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Executive Secretary
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IOWA UTILITIES BOARD

PUBLIC

OFFICE OF CONSUMER ADVOCATE

DIRECT TESTIMONY

OF

CHARLES E. FUHRMAN

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

July 17, 2009

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PUBLIC

Q: Please state your name and business address.

A: Charles E. Fuhrman. My address is 310 Maple Street, Des Moines Iowa.

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

A. I am employed by the Consumer Advocate Division of the Iowa Department of Justice (OCA) as a Utility Administrator 2. My position is Chief, Technical Bureau. My duties involve overall supervision of the OCA's technical staff.

Q: Please describe your educational background and professional experience.

A: In December 1979 I was awarded a Bachelor of Science degree in business administration, with majors in accounting and management, from Northern State College, Aberdeen, South Dakota.

In January 1980, I commenced employment with the staff of the South Dakota Public Utilities Commission. My duties involved matters relating to the regulation of natural gas and electric utility companies subject to the jurisdiction of the South Dakota Commission.

In September 1981, I accepted a position with the staff of the Iowa State Commerce Commission (now Iowa Utilities Board). During my

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employment with the Iowa Utilities Board (Board or IUB) I held various positions with duties relating to the regulation of natural gas, electric, water, and telephone utility companies subject to the jurisdiction of the Board. I have also participated in interstate natural gas pipeline company proceedings held before the Federal Energy Regulatory Commission (FERC).

On June 23, 1989 I joined the technical staff of the OCA. I presently have over twenty-nine years experience in utility regulation with State regulatory agencies and the OCA.

Q: Have you previously presented testimony as an expert witness?

A: I have presented testimony in proceedings conducted before the South Dakota Public Utilities Commission, the Iowa Utilities Board, and the Federal Energy Regulatory Commission. Attached, and identified as Appendix A, is a listing of proceedings in which I have presented testimony. This document identifies the jurisdiction, docket number, and nature of utility service of said proceedings. I have also presented testimony in United States Tax Court.

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INTRODUCTION

Q: What is the purpose of your prepared direct testimony?

A: On March 17, 2009 Interstate Power and Light Company (IPL or Company) filed an electric rate increase application with the IUB. IPL has proposed a permanent annual Iowa jurisdiction electric rate increase of $171 million, or about 16.6 percent of current annual revenue. By order issued April 13, 2009 the Board docketed IPL's rate increase and instituted an investigation to determine the reasonableness of IPL's proposed rate increase request. This matter has been identified by the Board as Docket No. RPU-2009-0002. I will be presenting testimony on behalf of the OCA.

I shall give an overview of the OCA's recommendations to the Board, identify the other OCA witnesses who will be presenting testimony in this proceeding, and describe the subject matter that each OCA witness will be addressing. In addition, I will be making recommendations to the Board concerning several of the pro forma adjustments proposed by IPL in this proceeding and address IPL's proposal to implement a new automatic adjustment clause for certain

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transmission expenses.

OVERVIEW

Q: Would you please briefly summarize the OCA's recommendations in this proceeding?

A: The OCA's recommendation is that an IPL Iowa jurisdiction electric revenue requirement of $1,207,293,828 should be approved by the Board. This revenue requirement represents approximately a 2.4 percent decrease from adjusted test period annual revenue.

OCA also recommends that whatever rate increase may be approved by the Board be applied on an across-the-board basis in lieu of conducting a class cost of service study at this time or utilizing the results of the study that IPL has prepared. Although IPL has conducted a class cost-of-service study, the Company also recommends that the results of the study not be implemented in this proceeding. While OCA does not accept or endorse IPL's class cost-of-service study, the OCA does not propose to litigate the issues in this proceeding since IPL does not propose to use the study for setting rates in this proceeding. The OCA, however, explicitly reserves the right to fully challenge IPL's class cost-of-service

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study methodology in a future proceeding.

