

**July 17, 2009**

**IOWA UTILITIES BOARD**

**OFFICE OF CONSUMER ADVOCATE**

**DIRECT TESTIMONY**

**OF**

**BRIAN W. TURNER**

**IN RE: Interstate Power and Light Company  
Docket No. RPU-2009-0002**

**July 17, 2009**

1 **Q: Please state your name and business address.**

2 A: Brian W. Turner, 310 Maple Street, Des Moines, Iowa 50319.

3 **Q: By whom are you employed and in what capacity?**

4 A: The Office of Consumer Advocate (OCA), a division of the Iowa  
5 Department of Justice, employs me as a utility analyst.

6 **Q: Please explain your educational background and your work  
7 experience.**

8 A: I received a Bachelor of Arts degree in December 1981 from the  
9 University of Northern Iowa majoring in Management with an emphasis  
10 in Finance. In July of 1982, I joined the staff of the Iowa State Commerce  
11 Commission (n/k/a the Iowa Utilities Board or IUB). In June of 1989, I  
12 transferred from the IUB staff to my present position with the OCA.

13 Since 1982, I have testified in many electric, natural gas,  
14 telephone, depreciation, fuel procurement, complaint, and energy  
15 efficiency cost recovery proceedings. I have also attended numerous  
16 programs and seminars including many programs and meetings sponsored  
17 by the National Association of Regulatory Utility Commissioners  
18 (NARUC). In 1991, I completed two graduate level income tax courses  
19 offered by Drake University.

20 **Q: What is the purpose of your testimony?**

1 A: The purpose of my testimony is to present and explain Interstate Power  
2 and Light Company's (IPL) adjusted 2008 test-year income statement,  
3 rate base and revenue requirement as proposed by the OCA as well as  
4 several pro forma adjustments which are a part thereof.

5 **Q: What are the pro forma adjustments that you will address?**

6 A: I will address the following adjustments that are recognized in my  
7 calculation of OCA's proposed revenue requirement:

- 8 A) Asset Retirement Obligation (ARO),
- 9 B) Unamortized Flood Costs,
- 10 C) Depreciation of Electric Meters,
- 11 D) Interest Synchronization, and
- 12 E) Cash Working Capital.

13 **Q: What is the Iowa-jurisdictional revenue requirement that you**  
14 **calculate for IPL?**

15 A: Based on my recommendations and those made by OCA witnesses Habr,  
16 Henry, Parker, Vitale, Kebede, Condon, and Fuhrman, I recommend a  
17 revenue requirement of \$1,207,293,828 as shown on OCA  
18 Exhibit\_\_(BWT-1), Schedule A. This revenue requirement requires a  
19 decrease in rates to Iowa electric ratepayers of \$29,827,985. The revenue  
20 requirement calculation is based on an adjusted net operating income of

1 \$167,088,226 as shown on OCA Exhibit\_\_ (BWT-1), Schedule B, an  
2 adjusted rate base of \$1,821,184,487 as shown on OCA Exhibit\_\_  
3 (BWT-1), Schedule C, and an overall rate of return, as recommended by  
4 OCA witness Parker, of 8.052 percent on non-Emery investment and  
5 9.008 percent on Emery investment as shown on OCA Exhibit\_\_  
6 (BWT-1), Schedule D.

### 7 **Asset Retirement Obligations**

8 **Q: Let's begin by discussing Asset Retirement Obligations (ARO).**

9 **Would you explain what IPL has proposed?**

10 A: Yes. Since 2006 IPL has accumulated costs of \$10,668,339 primarily  
11 related to asbestos cleanup. IPL is asking that ratepayers pay the Iowa-  
12 electric portion of the \$10,668,339 (*i.e.*, \$9,324,038) over four years or  
13 \$2,331,009 per year. IPL also proposes to include the average  
14 unamortized balance of the ARO (*i.e.*, \$3,496,514) in rate base in order to  
15 earn a return on the average unamortized balance.

