RPU-2009-0002

FILED WITH
Executive Secretary

July 17, 2009

IOWA UTILITIES BOARD

OFFICE OF CONSUMER ADVOCATE

DIRECT TESTIMONY

OF

MARK E. CONDON

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

July 17, 2009

Q: Please State your name and business address.

A: Mark E. Condon, 310 Maple Street, Des Moines, Iowa.

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

A: I am employed by the Office of Consumer Advocate (OCA) of the Iowa Department of Justice as a Utility Specialist.

Q: Please describe your educational background and work experience.

A: I received a Bachelor of Science degree from Iowa State University in Industrial Administration with an emphasis in accounting in 1980. In July 1982, I joined the staff of the Utilities Division of the Department of Commerce (formerly the Iowa State Commerce Commission) as a Utility Analyst in the Compliance Audits Section. From July 1982 to November 1988, I supervised and/or participated in various audits of gas, electric and telephone companies that operate within Iowa.

In November 1988, I transferred from the Compliance Audits Section of the Utilities Division to the OCA. I have previously testified before the Iowa Utilities Board (IUB or Board) on several occasions. Additionally, I have attended several educational programs/seminars sponsored by the National Association of Regulatory Utility Commissioners.

Q: What is the purpose of your testimony in this proceeding?

A: I will be presenting my determination of the appropriate ratemaking treatment of pension expense, other post-retirement employee benefits (OPEB), and variable pay plan (VPP) awards.

Pension Expense

Q: Please describe IPL's proposed ratemaking treatment of pension expense in this proceeding.

A: As set forth on IPL's Exhibit___(CAH-1), Schedule B-3, IPL proposes to increase its 2008 test year level of pension expense by $14,086,322 to an actuarially estimated 2009 level of pension expense. As set forth on page 2 of my OCA Exhibit____(MEC-1), Schedule A, the amount of Iowa electric operations related pension expense recorded during the test year by IPL was a negative $348,725 whereas IPL's estimate for 2009 is a positive $13,737,598 (i.e., $13,737,598 minus a negative $348,725 = $14,086,323).

Q: Do you have any concerns with IPL's proposal to substitute its actuary's estimate of 2009 pension expense for the amount actually recorded in 2008?

A: Yes. Page two of my OCA Ex.____(MEC-1), Schedule A, Line 12, sets forth IPL's Iowa electric operations related pension expense for each year of the eight year period ended December 31, 2009. Note that with the lone arguable exception of 2003 not a single year's level of pension expense would in any meaningful sense be representative of the subsequent year's

level of pension expense. Clearly, the level of pension expense varies materially from year to year. There is little, if any, reason to believe and good reason to doubt that the level of pension expense that IPL's Iowa electric operations will actually experience during the period of time that rates approved in this case are in effect will be reasonably similar to the level of pension expense proposed by IPL.

Q: Are you aware of any significant changes to any IPL Iowa electric operations related pension plans which would account for, in whole or significant part, the huge increase in pension expense from 2008 to 2009?

A: No. To the best of my knowledge there were no such changes to any of the Iowa electric operations related pension plans which would account for this huge increase.

Q: If there were no changes in who was covered by IPL's pension plans or the nature of the related coverage, what explains the huge increase in pension expense from 2008 to 2009?

A: As far as I can determine or reasonably assume, a significant, if not primary, driver of the huge increase in IPL's pension expense from 2008 to 2009 appears to be the roughly 35% to 40% decline in most major stock indices that occurred in 2008 (see my OCA Ex.____(MEC-1), Schedule A, page 3) but not meaningfully incorporated into the derivation of IPL's estimated

pension expense until 2009. A significant drop in the value of the pension plans' assets, however temporary, could be the cause of the significant increase in 2009 pension expense from 2008.

Q: Should IPL's Pension Expense proposal be accepted by the Board?

A: No. IPL's proposal should be rejected by the Board because it is speculative and unrepresentative.

Q: What is your recommendation concerning the level of pension expense to be recognized for ratemaking purposes in this proceeding?

A: My recommendation is to use an average of 2008 and 2009 pension expense, which results in a $7,043,161 increase to test year levels as set forth on OCA Exhibit___(MEC-1), Schedule A.

Q: Why is an average of 2008 and 2009 more appropriate than simply relying on the actuary's estimate for 2009?

A: It is much more in line with what IPL has experienced in the past. Also, it is not certain at all that the drop in value of IPL's pension plan assets is as permanent as IPL's adjustment assumes. It would be unfair to charge IPL's ratepayers an additional $7.0 million annually (i.e., IPL's pension expense adjustment of $14,086,322 less OCA's pension expense adjustment of $7,043,161) when it is fairly likely that that the stock market will rebound eventually.

Other Post Employment Benefits (OBEP)

Q: Please describe IPL's proposed ratemaking treatment of OPEB expense in this proceeding.

A: As set forth on IPL's Exhibit___(CAH-1), Schedule B-2, IPL proposes to increase its 2008 test year level of OPEB expense by $2,361,924 to an actuarially estimated 2009 level of OPEB expense (i.e., a 70% increase from test year levels).

Q: Do you have any concerns with IPL's proposal to substitute the 2009 level of OPEB expense for the 2008 level?

A: Principle-wise, my concerns with IPL's OPEB proposal are identical to my previously discussed concerns with IPL's pension expense related proposal. In other words, it's the exact same issue in principle with, albeit, a smaller numerical consequence.

Q: What is your recommendation concerning the level of OPEB expense to be recognized for ratemaking purposes in this proceeding?

