and the cap can be exceeded if the utility makes a subsequent showing that the costs in excess of the cap were prudent and reasonable. Here, IPL showed the costs were necessary to connect WWE to the system and there is no evidence they were excessive. The general rule for utility expenditures is that reasonable and prudent costs associated with the provision of utility service can be recovered. The record supports a finding that the costs were reasonable and prudent and necessary for customers to access WWE energy. Therefore, the adjustment will be included as part of IPL's regular rate base, and not the rate base associated with WWE.

² While Consumer Advocate argued that settlements with MidAmerican over other such wind projects included these costs, MidAmerican has not had a rate proceeding to include any of the costs associated with its wind projects in rates, so the Board has not addressed this issue with respect to any of the MidAmerican and Consumer Advocate settlements.

Sixth Street Station

IPL's Sixth Street coal-fired generating plant was severely damaged in the 2008 flood. IPL explored the options for restoring service at Sixth Street, but abandoned the plan when long-term steam sales contracts could not be secured and IPL's modeling indicated that rebuilding Sixth Street would be more expensive than other electric generating resource options. Historically, Sixth Street provided electricity to IPL's retail electric customers and steam to downtown Cedar Rapids; steam sales are not regulated by the Board.

Consumer Advocate and LEG argue that since Sixth Street is no longer providing service to IPL's customers, the plant is no longer used and useful and should be removed from rate base. Also, Consumer Advocate and LEG argued that Sixth Street was primarily operated for steam, not electric, sales; nearly half of the Sixth Street plant's revenues were generated by wholesale steam sales. LEG pointed out that under the current MISO dispatch system, Sixth Street would rarely run if not for its (former) steam requirements because there are cheaper generating units to run than Sixth Street. In the event recovery is allowed, LEG said at a minimum there should be an allocation of the cost of the plant between electric and steam. (Tr. 1503).

IPL said Sixth Street currently has a net rate base balance of \$24.2 million, and \$3.4 million in construction work in progress. IPL proposed to continue including Sixth Street's balance in rate base and recover the construction work in progress over five years, similar to what the Board allowed for cancellation costs related to the

Sutherland coal plant in IPL's last rate case. (Tr. 761). IPL agreed the balance of \$1.6 million in operation and maintenance expenses should be removed, so that is no longer an issue.

IPL said the majority of the remaining Sixth Street rate base balances are related to a conversion to lower cost, lower emission Powder River basin coal. IPL stated the conversion occurred in 2004, the costs were included in Docket No. RPU-2009-0002 and approved by the Board, and no party challenged the prudence of the coal conversion. (Tr. 753). IPL said because Sixth Street was retired due to a natural disaster and retirement was the least-cost option, the balances should be recovered even though the plant is no longer operational.

Prior to its retirement due to flood damage, Sixth Street was in service for more than 100 years. Significant plant modifications were necessary to keep the plant running, with the last being in 2004 to allow Sixth Street to burn cheaper and cleaner coal. The loss of the plant was due to no fault of IPL's but was the result of a record flood, and the Board in Docket No. RPU-2009-0002 allowed IPL to recover damages caused by the flood. There is no evidence that the 2004 plant modifications were imprudent or that the decision to retire Sixth Street is unreasonable or imprudent. These factors lead the Board to conclude that the used and useful standard should not prohibit some recovery; it is more appropriate to consider this standard when an asset is voluntarily removed from service due to the utility's decision that is not forced or triggered by a natural disaster.

While recovery of some of the remaining balances for Sixth Street is supported by the record, ratepayers should not shoulder all of the cost. Steam customers, through their wholesale steam purchases, paid for a portion of the net investment in Sixth Street when it was operational. IPL no longer has wholesale steam customers that receive steam from Sixth Street and IPL therefore has no way of recovering a portion of the remaining Sixth Street balance from former steam customers. There is no regulatory mechanism to provide for such recovery because steam sales are not regulated by the Board and former steam customers are free to leave the system at any time (absent contractual obligations).

However, this is a risk associated with selling steam and the Board does not believe that electric ratepayers should bear the costs of this risk. It is inappropriate for electric ratepayers to pay for costs that were incurred to provide steam benefits to unregulated steam customers. Because electric sales accounted for 52.5 percent of total Sixth Street sales from 2003 through 2007, it is reasonable to limit IPL's recovery from its electric ratepayers to the 52.5 percent that is allocated to retail electric sales related to Sixth Street. (Ex. 14, Attachment D). Electric customers should pay the costs associated with generating electricity, but not the costs associated with the unregulated steam business. Because Sixth Street is no longer producing electricity, the Board will accelerate the depreciation of the remaining rate base balance to five years in order to remove these nonproductive investments off the books more quickly.

Prairie Creek Unit Two

Prairie Creek Unit 2, like Sixth Street, is a generating unit that was taken out of service as a result of damage caused by the 2008 flood. IPL determined it was not financially feasible to rebuild Prairie Creek Unit 2. No one contested this decision. The unit has been in service since the 1950's and has been refurbished several times, with approximately \$331,000 of investment remaining in rate base. There were never any steam sales associated with Prairie Creek Unit 2; it was only used for electricity production and therefore there are no allocation issues between electricity and steam customers. For the same reasons outlined in the discussion regarding Sixth Street, recovery of the entire remaining rate base balance is reasonable. Because the remaining balance is small, the Board will use some of the remaining proceeds from the regulatory liability account balances related to the DAEC and transmission sales to remove the balance from rate base immediately.

IV. INCOME STATEMENT ISSUES

Adjust Production Maintenance to Five-Year Average

IPL and ICC both agree that production maintenance expenses, such as power plant maintenance costs, fluctuate year-to-year and that a five-year average is a representative amount to include in rates. IPL, however, argued that the five-year average should be adjusted for inflation using the Handy-Whitman Index while ICC maintained that no inflation adjustment should be used. (Tr. 2217).

IPL maintained that the use of five-year, inflation-adjusted averages for such expenses as production maintenance would be consistent with Board precedent in

Docket No. RPU-2009-0002 and that the use of inflation-adjusted averages levelizes the year-to-year rate impact of such expenses. IPL noted that ICC did not object to the use of similar inflation-adjusted averages in Docket No. RPU-2009-0002.

ICC argued that the Board deviated from the use of five-year inflation-adjusted averages in IPL's last rate case for two expenses, pension average and other post-employment benefit (OPEB) costs. ICC maintained that eliminating inflation from the proposed adjustment would produce a more representative amount for inclusion in rates, and that the fact the issue was not raised in IPL's last rate proceeding is irrelevant; the issue is what adjustment produces the most representative amount for production maintenance costs in this proceeding.

The Board has traditionally used five-year inflation-adjusted averages for costs such as production maintenance because the use of such averages levelizes or smoothes the year-to-year impact of such expenses, which can vary over time. The Board departed from this in the last rate case for two expenses (pension average and OPEB costs) because recent changes in staffing levels made the five-year inflation-adjusted averages unrepresentative. Here, there is no persuasive evidence that the use of a five-year average with inflation adjustment will not produce a representative amount for production maintenance expenses. IPL's proposed adjustment will be accepted.

Adjust Distribution Maintenance to Five-Year Average

IPL bases its adjustment on a five-year inflation-adjusted average using the Handy-Whitman Index. ICC said that the test year amount was the most representative for inclusion in rates.

ICC said that the \$9.2 million requested by IPL for non-labor maintenance of overhead lines, based on a five-year inflation-adjusted average, is \$1.5 million more than test-year expense, and in fact would exceed every year for the past ten years except one. ICC maintained the use of IPL's five-year inflation-adjusted average overstates a reasonably anticipated expense level. ICC said the Board should make an exception to its general use of the five-year inflation-adjusted average like it did in IPL's last rate case for pension expense and OPEB costs.

IPL said the purpose of its adjustment, using a five-year inflation-adjusted average, was to levelize expenses because the test year was unrepresentative. Generally, IPL said adjustments have been used when test-year expenses are 8 to 9 percent higher or lower than the five-year average; here, the expenses were 16.5 percent below the five-year average. (Tr. 743).

As noted in the previous section regarding production maintenance costs, the Board has traditionally used five-year inflation-adjusted averages for costs such as distribution maintenance because the use of such averages levelizes or smoothes the year-to-year variation of such expenses. The Board departed from this in the last rate case for two expenses (pension average and OPEB costs) because recent changes in staffing levels made the five-year inflation-adjusted averages

unrepresentative. Here, there is no persuasive evidence that the use of the test year amount produces a more representative amount than the five-year inflation-adjusted average; there is no testimony regarding unusual events (like the changes in staffing levels) that caused the Board to deviate from the five-year inflation-adjusted average in the last rate case for two adjustments. IPL's proposed adjustment will be accepted.

Adjust Injuries and Damages to a Five-Year Average

Injuries and damages claims against the utility is another expense where the use of a five-year inflation-adjusted average is disputed. IPL proposed a representative amount for injuries and damages based on a five-year inflation-adjusted average using the Handy-Whitman Index. ICC urged the Board to use a three-year average with no inflation adjustment.

ICC argued that there was a declining trend for injuries and damages and that using a three-year average would more accurately reflect this trend. ICC noted use of a three-year average would still result in an amount greater than the test-year number.

IPL noted that injuries and damages expense historically varies widely from year to year, and that IPL used the five-year inflation-adjusted average because test year expense deviated significantly (more than 8 to 9 percent) from the five-year average. (Tr. 742). IPL cited several dockets (Docket Nos. RPU-89-9, RPU-91-9, RPU-94-2, and RPU-02-3) where similar five-year inflation-adjusted averages were used.

As noted in the previous sections regarding production and distribution maintenance costs, the Board has traditionally used five-year inflation-adjusted averages for costs such as injuries and damages because the use of such averages levelizes or smoothes the year-to-year variation of such expenses. The Board departed from this in the last rate case for two expenses (pension average and OPEB costs) because recent changes in staffing levels made the five-year inflation-adjusted averages unrepresentative. Here, while there is evidence that these expenses have been declining, there is no explanation for the decline and, as IPL pointed out, these expenses can vary widely from year-to-year. It might be that the decline is due, in part, to IPL's sale of its transmission system, but this is only conjecture. There is no persuasive evidence that use of the test year amount produces a more representative amount than the five-year inflation-adjusted average because there is no testimony regarding unusual events (like the changes in staffing levels) that caused the Board to deviate from the five-year inflation-adjusted average in the last rate case for two adjustments. IPL's proposed adjustment will be accepted.

Reflect Full Year of WWE Expenses

Consumer Advocate pointed out that IPL's expenses related to operation of WWE were significantly higher than estimated by IPL in its ratemaking principles case. Because of this difference, Consumer Advocate recommends that IPL's recovery of these expenses be limited to the estimates contained in the ratemaking principles filing. While IPL claims that the expenses were higher to comply with

warranty requirements, Consumer Advocate argued that IPL failed to provide warranty details that would allow Consumer Advocate to determine the reasonableness of those increased costs. ICC supported Consumer Advocate's arguments.

IPL said the higher expenses were largely due to maintenance agreements it entered into with Vestas, the turbine manufacturer. IPL noted that if it had used other, potentially lower-cost maintenance options, the Vestas warranties would have been invalid.

While IPL exceeded the estimates for WWE operations and maintenance expenses provided in the ratemaking principles proceeding, those estimates were not part of the cost cap and IPL did not seek any ratemaking principles treatment for WWE operations and maintenance expenses. Based on the record evidence, it was reasonable for IPL to enter into a maintenance agreement with Vestas in order to preserve the manufacturer's warranty on the wind turbines, even if this resulted in expenses that exceed the estimate. And, even if IPL did not enter into a maintenance agreement with Vestas, it would have needed a maintenance agreement with some company (or have it performed by IPL employees). While there is no evidence as to what the cost of an alternate agreement would have been, it is reasonable to assume there would have been a similar cost. It is extremely troubling, however, that IPL apparently did not know of the warranty requirement prior to executing the purchase contract, but that does not mean that it was unreasonable to sign an O&M contract with Vestas.

Research and Development Credits

Initially, IPL proposed an adjustment to eliminate the federal research and development (R&D) tax credit because it expired at the end of 2009. (Tr. 198). Consumer Advocate argued that the R&D has historically been extended 13 times and opposed the adjustment, noting that if the credit was eliminated from rates and then extended, IPL's rates would be too high. (Tr. 1241-42).

In rebuttal testimony, IPL offered another option. IPL said that its cost of service should reflect the elimination of the R&D credit, but if the credit is extended prior to the closing of the record, then the credit can be restored and reflected in final rates. (Tr. 219). Consumer Advocate accepted IPL's proposal. (Tr. 219).

This is an equitable solution. As of the time of hearing, the R&D credit had not been extended. (Tr. 1666-67). No subsequent filings have been made and the record is closed, so the R&D credit will be removed from IPL's cost of service.

Economic Development (Flexible Rate) Discounts

IPL reduced test year revenues by \$1.17 million so that 50 percent of any identifiable increase in net revenues due to economic development or flexible rate discounts may be retained by IPL, as permitted by 199 IAC 20.14(5). Consumer Advocate said this adjustment was unreasonable because IPL has proposed two consecutive large rate increases over the past two years, IPL customers are in need of rate relief, and the economy is struggling to recover from recession; Consumer Advocate argued customers should be allowed to retain all of the net revenues from IPL's flexible pricing rates. IPL pointed out that a similar flexible rate adjustment was

made in its last rate case and the adjustment was not contested by Consumer Advocate. (Tr. 1211-12).

Rule 199 IAC 20.14(5) provides as follows:

20.14(5) Rate case treatment. In a rate case, 50 percent of any identifiable increase in net revenues will be used to reduce rates for all customers; the remaining 50 percent of the identifiable increase in net revenues may be kept by the utility. If there is a decrease in revenues due to the discount, the utility's test year revenues will be adjusted to remove the effects of the discount by assuming that all sales were made at full tariffed rates for the customer class. Determining the actual amount will be a factual determination to be made in the rate case.

The main purpose of the flexible pricing rules, and the rate case treatment afforded to increased revenues, is to encourage utilities to offer discounts to marginal customers that would otherwise leave the utility's system; as long as these customers remain on the system at rates that exceed the marginal cost of serving them, they are contributing to fixed system costs that would otherwise be paid by other customers in the form of increased rates. Denying IPL's adjustment would be inconsistent with past practice and the rule and would reduce or eliminate the incentive in the rules. Thus, in turn, could result in long-term net costs to customers that outweigh the short-term benefits, even without factoring in any local economic fallout that could occur from a business closing because it could not continue operations without the flexible rate. IPL's adjustment, which is consistent with 199 IAC 20.14(5), will be accepted.

Workforce Reduction

In June 2010, about three months after the filing of IPL's rate case, IPL announced it would be eliminating 70 full-time positions as part of a company

restructuring plan. IPL indicated that the annual costs savings, after subtracting costs associated with the restructuring plan like severance payment and payments for unused vacation, would be \$845,353. IPL did not make an adjustment for these savings because it claimed that they were not known and measurable at the time of the rate case filing.

Consumer Advocate argued an adjustment for these savings should be made and pointed out that 199 IAC 26.11(2) allows the Board to consider, for ratemaking purposes, an event known at the time of filing that is measurable by the close of the record, occurs within 12 months of the filing date, and is consistent with past Board practice. Consumer Advocate asserted that IPL was aware of the planned workforce reduction when it made its rate case filing. Consumer Advocate said the savings became known within three months of the rate case filing and that not including them would provide IPL with a windfall.

The net savings from the workforce reduction are now known and the evidence at hearing indicated that it was unlikely any of the positions eliminated would be filled in the near future. It is reasonable to conclude that IPL's management knew a workforce reduction of this magnitude would take place in the near future at the time the rate case was filed; to assume otherwise would be to assume that the workforce reduction was not a well-thought-out decision by IPL's management. The Board will make an adjustment for the net savings as calculated by IPL, which are net of costs such as severance and unused vacation. The adjustment meets the criteria of 199 IAC 26.11(2).

In the event the Board made a workforce reduction adjustment, IPL proposed three additional adjustments (ITC Midwest Transmission 2011 cost increase, 2010 health care reform cost increases, and 2010 short-term capacity sales). The Board will address each of these adjustments separately later in the order, but notes that 199 IAC 26.11(2) only requires that the Board consider adjustments that fall within the parameters of the rule; the Board is not required to adopt all such adjustments and each adjustment must be analyzed on its merits.

Weather Normalization

Introduction

Consumer Advocate, LEG, and ICC³ proposed weather normalization adjustments to IPL's test year sales and revenues. Consumer Advocate and LEG also proposed adjustments to kW peak demand. Those parties proposing weather normalization adjustments argued that the summer of 2009, IPL's test year, was the coolest in many years and therefore not representative of likely future sales levels. IPL opposed any weather normalization adjustment in this proceeding.

Consumer Advocate Position

Consumer Advocate recommended an adjustment to IPL's revenues and billing determinants for the residential and general service classes due to test year weather, which it said was the coolest in 22 years. Consumer Advocate said that IPL's test-year revenues should be increased by \$31,510,315 and sales increased by 357,200,311 kWh to account for the abnormal weather.

³ ICC's adjustment was based primarily on weather, but included other factors as well.

Consumer Advocate said its model is based on a regression analysis to estimate the relationship between weather and indicator variables and customer usage for the residential, general service, and large general service classes. Consumer Advocate stated the model revealed that residential and general service classes were temperature sensitive; the regression results were used to calculate the proposed weather normalization adjustment to sales volumes. (Tr. 1313-16).

Consumer Advocate noted that in IPL's Securities and Exchange Commission (SEC) 10-K filing, IPL estimated the weather impacts on demand amounted to a reduction in 2009 margins of \$25 million. (Tr. 1376).

Consumer Advocate pointed out that IPL's total kWh sales for January through August 2010 are approximately 13 percent higher than test year (2009) sales for the same period, with IPL's residential sales being about 24 percent higher. (Tr. 1009-10). In addition, Consumer Advocate said IPL's most recent SEC 10-K filing indicates a \$40 million increase in electric margins from weather changes from January through September 2010, as compared to the test year. (Ex. 114). Consumer Advocate argues that those facts demonstrate that the test year weather reduced sales to an unusual degree.

In addition to the weather normalization adjustment to test year revenues and billing determinants for the residential and general service classes, Consumer Advocate also proposed an adjustment to peak demand based on a five-year average.

LEG Position

LEG proposed weather normalization adjustments to IPL's residential and general service kWh sales that would increase test year revenues by \$10,827,217. (Tr. 1476). LEG said that electric usage is known to be weather-sensitive due to usage for heating and cooling and that the summer of 2009 was the coolest summer in 20 years. (Tr. 1466-67).

LEG's weather normalization adjustment to kWh sales was derived using a multiple linear regression model, with normal cooling degree days and heating degree days based on 22 years of monthly data. LEG said the results suggest there should be weather normalization adjustments for the residential and general service classes. (Tr. 1471).

LEG also proposed a weather normalization adjustment to peak demand for the residential and general service classes. LEG said it used the same basic model as it did for its proposed kWh sales adjustment, with the difference being that daily cooling degree data and heating degree data was used (instead of monthly data), and normals were based on nine years of data. (Tr. 1470).

ICC Position

ICC proposed adjustments to IPL's residential, general service, and large general service kWh sales that would increase test year revenues by \$28.2 million due to abnormal test year sales, with the adjustment calculated by comparing the three-year average per-customer usage to test year per-customer usage. ICC argued that this approach captures all factors causing test year sales to be abnormal,

including weather impacts, economic conditions, and other factors. (Tr. 2212-13).

ICC noted that its adjustment was close to the \$25 million estimated by IPL in its SEC 10-K filing for weather impact alone.

ICC argued that without a weather normalization adjustment, IPL would over-collect revenues in a normal-weather year. ICC maintained that the fact that the summer of 2009 was the coolest in the last 20 years, combined with the economic recession, justifies an adjustment to IPL's test year revenues. ICC did not propose an adjustment to peak demand, stating that it is a complex and difficult undertaking to develop appropriate adjustments to accurately normalize class and system peak demands. (Tr. 1581-82).

IPL Position

IPL argued it was inappropriate to impose a weather adjustment in this proceeding, and that weather normalization of electric utility sales could be fully examined in a rule making proceeding where appropriate standards could be explored and a consistent approach developed in a setting where participants are not focused on a case-specific outcome. (Tr. 303-04). IPL said that such an approach would provide for consistency in any adjustments, particularly since such adjustments have rarely been implemented by the Board. (Tr. 301, 304).

IPL noted that the three models proposed by Consumer Advocate, LEG, and ICC are based on very different methodologies and produce very different results. (Tr. 980). IPL maintained the selection of inputs and assumptions was highly selective and perhaps arbitrary, with the proposed adjustments based on

methodologies ranging from complex statistical models using multiple linear regressions to models based on various averages. IPL also said the parties used different measures to represent normal weather, but the only weather data used was from the Cedar Rapids airport weather station and no one undertook an analysis to see if this was the proper station to use or if additional stations throughout IPL's service territory should be used. (Tr. 978, 1423).