IPL has indicated its intent to file a rate case in 2010 to coincide with the in-service date of the proposed Whispering Willows wind generation facility. 2010 will also be the conclusion of IPL's rate equalization process that has been taking place over the past several years. The OCA strongly supports the concept of cost-based rates. The deferral of IPL conducting and implementing the results of a new class cost of service study until 2010 is warranted under the current circumstances. Revising rates in this proceeding based upon a new class cost of service study prior to the completion of the rate equalization process would be contrary to the Board's prior orders concerning the timing of rate equalization, could result in unnecessary fluctuations in the rates IPL's customers are assessed, and could result in unnecessary confusion for IPL's customers.

Q: Would you please identify the OCA witnesses who will be testifying in this proceeding and highlight the primary issues that each OCA witness will be addressing?

A: Yes, I will.

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Mr. Brian Turner will be presenting the OCA's overall final revenue requirement determination and sponsor the exhibits setting forth the OCA's recommended income statement and rate base. He will also be addressing IPL's proposed depreciation adjustments, flood adjustment, and several other income statement issues proposed by IPL.

Mr. Fasil Kebede will be presenting testimony concerning IPL's proposed rate base adjustments, salary and wage adjustments, the Emery long-term service agreement adjustment, and emission control adjustment.

Mr. Mark Condon will be presenting testimony concerning various IPL proposed employee-benefit adjustments.

Ms. Joyette Henry will be addressing the cash working capital calculation.

Ms. Sheila Parker will present the OCA's proposed capital structure issue and address IPL's proposed the fly-ash storage capital lease issue.

Mr. Greg Vitale will be presenting the OCA's proposed return on common equity.

Dr. David Habr will be addressing the issue of management

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efficiency.

I will present testimony concerning IPL's proposed adjustments for transmission (wheeling) expense, transmission-related administrative and general expense, capacity demand and sales adjustments, SGS#4 cancellation costs, IPL's proposed out-of-period income taxes adjustment, and non-property related deferred income tax adjustments. As I indicated previously, I will also be addressing IPL's proposal to institute a transmission expense automatic adjustment cost recovery mechanism.

My recommendations regarding the various pro forma adjustments that I will be addressing will be incorporated into Mr. Turner's revenue requirement calculation schedules.

TRANSMISSION EXPENSE

Q: Would you please describe IPL's proposed transmission expense adjustments?

A: The terms transmission expense, wheeling expense, and transmission wheeling expense are used in reference to various IPL-proposed pro forma adjustments and are synonymous. IPL has proposed several transmission expense related adjustments, and as I indicated in my

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overview, IPL has also proposed that the Board authorize and approve the implementation of an automatic adjustment clause mechanism for the recovery of transmission expense. The individual transmission cost-related adjustments proposed by IPL are described below.

IPL witness Mr. Christopher Hampsher's Exhibit___(CAH-1), Schedule B-9 sets forth the proposed adjustment to increase transmission expense by $58,414,537 to reflect the Iowa jurisdiction amount of anticipated 2009 transmission expense.

IPL witness Mr. Hampsher's Exhibit___(CAH-1), Schedule B-18 includes a $1,260,253 adjustment to eliminate the effect of an out-of-period transmission refund from test period Iowa jurisdiction book transmission expense.

IPL witness Mr. Hampsher's Exhibit___(CAH-1), Schedule B-25 sets forth an adjustment to transmission expense to reflect the true-up by ITC-Midwest of 2008 transmission expense. Mr. Hampsher proposes two alternatives for treatment of the 2008 true-up. The first alternative would increase Iowa jurisdiction transmission expense by $11,726,211 based upon a four year amortization of the estimated true-up amount. His

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second alternative would not result in any increase in transmission expense as the ITC-Midwest true-up amount would be fully offset using the regulatory liability account established during the Transmission Sale case, Docket No. SPU-07-11.

Lastly, IPL witness Mr. Hampsher's Exhibit___(CAH-1), Schedule B-26 sets forth the proposed adjustment to increase transmission expense by $17,514,781 to reflect the Iowa jurisdiction amount of anticipated 2010 transmission expense.

Q: Would you please provide an overview of the transmission expense issues?