16 **Q: Do you agree with this adjustment as proposed by Mr. Hampsher?**

17 A: No. First of all, only \$10,301,676 was incurred during the test year. The  
18 other \$366,664 was incurred in 2006 and 2007 and deferred to future  
19 periods by IPL. However, environmental cleanup costs are beneficial to  
20 everyone, and I would propose to allow IPL to recover these types of

1 costs from ratepayers if the costs are recovered in a way that is consistent  
2 with regulatory recovery of these types of costs, *i.e.*, if test year costs are  
3 amortized over a reasonable period.

4 **Q: What reasonable period do you recommend?**

5 A: IPL suggests using a four-year amortization period. Normally, I would  
6 agree to a three-year amortization period to reflect the average number of  
7 years between rate cases, but this requires some special consideration.  
8 IPL has suggested it intends to file another rate case next year or shortly  
9 thereafter. If IPL does file another rate case next year (and rates produced  
10 in that case are effective for three years) between the two cases a four-  
11 year rate period would be realized, and a four-year amortization would be  
12 reasonable. In short, I would agree with a four-year amortization of the  
13 2008 ARO costs.

14 **Q: What is the amount of the amortization that you recommend to**  
15 **include in the revenue requirement calculation?**

16 A: As shown on OCA Exhibit\_\_(BWT-1), Schedule E, the four-year  
17 amortization to be included in the revenue requirement is \$2,244,743.  
18 This amount represents one-fourth of the Iowa-electric portion of the 2008  
19 test year ARO expenditure less the steam portion of the Prairie Creek and  
20 Sixth Street ARO expenditures. Expenses incurred during 2006 and 2007

1 do not match the 2008 test year and should not have been deferred by IPL.  
2 The amounts incurred in 2006 and 2007 should have been expensed in  
3 those years and not deferred until a later year in order to include them in  
4 this rate case filing.

5 **Q: Should IPL be allowed to earn a return on the unamortized balance?**

6 A: No. IPL should be allowed to recover a reasonable level of actual costs  
7 but it should not be allowed to earn a return on unamortized expenses. No  
8 rate base adjustment should be allowed by the Iowa Utilities Board  
9 (Board) because unamortized expenses are not the same as stockholder  
10 investment. Unamortized expenses represent expenses that are matched  
11 to periods outside of the test period. These costs alone may be  
12 recoverable, but stockholders should not be allowed to earn a return on  
13 deferred costs.

14 **Q: IPL claims this unamortized balance as a prepayment that should be**  
15 **included in rate base. Do you agree that this unamortized balance**  
16 **represents a prepayment to be included in rate base?**

17 A: No. An unamortized expense is not the same as a prepayment.  
18 Prepayments represent costs incurred to obtain consumable services or  
19 supplies (*e.g.*, insurance, materials or fuel) that are consumable over the  
20 test period (and perhaps longer). As these assets are consumed they are

1 credited against the prepayment asset. As shown on OCA  
2 Exhibit\_\_(BWT-1), Schedule C, Page 3 of 3, Column B, I have  
3 eliminated this addition to rate base which was originally proposed by  
4 IPL.

5 Deferred expenses represent a postponed recognition of expenses  
6 already incurred. These expenses are recognized in a later financial  
7 period. No asset of any current or future benefit for ratepayers remains.  
8 Since no asset of any benefit to ratepayers remains, there is no investment  
9 on which to earn a return to include in rate base.

#### 10 **Unamortized Flood Expense**

11 **Q: IPL includes an adjustment to increase rate base by \$2,999,550 to**  
12 **recognize the unamortized flood expense. Does your opinion of this**  
13 **unamortized expense addition to rate base differ from your stated**  
14 **opinion regarding the unamortized ARO expense addition to rate**  
15 **base?**

16 A: No. For the same reason I stated that the unamortized ARO expense  
17 should be excluded from rate base, the unamortized flood expense should  
18 also be eliminated from rate base. Technically, flood expense is a non-  
19 recurring cost which should be disallowed since it is not representative of  
20 costs to be incurred while rates determined in this case are effective.

1 Allowing recovery of the expense however, is one thing, but allowing a  
2 return on the unamortized cost is another matter. As shown on OCA  
3 Exhibit\_\_(BWT-1), Schedule C, Page 3 of 3,Column A, I have eliminated  
4 this addition to rate base which was originally proposed by IPL.