IPL argued that implementation of a weather normalization adjustment would move the Board toward the adoption of a forecasted, rather than historical, test year. IPL said this is because weather normalization assumes that one year was an anomaly and that future years will be more in line with the norm, which IPL maintained was pure conjecture.

IPL said it had similar concerns about the proposed peak demand adjustments, noting that the temperature on the peak day in 2009 was not significantly different than in prior years. Without a significant variation, IPL said it would be subjective to adjust peak demand.

Commenting on the significance of IPL's SEC 10-K filings, IPL noted that the weather adjustments in the filing include both its Iowa and Minnesota jurisdictions. (Tr. 1006). Also, IPL said there are definitive differences between calculating a weather impact for ratemaking purposes and for shareholder reporting. For shareholder reporting, IPL said it undertakes to estimate weather impacts to remove some of the variability; IPL does not perform extensive weather normalization

analysis for purposes of setting rates or to address the wide variety of issues that would need to be addressed. (Tr. 1001-02).

Board Discussion

With one exception,⁴ this Board has a long history of not accepting adjustments to test year electric sales either due to weather conditions or general economic conditions. Such adjustments were proposed and denied in Docket Nos. RPU-87-6, RPU-92-5, and RPU-93-6. Among the reasons given in the various dockets for declining to weather normalize was that electric utilities in Iowa operate in two extreme seasons, winter and summer, and the weather effects of the two seasons may tend to cancel each other out.

In this proceeding, Consumer Advocate, LEG, and ICC each argued that IPL's test year sales were abnormally low and that the test year sales and revenues should be adjusted in this case. Consumer Advocate and LEG proposed weather normalization adjustments to the residential and general service classes using multiple linear regression models. ICC proposed to adjust the residential, general service, and large general service classes based on a three-year average. ICC's methodology purported to adjust for all factors in the test year that would cause sales to be abnormally high or low, not just weather. (Tr. 2243). Below are the adjustments to revenues and the percentage increases to test year sales by

⁴ Docket No. RPU-83-44, "Proposed Decision and Order," December 27, 1984, pp. 18-22. Iowa Southern proposed reducing sales by 4.8 percent due to warmer than normal summer weather. The adjustment was initially denied by the Hearing Examiner, but the Board reversed this decision and allowed Iowa Southern 53.1 percent of its proposed weather normalization adjustment to sales.

customer class proposed by Consumer Advocate, LEG, and ICC. (For comparison purposes, IPL's \$25 million SEC 10-K figure is also used; the Board recognizes that this figure includes Iowa and Minnesota and that IPL did not propose this as an adjustment.)

Proposed Test Year Sales Adjustments (kWh)

	Residential	General Service (GS)	Large GS
OCA	7.52%	4.27%	n/a
LEG	2.24%	0.32%	n/a
ICC	1.44%	8.08%	4.57%

Proposed Revenue Adjustments

	Residential	GS	Large GS	Total
OCA	\$25,548,488	\$5,961,827	n/a	\$31,510,315
LEG	\$10,539,135	\$1,431,431	n/a	\$11,970,566*
ICC	\$4,586,062	\$11,657,529	\$11,951,300	\$28,194,891
IPL	-	-	-	\$25,000,000

*For consistency purposes, excludes transmission cost offsets proposed by LEG.

Consumer Advocate's, LEG's, and ICC's testimony focused on individual elements of the models and whether an adjustment should be made in this rate case (or in the context of a rule making proceeding that developed weather normalization rules), but the first issue that needs to be addressed is whether IPL's test year sales were abnormal. Because the residential class is considered the most weather-sensitive class due to heating and cooling usage, the Board's analysis focuses on this class, and Exhibit 8 is the starting point.

Exhibit 8 provides MWh sales by customer class for the years 2003 through the 2009 test year as reported in IPL's IE-1 Annual Reports. This information shows that 2009 total residential sales were within the range of total residential sales for the seven-year period 2003-2009. A more in-depth approach to this analysis is to compare sales on a per-customer basis, based on residential MWh sales and numbers of customers from the IE-1 Annual Reports. The following table shows this comparison for the residential class.

	MWh Sales	Number of Customers	MWh per Customer	Compared to 7-Yr Avg
2003	3,761,670	400,457	9.39	0.48%
2004	3,598,687	402,540	8.94	(4.37%)
2005	3,873,357	405,894	9.54	2.08%
2006	3,750,502	407,313	9.21	(1.50%)
2007	3,870,468	408,094	9.48	1.45%
2008	3,894,472	407,695	9.55	2.18%
2009	3,793,858	407,098	9.32	(0.31%)
7-Year Average	-	-	9.35	-

The last column of this table shows how the MWh per customer for each of the past seven years compares to the seven-year average of 9.35. Residential sales per customer for 2009 had the least deviation from the average at minus 0.31 percent. Performing this same analysis using a ten-year average produces a similar result with 2009 MWh per customer at 0.22 percent lower than the average. These results show that IPL's test year electricity sales, in terms of weather sensitivity, are within a reasonable range in comparison to the other years. For example, 2008 residential sales per customer (which would have been the test year sales in Docket No. RPU-

2009-0002) were 2.18 percent higher than the 2003-2009 average. Based on this data, it does not appear that IPL's test-year residential sales were abnormal.

At the hearing, Consumer Advocate criticized the IE-1 data used in Exhibit 8, stating that the IE-1 residential data for 2009 were not consistent with the 3,555,000 MWh sales figure used by IPL in the case; that the data included farm service as well as residential data, which were not included consistently over the 2003-2009 period. (Tr. 1697-1700). However, a detailed review of IPL's 2003-2009 IE-1 annual reports showed that the residential rate code categories, including farm service and area lighting, were included consistently as part of the residential sales data; and when the farm service and area lighting rate code categories were subtracted in 2009, the result matched the 3,555,000 MWh residential sales figure used by IPL in the case (not including unbilled revenues). Also, when the farm service and area lighting rate code categories were subtracted for the full 2003-2009 period, a comparison of the resulting 2009 residential sales with the seven-year average showed essentially the same relationship; that is, 2009 residential sales per customer still had the least deviation from the average at minus 0.3 percent.

Although not part of the record in this proceeding and not the basis for the Board's decision, it is worth noting that the results of this analysis are consistent with data from an Energy Information Administration (EIA) survey. EIA data is widely recognized and used in the utility industry. The survey provides a breakdown of household electricity and natural gas consumption by function and geographic region. This study shows that in the Midwest, air conditioning and space heating

account for 13 percent and 7 percent of total household electricity consumption, respectively.⁵ In comparison, space heating accounts for 76 percent of household natural gas consumption in the Midwest.⁶ The data from this survey demonstrates that residential usage of natural gas is significantly more weather-sensitive than electricity usage in the Midwest. Pursuant to Iowa Code § 17A.14, the Board takes official notice of the EIA survey.

While data from the Cedar Rapids Airport weather station for 2009 shows that the summer was significantly cooler than normal and the winter was somewhat cooler than normal, the Cedar Rapids Airport weather station is the only weather station that was used in calculating the proposed adjustments. IPL's service territory covers a large part of Iowa, and weather patterns for a given year can be significantly different in different parts of the state. The use of only one weather station to calculate a weather adjustment is a concern because there are other weather stations across IPL's service territory that could also have been used. Also, the Board notes that increased consumption due to electric space heating in a cooler than normal winter would partially offset reduced consumption due to cooler than normal summer weather. All of these points argue against use of a weather normalization adjustment in this case.

⁵ 2001 Residential Energy Consumption Survey: Table 3; Electricity Consumption and Expenditures in U.S. Households by End Uses and Census Region, 2001.

⁶ 2001 Residential Energy Consumption Survey: Table 1; Natural Gas Consumption and Expenditures in U.S. Households by End Uses and Census Region, 2001.

IPL's SEC Form 10-K likely provided the impetus for other parties to propose weather adjustments. However, IPL stated that there are differences between calculating a weather impact for ratemaking purposes and calculating a weather impact for shareholder reporting. For shareholder reporting purposes, IPL estimates weather impacts "to remove some of the variability." (Tr. 1001). IPL does not perform an extensive weather normalization analysis for the purposes of shareholder reporting, nor does IPL reflect the wide variety of issues that need to be addressed. (Tr. 1001-02).

Although the Board recognizes that the weather in the summer of 2009 at the Cedar Rapids airport was significantly cooler than normal, the data indicates that this did not appear to have an extraordinary impact on test year per-customer residential sales. An adjustment to test year sales is not reasonable or appropriate in this case.

Adjustments to peak demand were also proposed by LEG and Consumer Advocate. LEG proposed a normalization adjustment to peak demand using the same basic model it used for the kWh sales adjustment, except it used normals based on nine years of daily data. Consumer Advocate's adjustment is based on a five-year average. IPL argued that peak day demands should not be adjusted without significant variation in peak day temperatures. (Tr. 991-92). ICC maintained peak demand adjustments are difficult to develop so that the adjustments accurately normalize class and system peak demands. (Tr. 1881-82).

There is no evidence of a significant variation in peak day temperatures during the test year and to normalize class and system peaks is a complex undertaking that should not be undertaken in a rate proceeding without any evidence of a significant variation in peak day temperatures. It is not reasonable or necessary to normalize peak demand in this proceeding.

While the Board has denied the proposed revenue and peak demand adjustments because there is no evidence to support those adjustments, the Board also notes its general concern about imposing such adjustments in a rate case setting. These adjustments are complex and a formula that might seem to be appropriate in one proceeding could cause adverse impacts if used in another proceeding for another test year. If weather normalization is ever to be considered for electric cases, it would be better if it were done in a rule making or general inquiry proceeding where all utilities and interested parties could participate.

2010 Health Care Reform Cost Increase

One of the adjustments IPL proposed in response to Consumer Advocate's workforce adjustment was for 2010 health care reform cost increases to reflect the elimination of the Medicare Part D subsidy and elimination of lifetime benefits. (Tr. 773). IPL's adjustment for 2010 health care reform cost increases was not initially offered by IPL and was only put forth to counter Consumer Advocate's workforce adjustment. This adjustment will be rejected because it was apparently not known and measurable at the time of IPL's filing and was only offered in response to Consumer Advocate's adjustment on an unrelated issue.

2010 Short-Term Capacity Sales

The second adjustment offered by IPL in response to Consumer Advocate's workforce adjustment was for a reduction to 2010 short-term capacity sales. This adjustment will be also rejected because it was not known and measurable at the time of IPL's filing and was only offered in response to an adjustment on an unrelated issue.

V. TRANSMISSION ISSUES

Introduction

IPL sold its transmission system to ITC Midwest, a transaction that was considered by the Board pursuant to Iowa Code § 476.77 in Docket No. SPU-07-11. In Docket No. RPU-2009-0002, IPL proposed various transmission cost adjustments to reflect the costs its now pays to ITC Midwest (through MISO) for transmission service. Similar adjustments are proposed here, such as an adjustment for 2010 transmission expense increases, an adjustment for the 2009 undercollection true-up, and an adjustment for estimated 2011 transmission expenses. IPL also proposed an automatic adjustment mechanism similar to the energy adjustment clause (EAC) to recover transmission costs; the Board deferred a decision on the automatic adjustment mechanism in IPL's last rate case because IPL was committed to filing a rate case in 2010.

In its testimony regarding the various proposed transmission adjustments for 2011, 2010, and the 2009 true-up, Consumer Advocate once again focused on the cost-benefit analysis presented by IPL in Docket No. SPU-07-11 and what Consumer

Advocate viewed as IPL's commitments that should limit what transmission charges are recoverable. Consumer Advocate again proposed to disallow all ITC transmission costs that exceed the estimates presented in Docket No. SPU-07-11, arguing that to do otherwise would be to allow IPL to ignore its commitments. (Tr. 76). IPL disagreed, saying that the commitments made in that docket were not designed to shield customers from cost increases due to ITC Midwest's grid expansion or actual operations and maintenance (O&M) and administrative and general (A&G) expenses related to the transmission system.

The Board no longer has ratemaking authority over IPL's transmission costs because FERC has exclusive jurisdiction over the rates charged by ITC Midwest pursuant to FERC-approved tariffs.⁷ Several state courts have held that a state utility commission setting retail rates must allow, as reasonable operating expenses, costs incurred by a utility like IPL as a result of paying a FERC-determined wholesale price (such as transmission), basing their decisions on the filed rate doctrine; such state decisions have been approved by the U.S. Supreme Court. Nantahala Power & Light Co. v. Thornburg, 476 U.S. 953, 966 (1986). Consumer Advocate's and ICC's proposals would in effect require IPL to sell the transmission service it purchases to retail customers at less than the cost it paid, as determined by FERC. Under Nantahala, not allowing recovery of costs pursuant to a FERC-approved rate is called "trapping" costs and is prohibited. 476 U.S. at 969. When that FERC-approved rate

⁷ While the Board has no jurisdiction over ITC Midwest's transmission rates, the Board does have transmission siting jurisdiction pursuant to Iowa Code chapter 478.

includes projected costs (subject to true-up), it is part of a FERC-approved tariff and the state commission must allow recovery. United Gas Corp. v. Mississippi Pub. Ser. Comm'n, 127 So.2d 104 (Miss. 1961).

IPL Transmission Expense

Consumer Advocate Position

Consumer Advocate said that IPL's pro forma transmission adjustments are intended to recover from IPL's customers all of the higher transmission expense for ITC Midwest rates. Consumer Advocate concluded all these adjustments should be rejected as wholly inconsistent with an unconditional commitment made by IPL in Docket No. SPU-07-11 to hold retail customers harmless from any rate increase effects resulting from the transmission sale for at least eight years. Consumer Advocate would reduce IPL's test year transmission cost by \$30.87 million.

ICC Position

ICC did not base its arguments solely on statements made in Docket No. SPU-07-11, but also argued that transmission expenses should be limited because IPL has failed to show the benefits to ratepayers of its increased transmission expense. ICC said that IPL must increase its due diligence in controlling IPL's transmission costs.

IPL Position

IPL maintained that ITC Midwest rates are subject to the exclusive jurisdiction of FERC in an authorized rate or tariff that IPL is obligated to pay, and that Consumer Advocate acknowledged that IPL has no choice but to pay the FERC tariff rate. IPL

pointed out that it cannot take transmission service from a different provider to provide electric service to IPL's retail customers and that because FERC has approved the ITC Midwest tariff, these tariff charges are just and reasonable as a matter of law.

IPL contended that its proposed transmission adjustments are not inconsistent with the commitments it made in Docket No. SPU-07-11. IPL said it had met all those commitments and that its current rate increase request is not inconsistent with Docket No. SPU-07-11 commitments.⁸

IPL argued that the purpose of the alternative transaction adjustment (ATA) cost benefit study in Docket No. SPU-07-11 was to hold customers harmless only from the transfer of transmission assets from Board to FERC jurisdiction, not to shield customers from cost increases due to ITC Midwest's expansion of the grid or increased O&M or A&G costs. IPL said that Consumer Advocate misunderstood, overlooked, or ignored that the ATA cost-benefit analysis assumed ITC Midwest would operate the transmission system in the same manner as IPL, with capital spending, O&M and A&G remaining the same. However, ITC Midwest's capital spending, O&M, and A&G have been higher than IPL's were projected to be, as ITC Midwest has invested in the grid to a greater extent than IPL would have.

⁸ IPL stated that its commitments were: (1) limit the common equity in IPL's next electric rate case to no more than 50 percent; (2) IPL to make eight cash refunds of \$13 million per year; (3) ITC Midwest to make eight rate discounts of \$4 million per year; and (4) ITC Midwest would not seek recovery of the first \$15 million of expenses associated with the sale.

IPL explained the base line revenue requirement (BLRR) analysis presented in Docket No. SPU-07-11 as transmission costs if IPL were to continue to own and operate the assets; the post-transaction revenue requirement (PTRR) included the additional costs if assets were transferred to ITC Midwest and subject to FERC jurisdiction. IPL noted that four specific cost increases were quantified in the PTRR. First, a higher ROE, consistent with FERC decisions regarding transmission assets. Second, FERC would allow a higher percentage of common equity in the capital structure. Third, FERC would allow higher cash working capital. Fourth, the transaction would result in a reduction to IPL's rate base for the accumulated deferred income taxes that could not be transferred to ITC Midwest. IPL said the ATA was designed to hold ratepayers harmless for these costs that would unavoidably result from transferring transmission assets to FERC jurisdiction, not new costs from investments to rebuild and upgrade the system.

Board Discussion

The Board addressed the commitments made by IPL in the decision in Docket No. RPU-2009-0002; the arguments made by Consumer Advocate have not changed. As the Board has said, the commitments made by IPL in Docket No. SPU-07-11 were designed to hold ratepayers harmless for eight years from known effects of the transfer of transmission assets from Board jurisdiction to FERC jurisdiction, taking into account such things as the higher ROEs awarded by FERC for transmission assets than had typically been awarded by the Board and the higher common equity and working capital typically allowed by FERC. The Board did not

accept Consumer Advocate's argument that the hold harmless representations made by IPL meant that ratepayers would not have to pay higher costs because of increased transmission investment or increased O&M expenditures. The testimony in Docket No. SPU-07-11 indicated that ITC Midwest would pursue a more ambitious construction schedule than IPL would have; it was presented as one of the benefits of the transaction. The Board is not persuaded that the costs of this construction were expected to be covered by the ATA commitments. Further, nothing in the multiple cost-benefit scenarios or arguments presented by the various parties in Docket No. SPU-07-11 suggested that transmission rates would not increase if there as increased investment in the transmission system, either in capital or maintenance.

The record demonstrates that IPL's \$47.7 million adjustment to transmission expense is appropriate. This adjustment is consistent with the Board's decision in Docket No. RPU-2009-0002. As the Board said there and will say again, the record demonstrates that the ATA commitments were limited in scope and were not designed to hold transmission costs steady for eight years when significant transmission investments would be made.

2009 True-Up Adjustment

IPL Position

IPL noted that the 2009 true-up represents recovery of costs that are included in ITC Midwest's 2009 revenue requirement and will be charged to and paid by IPL beginning on January 1, 2011. IPL said the 2009 true-up represents the difference between the revenue received by ITC Midwest based on rates in effect in 2009 and

the actual costs incurred by ITC Midwest, and that an annual true-up is required pursuant to ITC Midwest's FERC-approved tariff. (Tr. 767). IPL noted that even though the true-up is not collected until January 1, 2011, the amount of the true-up was determined and posted by MISO in June 2009; the IPL Iowa electric portion is \$20.4 million. ICC opposed any recovery because of IPL's alleged failure to manage its relationship with ITC Midwest.

Consistent with the Board's treatment in Docket No. RPU-2009-0002 of the 2008 true-up, IPL proposed to offset the 2009 true-up by using a portion of the ATA regulatory liability account, the account created when IPL sold its transmission system to ITC Midwest. (Tr. 767-68). IPL proposed this treatment only if the transmission rider is not approved.

ICC Position

ICC opposed recovery of the 2009 true-up, arguing that the totality of the circumstances, including back-to-back rate cases by IPL and IPL's failure to properly manage its relationship with ITC Midwest, warrant rejection of the 2009 true-up. ICC noted that IPL's proposal to offset the true-up with the ATA regulatory liability account does not mean there will be no customer impact, since those amounts would no longer be available to offset other costs.

Consumer Advocate Position

Consumer Advocate opposed recovery of any transmission costs above what it views to be the transmission cost commitments made by IPL in Docket No. SPU-

07-11. This issue was discussed in the previous section on IPL transmission expense.

Board Discussion

The Board will allow recovery of the 2009 true-up costs. The costs are known and measureable and were incurred by ITC Midwest in 2009, which is IPL's test year, but not immediately charged to IPL because of the projected revenue requirement and true-up mechanism used by ITC Midwest in FERC-approved transmission rates.

To negate the rate impact of the 2009 true-up for IPL's customers with the creation of the transmission rider, which is discussed later in this section, the 2009 true-up costs will be immediately offset with proceeds from the ATA account. In the event IPL decides not to take the opportunity to utilize the transmission rider, the 2009 true-up costs will still be offset with proceeds from the ATA account, but over a five-year amortization, as was done in IPL's last rate case with 2008 true-up costs.

ITC Midwest 2011 Transmission Cost Increase

The third and final adjustment proposed by IPL, if Consumer Advocate's workforce reduction adjustment is adopted, is for 2011 ITC Midwest transmission charges. IPL said these charges became known and measurable when they were posted in September 2010, and that the charges will become effective on January 1, 2011.

ICC opposed this adjustment because it did not occur within the test year or nine months thereafter; while the charge may have been posted in September 2010, it was still subject to challenge. Consumer Advocate did not address this specific

adjustment but its proposal for recovery of transmission expenses would not provide for an adjustment as proposed by IPL.