A: Yes. As can be observed from my brief summary of each of the transmission expense pro forma adjustments that have been proposed, IPL is expecting to incur substantial increases in transmission expenses. The reason for the increased transmission expenses IPL now proposes to charge its ratepayers is increases in the rates charged by ITC-Midwest (ITC). ITC is an independent transmission company that now owns and operates the transmission system formerly owned and operated by IPL. I say formerly owned and operated by IPL because in 2007 IPL sold its

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transmission system to ITC. The proceeding conducted before the Board concerning IPL's proposal to sell its transmission assets to ITC was identified as Docket No. SPU-07-11. The order of the Board allowing the sale of IPL's transmission assets to ITC was issued on September 20, 2007 (Transmission Sale Order). Since the closing of the sale of IPL's transmission assets to ITC, ITC has operated the transmission system and charges IPL for transmission service. The transmission service rates charged by ITC and billed to IPL are approved by the Federal Energy Regulatory Commission (FERC) using the Midwest ISO Attachment O formula rate mechanism. The cost recovery and rate-setting mechanism used by ITC includes a true-up process wherein ITC conducts a reconciliation of revenue collected through its rates with the costs reported in the FERC Form No. 1 report. ITC then subsequently bills its customers for under collections or makes refunds of over collections prospectively.

Q: You previously stated that the transmission expense pro forma adjustments proposed by IPL represent substantial increases in transmission costs. Did the sale of IPL's transmission system to ITC

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involve an expectation that higher transmission expense for IPL would be the outcome?

A: Yes. For a number of reasons it was expected that ITC's costs and, consequently, what IPL would pay for transmission service, would be greater if the transmission asset sale were approved than if IPL retained its transmission system and continued to operate it. The OCA and other Interveners in the transmission sale case contended that approval of the transaction would result in higher transmission costs, which IPL did not dispute, and which the Board also acknowledged. In the rebuttal portion of the transmission sale proceeding IPL and ITC (collectively the Applicants) proposed what has been identified as the Alternative Transaction Adjustment (or ATA). The ATA was intended to mitigate or offset the anticipated increase in transmission costs which were expected to result if Board approval of the transmission sale was granted. The ATA was structured to offset the anticipated increase in transmission expenses for at least eight-years. Thereafter, presently unquantifiable benefits from ITC's ownership of the transmission system were expected to have been achieved which would offset the expected higher

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transmission expenses.

The ATA was not considered as a benefit but rather as a means of mitigating or offsetting the anticipated higher transmission costs. On page 44 of the Transmission Sale Order the Board explicitly stated that the "benefits" of the ATA "…are more accurately termed offsets to cost increases that will result if the transaction is approved, not benefits from the transaction."

Q: Please describe the ATA?

A: The ATA consisted of several components. The first component was a commitment by IPL to make a direct refund of $13,040,000 to its customers each year for an eight-year period beginning after ITC's transmission charges were included in IPL's next rate case. In addition to the eight-year refund proposal of IPL was a commitment by ITC to provide a $4,125,000 rate discount each year for eight years. ITC committed to not seek recovery of this discount through its true-up mechanism. Further, IPL committed to use a capital structure in its first rate case following approval of the transmission asset sale that utilized a common equity component of no more than 50 percent, which had an IPL

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calculated value of approximately $12 million annually. Finally, ITC agreed that it would forego recovery of the first $15 million in transaction costs associated with conducting the transmission sale proceeding. The stated intent of the Applicants was that the ATA would hold IPL's customers harmless for at least the first eight-years following approval of the sale of IPL's transmission assets to ITC. Not only did the Applicants assert that the ATA would hold customers harmless for at least eight-years, but claimed that there would be an overall net present value benefit of approximately $15 million. The Applicants' Docket No. SPU-07-11 cost-benefit analysis summary showing the anticipated increase in transmission costs and how the ATA would serve to offset those higher costs over the eight-year period 2008 through 2015 was presented as Exh___(CAH-2), Schedule K, page 1. I have included a copy of the relevant parts of this exhibit with my testimony and have identified it as OCA Exhibit___(CEF-1), Schedule A.