A: My OPEB expense related recommendation is identical to my pension expense recommendation, which is to use an average of 2008 and 2009 OPEB expense. My OPEB expense recommendation results in a $1,181,068 increase to test year OPEB expense as set forth on OCA Exhibit___(MEC-1), Schedule B.

Q: Do you have any other OPEB related recommendations?

A: Yes. I also recommend that IPL's rate base be reduced by the thirteen-month average of OPEB related funds collected from customers and subsequently held and used by IPL until such time that IPL deposited such OPEB related funds in a Board approved external trust fund or funds as required by Board rule 199 IAC 16.9(1). My recommendation in this regard is intended to treat such OPEB related funds in a manner fully consistent with the rate-making treatment of not only similar pension related funds but any expense involving customer contributed capital. The derivation of my proposed adjustment to rate base is set forth on my attached OCA Ex.___(MEC-1), Schedule B, page 3.

Q: Why should these OPEB related funds be used to reduce rate base?

A: The annual amount of OPEB expense for any given year is essentially an estimate of the portion of future payments to be made years, if not decades, later which were earned by and accrued to all OPEB plan-covered employees as a consequence of their employment with IPL during that given year. In other words, IPL is collecting OPEB related funds today relative to today's employees which won't be paid out by IPL until after today's employees retire years from now. Just like pensions, these OPEB related funds are customer contributed capital which IPL collects from customers today and has unrestricted use of until such time that IPL pays out such funds. Such

OPEB related customer contributed funds should be used to reduce rate base just like all other similar customer contributed funds.

Variable Pay Plan Awards

Q: Please describe IPL's proposed adjustment to the test year level of variable pay plan awards.

A: IPL's variable pay plan (VPP) related proposal comes in two separate pieces. First, IPL proposes to eliminate the $1,779,500 of Iowa electric operations related VPP expenses actually recorded during the test year (per IPL Exhibit___(CAH-1), Schedule B-35). Next, IPL proposes to recognize in the cost of service for rate-making purposes an inflation-adjusted-five-year-average of VPP related costs for Iowa electric operations (i.e., $7,507,929 according to IPL Exhibit___(CAH-1), Schedule B-5).

Q: Were there any VPP awards given out for 2008 test year performance in this proceeding?

A: Yes and no.

Q: Please explain.

A: It's appears to be a question of which IPL witness's testimony one is reading. The answer appears to be "yes" if you're talking about IPL witness Hampsher's definition of the acronym VPP in his direct testimony at page 28, line 18, through page 29, line 1, along with Hampsher's use of the acronym "VPP" in his direct testimony at page 63, line 23, through page 64,

line 4 and on his Exhibit____(CAH-1), Schedule B-35. The answer appears to be "no" if you're talking about IPL witness Lee Stock and his responses to data requests such as OCA Ex.____(MEC-1), Schedule C, page 2.

Q: Which definition of the acronym "VPP" are you using in your testimony?

A: I'm using Mr. Hampsher's definition.

Q: So, using Mr. Hampsher's definition, were there any VPP awards given out <u>for</u> 2008 test year performance in this proceeding?

A: Yes. IPL booked accruals for $1,799,500 of VPP bonuses related to Iowa electric operations during 2008 as set forth on IPL Exhibit____(CAH-1), Schedule B-35.

Q: Are there any other VPP related questions that you'd like to address?

A: Yes. The fact that VPP awards are paid out to employees in the year after they're earned can cause some confusion. For example, a VPP award <u>for</u> 2008 performance will be accrued <u>for</u> in 2008 (i.e., estimates of the related VPP awards are booked in 2008) but paid <u>in</u> 2009 along with a 2009 true-up of prior 2008 estimated accruals to actual 2009 payments (i.e., true-up booked in 2009).

Q: Is IPL seeking explicit recovery of the $1,799,500 of VPP bonuses for 2008 employee performance in this proceeding?

A: No. As set forth on IPL Exhibit____(CAH-1), Schedule B-35, IPL proposes to eliminate all 2008 related VPP.

Q: What is your recommendation concerning IPL's VPP related awards?

A: My recommendation is that no VPP award related costs be reflected in the derivation of the revenue requirement in this proceeding. To this end, the IPL's proposed five-year inflation average adjustment for VPP awards as set forth on IPL Exhibit___(CAH-1), Schedule B-5, should be rejected and IPL's proposal to eliminate all 2008 related VPP awards as set forth on IPL Exhibit____(CAH-1), Schedule B-35, should be accepted.

Q: Why?

A: IPL's proposal is purely speculative and not known and measurable. As set forth on my OCA Ex.____(MEC-1), Schedule C, page 1, Mr. Hampsher apparently agrees as well when he says "At this time, IPL believes it is premature to predict if there will be an incentive payout for 2009."

Q: Are you aware of any years for which there were no VPP related awards made to Alliant's employees?

A: My understanding of the record in RPU-02-3 is that there were no VPP related awards given out for the years 1999 and 2002.

Q: Do you have any comments concerning the testimony of IPL witness Lee Stock?

A: All of Mr. Stock's testimony deals with VPP plans which were applicable to the 2008 test year or prior years and none of it deals with VPP's for years thereafter. To the best of my knowledge, IPL has not finalized any VPP's for any post test year period such as 2009. I have no comments on any VPP's related to the period in time in which rates set by this rate case will be in effect because they simply do not exist.

Q: Does this conclude your testimony?

A: Yes, it does.

STATE OF IOWA)
) SS: AFFIDAVIT OF MARK E. CONDON
COUNTY OF POLK)

I, Mark E. Condon, being first duly sworn on oath, depose and state that I am the same Mark E. Condon 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/ Mark E. Condon
Mark E. Condon

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