The Board rejected an identical adjustment for 2010 costs in IPL's last rate proceeding, and it will reject IPL's proposal here for 2011 costs. The 2011 costs are projected costs and were not charged or paid by IPL until beginning January 1, 2011, more than two weeks after the Board's decision meeting and less than two weeks before the date of this final decision. While those costs were posted sometime in September, the costs were still subject to challenge or change before their effective date.

As indicated in the final decision in Docket No. RPU-2009-0002, the Board does not share IPL's view that Iowa Code § 476.33(4) mandates that the Board allow recovery of 2011 transmission costs. The statute directs the Board to consider certain adjustments for events occurring outside the test year (within nine months of the test year or 12-months from the date of filing the rate proceeding), but does not mandate that the Board adopt any of those adjustments. Here, the costs came too late in the proceeding to be appropriate for inclusion in rates from this proceeding. While IPL complained in its last rate case that without recovery it would be denied a portion of the costs due to regulatory lag, the Board notes that IPL controls the timing of the filing of its rate cases and the selection of a test year, and that non-calendar year test years have been utilized in the past.

The Board notes that this applies only if IPL declines the opportunity to use the transmission rider, which will be discussed later in this section. If IPL accepts use of

the transmission rider, the 2011 costs will be part of the rider once the rider is implemented.

CIPCO Transmission Charges

LEG questioned certain transmission charges related to an April 1, 1980, Integrated Transmission Area Agreement (1980 Agreement) entered into between Central Iowa Power Cooperative (CIPCO) and two predecessors to IPL, Interstate Power Company (IPC) and Iowa Electric Light and Power Company (which was a party to the 1980 Agreement only for the purposes of terminating certain earlier agreements). Pursuant to the 1980 Agreement, CIPCO and IPC each had a capital investment obligation and, in return, each utility had use of the integrated transmission system to serve its load within the area covered by the agreement. If one of the utilities did not meet its capital investment obligation pursuant to the 1980 Agreement, that utility was considered under-invested and it paid the other utility a charge based on the amount of that utility's over-investment. (Tr. 1017). Also, each utility granted the other the right to wheel power and energy over its portion of the transmission system covered by the 1980 Agreement.

The utilities filed an amended agreement with FERC in 2004. FERC extended the effectiveness of the agreement but found that the 1980 Agreement was no longer a grandfathered agreement and that all transmission service thereafter was to be provided "pursuant to the rates, terms and conditions of the applicable Open Access Transmission Tariff (OATT)." (Tr. 1017-18). An amended agreement between IPL, CIPCO, and the Midwest Independent Transmission System Operator, Inc. (MISO),

was filed with FERC in 2006 (2006 Agreement). As part of the 2006 Agreement, IPL and CIPCO agreed to take service under the other party's OATT wherever a contract path did not exist. There was also a subsequent amendment in 2007 discussed below.

In 2009, IPL paid CIPCO \$205,728.91 as transmission investment true-up, based on the old IPL and CIPCO agreements. LEG argued that ratepayers should not be responsible for this payment because IPL has not invested in transmission since the sale of its transmission assets to ITC Midwest, so there is no basis for a true-up; the true-up should be between CIPCO and ITC Midwest. LEG maintained that IPL has, in effect, voluntarily agreed to these CIPCO true-up payments that should be the responsibility of ITC Midwest. LEG also argued the 2007 Amendment was null and void because it was not filed with FERC.

IPL explained that LEG's position is based on an apparent misunderstanding of how IPL's (now ITC Midwest's) and CIPCO's facilities are interconnected in the area covered by the agreement. IPL said that a utility has an obligation to pay for transmission service to another utility whenever an uninterrupted path of ownership or contract path does not exist to load being served. IPL noted that there are a considerable number of facilities in the area covered by the agreement that are interwoven. While IPL said that the transmission substation ownership is discreet, the issue is around the taps of distribution substations which have sectionalized switches on each side. IPL stated that these sectionalized switches create the problem of neither utility having a clear contract path to its load; the 2006 Agreement

requires payment for transmission service only when the load of one party is located on a specific section of transmission belonging to the other party. IPL said that the over/under investment method solves the problem of lack of a contract path.

IPL explained that at the time of the 2006 Agreement, the parties desired that the fewest possible sections of the agreement be assigned to ITC Midwest. A newer 2007 Agreement fully defines the obligations of the various parties. IPL said that if the true-up provision was assigned to ITC Midwest, then any true-up revenues would also be assigned to ITC Midwest and would be shared with all ITC Midwest customers; likewise, any costs would be part of ITC Midwest's revenue requirement and paid by all ITC Midwest customers, including IPL. IPL indicated this sharing of costs would not be appropriate because the true-up charges are for transmission services that benefit IPL's customers.

IPL noted that CIPCO pays charges for use of ITC Midwest's transmission system and that IPL, as a load serving entity, has load served using the transmission systems of utilities such as CIPCO. IPL said it has the obligation to arrange transmission service to serve its load. IPL concluded that it is appropriate for IPL to pay CIPCO transmission service charges and in turn for CIPCO to pay ITC Midwest charges, pursuant to the 2006 Agreement, with the 2009 true-up being the responsibility of IPL.

The newer 2007 Agreement was not filed with FERC, and LEG and IPL apparently dispute whether that agreement should have been filed with FERC. It is not for the Board to determine whether the 2007 Agreement is subject to FERC

approval; that is a dispute for FERC to determine, and it is irrelevant to the Board's determination of the issue. In addition, LEG alleged some problems in discovery regarding this issue, but those issues appear to have been resolved and, in any event, no motions to compel discovery were filed with the Board.

The 2007 Agreement defines obligations among IPL, CIPCO, ITC Midwest, and MISO. Under the 2006 and 2007 Agreements, IPL pays CIPCO transmission service charges and CIPCO pays ITC Midwest transmission service charges. Generally, an uninterrupted direct path or a contractual path across a transmission system is used to determine transmission charges. However, because of the configuration of the transmission and distribution system in the area covered by the 2006 and 2007 Agreements, there are certain cases where a direct or contractual path does not exist to serve IPL's load in area covered by the agreement. For those cases, the over/under investment payment method is used to solve the direct path issue, with IPL paying CIPCO \$205,728.91 as true-up for transmission investment in 2009.

The CIPCO true-up costs paid by IPL are known and measurable and are incurred in providing electric service to IPL's customers. IPL's customers, although largely served by transmission formerly owned by IPL and now owned by ITC Midwest, also must use other systems such as CIPCO's to receive service, and the true-up charges paid by IPL provide benefit to IPL's electric customers.

Transmission Cost Rider

Introduction

Iowa Code § 476.6(8) allows a utility to pass through costs to ratepayers via an automatic adjustment clause, if the Board approves. The Board has adopted rules in 199 IAC 20.9 providing that a rate-regulated electric utility can use an automatic adjustment clause to recover only those costs which are (1) incurred in supplying energy, (2) beyond the direct control of management, (3) subject to sudden important change in level, (4) an important factor in determining the total cost to serve, and (5) readily, precisely, and continuously segregated in the accounts of the utility.

IPL currently has an EAC and an energy efficiency cost recovery rider (EECR). In this proceeding, as it did in Docket No. RPU-2009-0002, IPL proposed an automatic adjustment clause for transmission-related costs, including costs paid to ITC Midwest for transmission service. ICC, LEG, and Consumer Advocate opposed establishment of the clause. This is a change from Consumer Advocate's position in the prior case. In Docket No. RPU-2009-0002, Consumer Advocate said that while it shared some of ICC's and LEG's concerns regarding the transmission rider, it supported establishment of the clause, at least until transmission rates became more stable.

In Docket No. RPU-2009-0002, the Board deferred a decision on establishing a rider until IPL's next rate case (this one). The Board said that at the time of the next rate case, there would be one year's additional experience with ITC

Midwest/MISO transmission costs to see how those costs might fluctuate. In addition, the Board said there were details with respect to the rider that needed to be worked out if it was to be adopted, such as whether it should be included as a separate line item on the bill like the EAC or rolled into rates like the EECR, what the estimated costs per kWh and per kW demand of the rider would be for each customer class, and more detailed information on the costs to be included in the rider.

IPL Position

IPL argued that an automatic adjustment clause is an efficient cost recovery mechanism for recovery of its transmission cost, including ITC Midwest costs, that is transparent for customers and would simplify future rate cases. IPL maintained that its proposed transmission rider meets legal requirements for an automatic recovery mechanism. IPL provided a detailed list of transmission-related expenses that would be covered by the rider from various MISO schedules, with MISO Schedules 9 (Network Integration Transmission Service) and 26 (Network Upgrade Charge from Transmission Expense) being the predominant costs.

IPL proposed the transmission rider as a separate line item on the bill. IPL said for customers billed on a kWh basis, the recovery would be based on a kWh basis; for customers billed on a per kW basis, recovery would be on a kW basis. (Tr. 246). IPL noted that transmission expense allocation would be consistent with the average and excess method the Board has historically used to allocate transmission

costs, so that there will be no shift in transmission cost responsibility between customer classes.

IPL said the factors in the proposed transmission clause would be revised annually, similar to what is done with the EECR. IPL noted that new factors will become effective January 1 each year going forward, and will remain in effect for the calendar year. IPL said it will file annually in November of each year the factors that will become effective on January 1. To inform customers about the rider, IPL said the rider would be a separate line item on the bill, information would be available on IPL's Web site about charges and rate change impacts, and there will be a yearly bill insert on upcoming annual changes.

IPL provided information showing that transmission costs are expected to fluctuate for the next few years. IPL said that traditional ratemaking is not well suited to address changes of such magnitude where IPL has no control over the costs, and an automatic rider allows for a one-to-one matching of costs incurred and costs recovered so there is no over or under-recovery. (Tr. 251-52).

IPL argued that its proposal satisfied the guidelines for an adjustment clause found in 199 IAC 20.9, and that the Board has previously approved automatic adjustment clauses, such as EACs, EECRs, and MidAmerican's Cooper Nuclear Tracker. (Tr. 906-07). IPL maintained that the issue surrounding an automatic adjustment clause for transmission costs is more a question of regulatory and pricing policy than it is a question of whether the criteria in the Board's rules can be interpreted as a perfect match for these costs. (Tr. 255).

IPL addressed each of the five guidelines in 199 IAC 20.9. The first guideline is that the costs are incurred in the supplying of energy. IPL said it is invoiced monthly by MISO for costs that ITC Midwest incurs to provide IPL transmission service and that the costs billed by MISO are required in order to supply energy to IPL's customers from IPL's generation sources. IPL said that without the high voltage transmission lines provided by ITC Midwest, IPL's customers would not have access to energy.

The second guideline is that the costs are beyond the control of management. IPL pointed out that ITC Midwest costs are part of the FERC-approved MISO tariff and that IPL does not control the FERC-approved MISO formula rates or the underlying costs reflected in those rates. IPL said it would continue to work to influence the level of these costs as described in its testimony. (Tr. 291).

The third guideline for costs to be included in an adjustment mechanism is that they are subject to sudden and important change in level. IPL pointed out that the nominal change in transmission costs between 2008 and 2011 has been as high as \$50 million. In the foreseeable future, IPL said it expects both cost increases and cost decreases from the MISO/ITC Midwest charges, due in part to the reconciliation process that ITC Midwest will utilize as part of its formula rate process.

The fourth guideline is that the costs are an important factor in determining the total cost to serve. IPL said its total costs from ITC Midwest in 2010 are expected to be about \$160 million, which represents more than 11 percent of IPL's overall revenue requirement. (Tr. 253-54).

The fifth and final guideline is that the costs are readily, precisely, and continuously segregated in the accounts of the utility. IPL said that since the end of 2007, it has been receiving MISO invoices related to providing transmission service to IPL for the benefit of all of IPL's electric customers. IPL said it utilizes separate accounting so that the MISO transmission invoices related to ITC Midwest costs can be tracked separately from other MISO-related charges, allowing IPL to readily ascertain the actual monthly transmission expenses related to ITC Midwest transmission costs. (Tr. 254).

Consumer Advocate Position

Consumer Advocate supported IPL's use of a transmission rider in Docket No. RPU-2009-0002. However, in this case, Consumer Advocate objected to IPL's transmission rider for two basic reasons. First, Consumer Advocate maintained that a transmission rider would virtually eliminate all of IPL's incentive to exert its influence to control transmission costs. (Tr. 1247). Second, Consumer Advocate argued that a transmission rider reduces a utility's risk, and IPL did not recognize this reduction of risk in developing its return on equity recommendation. (Id.) Consumer Advocate said there was a significant shift of risk because in 2010 IPL's transmission costs represented about 13.5 percent of IPL's Iowa jurisdictional revenue requirement. (Tr. 1249).

Because IPL's transmission costs have increased each year since the sale of its transmission system to ITC Midwest, Consumer Advocate said it was important to provide incentives to IPL to limit transmission cost increases. Consumer Advocate

objected, for example, to IPL's apparent acquiescence to ITC Midwest's proposed Salem-Hazelton transmission line.⁹

ICC Position

ICC argued that IPL's transmission clause proposal did not meet the criteria set forth in 199 IAC 20.9. For example, ICC said that transmission costs are not expected to fluctuate so widely as to warrant recovery through a rider and the costs are incurred in the delivery, not the supply, of energy.

ICC was also concerned that a rider would reduce IPL's incentive to aggressively manage its transmission costs. ICC maintained that riders should be used sparingly because they can inappropriately shift operating risk from a utility to customers. ICC noted that ITC Midwest costs appear to be trending downward and are a smaller component of IPL's overall revenue requirement than before, meaning that the normal ratemaking processes are sufficient to recovery IPL's transmission expense.

LEG Position

LEG argued that IPL's transmission costs failed to meet the requirements for a rider. First, LEG said that transmission charges are not incurred in supplying energy, but rather incurred in supplying capacity to meet kW demand. (Tr. 1460). LEG said the transmission charges are billed by MISO on a kW demand basis.

⁹ The Salem-Hazelton transmission line is the subject of a pending transmission line siting proceeding before the Board, Docket No. E-21948 et al.

Second, LEG said that IPL has at least some management control of transmission costs because the company has options, such as retail pricing, load control, and interruptible load, that will affect the level of IPL load that is coincident with MISO's peak load; this ultimately impacts the transmission charges billed to IPL by MISO. LEG maintained that IPL has refused to accept any responsibility of the level and timing of these transmission costs. (Tr. 1461).

Third, LEG argued the transmission costs are not subject to sudden important changes in level. LEG said that IPL has not demonstrated that transmission costs fluctuate more than other costs and that any changes are not sudden because IPL has known about these costs since the sale of its transmission assets. (Tr. 1461-62).

Fourth, LEG noted that the costs are not an important factor in determining IPL's total cost to serve. LEG pointed out that transmission costs, as a percentage of IPL's revenue requirement, are falling. (Tr. 1457, 1459, 1462).

Fifth, LEG said that while IPL provided additional data in this proceeding, IPL still had problems providing readily understandable transmission cost information. LEG therefore concluded that transmission information is not readily, precisely, and continuously segregated in IPL's accounts.

Board Discussion

Iowa Code § 476.6(8) allows establishment of automatic adjustments of rates and charges as long as the charges are first filed with the Board, although the statute does not mandate that the Board adopt any particular rider. Rule 199 IAC 20.9 provides guidelines for recovery of fuel costs through automatic adjustments and

allows utilities to pass-through certain types of non-fuel costs that meet the five guidelines set forth in the rules.

IPL states that its transmission costs (from ITC Midwest) are fluctuating and using an automatic mechanism for cost recovery of fluctuating transmission expense is more efficient than including the transmission costs in base rates. An automatic adjustment allows for dollar-for-dollar recovery of costs from ITC Midwest and helps with the regulatory lag issue while making sure that IPL does not over recover transmission costs when there is a period when transmission costs decline.

Automatic adjustment clauses allow utilities to recover costs over which the utility has little or no control, with increases or decreases in those costs being passed dollar for dollar to customers without the necessity of a rate case proceeding, easing the administrative burden and reducing regulatory costs that are ultimately reflected in customers' rates.

For the reasons set forth by IPL, the Board believes an automatic rider for IPL's transmission costs satisfies the five guidelines in 199 IAC 20.9. Satisfying the guidelines, however, does not mandate Board approval of a rider. The Board is concerned about IPL's management of its transmission costs and the failure of IPL to propose a benefit to customers, such as a rate freeze, in the event the transmission rider was adopted. IPL touted the rider as a mechanism for reducing the number of rate cases, but it made no commitment as to when its next rate case would be filed.

The Board will allow IPL the opportunity to implement the transmission rider on a pilot basis.¹⁰ In return for the opportunity to implement the rider, IPL must agree to not file an electric rate case for at least three years from the date of this order.¹¹ The rider will remain in effect pending the Board's decision in that rate case, whenever it is filed. If an IPL rate case is not commenced for longer than this three-year period, the rider can continue in effect until the Board's decision in IPL's next electric rate case, where the rider can be revisited. Customers should receive a benefit from IPL's reduced risk relative to recovery of transmission costs if the rider is to be implemented, particularly after two consecutive years of significant electric rate increases. A minimum three-year base rate freeze provides some of those customer benefits. The Board also believes the reduced risk affects where return on equity is set within the range of reasonableness, as discussed in Section VII.

The Board expects IPL to improve its management of its processes and relationships with ITC Midwest and FERC. IPL's management of the processes and relationships will be an important part of any management efficiency examination in IPL's next rate case. IPL will be required to provide semi-annual reports detailing its review, analysis, suggestions, and input to such things as ITC Midwest's transmission planning and budgeting process and any FERC interventions or proceedings, and what impact IPL's input has had. If, for example, IPL approves of

¹⁰ IPL agreed, to alleviate some concerns expressed by LEG, not to include CIPCO transmission charges in the rider.

¹¹ IPL may apply to the Board for permission to terminate the commitment and file prior to the end of the three-year period in the event of a force majeure, as described later in this order.

what ITC Midwest is doing with respect to new construction projects; that should also be communicated in the report.

The Board does not expect IPL to object to ITC Midwest's plans for the sake of objecting, but IPL must conduct an evaluation to see if those plans are in the long-term interests of IPL and its ratepayers, not only with regard to reliability but in the context of balancing reliability with the cost impact to ratepayers. IPL should then be able to describe its analysis and explain its conclusions. The Board recognizes that substantial transmission investment was needed on IPL's former system. However, IPL's attitude appears to have at times been one of shrugging its shoulders and saying that it cannot do anything because IPL no longer has direct control over transmission costs; this laissez-faire attitude, illustrated by a recent IPL intervention in a FERC proceeding that was filed six weeks late, is not acceptable. IPL always has the option to intervene in transmission line franchise proceedings before the Board if IPL objects to a particular ITC Midwest project.

The Board will also require IPL to collaborate with other interested parties on at least a semi-annual basis.¹² The Board envisions these collaborations to be an opportunity for the other parties to offer suggestions to IPL on how it can better manage its processes and relationships with ITC Midwest and FERC. Finally, IPL will be required to file detailed monthly cost information, similar to what it currently

¹² IPL stated that it is open to additional suggestions from other parties to ensure that they are satisfied with IPL's efforts to influence transmission costs and service levels. (Tr. 289).

files for the energy adjustment clause, showing transmission costs that are being passed through the rider, if it is accepted.

The three-year base rate freeze is an integral part of the Board's decision to allow IPL the opportunity to use a rider. However, the Board recognizes intervening events beyond IPL's control (i.e., the flood of 2008) could impact IPL to such an extent that a rate case might be necessary for the continued financial integrity of the company. If there is a force majeure event, IPL can ask the Board for permission to file for rate relief. In the event the Board determines that a force majeure exists, IPL will be allowed to seek rate relief prior to the expiration of the three-year base rate freeze.

VI. RATE MITIGATION

DAEC and IPL Transmission Sale Rate Mitigation

IPL stated that the remaining balances in the accounts related to the sale of DAEC and IPL's transmission assets should flow back to customers through the EAC. ICC, LEG, and Ag Processing agreed that these amounts should flow back to customers through the EAC, although there were differences on how quickly the refunds should be made.

Consumer Advocate agreed that the amounts should be used to benefit customers, but was concerned that IPL's proposal to refund through the EAC would provide only short-term benefits. Consumer Advocate proposed that the remaining balances be used to reduce WWE rate base, which would provide benefits to customers over the life of the plant.

The amounts remaining in the liability accounts would not provide significant short-term relief to residential customers. If the balances were refunded to customers, the average residential customer would receive about \$1.50 per month for twelve months, when the balances would be exhausted. Reducing WWE's rate base will provide benefits to customers over the life of the plant and is more consistent with the benefits originally envisioned when the regulatory liability accounts were created. After using some of the remaining proceeds to offset Prairie Creek Unit 2 and the 2009 transmission true-up, as previously discussed, Consumer Advocate's proposal will be adopted for the remainder of the balance, with the offset being to that part of WWE's rate base earning the highest return.