Q: Are the ITC transmission charges which form the basis for the IPL's proposed transmission expense pro forma adjustments in this proceeding greater than the levels assumed in the Applicants' SPU-

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07-11 cost-benefit analysis that you just cited?

A: Yes.

Q: Are the cost-offsetting provisions of the ATA that you described adequate to hold IPL's customers harmless if the Board were to approve the transmission expense pro forma adjustments that IPL has proposed in this proceeding?

A: No. The estimated 2009 and 2010 ITC transmission charges, which are the foundation of IPL's proposed transmission expense pro forma adjustments in this proceeding, far exceed the levels reflected in the Applicants' SPU-07-11 cost-benefit analysis. As can be observed from comparing line 10 to line 5 of my Schedule A, page 3, the difference between the revenue requirement of ITC if the sale of IPL's transmission assets to ITC was approved and the revenue requirement assuming IPL's continued ownership of the transmission system was estimated to be more than $22 million per year higher for 2008, 2009, and 2010.

Mr. Hampsher's 2009 transmission expense adjustment workpaper WP B-9(b) submitted in this proceeding shows that IPL has now estimated the 2009 ITC transmission expense charges to be about $137.6

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million. This amount is about $28.3 million higher than the $109.3 million estimated ITC revenue requirement for 2009 that was allocated to IPL's native load customers as shown on page 3, column (c), line 10 of my Schedule A. This estimated $109.3 million ITC 2009 revenue requirement shown on my Schedule A, page 3, column (c), line 10 is about $22.8 million higher than the $86.5 million estimated 2009 revenue requirement shown on my Schedule A, page 3, column (c), line 5 associated with IPL retaining ownership of its transmission assets. The cost offsets provided by the components of the ATA obviously only mitigate a portion of the higher 2009 transmission costs, leaving IPL's customers faced with substantial cost increases if IPL's proposed adjustments are allowed by the Board. The 2009 transmission cost estimates that I have just discussed and the resulting differences between what was estimated during the SPU-07-11 proceeding and what is proposed in this proceeding are shown below.

Estimated 2009 IPL Trans. Exp. w/o Asset Sale	$ 86.5 million
Estimated Increase with Sale to ITC	22.8 million
SPU-07-11 Estimated 2009 ITC Rev. Req.	$109.3 million
Current Estimated 2009 Transmission Exp.	$137.6 million
Current 2009 Est. Over SPU-07-11 Estimate	**$ 28.3 million**

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As the above summary illustrates, the approval of the sale of IPL's transmission assets to ITC is now estimated to result in about a $51 million increase in transmission costs ($22.8 million plus $28.3 million) for 2009 versus what was estimated by the Applicants to be the costs if the transmission asset sale to ITC did not occur. Also, as I previously indicated, IPL has proposed other adjustments in this proceeding for ITC-related transmission expense for an additional anticipated 2010 increase of about $17.5 million and about $11.7 million (one-fourth of total) for the true-up of 2008 ITC transmission expense. The transmission cost offsets of the ATA which include an annual refund of $13.04 million and an annual ITC rate discount of $4.125 million are simply inadequate to fully offset the large ITC transmission cost increases that have been and will be imposed upon IPL, and which IPL now proposes to pass along to its customers.

Q: What is your recommendation regarding the proposed IPL transmission expense pro forma adjustments?

A: It is my recommendation that IPL's transmission expense levels in this proceeding be set so as to not exceed the estimated levels of the

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prospective ITC revenue requirement calculated by the Applicants in SPU-07-11 that would be charged to IPL if the transmission asset sale was approved. Although these the transmission cost levels that IPL was expected to experience if the transmission asset sale was approved were higher than what would be expected if IPL were to retain ownership of its transmission system, the ATA was intended to be adequate to offset those higher costs. IPL's witness Mr. John Larsen, Vice President of Alliant Energy Corporation's Technical and Integrated Services Business Units stated on page 18 and 19 of his rebuttal testimony in Docket No. SPU-07-11 that:

> By changing the use of the Transaction Adjustment from an AFUDC offset to a customer refund, the Joint Applicants essentially "zero out" any rate increase effects from the Transaction for customers over the first eight years of the Transaction. In other words, the Alternative Transaction Adjustment replaces a future customer benefit with a current and ongoing customer benefit for eight years.