5 **Accelerated Depreciation on Electric Meters**

6 **Q: Let's move on to IPL's proposed adjustment to accelerate**  
7 **depreciation on electric meters. What does IPL propose?**

8 A: IPL is proposing to accelerate depreciation on electric meters from 27  
9 years to 10 years in anticipation of possibly installing Advanced Metering  
10 Infrastructure (AMI) in the future. IPL witness Madsen states on page 15,  
11 lines 9 and 10 of his testimony that "this is a very *possible* path the entire  
12 industry will be taking soon" (emphasis added). Mr. Madsen suggests  
13 that depreciation of existing meters be accelerated since new technology  
14 might be adopted sometime in the future, perhaps years from now.

15 **Q: Should this adjustment be allowed by the Board?**

16 A: No. It is too early to include an adjustment for these potential costs  
17 associated with Advanced Metering Infrastructure (AMI) deployment, a  
18 technology which IPL has not yet implemented. IPL witness Eric Madsen  
19 states on lines 18 and 19 of page 16 of his direct testimony that "IPL has  
20 begun to develop plans for AMI deployment to electric and gas customers

1 in its Iowa service territory.” However, until IPL demonstrates that the  
2 deployment of AMI is beneficial to ratepayers (*i.e.*, the benefits exceed  
3 the costs) and AMI is actually deployed, IPL should not be allowed to  
4 increase rates to recover accelerated depreciation on meters that are not  
5 obsolete and are being used by its ratepayers. In fact, IPL does not offer  
6 anything but some time-of-day rates. AMI is not necessary to take  
7 advantage of time-of-day rates. Until AMI can be used by ratepayers to  
8 provide material benefits that exceed their costs, accelerating the  
9 depreciation on present meters should not be allowed by the Board.

#### 10 **Interest Synchronization**

11 **Q: What modifications do you recommend be made to IPL’s interest**  
12 **synchronization adjustment?**

13 **A:** I agree that an interest synchronization adjustment is necessary in order to  
14 match the interest on long-term debt tax effect with the proposed capital  
15 structure and rate base. I have simply recalculated the interest  
16 synchronization adjustment to recognize OCA’s recommended rate base  
17 and average cost of long-term debt. My interest synchronization  
18 adjustment decreases federal income taxes by \$3,821,182 and state  
19 income taxes by \$1,227,977 as shown on OCA Exhibit\_\_(BWT-1),  
20 Schedule F.

1 **Cash Working Capital**

2 **Q: What is the amount of cash working capital you propose to include in**  
3 **rate base?**

4 A: I propose to include a negative \$18,021,311 cash working capital  
5 requirement matched to the 13-month average rate base and an adjustment  
6 to further reduce cash working capital by \$2,278,890 as shown on OCA  
7 Exhibit\_\_(BWT-1), Schedule G, Line 30, Columns F and I. The total cash  
8 working capital recognized in my adjusted rate base is a negative  
9 \$20,300,201 as shown on OCA Exhibit\_\_(BWT-1), Schedule C, Page 1 of  
10 3, Column D, Line 7. My calculation reflects all OCA proposed pro  
11 forma adjustments and OCA witness Henry's proposed recognition of  
12 38.15 revenue lag-days and average daily expenses (using a 366-day  
13 year).

14 **Q: Does this conclude your testimony at this time?**

15 A: Yes, it does.  
16

STATE OF IOWA            )  
                                  )  
COUNTY OF POLK        )        SS: AFFIDAVIT OF BRIAN W. TURNER

I, Brian W. Turner, being first duly sworn on oath, depose and state that I am the same Brian W. Turner identified in the foregoing Direct Testimony; that I have caused the foregoing Direct Testimony to be prepared and am familiar with the contents thereof, and that the foregoing Direct Testimony as identified therein is true and correct to the best of my knowledge, information and belief as of the date of this Affidavit.

/s/ Brian W. Turner  
Brian W. Turner

Subscribed and sworn to before me, A Notary Public, in and for said County and State, this 17th day of July, 2009.

/s/ Craig F. Graziano  
Notary Public

My Commission Expires: June 14, 2011