Tax Benefit Rider (TBR)

A unique opportunity was proposed by IPL in this proceeding to mitigate the impacts of any rate increase by flowing to customers over a three-year period certain estimated benefits that IPL expects to receive as a result of IRS audits. Any benefits would ultimately flow to customers, but IPL is proposing to accelerate this based on the expected benefits. The Board approved IPL's request for regulatory liability accounting treatment for the dollars associated with three separate and distinct tax benefits (repair expenditures, flood insurance proceeds, and mixed service costs) on April 13, 2010, in Docket No. ARU-2010-0001.

The estimated tax benefits associated with these three categories could be significant. Because the estimated benefits have not been sustained by IRS audit, IPL established target amounts (about 70 percent of expected benefits) to flow back

to customers through the EAC over the next three years; targeted amounts would be increased (or decreased) as the various categories receive their final audit figures. Ultimately, 100 percent of these benefits will be returned to ratepayers, but IPL used a conservative 70 percent figure now so that amounts won't be over-refunded; in that instance, ratepayers might have to return some of the proceeds through their EAC billings.

Consumer Advocate supported IPL's TBR concept, but argued for a class-specific allocation reflecting the base rate increases for each class. (Tr. 1250-53). Consumer Advocate said that the refund should be based on the same factors used to allocate the rate increase to each customer class; IPL's EAC refund factors are based on total energy consumed by each customer class, which would result in a greater portion of the benefits being assigned to non-residential classes.

ICC also supported IPL's TBR concept, but suggested using 90 percent of expected benefits, rather than IPL's 70 percent. (Tr. 1558-62). ICC said this would provide more immediate relief from the impact of IPL's recent rate increases while still providing some cushion against possible IRS disallowance of some anticipated tax benefits.

LEG indicated it supported IPL's TBR concept. Initially, LEG wanted to use the proceeds to reduce rate base, but was informed by IPL that such benefits cannot be used to reduce rate base in a flow-through state like Iowa. (Tr. 307). Because the funds cannot be used to reduce rate base, LEG said it approved of refunding the expected tax benefits through the EAC as explained by IPL, including the retention

by IPL of 30 percent initially to limit the possibility of over-distribution, the distribution of the funds over three years, and a true-up at the end of the distribution period.

The Board will approve the TBR as proposed by IPL for the first year, with one modification. Based on Exhibit 1, the benefits from the flood repair category appear to be even more certain than the other benefits. Therefore, 90 percent will be used as the target for flood repair proceeds, rather than IPL's 70 percent. For the other two categories, IPL's proposal will be adopted (there will be no refund of mixed service costs in year one). The Board is reluctant to set the target levels for the other two categories at 90 percent because if the final benefits are less than estimated, the Board does not want to be in a situation where there is an over-refund.

The TBR refunds will flow through the EAC because it is simple and easy to verify with IPL's monthly EAC filing. Also, the EAC has traditionally been the mechanism most often used for refunds of analogous items, such as insurance proceeds related to clean-up costs of former manufactured gas plant sites. The TRB refunds will be allocated using the EAC refund factors.

Rather than set the funding percentages for three years now, IPL will be required to file on or before December 1, 2011, a proposed refund level for the second 12 months of the three-year refund period. Depending on any final results from the IRS, refund targets can be adjusted accordingly. Setting the target annually should reduce the true-up at the end of the three-year period.

VII. COST OF CAPITAL

There are two primary issues the Board needs to determine with respect to cost of capital. The first issue is to set the appropriate return on equity, and the second is to determine the appropriate capital structure for ratemaking purposes for IPL. In determining the appropriate capital structure, there are two contested issues the Board must decide, whether to reflect IPL's retained earnings adjustment and double leverage.

Return on Equity (ROE)

Introduction

In setting an allowed rate of return on equity investment, the Board is to balance investor and consumer interests. For example, if rates produce earnings that are below a fair and reasonable level, they are unjust or confiscatory to the owners of the utility property; if rates produce earnings that are above a fair and reasonable level, the rates are oppressive to the utility's ratepayers. Davenport Water Co., v. Iowa State Commerce Comm'n, 190 N.W.2d 583, 604-05 (Iowa 1971). In addition, the U.S. Supreme Court, in FPC v. Hope Natural Gas Company, 320 US 591, (1944) held that "the return to the equity owner [the utility] should be commensurate with returns on investments in other enterprises having corresponding risks. The return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise so as to maintain credit and attract capital"

In determining the allowed return, the various models generally produce a range for the Board to consider. There is no precise return on equity that is accurate

or appropriate, but a reasonable range of return. Within that reasonable range, the Board determines the most appropriate return, balancing the interests of shareholders and ratepayers. IPL and its ratepayers have gone through an extremely difficult period because of the devastation caused by the 2008 floods, the extended economic downturn, and rate increases in each of the last two years. The Board believes that under such circumstances it is appropriate to consider whether the equity return selected, in addition to producing fair and reasonable rates, provides adequate incentives to IPL to ensure that it exercises due diligence in managing its costs so that this period of annual rate cases is the exception and not the norm.

IPL, Consumer Advocate, and ICC presented ROE testimony. All three of the ROE witnesses used the discounted cash flow (DCF) model and the capital asset pricing model (CAPM). IPL and ICC also used the risk premium method. IPL initially provided testimony regarding the comparable earnings model but did not use the results in its ROE recommendation because it determined the results from the model were unreasonably high. The Board will not address the comparable earnings model in this order since it was not used to formulate any of the parties' ROE recommendations.

IPL's expert witness recommended a 10.75 percent ROE, which included a 20 basis point business risk adjustment. However, IPL witness Aller agreed to use a 10.5 percent ROE to help mitigate ratepayer impacts from the proposed rate increase; presumably, this figure also includes a business risk adjustment.

Consumer Advocate recommended a 9.5 percent ROE and ICC recommended a 9.9 percent ROE.

IPL Position

IPL applied the DCF model, the CAPM, and the risk premium method to its utility proxy group to develop its ROE recommendation. IPL's DCF model produced a 10.53 percent ROE while the CAPM and the risk premium method resulted in a 10.46 percent ROE and a 10.63 percent ROE, respectively. In considering the results of the various models and adding a business risk adjustment of 0.20 percent, IPL's analysis resulted in a 10.75 percent ROE. However, to mitigate the impact on ratepayers, IPL agreed to use a 10.5 percent ROE, which was the ROE the Board approved in IPL's last electric rate case in Docket No. RPU-2009-0002.

IPL used a group of seventeen electric and combination electric and gas companies for its proxy group including Alliant Energy. IPL noted that ICC used the same proxy group. (Tr. 1846, 1852-53, 1936).

IPL believed that while all three parties offering ROE recommendations used at least one form of the DCF model, IPL's specific methodology was the most reliable because it used a median cost rate for the proxy group, rather than an average cost rate that is much higher. (Tr. 1865). Also, IPL did not rely on spot market price when the market is volatile, but used an average dividend yield and reflected only half of the growth of its dividend yield estimate. (Tr. 1865-66).

One criticism IPL had with respect to ICC's DCF analysis was that ICC used a multi-stage growth DCF model. (Tr. 1910). IPL also argued against Consumer

Advocate's use of a continuous form of the model. (Tr. 1941). In addition, IPL argued that ICC and Consumer Advocate should have included the Empirical CAPM in their ROE analysis. (Tr. 1923, 1952).

Included in IPL's ROE recommendation is an adder for business risk. IPL argued that this was appropriate given IPL's small size relative to the proxy group. (Tr. 1847-48).

Consumer Advocate Position

Consumer Advocate focused its DCF and CAPM analysis on determining the appropriate ROE for IPL's parent, Alliant Energy, and then applying the models to its utility proxy group. Consumer Advocate's DCF range is 9.1 to 9.9 percent (Tr. 2068), and its CAPM range is 8.3 to 9.1 percent. (Tr. 2090). Consumer Advocate's recommendation is 9.5 percent, which it noted compares favorably to the 4.1 percent yield on 20-year Treasury bonds for the 12-month period ending December 2009, the 4.5 percent yield on 20-year Treasury bonds in February 2010, the 6.04 percent average yield on A-rated utility bonds for the 12-month period ending December 2009, and the 9.8 percent market return on Standard & Poor's (S&P) 500 with a beta of 1 compared to Alliant Energy's beta of 0.70. (Tr. 2092-93).

Consumer Advocate was particularly critical of the growth estimates of 5.6 percent to 5.9 percent implied by IPL's recommended 10.5 percent ROE and its estimated ROE of 10.75 percent, claiming that they are not sustainable and not probable in the next five years when the economy is coming out of a major recession. (Tr. 2094). In addition, Consumer Advocate said using five-year models now means

too much reliance on an atypical trough in the business cycle and that IPL's ROE estimates are therefore overstated, unreliable, and unrepresentative. (Tr. 2101-05).

Consumer Advocate said it first reviewed data for Alliant Energy and noted the distinction between Alliant Energy's and IPL's cost of common equity is difficult to measure. (Tr. 2042). Consumer Advocate also used a proxy group of four combination gas and electric companies that are similar to Alliant Energy in that each has its own generation plants and depends mainly on coal to generate electricity. (Tr. 2066). Consumer Advocate said IPL's proxy group was not representative because some of the utilities used are not similar to Alliant Energy. (Tr. 2065).

Consumer Advocate opposed the business risk adder proposed by IPL. Consumer Advocate pointed out this adjustment have previously been rejected by the Board. (Tr. 2050-51).

ICC Position

ICC used three variations of the DCF model, CAPM, and the risk premium method to arrive at its overall recommendation of 9.9 percent. The various DCF models produced an overall range of 9.53 to 10.87 percent (Tr. 2181), the CAPM produced a range of 8.75 to 9.77 percent (Tr. 2191), and the results from the risk premium method ranged from 9.93 to 10.07 percent (Tr. 2186). ICC noted that the outlook for the electric utility industry is good and that analysts believe electric utilities generally will be able to weather the current economic downturn and maintain their credit ratings. (Tr. 2158-61). ICC said that because IPL is not publicly traded, it used the same proxy group as IPL to arrive at its ROE recommendations.

ICC criticized IPL for using high growth rates that inflate its DCF results and are not sustainable. ICC disagrees with IPL's use of *Value Line's* adjusted beta growth rate in its empirical CAPM and opposes IPL's business risk adder. ICC noted that the Board has previously rejected such adjustments and that the risks identified by IPL are already reflected in the recommendations.

Board Discussion

In presenting the various ROE models, there were arguments presented not only with respect to the final recommendation but also with respect to some of the inputs and the validity of some of the models. One of the disagreements between IPL and Consumer Advocate was with respect to the proxy group used. Market-based models like DCF and CAPM cannot be applied directly to IPL because IPL's stock is not traded in the open market; only the stock of Alliant Energy, IPL's parent, is publicly traded. While Alliant Energy's ROE is one estimate for IPL's ROE, proxy groups have also been used in determining IPL's ROE.

No proxy group is perfect. IPL used seventeen combination electric and gas companies and electric only companies in its proxy group. Consumer Advocate argued that IPL's group included companies that were not similar to Alliant Energy. Consumer Advocate used four companies that were similar to Alliant Energy; IPL claimed that this proxy group was too small to produce meaningful results and that proxy companies should be similar to IPL, not Alliant Energy.

The Board considered the ROE results produced by both proxy groups. Both IPL and Consumer Advocate attempted to develop a meaningful proxy group, and

the ROE results from both proxy groups should be considered in determining IPL's ROE. The Board will also look at the ROE results submitted by ICC, which used the same proxy group as IPL.

Another area of dispute was with respect to the appropriate DCF model. All three parties used at least one form of the DCF model, and each claimed that the model it used was superior. Consumer Advocate used the continuous form of the DCF model where the dividend is not increased over time; IPL used the discrete version (which has been referred to as the Federal Energy Regulatory Commission or FERC version), where the dividend is increased by one-half the growth rate; and ICC used the constant growth model, where the dividend is grown by the full growth rate. ICC also used two other versions of the DCF model, the sustainable growth and multi-stage growth models.

In the past, the Board has placed more reliance on the FERC version because it represents a compromise between the continuous and constant growth models, with some of the strengths and weaknesses of each approach. Again, however, there is no perfect DCF model, and the Board looks at the results of all the DCF models as another tool in determining IPL's ROE.

ICC and IPL also used the risk premium model. In its simplest form, the risk premium model takes a specific long-term debt interest rate and adds an associated risk premium to estimate the ROE. The Board in recent years has given weight to its own risk premium method, which takes the current A-rated utility bond rate or the 12-month average yield and adds a risk premium range of 250 to 450 basis points.

While IPL argued that the Board's risk premium range should be increased, the Board's model has worked well over time as another tool in determining a utility's ROE. The range produced by the model provides significant latitude to select an ROE near the higher or lower end of the range, depending on the facts and circumstances of a particular case.

All the parties used the traditional form of CAPM. Historically, the Board has not given much weight to any CAPM analysis, because there were concerns about its reliability. However, the Board has examined the results from the CAPM method as another tool in its ROE determination and will do so here, as well.

All the models used by the various parties produced results worth considering, although the Board has traditionally given more weight to some models than others. In this proceeding, none of the models appeared to produce results that were contrived or so unreasonable as to be not worthy of consideration.

IPL recommended an upwards ROE adjustment for IPL based on its alleged business risk. IPL based the business risk adjustment on IPL's relative small size when compared to the proxy group. The other parties opposed this adjustment, and Consumer Advocate noted that the Board has said that "[b]ecause the various [ROE] models consider so many factors, it is difficult to isolate any one item, such as size, and make that the basis for an additional adjustment." Interstate Power and Light Company, "Final Decision and Order," Docket No. RPU-02-3, p. 63.

A similar adjustment was rejected in IPL's last rate case (Docket No. RPU-2009-0002) and it will be rejected here again. The Board is not persuaded that an

upwards adjustment for business risk due to IPL's size is appropriate. The proxy groups contain both large and small companies and should reasonably capture IPL's small size risk, to the extent it is significant. There is no persuasive evidence in this record to persuade the Board to isolate individual factors to adjust ROE, because the models already take into account numerous factors, including business and financial risk. See, Interstate Power and Light Company, "Final Decision and Order," Docket No. RPU-08-1, p. 62.

The only real new evidence in this proceeding regarding the proposed business risk adder was a linear regression model submitted by IPL. However, this model was of little value to the Board because the Board's understanding is that linear regression models are not usually appropriate for analyzing ordinal data such as bond ratings. Linear regression assumes that variables are ratio or interval data, normally distributed along a continuous scale with equally spaced intervals; bond ratings are ordinal data that cannot be automatically assumed to meet these requirements. Meaningful regression results might have been possible if IPL had either offered evidence to justify treating bond ratings as representative of underlying normally distributed interval data, or used a regression model more appropriate for ordinal data. That evidence is not in this record and the Board cannot say how it would have ruled on that evidence if it had been presented in this case. However, the Board today is not favorably inclined to such adjustments because of the persuasive evidence in this and IPL's last rate case that the various models used by the parties account for business and financial risk.

In this proceeding, the Board has determined that it will allow IPL the opportunity to have a transmission cost rider, reducing regulatory lag in IPL's recovery of transmission costs by providing contemporaneous recovery and allowing recovery of transmission costs without requiring a rate proceeding. Such contemporaneous recovery provides certainty to IPL and reduces the overall risk in a way that is not reflected in the proxy group. While that reduction in risk is not quantified in this record, the opportunity to utilize a transmission cost rider, along with a balancing of ratepayer and shareholder interests, makes it appropriate in this proceeding to gravitate toward the lower end of the range of reasonableness produced by the various ROE models and recommendations. It is important to note that the Board will still be setting ROE within the overall range of reasonableness, so no ROE adjustment will be required if IPL rejects the transmission cost rider. Stated differently, IPL has the opportunity to reduce its overall risk by opting into the transmission cost rider; the ROE set by the Board will reflect that opportunity regardless of whether IPL makes use of it.

The final ROE recommendations are: IPL—10.5 percent; Consumer Advocate—9.5 percent, and ICC—9.9 percent. Presumably, IPL's final recommendations contains some adder for business risk because of its small size. In this proceeding, the various DCF recommendations range from about 9.5 to 10.5 percent, the various CAPM ranges are from about 9.3 to 10.5 percent (disregarding Consumer Advocate's results of a low outlier), and the various risk premium ranges are from about 10.0 to 10.6 percent.

The Board in recent years has used the risk premium method as a check on reasonableness when determining return on equity. The risk premium model often used by the Board adds 250 to 450 basis points to the most current A-rated utility bond yield, rather than to the 12-month average. The most recent bond yield available is August's 5.04 percent, producing a return on equity range of 7.54 to 9.54 percent. Because yields have been unusually low, it is appropriate to also look at the 12-month average from September 2009 to August 2010. The average 5.6 percent A-rated bond yield produces a risk premium range of 8.1 to 10.1. These ranges are historically low and cannot be relied upon as predictors of the future with as much confidence as in prior cases.

In reviewing current market data and the ranges produced by the Board's risk premium analysis and the other market-based models, the Board concludes a return on equity range between 9.9 and 10.4 percent is reasonable, particularly given the relative closeness of the ranges produced by the all three models, DCF, CAPM, and risk premium. The Board will set the ROE at 10.0 percent, which the Board believes appropriately balances the interests of the shareholders and ratepayers, considers the reduction in risk due to IPL's opportunity to utilize a transmission rider, and is consistent with recent ROE decisions.

Retained Earnings Adjustment

IPL said that to comply with the Board's preference, IPL used a 13-month average capital structure for the 2009 test year and then recognized annualized post-test year adjustments. IPL contended that this will make the 13-month average

balances more representative of IPL's optimal capital structure. Because IPL's retained earnings have been growing throughout 2009 and 2010, IPL recommended an adjustment to the common equity balance of \$191,337,288. To calculate the adjustment, IPL essentially used the September 2010 retained earnings balance and subtracted the 13-month balance of retained earnings ending December 31, 2009. In other words, IPL is taking the ending balance for September 2010 and assuming that this was the average balance for IPL's 2009 test year. IPL argued that if the increase in retained earnings is not reflected, an artificial incentive would be created and retained earnings could be pulled from the utility as an equity contribution and then re-infused in order to get post-test year recognition of the growth in common equity. (Tr. 640).

Consumer Advocate contended that use of the retained earnings balance on one date to reflect the test year is not appropriate and that averages should be used. Consumer Advocate said that the use of average balances is consistent with the Board's determination of IPL's capital structure in its prior rate case, Docket No. RPU-2009-0002, and Consumer Advocate's capital structure reflects the actual increases in retained earnings. In addition, Consumer Advocate noted that IPL made no adjustment to paid-in capital, which have been used to pay dividends for some time. (Tr. 1808-09).

ICC urged the Board to reject IPL's retained earnings adjustment and use a 13-month average balance, which is consistent with normal Board practice. (Tr. 2165-66). ICC also asked that IPL be allowed no more than a 50 percent common

equity ratio, which was a commitment IPL made in a prior docket; ICC recognized that the commitment had expired, but maintained such a ratio is reasonable. (Tr. 2166-67)

Consumer Advocate's proposed capital structure is based on 13-month average balances ending September 30, 2010. Although IPL is arguing against the use of rolling averages that would either overstate or understate the balances, Consumer Advocate updated its capital structure to include actual data up to August 2010. With the update, the actual increase in retained earnings through August 2010 is reflected.

The Board has consistently used the 13-month average capital structure. In deciding to use a 13-month average instead of a year-end capital structure, the Board has said that "[i]t is undesirable to adopt a single date as the time for determining a Company's capital structure. It affords an opportunity to alter the structure to the Company's advantage should it choose to do so." Interstate Power and Light Company, "Final Decision and Order," Docket No. RPU-83-27, p. 11.

The Board is not persuaded to depart from its precedent in this proceeding. The use of the 13-month average capital structure is consistent with Iowa Code § 476.33(4), which provides that the Board "consider verifiable data that exists within nine months after the conclusion of the test year, reflecting known and measureable changes in costs not associated with a different level of revenue, and known and measureable revenues not associated with a different level of costs." This legislation allows the Board to consider pro forma adjustments beyond the test year and

addresses, at least to some extent, IPL's concerns that test year rate balances may not reflect major changes going forward. Using a 13-month average capital structure matches the Board's use of a 13-month average rate base.

The Board indicated in IPL's last rate case that the use of a year-end capital structure gives too much weight to the capital structure that exists on one day of the year. A 13-month average capital structure smoothes any aberrations in the capital structure that might occur on a single day or over a single month. The Board has the same concerns with making an adjustment to reflect the balance of one account, such as retained earnings, on a certain day; it invited manipulation or reliance on isolated events to produce desired results.

A 13-month average also removes any incentive for a utility to make adjustments to its capital structure at the end of the test year (or on another date) to artificially increase its estimated cost of capital going forward. It also eliminates any incentive for other parties to select from some other date in order to reduce the estimated cost of capital. The Board will utilize Consumer Advocate's 13-month average capital structure but will use the updated account balances through September 2010 in Exhibit 18 rather than the August 2010 balances in Exhibit 112. Consumer Advocate's proposed capital structure is consistent with the capital structure approved in IPL's last electric rate case in Docket No. RPU-2009-0002 and reflects the growth in retained earnings that IPL is concerned about.

ICC asked that IPL be required to maintain a capital structure with no more than 50 percent common equity. In the case involving the sale of IPL's transmission

system to ITC Midwest (Docket No. SPU-07-11), IPL committed to not filing a capital structure with a common equity ratio greater than 50 percent in its next rate case. While this commitment has expired, the use of Consumer Advocate's proposed capital structure results in a capital structure with less than 50 percent common equity, so ICC's proposal is effectively moot.

Double Leverage

In looking at a rate-regulated utility's capital structure, the Board traditionally considers the capital structure of the utility company, which includes debt, or the first layer of leverage, as well as any debt at the parent holding company level that could be used for a capital infusion into the utility, which is the second layer of leverage. Without the double leverage adjustment, a subsidiary utility company could manipulate its debt levels at the parent and subsidiary levels to support a higher overall rate of return, as affected by the capital structure, than any utility company that is not in such a position, i.e., that does not have a parent company.

The Board has rejected utility efforts to avoid double leverage adjustments in several cases, including Docket Nos. RPU-02-3, RPU-02-8, and ARU-02-1. However, the Board in those cases said it would not apply double leverage mechanically in each case, but rather would examine the particular facts and circumstances in each case where the adjustment is proposed.

The Iowa Supreme Court affirmed the Board's use of double leverage on two occasions, although it is important to note the Court did not mandate that double leverage be applied in all situations. General Telephone Co. of the Midwest v. Iowa

State Commerce Comm'n, 275 N.W.2d 364, 369 (Iowa 1979); United Telephone Co. v Iowa State Commerce Comm'n 257 N.W.2d 466, 479-480, 482 (Iowa 1977). The Board made a narrow exception to the application of double leverage in an Iowa Electric Light and Power rate case. In Docket No. RPU-89-3, the utility provided four factors that demonstrated how the parent's debt did not result in an increase in the utility's common equity. In other words, it was shown in the record that the parent company's debt did not support the utility's capital structure. (Docket No. RPU-89-3, "Final Decision and Order" (4/30/1990), pp. 47-49). In Docket No. RPU-91-9, one of the factors changed so the Board once again applied double leverage.

The proposed application of double leverage in this case begins with Alliant Energy Resources' (AER) debt issue that Alliant Energy fully and unconditionally guaranteed in 2000. In Docket No. RPU-02-3, Consumer Advocate proposed including this debt issue as part of Alliant Energy's capital structure and then applying double leverage, because Alliant Energy guaranteed the debt. The Board denied Consumer Advocate's adjustment because the evidence showed that none of the proceeds from that debt could have been used to support the equity in Alliant Energy's utility subsidiaries. The Board said:

Consumer Advocate in its double leverage adjustment not only included the \$24 million debt issue but also included Alliant Resources' debt that is guaranteed by Alliant Energy. This is a non-traditional use of double leverage and is contrary to the premise that the parent issues debt in order to infuse equity into a utility subsidiary. (Tr. 1610, 1699-1700). Alliant Resources is the non-regulated subsidiary of Alliant Energy, IPL's parent. Alliant Resources' debt is kept separate from IPL and has not been used to infuse equity into IPL. Each company issues its own debt to fund its own

operations. Consumer Advocate admitted that Alliant cannot use the proceeds from Alliant Resources' debt issues. (Tr. 2099-2101).

While Alliant Energy has fully and unconditionally guaranteed Alliant Resources' debt, IPL is not responsible for paying the debt if there is a default and none of its assets were pledged as collateral for the debt. Alliant Energy can use any source of funds it has to pay the debt in the event of a default, such as dividends or the issuance of equity or debt. IPL noted that it has several restrictions on its bonds and equity ratios such that it is unlikely that IPL could be a significant source of money for Alliant Energy to repay the debt. (Tr. 1701-1701A). Even if Alliant Energy wanted to sell some or all of IPL's assets to pay the debt, Board approval would be required pursuant to Iowa's reorganization statutes, Iowa Code §§ 476.76 and 476.77. Most importantly, the proceeds from the debt were not used to invest in the common equity of IPL or any other subsidiary, so the underlying theory behind a double leverage adjustment is not present.

Interstate Power and Light Company, "Final Decision and Order," Docket No. RPU-02-3, pp. 59-60 (4/15/2003).

Since the Board's decision in Docket No. RPU-02-3, Alliant Energy assumed AER's debt, meaning that the debt was included on Alliant Energy's books and was part of the parent company's capital structure. More recently, the AER debt that was assumed by Alliant Energy has been largely replaced by new debt issued by Alliant Energy. Alliant Energy initially used cash on hand and a bridge loan to fund the replacement, later issuing \$250 million worth of five-year notes.

In Docket No. RPU-02-3, the Board noted that double leverage is one regulatory tool available to help protect the utility from abuse by the parent company, but that double leverage should not be applied mechanically because of the complex

nature of these relationships and transactions. Rather, the Board said it would examine the particular facts and circumstances in each case.

In IPL's last rate case, Docket No. RPU-2009-0002, the Board found that there had been no real change from Docket No. RPU-02-3 in the sense that no cash was available as a result of parent company debt to invest in IPL's common equity. The Board did not apply double leverage. Because the proceeds from the debt were not used to invest in the common equity of IPL or any other subsidiary, the Board said that the underlying theory behind a double leverage adjustment was not present. However, the Board indicated that if there was an equity infusion into IPL after the date of the debt issuance, then double leverage might be appropriate to apply.

The arguments for and against the application in this case are similar to those presented in the last case. However, there have been two significant intervening events. Since the Board's decision in Docket No. RPU-2009-0002, IPL received two equity infusions of \$25 million each in January and February of 2010; both of these were subsequent to the issuance of Alliant Energy debt in October 2009.

Consumer Advocate urged that double leverage should be applied in this case, arguing that it is irrelevant to trace the dollars from the debt issue to the use of those funds. Consumer Advocate also argued that it is important to consider the relationship between the parent and its subsidiary; the closer the relationship the more obvious it is that the cost of capital of the parent should be a component of the subsidiary's cost of equity. Consumer Advocate argued that Alliant Energy and IPL have a very close relationship because Alliant Energy owns all of IPL's stock, the two

companies share the same boards of directors, and IPL provides a significant portion of Alliant's earnings. (Tr. 1786-87). Consumer Advocate said that these earnings enable Alliant to pay off its debt, and that all these relationships make it logical to conclude that Alliant's capital structure supports IPL's capital structure, and the parent's cost of that capital should be passed through to IPL. (Tr. 1804-06).

IPL argued that, as in the last rate case, no cash was available either from the initial debt or the subsequent debt issue to be used as an equity infusion. While IPL acknowledged Consumer Advocate's argument that Alliant's cash on hand could be used for equity infusions, IPL said that it is not what the cash on hand was used for, and in fact it would have been impossible to do since the amount generated by the redemption was lower than the costs of the redemption. (Tr. 620). IPL noted that while cash funds are fungible they are not necessarily commingled and not automatically liquid, and here none of the proceeds could possibly be used for an equity infusion to IPL.

As the Board noted in Docket No. RPU-2010-0001, without the double leverage adjustment a subsidiary utility company could earn a higher rate of return, as affected by the capital structure, than any utility company not in such a position. The Board has consistently applied double leverage, with limited exceptions. Because of the recent equity infusions, it is once again appropriate to apply double leverage to IPL because the reasons for the exception are no longer present.

VIII. RATE DESIGN/CLASS COST-OF-SERVICE

Overall Class Cost of Service and Rate Design

Introduction

In the final order in Docket No. RPU-04-1 setting forth the process for equalizing rates among IPL's various pricing zones, the Board indicated it would not shift revenues among customer classes based on a class cost-of-service (CCS) study until the rate equalization process among the utility service areas merged to create IPL was completed. The Board did not want to compound revenue shifts (with resulting price impacts) that occurred due to rate equalization with revenue shifts that would likely occur due to the use of a new CCS. However, in IPL's last rate case the Board recognized that the rate equalization process was almost complete for the residential and general service class and was completed for all other classes. The Board said it would entertain CCS-based revenue requirement shifts in this proceeding.

Two parties, Consumer Advocate and LEG, are advocating CCS-based revenue requirement shifts in this case. However, Consumer Advocate and LEG are advocating only modest and limited revenue shifts at this time; both have concerns about making any significant shifts due to concerns about the anomalous nature of the test year data, which included a cooler-than-normal summer and a major economic downturn. IPL and ICC, while not proposing any CCS-based revenue requirement shifts, share Consumer Advocate's and LEG's concerns about the test year data.

In dealing with CCS issues, the Board has said:

Class cost-of-service studies are a useful guide in setting rates, but such studies are not the only consideration in setting just and reasonable rates. Subrule 199 IAC 20.10(1) allows the Board to waive strict adherence to its ratemaking standards and the Board's rules do not specifically require a utility to file a new class cost-of-service study if there are no proposed changes in rate design.

(Docket No. RPU-04-1, "Final Decision and Order," January 14, 2005, p. 17). In addition to CCS studies, the Board looks at such things as rate shock; changes indicated by a CCS study can be adopted on a gradual basis so customers in particular classes do not experience dramatic changes in rates.

In this subsection of overall class cost-of-service and rate design, the Board will address overall cost allocations, weather normalization of CCS class load data, and residential rate design. The Board will also address whether to implement the fifth and final step of rate equalization with final rates in this docket, as proposed by IPL.

IPL Position

In accordance with the Board's Final Decision and Order issued January 19, 2010, in IPL's most recent rate case (Docket No. RPU-2009-0002), IPL included a CCS study with its initial filing in this docket. IPL proposed to complete the final fifth step of rate equalization for the residential and general service classes in the proceeding. In addition, IPL proposes to increase the base tariff rates of all customer classes (except Lighting) by a uniform percentage without reference to the CCS

study.¹³ IPL said its proposed treatment was based on the Board's previous order in Docket No. RPU-04-1, in which the Board indicated it would not shift revenues among customer classes based on a CCS study until the rate equalization process is completed. IPL noted that the Board approved the same type of uniform percentage adjustments in IPL's previous rate case, Docket No. RPU-2009-0002. IPL recommended that any CCS-based shifting of revenues among customer classes be deferred to a future proceeding with a more typical test year. (Tr. 282-83).

Weather Normalization of CCS Class Load Data. IPL expressed concerns about the different methods proposed by Consumer Advocate and LEG for weather normalizing IPL's CCS class load data. IPL said it uses actual test year load research data for its CCS study and does not adjust peak demand data for normal weather. IPL said its method was based on its understanding of 199 IAC 20.10(2)"c" and 35.9(2), which describe the use and criteria for class load data, with no mention of normalizing the data. IPL quoted from 199 IAC 35.9(2), which states:

The data shall be based on a sample metering of customers designed to achieve a statistically expected accuracy of plus or minus 10 percent at the 90 percent confidence level for loads during the yearly system peak hour(s).

IPL argued that any weather normalization of the data would effectively be deriving an estimate (weather-normalized data) based on another estimate (the

¹³ The uniform percentage generally applies to customer class base rate revenues (i.e., excluding revenues from the EAC, EECR, and excess facilities charges). Within each class, the base rate revenue increase is then applied to all base rate elements (except the customer charge) on a uniform percentage basis.

IPL proposed to exempt the Lighting class from any rate increases in this case. (Tr. 242-43). None of the parties opposed this exemption.

metered load data), which might compromise the accuracy standard of "plus or minus 10 percent at the 90 percent confidence level." IPL also maintained that any weather normalization of CCS load data should be addressed in a rule making docket, rather than a rate case, so that all of the issues related to the best way to weather normalize can be considered at one time. IPL noted that in Docket No. RPU-83-44, the presiding officer (and later the Board) declined a proposed weather adjustment to CCS load data, stating that it was not certain that such an adjustment was practical.¹⁴

Residential Rate Design. IPL proposed to increase class base rate elements (except the customer charge) on a uniform percentage basis.

ICC Position

ICC supported IPL's proposal to implement any increase in IPL's revenue requirement on a uniform percentage basis among the affected classes. ICC argued that a cooler-than-normal summer and the economic downturn make the test year unrepresentative for purposes of cost allocation. (Tr. 1581). For residential rate design, ICC also supported IPL's proposal for increasing class base rate elements.

Consumer Advocate Position

Consumer Advocate said that IPL's CCS study shows that residential and general service customers are subsidizing large general service and bulk power customers by more than \$45 million per year. (Tr. 1163). Consumer Advocate's own CCS study shows the subsidy as substantially greater. (Tr. 1351). Consumer

¹⁴ Docket No. RPU-83-44, "Proposed Decision and Order," 12/27/84, p. 49. The presiding officer's proposed decision on this particular adjustment was not modified by the Board's 2/8/85 "Order Affirming and Modifying Hearing Examiner's Proposed Decision."

Advocate argued that because of the results of IPL's and Consumer Advocate's CCS studies, IPL's proposal to allocate its proposed revenue increase among customer classes on a uniform percentage basis is unreasonable. Consumer Advocate instead proposed modest shifts in class revenue requirements, according to the revenue increase or reduction approved in this proceeding. (Tr. 1352-54).

Consumer Advocate specifically recommended that if the Board implements an increase of 2.5 percent or less, it should all be allocated to large general service and bulk power, with no change for the other classes. If the overall increase is more than 2.5 percent, Consumer Advocate said that the overall increase for large general service and bulk power should be capped at 2.5 percent above the overall average percentage increase, lighting should receive no increase, and general service and residential should receive lower than average increases, with the increase for general service set 1.5 percent less than the Residential increase. (Tr. 1352-54).

Residential Rate Design. If the Board approves a significant revenue requirement increase in this case, Consumer Advocate proposed changes in residential rate design to support energy efficiency goals and reduce electric heating usage during the winter. Specifically, Consumer Advocate advocated greater kWh rate increases in the summer than in winter and reductions in the winter declining-block kWh rate differentials. (Tr. 1359-61). Consumer Advocate argued that these combined changes would reduce the incentive for electric heating without imposing undue billing impacts on current electric heating customers.

LEG Position

LEG proposed shifts in class revenue requirements based on its CCS study. However, to avoid disruptive impacts due to the abnormal test year, rate equalization, and potential usage shifts based on price elasticity, LEG said the final class shifts should not exceed one-fourth of the difference between IPL's proposed uniform percentage increases and the class increases indicated by LEG's CCS study. (Tr. 1481-82).

Weather Normalization of CCS Class Load Data. LEG proposed weather normalization adjustments for the class load data used in its CCS study, including weather normalization of both kWh usage and kW demand.

Residential Rate Design. LEG supported IPL's proposal for increasing class base rate elements and for taking the final, fifth step of rate equalization. LEG said that IPL's class rate structures are cost-based, based on strong load research. (Tr. 1482-83).

LEG opposed Consumer Advocate's proposals for residential rate design, which LEG said are based only on opinion and conjecture regarding the goals of minimizing fixed customer charges, seasonal rate differences, and declining block rates, and regarding the role of weather-sensitive use in contributing to system peak. (Tr. 1355-56). LEG said that Consumer Advocate made no mention of the components of capacity and customer cost in IPL's residential rates, or the statistically-based hourly load research data used to design the rates. LEG also argued that Consumer Advocate's proposal does not consider the economic

consequences of pricing various rate elements above or below cost and is based on assumptions about customer behavior, rather than cost and load data.

Because IPL's residential rates involve only a customer charge and energy-only rates, LEG said the energy rates are designed to recover both capacity and energy-related costs. LEG noted that hourly load research data is used to analyze costs of service at different usage levels and seasons. (Tr. 1496-97). LEG said, for example, that if the load data show increases in kWh usage per kW of demand at higher usage levels (i.e., reduced capacity costs on a per kWh basis), then the data provides a cost-based justification for declining block rates. LEG argued that Consumer Advocate provided no load research or analysis to support its claim that residential block rates should be flattened or inverted, or by how much, or that such changes would bring about expected changes in customer demand and usage behavior. (Tr. 1497-99).

Board Discussion

One of the reasons cited by IPL for not making class revenue shifts based on the CCS study in this case is the potential rate impacts from the final step of rate equalization. Earlier in the rate equalization process, the Board indicated that there should be no CCS revenue shifts in rate cases that might occur during the five-year rate equalization process, in order to minimize the potential for compound billing impacts from increases due to both CCS revenue shifts and equalization. However, the revenue shifts indicated by all three CCS studies (IPL, Consumer Advocate, and LEG) suggest that the large general service and bulk power classes (which area

already equalized) should receive higher than average increases, although the three studies differ on the percentages. Further, it must be noted that both of the parties (Consumer Advocate and LEG) proposing CCS-base revenue requirement shifts are advocating only modest and limited revenue shifts at this time, rather than full implementation of the CCS results, due to concerns about the anomalous nature of the test year data.

The Board recognizes, however, that all three CCS studies pointed in the same direction. In implementing final rates, the Board will take that direction into account; all three studies filed in this proceeding indicate there should be some revenue shift from the residential and general service classes to the large general service and bulk power classes. Because the shift will tend to offset any increases associated with the final step of rate equalization, there is no concern about compound billing impacts, so there is no need to wait for the end of the equalization plan.

Weather Normalization of CCS Class Load Data. Both LEG and Consumer Advocate propose to normalize IPL's kWh and KW CCS load data for the Residential and General Service classes, although their methods are different. LEG proposes to weather normalize kW demands directly (Tr. 1470-73), while Consumer Advocate proposes to normalize kW demands indirectly by applying 5-year average class load factors to weather-normalized class kWh data. (Tr. 1316-18).

The Board is persuaded by ICC's testimony that describes the normalization of class and system peak demands for CCS allocations as "a far more complex and

difficult undertaking" than the weather normalization of kWh sales volumes. (Tr. 1581-82). Some of this complexity can be seen in the fact that the temperature on the day of system peak demand was not significantly different in 2009 than in previous years (Tr. 992) and, thus, did not seem to explain the differences in peak demand.

IPL argues that peak day demands should not be adjusted without significant variation in peak day temperatures. (Tr. 991-92). LEG counters that IPL's observation relates to system peak demand, but does not address class peak demands. (Tr. 1520). However, Consumer Advocate also found that peak demands (both system and class peak demands) were lower in 2009 than in previous years, even after taking weather into account, and concluded there were various other factors that made 2009 peak loads anomalous. Consumer Advocate's solution was to normalize these other factors influencing kW peak demands by simply applying five-year average load factors to Consumer Advocate's weather-normalized kWh and to recommend that the CCS study results be used only "as a directional indicator rather than an absolute guideline in light of the uncertainties in peak load." (Tr. 1316-18).

The Board is not persuaded that it is appropriate to normalize any of IPL's CCS class load data in this case. The Board's electric rate design rule (199 IAC 20.10) makes no mention of weather normalizing CCS class load data and no Board precedent has been identified where the Board approved a weather normalization adjustment of CCS class load data. In addition, it is not clear from the record of this

proceeding, if a weather normalization adjustment were to be adopted, which method might be best. The LEG and Consumer Advocate witnesses present substantially different approaches and each is critical of the other's method. ICC appropriately cautioned about the potential complexity that might be involved. A rule making or inquiry docket would be more appropriate to examine this issue so that all stakeholders could examine the two methods, and any other methods that might be proposed, to see if weather normalization should be utilized. The Board is also concerned that the methods proposed in this case may have been, in part, results driven because of what all agree is anomalous test year data.

Residential Rate Design. With the exception of Consumer Advocate's residential rate design proposal, all of the parties otherwise support IPL's class rate design proposal, which generally involves increasing all non-customer charge base rate elements by uniform percentages. The evidence does not support adopting Consumer Advocate's residential rate design proposal at this time. As noted by IPL, residential rate design issues, including declining-block rates and energy efficiency policy considerations, were previously litigated in Docket No. RPU-05-3, involving the use of hourly class load research data developed by IPL. Any revisiting of these issues should involve a more thorough examination than was presented in this case; no hourly class load research was introduced in this proceeding. Also, the rate design changes proposed by Consumer Advocate could potentially interact with the final step of residential rate equalization and might have unexpected customer billing impacts.

While not adopting any residential rate design changes in this docket, the Board believes it is important to periodically examine rate design for appropriate changes that foster energy efficiency. The Board expects IPL to follow-up on its suggestion that it will begin a dialogue with the parties on rate design issues outside the rate case process. (Tr. 282).

Final Fifth Step of Rate Equalization. None of the parties object to IPL implementing the final, fifth step of rate equalization for the residential and general service classes, which would take place at the conclusion of this case as part of final compliance rates. To the extent there are additional net increases due to equalization, most of these will likely be less than 8 percent. The Board will approve these final changes, which will conclude the rate equalization process for all customer classes.

As noted above, all CCS studies in this proceeding indicate there should be some revenue shift from the residential and general service classes to the large general service and bulk power classes; and the parties that advocate revenue shifts suggest they should be modest because of the anomalous nature of the test year CCS data. Such shifts would result in lower than average base rate increases for the residential and general service classes, higher than average increases for the large general service and bulk power classes, and no increases for the lighting class. Modest CCS revenue shifts will mitigate the final impacts of rate equalization on those residential and general service customers receiving additional net billing increases due to the final step of rate equalization. The Board will implement modest

shifts by keeping final rates for large general service and bulk power at current temporary rate levels, and using any final revenue difference below temporary levels to reduce non-customer charge residential and general service temporary base rates on a uniform percentage basis. These final rate reductions should be made before the RTS Rider (discussed below) is unbundled from base rates. In addition, any refunds due should be allocated only to the residential and general service customer classes, since LGS and bulk power rates will not be reduced below temporary rate levels.

Allocation of Generation Demand Costs

IPL advocated for continued use of the average and excess (A&E) method for allocating generation costs. In the context of A&E demand, the A&E method allocates capacity on an average cost per kW basis, similar to how energy is allocated to the various classes on an average cost per kWh basis. Consumer Advocate argued that the average and peak demand (APD) method should be used to allocate generation costs. The APD method allocates the excess portion of A&E demand by full class peak demands, rather than only the excess portion of class peak demands. ICC and LEG both supported continued use of the A&E method.

IPL noted that the Board has continually supported the use of the A&E method in electric rate cases for IPL (or its predecessors) since 1984, when its use was approved by the Board in Docket No. RPU-83-23. IPL argued that consistency in method (and therefore consistency in rates) is important to IPL's customers, and that

an APD allocation would result in a class cost allocation that more closely resembles allocation based on kWh energy usage. (Tr. 1196).

Consumer Advocate said that the A&E method fails to accurately allocate the cost of the various generating plants that are built and used to serve each customer class because too much emphasis is placed on class peak demands and not enough emphasis on class energy usage, which does not take into account the tradeoffs between energy and capacity costs in determining the generation mix. (Tr. 1319-27). Consumer Advocate argued that the APD method more fairly recognizes the fact that expensive base load plants are built to serve sustained energy loads, whereas less expensive peaking plants are built to serve peak loads. (Tr. 1331-33).

ICC argued that the APD method would inappropriately double count the energy, or average demand, component of A&E demand by also including it in the allocation of A&E excess demand. ICC said the APD method results in higher load factor customers being asymmetrically allocated the higher capacity costs of base load generation without the benefit of the lower energy costs associated with that generation. (Tr. 1597). ICC noted the APD method has been rejected by the Missouri and Texas public utility commissions.

LEG said that the APD method allocates a greater share of fixed capacity costs as energy-related costs, which would inappropriately under-price demand-related costs and over-price energy, thereby encouraging the use of capacity and accelerating the need for additional capacity. (Tr. 1487, 1491). LEG argued that the A&E method provides a reasonable balance between demand and energy allocations

of generation capacity and recognizes that generation capacity is built to serve both peak demand and usage throughout the year.

The APD method is similar to the A&E method in some ways, but differs by giving extra emphasis to class average demand by including it in the allocation of A&E excess demand. The result is an allocation factor that resembles a hybrid between A&E demand and an energy-based allocator, which tends to benefit low load factor residential and general service customers at the expense of higher load factor large general service and bulk power customers.

The Board has previously found the A&E method to be in compliance with 199 IAC 20.10(2)"c," which provides that generating capacity allocations among and within classes shall recognize that utility systems are designed to serve both peak and off-peak demand, and shall attribute costs based upon both peak period demand and the contribution of off-peak period demand in determining generation mix. (Tr. 1593). While Consumer Advocate argues that the APD method better reflects the supply planning process, which involves consideration of both energy and capacity costs, ICC appropriately pointed out that once generation is selected and built, capacity cost and energy costs are allocated separately; the purpose of the A&E method is to allocate capacity costs. (Tr. 1593-94).

As noted by ICC, the APD method uses average demand twice, first in the allocation of average system demand, and again in the allocation of excess system peak demand, which effectively incorporates a double-counting of class energy usage in the allocation of capacity costs. (Tr. 1594-96). In the context of class A&E

demands, this results in higher capacity costs being allocated to high load factor customers on a per-kW basis. According to Consumer Advocate, this treatment is intended to allocate more of the higher capacity costs of base load generating units based on the sustained energy usage of high load factor customers. (Tr. 1331-33). However, since the tradeoff of higher base load capacity costs is lower fuel costs (Tr. 1319-21), and since energy costs are allocated on an average per-kWh basis, the APD method would produce a non-symmetrical allocation of capacity and energy costs. (Tr. 1596-1600).

The Board is not persuaded to depart from the A&E method for the allocation of generation demand costs. Because energy continues to be allocated among classes on an average per-kWh basis, it is reasonable and symmetrical to also allocate capacity costs on an average per-kW basis. The Board also believes consistency in allocations is important, particularly when the Board is not convinced that a new allocation method will result in a better or fairer way to allocate costs among the various customer classes.

Allocation of Selected Generation-Related Costs

Consumer Advocate said that IPL's rail cars should be classified and allocated as energy-related rather than as demand cost because the rail cars were purchased to transport coal to base load power plants. Consumer Advocate stated that base load power plants are designed to provide a sustained supply of low-cost energy. Consumer Advocate noted that allocating IPL's rail cars as energy-related would be

consistent with IPL's treatment of its leased rail cars, which are allocated as part of the fuel costs, or energy-related. (Tr. 1334).

Consumer Advocate also urged that three other generation-related costs should be allocated as energy-based rather than as demand cost. Consumer Advocate said the three costs were: 1) WWE wind farm; 2) Duane Arnold Energy Center (DAEC) power purchase demand charges; and 3) emission controls investment at the Lansing 4 coal plant.

In support of classifying and allocating these three costs as energy-based, Consumer Advocate argued that WWE was built to provide energy-related environmental benefits, not capacity benefits, and that an energy allocation would be consistent with how IPL allocates wind power purchases from third parties. (Tr. 1334). Similarly, Consumer Advocate said that since the primary benefit of IPL's DAEC power is low-cost energy, 80 percent of DAEC demand charges should be allocated as energy-related. (Tr. 1335). Finally, Consumer Advocate maintained that since the purpose of the emission controls at Lansing 4 was to reduce emissions associated with the sustained production of energy, the emission control costs should be allocated as energy-related. (Tr. 1335-36).

IPL opposed all of Consumer Advocate's proposed energy-based allocations. With respect to the IPL-owned rail cars, IPL said that costs that tend to remain constant in the short run, regardless of changes in kWh production should be regarded as demand-related costs. IPL noted this treatment is consistent with the National Association of Utility Regulatory Commissioners (NARUC) Electricity Cost

Allocation Manual (1992). IPL pointed out that it does not buy and sell rail cars on a daily basis because of daily generation levels but rather its investment in the rail cars is directly related to its capacity requirements. (Tr. 1198).

With respect to Consumer Advocate's other three proposed energy-based allocations (WWE, DAEC power purchase demand charges, and emission controls for Lansing 4), IPL again argued that costs that tend to remain relatively constant in the short run, regardless of changes in kWh production should be regarded as demand-related, consistent with the NARUC manual. IPL noted that the investment in WWE is fixed and will not vary with kWh production, regardless of whether the wind farm is dispatchable. Similarly, IPL said variations in DAEC energy purchases have no impact on the fixed power purchase demand charges and the investment cost of the Lansing 4 emissions controls is based on plant capacity and does not vary with fluctuations in energy production. (Tr. 1198-99).

LEG also opposed all of Consumer Advocate's proposed energy-based allocations. LEG said the costs of rail cars, wind generation, nuclear power, and pollution control equipment are all capital investments for the purpose of electric production and should therefore be classified as demand-related production costs. Consumer Advocate's method would inappropriately under-price demand-related costs and over-price energy-related costs, thereby encouraging the use of capacity and accelerating the need for additional capacity. (Tr. 1487). LEG pointed out that the Consumer Advocate's method would have an adverse impact on production and

employment by high-load-factor large general service customers, making IPL's service territory less attractive to major agri-business industries. (Tr. 1490).

The common feature of each of these four costs (rail cars, WWE, DAEC purchase power costs, and Lansing 4 emissions controls) is that they are generation-related fixed costs that Consumer Advocate seeks to reclassify and allocate as energy-related costs because each of the four cost categories has a relationship to the generation of low-cost energy. As discussed in the previous subsection on Allocation of Generation Demand Costs, the fact that generation capacity investment decisions involve tradeoffs of capacity versus energy costs does not change the fact that once the capacity investment is made, the capacity costs and energy costs are recovered separately. The NARUC cost allocation manual recognizes this distinction:

Fixed production costs vary with capacity additions, not with energy produced from given plant capacity, and are classified as demand-related. Variable production costs change with the amount of energy produced, delivered or purchased and are classified as energy-related.¹⁵

Consistent with the NARUC manual, the fixed investment costs associated with IPL's rail cars, WWE generation plant capacity, fixed contract demand charges associated with the DAEC contract, and Lansing 4 emission control equipment should all be classified and allocated as demand-related costs. IPL's and LEG's arguments for continued demand allocation are persuasive.

¹⁵ NARUC Electric Utility Cost Allocation Manual, p. 35 (1992).

Allocation of Transmission Costs

Consumer Advocate argued that IPL's transmission costs should be allocated using the same 12-coincident peak (12CP) method that ITC Midwest uses to allocate transmission costs to IPL. (Tr. 1336-38). IPL said it was not generally opposed to the 12CP method, but believed that the Average & Excess (A&E) method should continue to be used in this proceeding because it reflects the past allocation of transmission costs in IPL's bundled base tariff rates. LEG stated that Consumer Advocate had not made a convincing argument to move away from the A&E method to the 12CP method, arguing that moving to the 12CP method would benefit residential and general service customers at the expense of large general service and bulk power customers. (Tr. 1493-94).

Traditionally, transmission costs have been allocated using the same method used to allocate generation costs, which is why IPL continued to allocate transmission costs using the A&E method. Because ITC Midwest allocates transmission costs to IPL using the 12CP method, it would be reasonable to require IPL to use the same 12CP method for allocating ITC Midwest transmission charges across customer classes. However, for purposes of continuity in implementing the RTS Rider, the Board believes it is more reasonable to postpone application of a 12CP allocation at least until after the RTS Rider has been unbundled from base tariff rates, since the transmission costs currently embedded in base tariff rates reflect previous allocations based on the A&E method.

Allocation of Energy Costs

LEG proposed to allocate IPL's energy costs in IPL's CCS study using an Energy Cost Weighted Allocator (ECWA), based on class differences in hourly usage applied to hourly energy prices. LEG said the hourly energy prices are based on MISO's locational marginal pricing (LMP) at IPL's MISO delivery node. (Tr. 1477).

LEG pointed out that IPL collects its monthly fuel and power purchase costs from all customers on a uniform per-kWh basis through IPL's energy adjustment clause (EAC), regardless of differences in time of usage and customer costs. LEG argued that IPL's use of a uniform EAC forgoes a significant opportunity for pricing the recovery of fuel and power purchase costs based on class responsibility. If the Board declines to adopt LEG's use of ECWA in IPL's CCS study, LEG recommended application of its ECWA method in calculating IPL's monthly EAC. (Tr. 1478).

IPL opposed the ECWA, arguing that it would be extremely complicated, data intensive, and produce only a relatively small shift in the revenue requirement of about \$5 million from the large general service and bulk power classes to the residential and general service classes. (Tr. 1204-04, 1476-77, 1480). IPL pointed out that the energy cost data on which LEG's hourly calculations are based are MISO LMP prices, but that these prices might include a capacity cost component. (Tr. 1492). IPL noted that LEG's alternative, to use ECWA to allocate IPL's monthly EAC costs, could be inconsistent with the Board's EAC rules, and LEG has not demonstrated that its method would be in compliance with the rules. 199 IAC 20.9(2).

ICC agreed with IPL that LEG's ECWA method should not be adopted.

Consumer Advocate also opposed the ECWA method. Consumer Advocate said that when combined with the A&E method for allocating capacity, the ECWA method ends up allocating energy and capacity in contradictory ways because energy would be allocated as marginal cost and capacity as average embedded cost. (Tr. 1368-70).

LEG's ECWA method is intended to allocate energy costs among customer classes based on energy cost at time of usage. In view of the tradeoffs between energy and capacity costs in generation supply planning, as noted by Consumer Advocate, and the desirability of symmetry in the allocation of energy and generation capacity costs, it is not appropriate to allocate energy on a marginal cost basis when generating capacity costs are not allocated on the same basis. (Tr. 1319-21, 1596-1600).

In addition, the ECWA method is data-intensive and complex and it is not clear from LEG's results whether the magnitude of the resulting cost shifts justify the additional resources required, both in terms of IPL's implementation costs and the Board's and Consumer Advocate's costs for regulatory review. The cost shifts resulting from EWCA appear to be relatively small, especially after taking into account the likely offsetting impact from a marginal allocation of capacity costs, which would need to be done for consistency. Finally, it is not clear that the ECWA method is the best approach for allocating marginal energy costs as the MISO LMP prices used in the ECWA method may include capacity costs. (Tr. 1205, 1492). Because

there are multiple methods and approaches for marginal costing, a docket such as an inquiry docket with participation by all stakeholders may be a better venue than a single rate proceeding for examining whether to implement substantial changes to cost allocation methods.

Allocation of Other Costs and Uncontested Changes

Consumer Advocate proposed three adjustments to allocation of other costs. First, Consumer Advocate said that IPL directly assigns too many transformers to residential and general service classes, based on inaccurate ratios of one 10 kVA transformer for every three residential customers and one 10 kVA transformer for every general service customer. In response to a Consumer Advocate data request, IPL acknowledged that the correct ratios should be one 10 kVA transformer for every 3.65 residential customers and one 10 kVA transformer for every 1.52 general service customers; Consumer Advocate said direct assignments of transformers to those classes should be reduced accordingly.

Second, Consumer Advocate argued that in the allocation of metering plant, current transformers and potential transformers should be assigned to the non-residential customer classes that actually use them (those customers that receive service in excess of 300 amps). Consumer Advocate said that currently those transformers are allocated across all customer classes, including the residential class. (Tr. 1346-47).

Third, Consumer Advocate proposed changes to the allocation of IPL's customer service expense. Consumer Advocate pointed out that currently IPL allocates customer service and information expense unrelated to demand side management (DSM) programs among the classes based on number of customers in each class. However, Consumer Advocate noted that over \$1 million of this expense, or more than 25 percent, is for IPL's Strategic Account Group, over 90 percent of which relates to the large general service class and 8 percent to the general service class. Consumer Advocate maintained that the customer-based allocation for non-DSM customer service and information expense should be adjusted to incorporate a reallocation of expense for the Strategic Account Group. (Tr. 1348-49). Consumer Advocate said this also means that IPL's composite customer service labor allocator should be adjusted according to the reallocation of Strategic Account Group expense. In addition, Consumer Advocate said the customer service labor allocator should be further adjusted by allocating labor related to the DSM program according to the DSM program allocator. (Tr. 1349-50).

IPL accepted Consumer Advocate's proposed adjustments, except for the change in labor associated with the DSM program as used in the customer service labor allocator. IPL said that the composite customer service labor allocator should only be changed to reflect the reallocation of Strategic Account Group expenses, and should not be changed to reflect the DSM program allocator, which is heavily weighted according to the cost of interruptible credits. (Tr. 1203-04).

ICC and LEG opposed Consumer Advocate's adjustments. ICC argued that the net impact would be small and likely offset by other potential refinements that ICC could propose, such as one related to the allocation of single-phase primary distribution component costs. (Tr. 1600-02). LEG argued that Consumer Advocate's proposals lack credibility because the main purpose of the adjustments is to shift costs away from the residential and general service classes to the large general service and bulk power classes.

The changes proposed by Consumer Advocate to the allocation of meters and transformers are reasonable and will be adopted. The allocation adjustments proposed by Consumer Advocate for customer service and information expense and the composite customer service labor allocator, based on the reallocation of Strategic Account Group expense, are also reasonable. However, Consumer Advocate's additional adjustment to the customer service labor allocator to reflect the DSM program allocator is not reasonable. IPL's point that the DSM program allocator is heavily weighted according to the cost of interruptible credits, which has little to do with customer service labor expense, is persuasive.

IPL also proposed several uncontested tariff changes. These included changes to the general service tariff (tariff sheet number 24), the standby and supplementary power service tariff (tariff sheet number 82), changes to the interruptible service option tariff (tariff sheet numbers 66, 67, 69, and 70), changes to the bulk power tariff (tariff sheet number 29), and administrative changes to the lighting service tariff. The uncontested changes are reasonable.

IX. MANAGEMENT EFFICIENCY

Introduction

Consumer Advocate proposed a \$5 million reduction to IPL's revenue requirement for what it said were IPL's poor management decisions, focusing (as it did in IPL's last rate case) on the sale of DAEC and IPL's electric transmission system, as well as a comparison of IPL's rates with that of Iowa's other investor-owned electric utility, MidAmerican. The only significant new issues raised in the management efficiency arguments were an examination of executive compensation and cost overruns on WWE (which were previously discussed).

ICC argued that IPL's management inefficiency justified an ROE for IPL at the lower end of ICC's range, specifically at 9.6 percent, which reflects a 30 basis point reduction from ICC's stand-alone ROE recommendation of 9.9 percent. IPL opposed any management efficiency penalty.

Iowa Code § 476.52 deals with management efficiency. The statute provides:

1. That it is the policy of the state that a public utility shall operate in an efficient manner.
2. In a rate case proceeding, if the Board determines that a utility is operating in an inefficient manner, or is not exercising ordinary, prudent management, or in comparison with other utilities in the state the utility is performing in a less beneficial manner than other utilities, the Board may reduce the level of profit or adjust the revenue requirement of the utility to provide incentives to the utility to correct its inefficient operation.
3. In a rate case proceeding, if the Board determines that a utility is operating in such an extraordinarily efficient manner that tangible financial benefits result to the ratepayer, the Board may increase the

level of profit or adjust the revenue requirement for the utility. Energy efficiency programs may be considered.

4. The statute also provides that the Board shall adopt rules for determining the level of profit or the revenue requirement adjustment that would be appropriate and also that the Board shall adopt rules establishing a methodology for an analysis of a utility's management efficiency.

When rules were initially adopted regarding management efficiency in the mid-1980s, much of the focus was on annual management efficiency reports that the utilities were required to file. The reports were designed to provide a basis for utility-to-utility comparisons. However, prior Boards found that comparisons to other utilities were of limited value because of differences in service territories, customer mixes, weather patterns and disasters, and other factors. The current management efficiency rules (last revised in 1997) provide that "[t]he efficiency or inefficiency of a utility will be evaluated on a case-by-case basis, based upon the utility's particular facts and circumstances," as well as noting that management efficiency does not lend itself to an absolute measure. 199 IAC 29.3(1). In evaluating management efficiency, 199 IAC 29.3(1) lists several factors the Board may consider, including price per unit of service, operation and maintenance costs per unit of service, quality of service, executive compensation, fuel costs, utility-wide load factors, innovative ideas implemented by management, and bad debt ratio. For electric utilities, 199 IAC 29.3(2)"d" lists development and implementation of energy efficiency programs as an additional factor the Board may consider. Much of this information used to be filed in the annual management efficiency reports; the current rule provides that the Board

can request that information at its discretion. In the order adopting the 1997 revisions and rescinding the annual report requirement, the Board said:

The Board intends to continue closely scrutinizing management efficiency. The adopted amendments are simply recognition that the management efficiency reports are not, in many cases, a useful tool to determine management efficiency or inefficiency. Also, much of the information contained in these reports is duplicated in other regulatory filings. The Board's limited resources can be better applied in other areas and in focusing on a particular utility's unique attributes which, judging from prior cases, are a better determinant of management efficiency.

In re: Management Efficiency, "Order Adopting Rules," Docket No. RMU-97-2 (10/17/1997).

In determining whether a utility is run well or poorly, the Board is not limited to test year data. 199 IAC 29.4. The rule provides for an upward adjustment to return on equity for an exceptionally managed utility, and a downward adjustment to return on equity for a poorly managed utility. Finally, the rule provides that the Board will not establish any reward or penalty if the utility has been managed satisfactorily but not exceptionally well or poorly, because satisfactory management is expected from all public utilities.

State commissions, including Iowa, have addressed management efficiency issues and imposed penalties for inefficient management. Some jurisdictions have a specific management efficiency statute (like Iowa) and others address management efficiency issues under the just and reasonable rates standard. In the cases reviewed by the Board, rate comparisons between utilities played little, if any, role in management efficiency decisions; most of the various commissions' decisions

appear to be directed at specific decisions management has made. Some of these cases were discussed in IPL's last rate case, Docket No. RPU-2009-0002.

The Board will now examine the positions of the parties that presented testimony on this issue, and then discuss the Board's findings and conclusions with respect to whether a management efficiency penalty should be imposed. Because Consumer Advocate and ICC proposed the penalty, the Board will summarize their positions first. The summaries are relatively brief because most of the arguments are similar or identical to what was presented in Docket No. RPU-2009-0002.

Consumer Advocate Position

Consumer Advocate's recommendation that IPL be penalized \$5 million is to reflect the fact that IPL is performing at a level that is less beneficial to its ratepayers than other Iowa utilities are performing with respect to their ratepayers and to provide an incentive for IPL to improve. In developing its recommendation, Consumer Advocate first compared the retail prices of IPL to those of MidAmerican and found that IPL customers pay significantly more for their electric service. Consumer Advocate also compared IPL's prices to other utilities.

Consumer Advocate said that IPL's transmission O&M costs are significantly higher than MidAmerican's and neighboring utilities in other states, largely due to a doubling of IPL's transmission expense after the sale of the transmission system. Consumer Advocate argued that IPL never considered the possibility that selling its transmission system might double its transmission expense, reflecting poorly on IPL's management. (Tr. 949).

Consumer Advocate pointed out that IPL experienced a high level of customer complaints filed with the Board in 2008 and 2009. Consumer Advocate said many of the complaints were for meter reading and billing, despite the comparatively high costs that IPL charges its customers for these functions.

With regard to executive compensation, Consumer Advocate said that IPL's executive compensation levels were fairly typical for large public utilities through 2003. However, beginning in 2003 Consumer Advocate found a trend for significant increases in executive compensation for IPL's officers. (Tr. 954-55). Consumer Advocate questioned the salaries given past decisions with which Consumer Advocate disagreed, such as the sale of DAEC and IPL's transmission system.

Consumer Advocate pointed out that IPL's bad debt ratio was higher than for most of the other utilities Consumer Advocate reviewed. Consumer Advocate also concluded that IPL had put forth no new innovative ideas that would warrant consideration in evaluating management efficiency. Finally, Consumer Advocate argued that while IPL's new strategic plan was a start, insufficient detail regarding implementation of the plan was submitted.

ICC Position

ICC said that IPL's transmission expense increased substantially, due in large part to management inefficiencies in managing transmission expenses. ICC recommended a 30 basis point reduction in ROE, which would place the ROE at the lower end of ICC's recommended range.

IPL Position

IPL argued that Consumer Advocate did not identify any management decisions of which Consumer Advocate was critical that were not addressed by the Board in IPL's last rate case. While IPL admitted that its rates are currently higher than MidAmerican's, IPL said this does not indicate that IPL is operating in an inefficient manner, that its rate levels are consistent with those of other utilities in the region, and that MidAmerican's capacity availability is based on decisions that were made decades ago, not several years ago.

IPL said that except for transmission costs, its O&M costs are near the average and Consumer Advocate did not identify any specific management decisions related to O&M costs; the increased transmission costs are due to additional transmission investment by ITC Midwest. IPL stated that while customer complaints spiked in 2008-2009, complaints have recently gone down; the spike in complaints was resolved with the hiring of additional meter readers. IPL noted its bad debt ratio was heavily influenced by one customer, and that situation was resolved recently with a payment to IPL.

IPL argued that Consumer Advocate's executive compensation argument failed to consider recent executive retirements. IPL said Consumer Advocate also failed to consider that less than half of the compensation levels are paid by IPL; the rest is paid by Alliant and its other subsidiaries.

IPL said its new strategic plan and revisions to its mission and vision highlight the importance of these issues to IPL. IPL said the new strategic plan is customer-

focused and caused IPL to delay implementation of advanced metering infrastructure because it has not been demonstrated that the new meters will reduce costs or be something that customers are willing to pay for. (Tr. 42).

Board Discussion

The Board notes that disagreement with some management decisions does not necessarily equate to poor management. Reasonable persons can disagree over management decisions, but such disagreement alone, particularly when the decisions appear to be appropriate based upon the information that was available when the decisions were made, should not result in management efficiency penalties just because intervening events cause the original decisions to be questioned. Unfortunately, management decisions must be made contemporaneously, and not with the benefit of hindsight. This does not mean that decisions are to be judged only on the basis of the information available at the time they were made. Iowa-Illinois Gas & Electric Co. v Iowa State Commerce Comm'n, 347 N.W.2d 423 (Iowa 1984). Instead, it means that when the Board assesses management efficiency it must balance the various factors, including the contemporaneous circumstances and the final outcome of the decisions.

As the Board indicated in Docket No. RPU-2009-0002, the decisions to sell DAEC and the transmission system, which were not disapproved by the Board, resulted in IPL being more dependent on purchased power and purchasing transmission service from other transmission owners. While individual Board members might have wished IPL made different decisions, the decisions made in

these situations do not form the basis for a management efficiency penalty in this case. Around the time of the transmission sale, for example, the federal government encouraged utilities to divest their transmission system through incentives. Further, both sales were the subject of contested case proceedings before the Board. The decisions were thoroughly litigated before the transactions were closed and the records made at that time were sufficient to meet the applicable legal standards.

Also, IPL's resource plan, which was not available in final form at the hearing in this docket, indicates that IPL may be in good situation with respect to its resource mix, as it is in a buying position in a market that has a surplus of supply. This may make purchasing less expensive than building, at least for a time.

As was discussed in the Final Order in Docket No. RPU-2009-0002, and also discussed in Section V in this order, the Board is once again not persuaded that the ATA presented by IPL during the transmission sale proceedings was designed to shield IPL customers from all possible rate impacts from the transmission sale. Rather, the ATA was specifically intended to protect customers from the impact of transferring transmission assets from state to federal jurisdiction; for example, FERC allows a higher ROE on transmission assets than has been traditionally allowed by states. The ATA was addressed only to the customer cost differences resulting from the jurisdictional charge. It would be unreasonable to expect that it should cover an accelerated construction schedule.

Some other issues raised by Consumer Advocate either have been or will be addressed in other contested case proceedings before the Board. The cost overruns

at WWE are already at issue in this rate case and the Salem to Hazelton transmission line is the subject of a pending franchise docket. The Board will have an opportunity to rule on the merits of the projects in the pending proceedings; it would not be appropriate to base a management efficiency adjustment in this proceeding on actions that are pending for Board approval (Salem to Hazelton) or for actions that may be the basis of a direct cost disallowance (WWE cost overruns).

With respect to the various factors referred to in the rules, the evidence does not compel a different conclusion than in the last rate case and the findings of fact in Docket No. RPU-2009-0002 regarding the various factors in the management efficiency rules are adopted in this proceeding. While IPL did have an increase in the number of customer complaints, it took action to resolve the issue in what appears to be a cost-effective manner. The bad debt ratio was heavily impacted by one customer and appears to have been resolved. Executive pay is a new argument in this case, but the salaries do not appear to warrant a management efficiency penalty as they have not been shown to be unreasonable. Merely showing they are somewhat higher than some other companies is an indicator that further investigation was appropriate, but does not, by itself, compel a penalty.

Based on the evidence presented, the IPL management decisions examined in this case do not justify a management efficiency penalty. However, the Board still has concerns as Alliant Energy and IPL move forward with the new mission and vision statements and a new strategic plan. Individual corporate decisions should not be made in isolation but should be consistent with a company's overall vision and

mission; for example, the decisions regarding WWE appeared to have been made by one employee, with little or no oversight from higher management, and a lack of clear guidance regarding the goals and requirements for the project. The result was a substantial cost overrun.

The best mission, vision, and strategic plan will not overcome a basic lack of management oversight and exercise of due diligence. The Board continues to question whether IPL conducted sufficient due diligence with respect to the sale of its transmission system with respect to the impact on its customers of trends in the industry, such as more stringent North American Electric Reliability Corporation (NERC) standards, which have resulted in some of the transmission cost increases, or whether IPL failed to adequately maintain its transmission system prior to the sale to ITC Midwest.

Customer impact should be one of the core focuses of IPL's decision making process, and this appeared to be lacking with respect to WWE. However, management efficiency requires a balancing of both the good and bad and, on balance, the evidence does not support a penalty. For example, IPL's new strategic plan, with its focus on customer impact, is encouraging. IPL's recent workforce reduction, continued energy efficiency success, and, without a comprehensive plan, delayed deployment of advance metering are positive steps.

As indicated earlier, the concerns identified do not justify a management efficiency penalty (WWE was subject to a separate disallowance), but the Board believes that further review is necessary so that to the extent there are any

substandard management practices, they can be identified and remedied. That review will take place in a separate, stand-alone management and affiliate audit of IPL.

Management efficiency issues typically arise in the context of a rate case proceeding, as one of many issues being litigated. Often, the testimony focuses on just a few management decisions as an indicator of inefficiency or efficiency and there is no overall evaluation of the utility's management practices. This is understandable because such an examination can be expensive and time-consuming and cannot realistically be completed within the statutory ten-month deadline (Iowa Code § 476.10) to complete rate cases, particularly in light of the deadlines applicable to prefiled testimony. In addition, there are numerous other issues in a rate proceeding with significant and immediate financial ramifications, such as return on equity; parties have limited resources and must carefully select the issues on which to focus. As a result of these and other rate case limitations, the Board can be left with an incomplete record on which to consider a company's overall management efficiency.

Also, because gas and electric rate cases are filed separately, the Board does not have the opportunity to review IPL's combined operations in the context of a regular rate review proceeding. A management audit provides an opportunity to examine IPL's overall operations without an artificial division between electric and gas operations or the constraints of rate case deadlines. A management audit allows the primary focus to be on identifying problem areas, if any, and offering remedies, if

needed; in a rate case, the focus of management efficiency is on whether there should be a monetary penalty.

As part of larger holding company structures, customers often ask whether utility decisions with respect to capital investment and operations and maintenance are made for the benefit of Iowa ratepayers, or for the primary benefit of the corporate holding company, shareholders, or other affiliates. Because of the holding company structures utilized by IPL, it is important to periodically audit affiliate and management practices so that customers will know that the rates they pay are no higher than necessary to provide them with adequate service. Iowa Code §§ 476.6 and 476.8. This is particularly important for IPL because many of its customers have been subjected to frequent electric rate increases for the past few years because of the process of equalizing rates between IPL's various zones (which are the product of mergers among various predecessor utilities) and general rate increases.

Therefore, the Board intends to open a new docket and within the next 30 days issue an order and request for proposals for an affiliate and management audit of IPL, which will encompass Alliant Energy and Alliant Energy Corporate Services, Inc., to the extent services are provided to IPL and corporate decisions impact IPL. The audit will focus on matters such as the reasonableness of affiliate charges assessed to the utility, the accuracy and reasonableness of allocation factors, and the utility's performance as compared to industry standards and best management practices, with a focus on customer service and maintenance of utility facilities, such as generating units, distribution lines, and natural gas pipelines. This

will be an audit of management practices and results, not performance reviews of individual officers; also, this does not represent a return to an on-site audit function by Board staff. The Board has specific authority to conduct an affiliate audit pursuant to Iowa Code § 476.75, and authority to conduct a management audit under various provisions, including Iowa Code §§ 476.1, 476.2(4), 476.6, and 476.8.

X. FINDINGS OF FACT

Based on a thorough review of the entire record in these proceedings, the Board makes the following findings of fact:

1. It is reasonable to exclude from IPL's rate base the costs of wind turbines for WWE in excess of the estimates provided by IPL in its ratemaking principles filing for WWE, which means that that IPL will not earn a return on those costs, but it is reasonable to allow IPL to recover over a 20-year term the cost overrun associated with WWE turbine costs.
2. It is reasonable to allow recovery of all costs associated with WWE's civil construction and include those costs in IPL's rate base.
3. Fifty percent of IPL's injuries and damages, using IPL's five-year, inflation adjusted average, is a reasonable amount to include in rate base.
4. A 3.61 percent depreciation rate for Lansing Unit 4 is reasonable.
5. It is reasonable to include the amount of network upgrades associated with WWE as part of IPL's regular rate base, not the rate base associated with WWE.

6. It is reasonable to allow IPL to include in rate base 52.5 percent of the remaining balance for Sixth Street Station is rate base, with the depreciation on this remaining amount to be accelerated to five years.

7. It is reasonable to allow IPL to include in rate base the remaining balance for Prairie Creek Unit 2, and to use regulatory liability account balances to remove this balance from rate base immediately.

8. A representative amount for IPL's production maintenance costs is based on a five-year average, adjusted for inflation using the Handy-Whitman index.

9. A representative amount for IPL's distribution maintenance costs is based on a five-year average, adjusted for inflation using the Handy-Whitman index.

10. A representative amount for IPL's injuries and damages costs is based on a five-year average, adjusted for inflation using the Handy-Whitman index.

11. It is reasonable to allow IPL to recover a full year of WWE operating expenses.

12. It is reasonable to deny IPL recovery of the research and development credit.

13. IPL's adjustment for economic development or flexible rate discounts is reasonable.

14. It is reasonable to adjust IPL's cost of service to include the net savings from IPL's workforce reduction.

15. There is no persuasive evidence for adjusting IPL's test year sales and revenues or kW peak demand.

16. It is unreasonable to allow recovery for 2010 health care reform costs.

17. It is unreasonable to adjust IPL's cost of service to reflect a reduction in 2010 short-term capacity sales.

18. IPL's \$47.7 million adjustment to transmission expense is reasonable.

19. It is reasonable to allow recovery of 2009 true-up costs and fund that recovery with proceeds from the ATA account. If IPL takes the opportunity to utilize a transmission rider, 2009 true-up costs can be immediately offset with proceeds from the ATA account; if IPL declines the opportunity to use a transmission rider, the costs will be amortized and funded by the ATA account over a five-year period. It is not reasonable to include any unamortized balance in rate base.

20. If IPL fails to take the opportunity to use a transmission rider, it is unreasonable to allow recovery of costs associated with the ITC Midwest 2011 transmission cost increase.

21. It is reasonable to allow recovery of CIPCO transmission charges.

22. It is reasonable to utilize an automatic adjustment mechanism for recovery of IPL's transmission costs on a pilot basis, provided that IPL agrees to a three-year rate freeze, as described in the body of this order. If IPL agrees to a three-year rate freeze, it is reasonable to have the rider in effect until the Board's decision in IPL's next rate case.

23. In the event of a force majeure during the three-year rate freeze, it is reasonable to allow IPL to ask the Board for permission to file for rate relief.

24. It is reasonable to use the balance of the regulatory liability accounts (after offsets for Prairie Creek Unit 2 and the 2009 true-up) as proposed by Consumer Advocate, which is to reduce WWE's rate base.

25. It is reasonable to approve the tax benefit rider as described in the body of this order and to set refund targets on an annual basis.

26. A 10 percent return on equity is reasonable.

27. It is reasonable to use Consumer Advocate's 13-month average capital structure but use updated balances through September 2010.

28. It is reasonable to apply double leverage.

29. It is not reasonable to normalize any of IPL's CCS class load data in this proceeding.

30. It is not reasonable to adopt any changes to residential rate design in this proceeding.

31. It is reasonable to implement the fifth and final step of rate equalization with final rates in this proceeding.

32. It is reasonable to implement modest shifts suggested by all CCS studies filed in this proceeding by leaving large general service and bulk power increases at current temporary rate levels, and using any final revenue difference below temporary levels to reduce non-customer charge residential and general service temporary base rates on a uniform percentage basis, before the transmission rider is unbundled from base rates.

33. It is reasonable to allocate generation demand costs using the A&E method.

34. It is reasonable to classify and allocate the fixed investment costs associated with IPL's rail cars, WWE generation plant capacity, fixed contract demand charges associated with the DAEC contract, and Lansing 4 emission control equipment as demand-related costs.

35. It is reasonable in this proceeding to allocate transmission costs using the A&E method.

36. It is not reasonable to allocate IPL's energy costs in IPL's CCS study using an ECWA.

37. It is reasonable to adopt Consumer Advocate's three adjustments to allocation of other costs, except for the customer service and information expense adjustment it is not reasonable to adopt Consumer Advocate's additional adjustment to the customer service labor allocator to reflect the DSM program allocator.

38. IPL's uncontested tariff changes are reasonable.

39. It is not reasonable to impose a management efficiency penalty in this proceeding.

XI. CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code chapter 476 (2009).

XII. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The proposed tariffs filed by Interstate Power and Light Company on March 10, 2010, identified as TF-2010-0034 and TF-2010-0035, and made subject to investigation in this proceeding, are declared to be unjust, unreasonable, and unlawful.

2. On or before the expiration of 15 days from the date of this order, IPL shall file revised tariffs setting schedules of electric rates in compliance with the findings of this order and attached schedules A through H. Schedules A through H are incorporated into this order by reference. IPL shall include with its compliance tariff filing a revised version of Exhibit DV-1, Schedules A, B, and C, in electronic and hardcopy format. The compliance tariffs shall become effective upon approval by the Board.

3. IPL shall notify the Board within ten days of the date of this order whether it intends to take advantage of the opportunity to implement an automatic transmission cost recovery rider on a pilot basis, consistent with the terms and conditions set forth in the body of this order. In the event IPL takes advantage of the transmission rider, it will be required to file monthly information, similar to what it currently files for the energy adjustment clause, detailing transmission costs that are passed through the rider.

4. The DAEC and ATA regulatory liability accounts shall be used to offset 2009 transmission true-up costs, offset remaining Prairie Creek Unit 2 rate base, and reduce WWE rate base as detailed in the body of this order.

5. IPL will be required to file semi-annual reports, with the first report being due June 30, 2011, and subsequent reports every six months thereafter, detailing its review, suggestions, and input to such things as ITC Midwest's transmission planning and budgeting processes and any FERC interventions or proceedings, including an evaluation of the long-term impact of those transmission plans on IPL and its ratepayers, as detailed in the body of this order. The report shall include what impact, if any, IPL's input has had on the transmission planning process.

6. IPL shall file a report of its semi-annual collaborations with other parties on how IPL can better manage its processes and relationships with ITC Midwest and FERC, with the first report being due June 30, 2011, and subsequent reports every six months thereafter.

7. A tax benefit rider, with refunds through the EAC, is approved for a three-year period, as detailed in the body of this order. Information regarding the tax benefit rider shall be included in IPL's monthly EAC filings.

8. IPL shall file on or before December 1, 2011, a proposed refund level for the tax benefit rider for the second twelve-months of the three-year refund period.

9. IPL shall file a refund plan consistent with this order and the schedules attached hereto within 30 days from the date of this order.

10. Motions and objections not previously granted or sustained are denied or overruled. Any argument in the briefs not specifically addressed in this order is rejected either as not supported by the evidence or as not being of sufficient persuasiveness to warrant comments.

11. This order constitutes the final decision of the Utilities Board in Docket No. RPU-2010-0001.

UTILITIES BOARD

/s/ Robert B. Berntsen

/s/ Krista K. Tanner

ATTEST:

/s/ Joan Conrad
Executive Secretary

/s/ Darrell Hanson

Dated at Des Moines, Iowa, this 10th day of January 2011.

**Interstate Power and Light
Revenue Requirement
Test Year Ended December 31, 2009**

Line No.	<u>Description</u> (A)	Other	Whispering Winds	Emery	
1	Rate Base	1,851,019,332	247,032,482	280,951,509	
2	Rate of Return	7.860%	8.613%	8.847%	
3	Return On Rate Base	145,490,120	21,276,784	24,856,266	191,623,170
4	2008 Net Operating Income				124,551,535
5	Income (Excess) Deficiency				67,071,635
6	Tax Effect				47,718,087
7	Revenue (Excess) Deficiency				114,789,722
8	Operating Revenue				1,267,788,737
9	Percent Increase/Decrease				9.05%
10	REVENUE REQUIREMENT				1,382,578,459

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

COST OF SERVICE

YEAR ENDED DECEMBER 31, 2009

Line No.	Description	(a) Actual Test Year Results	(b) Adjustments	(c) Adjusted Test Year Results	(d) Additional Revenues Required to Yield 8.055%	(e) Total Revenues Required to Yield 8.055%
					9.1%	
1	Operating revenues	\$ 1,257,692,609	\$ 10,096,128	\$ 1,267,788,737	\$ 114,789,723	\$ 1,382,578,460
	Operating expenses:					
2	Operation expenses	852,319,960	47,204,993	899,524,953		899,524,953
3	Maintenance expenses	45,663,894	14,112,495	59,776,389		59,776,389
4	Depreciation and amortization	121,513,893	37,113,897	158,627,790		158,627,790
5	Property taxes	35,344,657	(2,259,894)	33,084,763		33,084,763
6	Miscellaneous taxes	6,655,957	83,914	6,739,871		6,739,871
	Income taxes -					
7	Current federal	(61,850,575)	32,673,531	(29,177,044)	36,112,847	6,935,803
8	Current state	6,236,545	(21,543,071)	(15,306,526)	11,605,241	(3,701,285)
9	Deferred	106,205,801	(62,676,390)	43,529,411		43,529,411
10	Production Tax Credits	0	(12,981,626)	(12,981,626)		(12,981,626)
11	Investment tax credits	(580,779)	0	(580,779)		(580,779)
12	Total operating expenses	1,111,509,353	31,727,849	1,143,237,202	47,718,088	1,190,955,290
13	Operating income	\$ 146,183,256	\$ (21,631,721)	\$ 124,551,535	\$ 67,071,635	\$ 191,623,170
	Rate Base:					
14	Emery Generating Station	\$ 280,951,509	\$ -	\$ 280,951,509		\$ 280,951,509
15	Whispering Willow East	23,025,995	224,006,487	247,032,482		247,032,482
16	All Other	1,550,711,809	300,307,523	1,851,019,332		1,851,019,332
17	Total Rate base	\$ 1,854,689,313	\$ 524,314,010	\$ 2,379,003,323		\$ 2,379,003,323
18	Cost of Capital:	7.882%		5.235%		
19	Emery Generating Station					8.847%
20	Whispering Willow East					8.613%
21	All Other					7.860%

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO COST OF SERVICE
YEAR ENDED DECEMBER 31, 2009

Line No.	Brief Description of Adjustment:	Increases in Salaries & Wages	Changes in OPEB Costs	Changes in Pension Costs	Changes in Medical Insurance Premiums	Adjust Production Maintenance to a 5-Year Average	Major Changes in Insurance Expense	Changes in Capacity Demand
1	Operating Revenues							
2	Operating Expenses:							
2	Operation Expense	\$ 2,233,778	\$ (485,266)	\$ (3,369,885)	\$ 997,099	\$ 4,399,375	\$ 155,661	\$ 3,576,080
3	Maintenance Expense	561,807						
4	Depreciation and Amortization							
5	Property Taxes	204,597						
6	Miscellaneous Taxes							
7	Income Taxes-							
7	Current Federal at 31.46%	(943,857)	152,665	1,060,166	(313,687)	(1,384,043)	(48,971)	(1,125,035)
8	Current State at 10.11%	(303,318)	49,080	340,695	(100,807)	(444,777)	(15,737)	(361,542)
9	Deferred							
10	Production Tax Credit							
11	Investment Tax Credit							
12	Total Operating Expense	1,753,007	(283,541)	(1,969,024)	582,605	2,570,555	90,953	2,089,503
13	Operating Income	\$ (1,753,007)	\$ 283,541	\$ 1,969,024	\$ (582,605)	\$ (2,570,555)	\$ (90,953)	\$ (2,089,503)

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
SUMMARY OF ADJUSTMENTS TO COST OF SERVICE
YEAR ENDED DECEMBER 31, 2009

Line No.	Brief Description of Adjustment:	Depreciation Study Update	Changes in Firm Wheeling	Interest on Customer Deposits	Rate Case Expenses	Adjust Distribution Maintenance to a 5-Year Average	Adjust Injuries & Damages to a 5-Year Average	Increase in Postage Costs
1	Operating Revenues							
2	Operating Expenses:							
2	Operation Expense		\$ 47,659,867	\$ 346,345	\$ 235,814	\$ 1,351,453	\$ 1,806,477	\$ 38,248
3	Maintenance Expense							
4	Depreciation and Amortization	\$ (3,661,404)						
5	Property Taxes							
6	Miscellaneous Taxes							
7	Income Taxes-							
7	Current Federal at 31.46%	1,151,878	(14,993,794)	(108,960)	(74,167)	(425,167)	(568,318)	(12,033)
8	Current State at 10.11%	370,168	(4,818,413)	(35,015)	(23,841)	(136,632)	(182,635)	(3,867)
9	Deferred							
10	Production Tax Credit							
11	Investment Tax Credit							
12	Total Operating Expense	(2,139,358)	27,847,660	202,370	137,786	789,654	1,055,524	22,348
13	Operating Income	\$ 2,139,358	\$ (27,847,660)	\$ (202,370)	\$ (137,786)	\$ (789,654)	\$ (1,055,524)	\$ (22,348)

STATE OF IOWA
DEPARTMENT OF REVENUE
DES MOINES, IOWA

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO COST OF SERVICE

YEAR ENDED DECEMBER 31, 2009

Line No.	Brief Description of Adjustment:	Depreciation for Non-Revenue Producing Major Plant Additions in service by 12/31/09	Revenues and Expenses for Minor Plant Additions in Service by 12/31/09	Eliminate Out of Period Items and Other Adjustments	Emery Generating Station's Long Term Service Agreement	Adjustment to Treat the Capital Leases as Operating Leases	Increase Associated with IDNR Title V Permit Fees
1	Operating Revenues		\$ 1,312,611	\$ 6,022,442			
2	Operating Expenses:						
2	Operation Expense		335,808	3,788,585		\$ 420,962	
3	Maintenance Expense						
4	Depreciation and Amortization	\$ 7,205,269			\$ 1,292,254		\$ (187,452)
5	Property Taxes		1,755,804			(287,728)	
6	Miscellaneous Taxes						
7	Income Taxes- Current Federal at 31.46%	(2,266,778)	(245,074)	702,771	(406,543)	(41,915)	58,972
8	Current State at 10.11%	(728,453)	(78,757)	225,843	(130,647)	(13,470)	18,951
9	Deferred						
10	Production Tax Credit						
11	Investment Tax Credit						
12	Total Operating Expense	4,210,038	1,767,781	4,717,199	755,064	77,849	(109,529)
13	Operating Income	\$ (4,210,038)	\$ (455,170)	\$ 1,305,243	\$ (755,064)	\$ (77,849)	\$ 109,529

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO COST OF SERVICE

YEAR ENDED DECEMBER 31, 2009

Line No.	Brief Description of Adjustment:	Recovery of Asset Retirement Obligation Costs Spent Since Last Rate Case	Lean Six Sigma Savings	Reflect Full Year of Whispering Willow East Wind Farm Expenses	Adjustments Related to Docket No. RPU-2009-0002	Elimination and Recovery of 2009 Incremental O&M Flood Expenses Over a Four Year Period	Revenues, Expenses, and Depreciation on Post-Test Year Capital Additions In Service by 9/30/10	Sixth Street Retirement
1	Operating Revenues		\$ 74,983				\$ 1,122,958	
2	Operating Expenses:							
2	Operation Expense	\$ 703,517	(548,905)	\$ 1,479,804	\$ 1,473,914	\$ (5,174,786)	(850,111)	(362,942)
3	Maintenance Expense		(78,630)	7,412,265	(306,420)			(332,157)
4	Depreciation and Amortization			15,600,606	2,331,009		13,141,025	1,029,316
5	Property Taxes							
6	Miscellaneous Taxes			33,973	(90,904)			(63,752)
7	Income Taxes-							
7	Current Federal at 31.46%	(221,326)	221,012	58,494,718	(1,072,031)	1,627,988	(3,513,439)	(85,088)
8	Current State at 10.11%	(71,126)	71,025	(21,998,329)	(344,508)	523,171	(1,129,080)	(27,344)
9	Deferred			(59,388,400)				
10	Production Tax Credit			(12,981,626)				
11	Investment Tax Credit			0				
12	Total Operating Expense	411,065	(335,498)	(11,346,988)	1,991,061	(3,023,627)	7,648,395	158,033
13	Operating Income	(411,065)	410,481	11,346,988	(1,991,061)	3,023,627	(6,525,437)	(158,033)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO COST OF SERVICE

YEAR ENDED DECEMBER 31, 2009

Line No.	Brief Description of Adjustment:	2011 ITC Midwest True-Up	2010 Health Care Reform Increases	2010 Short-Term Capacity Sales	Adjustment to Reflect Change In Property Tax	Elimination of Out-of-Period Income Taxes	Non-Property Deferred Income Tax	Elimination of R&D Credits
1	Operating Revenues							
2	Operating Expenses:							
3	Operation Expense	0	0	0				
4	Maintenance Expense							
5	Depreciation and Amortization							
6	Property Taxes				\$ (2,259,894)			
7	Miscellaneous Taxes-							
8	Income Taxes-							
9	Current Federal at 31.46%	0	0	0	710,963	\$ (94,970)	\$ 1,899,441	\$ -
10	Current State at 10.11%	0	0	0	228,475	845,776	7,612,910	0
11	Deferred					5,567,434	(9,134,071)	278,647
12	Production Tax Credit							
13	Investment Tax Credit							
	Total Operating Expense	0	0	0	(1,320,456)	6,318,240	378,280	278,647
	Operating Income	\$ -	\$ -	\$ -	\$ 1,320,456	\$ (6,318,240)	\$ (378,280)	\$ (278,647)

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO COST OF SERVICE
YEAR ENDED DECEMBER 31, 2009

Line No.	Brief Description of Adjustment:	Recapture of Manufacturing Deduction	Significant Load Changes	Second Nature Transaction	Economic Development Discounts	Out-of-Period Adjustments	Adjustment for Final Rates in Docket No. RPU-2009-0002	Wholesale Portion of Rate Increase
1	Operating Revenues		\$ (162,341)	\$ (506,945)	\$ (1,171,018)	\$ (112,432)	\$ 1,539,606	\$ 2,716,830
2	Operating Expenses:							
3	Operation Expense					445,030	(6,413,770)	0
4	Maintenance Expense							
5	Depreciation and Amortization							
6	Property Taxes							
7	Miscellaneous Taxes							
8	Income Taxes-							
9	Current Federal at 31.46%	\$ (2,292,757)	(54,258)	(17,456)	(368,402)	(175,378)	2,502,132	854,715
10	Current State at 10.11%	137,565	(17,437)	(5,610)	(118,390)	(56,359)	804,086	274,672
11	Deferred							
12	Production Tax Credit							
13	Investment Tax Credit							
	Total Operating Expense	(2,155,192)	(61,568)	(474,524)	(486,792)	213,293	(3,107,552)	1,129,387
	Operating Income	\$ 2,155,192	\$ (100,773)	\$ (32,421)	\$ (684,226)	\$ (325,725)	\$ 4,647,158	\$ 1,587,443

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO COST OF SERVICE

YEAR ENDED DECEMBER 31, 2009

Line No.	Brief Description of Adjustment:	Weather Normalization	Management Efficiency	CIPCO	Workforce Reduction	Interest Synchronization	Total
1	Operating Revenues		0				\$ 10,096,128
Operating Expenses:							
2	Operation Expense			0	(845,000)		47,204,993
3	Maintenance Expense						14,112,495
4	Depreciation and Amortization						37,113,897
5	Property Taxes						(2,259,894)
6	Miscellaneous Taxes						83,914
Income Taxes-							
7	Current Federal at 31.46%	0	0	0	265,837	(5,943,278)	32,673,531
8	Current State at 10.11%	0	0	0	85,430	(1,909,934)	(21,543,071)
9	Deferred						(62,676,390)
10	Production Tax Credit						(12,981,626)
11	Investment Tax Credit						0
12	Total Operating Expense	0	0	0	(493,733)	(7,853,212)	31,727,849
13	Operating Income	\$ -	\$ -	\$ -	\$ 493,733	\$ 7,853,212	\$ (21,631,721)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

THIRTEEN MONTH AVERAGE
RATE BASE

YEAR ENDED DECEMBER 31, 2009

Line No.	Description	(b) Thirteen Month Average	(c) Adjustments	(d) Adjusted Rate Base
Investment in plant:				
1	Utility plant in service	\$ 3,739,089,264	\$ 815,766,606	\$ 4,554,855,870
2	Accumulated provision for depreciation and amortization	(1,646,370,807)	(174,031,677)	(1,820,402,484)
3	Accumulated deferred income taxes	(305,884,505)	(116,693,529)	(422,578,034)
4	Customer advances for construction	(4,656,296)	-	(4,656,296)
5	Customer deposits	(4,164,416)	-	(4,164,416)
6	Unclaimed Property	(13,160)	-	(13,160)
7	Accumulated provision for uncollectibles	(1,542,932)	-	(1,542,932)
8	Accrued liability for property insurance, workers compensation insurance and injuries and damages	(5,192,712)	(903,239)	(6,095,951)
9	Accrued vacation	(4,136,925)	-	(4,136,925)
10	Accrued pension plan/OPEB obligations	(14,490,852)	-	(14,490,852)
11	Total net investment in plant	1,752,636,659	524,138,161	2,276,774,820
Working capital:				
12	Materials and supplies inventory	27,349,491	(1,443,939)	25,905,552
13	Prepayments	4,410,522	646,127	5,056,649
14	Fuel inventory	80,296,888	0	80,296,888
15	Cash working capital requirements	(10,004,247)	973,661	(9,030,586)
16	Total net working capital	102,052,654	175,849	102,228,503
17	Total rate base	\$ 1,854,689,313	\$ 524,314,010	\$ 2,379,003,323
Rate Base:				
18	Emery Generating Station	\$ 280,951,509	\$ -	\$ 280,951,509
19	Whispering Willow East	23,025,995	224,006,487	247,032,482
20	All Other	1,550,711,809	300,307,523	1,851,019,332
21		\$ 1,854,689,313	\$ 524,314,010	\$ 2,379,003,323

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE RATE BASE
YEAR ENDED DECEMBER 31, 2009

Line No.	Brief Description of Adjustment:	Non-Revenue Producing Major Plant Additions in Service By 9/30/2010	Minor Plant and Major Revenue Producing Plant Additions in Service By 9/30/2010	Investment Related to Whispering Willow East Wind Farm	Regulatory Offset to WVE	Adjust Thirteen Month Average Accumulated Depreciation to 12/31/09	Emery's Long Term Service Agreement	Injuries & Damages Adjustment
1	Investment in plant: Utility plant in service	\$ 133,430,942	\$ 55,928,864	\$ 338,065,468	\$ (25,648,580)			
2	Accumulated provision for depreciation and amortization	(7,947,476)	(2,333,693)	(17,443,041)		(57,492,548)		
3	Accumulated deferred income taxes	(11,158,807)	(4,697,607)	(71,187,339)				
4	Customer advances for construction							
5	Customer deposits							
6	Unclaimed property							
7	Accumulated provision for uncollectibles							
8	Accrued liability for property insurance, workers compensation insurance and injuries and damages						\$	(903,239)
9	Accrued vacation							
10	Accrued pension plan obligations							
11	Total net investment in plant	114,324,659	48,897,564	249,435,088	0	(57,492,548)	0	(903,239)
12	Working capital: Materials and supplies inventory			219,988			646,127	
13	Prepayments							
14	Fuel inventory							
15	Loan working capital requirements			219,988			646,127	
16	Total net working capital	0	0	219,988	0	0	646,127	0
17	Total rate base	\$ 114,324,659	\$ 48,897,564	\$ 249,655,077	\$ (25,648,580)	\$ (57,492,548)	\$ 646,127	\$ (903,239)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

PRO FORMA ADJUSTMENT TO REFLECT INTEREST SYNCHRONIZATION

YEAR ENDED DECEMBER 31, 2009

<u>Line No.</u>		<u>Pro forma Adjustment</u>
1	Rate base	\$2,379,003,323
2	Weighted average cost of long-term debt	<u>2.722%</u>
3	Interest on rate base	<u>64,756,470</u>
4	Booked long-term debt interest	<u>45,864,933</u>
5	Difference	<u>18,891,537</u>
6	Federal income tax adjustment	<u>\$ (5,943,278)</u>
7	State income tax adjustment	<u>\$ (1,909,934)</u>

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
DETERMINATION OF CASH WORKING CAPITAL REQUIREMENTS

YEAR ENDED DECEMBER 31, 2009

	<u>Days of Lag</u>				<u>Pro Forma Adjustment</u>		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Type of Expense</u>	<u>Amount</u>	<u>Expense Per Day (1)/365</u>	<u>Days Cash Required</u>	<u>Cash Requirement (2) x (3)</u>	<u>Pro forma Amount</u>	<u>Expense Per Day (5)/365</u>	<u>Cash Req. for Adjust. (3) x (6)</u>
Estimated revenue lag:							
1 Metering period		15.2					
2 Processing bills		2.9					
3 Collection period		21.9					
4 Total		40.0					
Labor:							
5 Bi-weekly	\$ 79,009,628	\$ 216,465	27.0	\$ 5,837,202			
6 Total Labor	79,009,628	216,465	27.0	5,837,202	\$ 2,795,585	\$ 7,659	\$ 206,793
Fuel Burned:							
7 Coal, including freight	136,014,564	372,643	19.2	7,141,716			
8 Oil	6,016,773	16,484	30.0	495,130			
9 Natural Gas	72,333,615	198,174	(2.0)	(394,558)			
10 Top Deck	2,279	6	(2.0)	(12)			
11 Other (for pro forma adjustment only)					(6,519,293)	(17,861)	(219,690)
12 Total Fuel Burned	214,367,231	587,307	12.3	7,242,276	(6,519,293)	(17,861)	(219,690)
13 Electricity purchased	343,036,996	939,827					
14 Off-system sales	(37,274,822)	(102,123)					
15 Electricity Purchased, net	305,762,174	837,704	14.6	12,250,611	3,576,080	\$ 9,797	\$ 143,272
Other operation and maintenance:							
16 Total operation and maintenance	877,716,591	2,404,703					
17 Less: Labor	79,009,628	216,465					
18 Fuel Burned	214,367,231	587,307					
19 Electricity purchased, before Off-system sales	343,036,996	939,827					
20 Total Other Operation and Maintenance	241,302,736	661,103	4.2	2,805,406	61,465,116	168,398	714,601
Other:							
21 Property taxes	35,344,657	96,835	(323.8)	(31,358,638)	(2,259,894)	(6,191)	2,004,867
22 Federal income taxes	(61,850,575)	(169,454)	2.2	(375,516)	68,786,378	188,456	417,625
23 State income taxes	6,236,545	17,086	(13.0)	(222,698)	(9,937,830)	(27,227)	354,876
24 Interest on long-term debt	45,864,933	125,657	(51.3)	(6,444,189)	18,891,537	51,758	(2,654,356)
25 Preferred dividends	12,913,456	35,379	(5.7)	(201,093)			
26 FICA taxes	6,578,083	18,022	24.7	444,531	83,914	230	5,673
27 Federal unemployment taxes	49,920	137	93.5	12,805			
28 State unemployment taxes	27,955	77	65.7	5,056			
29 Total Other	45,164,973	123,739	(308.2)	(38,139,742)	75,564,104	207,026	128,685
30 Total	\$ 885,606,742	\$ 2,426,318	(4.1)	\$ (10,004,247)	\$ 136,881,592	\$ 375,019	\$ 973,661

**INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
13-MONTH WEIGHTED AVERAGE CAPITAL STRUCTURE - WHISPERING WILLOW EAST (WWE) ONLY
TEST YEAR ENDED DECEMBER 31, 2009**

Line No.	Capital Structure Components	Adjusted 13-Month Average Balances	Adjusted Capitalization Ratios	Adjusted Average Cost of Capital by Components	Adjusted Average Cost of Capital
1	Long-Term Debt	\$ 1,280,836,927	45.325%	6.006%	2.722%
2	Preferred Stock	183,134,419	6.481%	8.410%	0.545%
3	Common Equity	1,361,947,486	48.194%	11.092%	5.346%
4	Total	<u>\$ 2,825,918,832</u>	<u>100.000%</u>		<u>8.613%</u>

**INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
13-MONTH WEIGHTED AVERAGE CAPITAL STRUCTURE - EMERY GENERATING STATION (EMERY) ONLY
TEST YEAR ENDED DECEMBER 31, 2009**

Line No.	Capital Structure Components	Adjusted 13-Month Average Balances	Adjusted Capitalization Ratios	Adjusted Average Cost of Capital by Components	Adjusted Average Cost of Capital
1	Long-Term Debt	\$ 1,280,836,927	45.325%	6.006%	2.722%
2	Preferred Stock	183,134,419	6.481%	8.410%	0.545%
3	Common Equity	1,361,947,486	48.194%	11.578%	5.580%
4	Total	<u>\$ 2,825,918,832</u>	<u>100.000%</u>		<u>8.847%</u>

**INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
13-MONTH WEIGHTED AVERAGE CAPITAL STRUCTURE - IPL'S BALANCE OF UTILITY PROPERTY (EXCLUDING EMERY AND WWE)
TEST YEAR ENDED DECEMBER 31, 2009**

Line No.	Capital Structure Components	Adjusted 13-Month Average Balances	Adjusted Capitalization Ratios	Adjusted Average Cost of Capital by Components	Adjusted Average Cost of Capital
1	Long-Term Debt	\$ 1,280,836,927	45.325%	6.006%	2.722%
2	Preferred Stock	183,134,419	6.481%	8.410%	0.545%
3	Common Equity	1,361,947,486	48.194%	9.531%	4.593%
4	Total	<u>\$ 2,825,918,832</u>	<u>100.000%</u>		<u>7.860%</u>