Moreover, the Board's Transmission Sale Order includes at least four explicit instances (pg. 31, pg. 41, pg. 44, pg. 45) citing the Applicants' commitment that IPL's customers would be held harmless for at least eight years if the transmission asset sale to ITC was approved. I urge the

Board to hold IPL to its sworn testimony given in SPU-07-11 and to require IPL to honor its commitment. I propose that the Board allow increases in transmission expense only to the extent of the IPL Iowa jurisdiction electric operations portion of the ITC revenue requirement level used in the Applicants' cost-benefit analysis shown on my Exhibit___(CEF-1), Schedule A, page 3, line 10, as adjusted to take into consideration ITC's promised rate discount component of the ATA.

2009 TRANSMISSION EXPENSE

Q: The first proposed adjustment to increase transmission expense is set forth by Mr. Hampsher on his Exhibit___(CAH-1), Schedule B-9. Will you please describe this proposed adjustment further?

A: As Mr. Hampsher's schedule shows, IPL's proposed adjustment is based upon expected total 2009 transmission expense of $153,711,056 compared to book test period transmission expense of $91,640,567, which results in an increase of $62,070,489. IPL's Iowa jurisdiction electric operations is allocated $58,414,537 of this amount.

Of the $153,711,056 estimated 2009 transmission expense, $137,560,863 relates to ITC. The comparable book test period

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transmission cost for ITC is $77,831,227, making the ITC component of the proposed transmission expense adjustment $60,169,636 with the Iowa allocation being $56,625,644, which would constitute Mr. Hampsher's proposed adjustment for 2009 ITC transmission expense.

Q: Do you recommend that the Board allow the $56,625,644 ITC-related transmission expense adjustment for 2009?

A: No, I do not. This amount is far in excess of the anticipated 2009 increase in transmission expense estimated by the Applicants in SPU-07-11 and far in excess of the amount which the ATA was intended to offset in order to insulate customers from the higher costs resulting from the transmission asset sale to ITC.

Q: What would be the appropriate amount of adjustment to recognize expected 2009 transmission expense that would effectively serve to hold IPL's retail customers harmless, at least as envisioned in Docket No. SPU-07-11?

A: The appropriate amount of 2009 transmission expense pro forma adjustment based upon a comparison of expected the SPU-07-11 "hold-harmless" levels for 2009 ITC transmission charges to IPL is $1,065,802,

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of which the Iowa electric allocation is $1,003,026. This amount is shown on column (b), line 6 of my Exhibit___(CEF-1), Schedule B, column (b). My calculation begins with the SPU-07-11 IPL estimated 2009 amount of ITC transmission costs of $109,275,143 less the $3,795,000 IPL portion of the ITC discount included in the ATA. It is necessary to perform this calculation as $109,275,143 is the pre-discount estimate. To determine what IPL would actually be billed, the discount must be taken into consideration as I have done. The resulting net estimate of ITC transmission charges to IPL is $105,480,143. This amount is compared to the SPU-07-11 estimated 2008 ITC transmission charges to IPL of $104,414,341 to arrive at the total adjustment of $1,065,802, of which 94.11 percent is allocated to IPL's Iowa electric jurisdiction.

When the non-network/non-ITC Iowa electric allocation transmission expense component of $93,319 shown on page 2, column (b), line 8 of my Exhibit___(CEF-1), Schedule B and MISO network/non-ITC Iowa electric allocation transmission expense component of $1,695,573 shown on page 2, column (b), line 9 of my Exhibit___(CEF-

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1), Schedule B are added, the resulting total 2009 Iowa electric transmission expense adjustment is $2,791,919, as shown on page 1, column (b), line 10 of my Exhibit___(CEF-1), Schedule B. This is the total amount of 2009 Iowa electric transmission expense adjustment I recommend that IPL be allowed to include in its revenue requirement calculation in this proceeding in lieu of the $58,414,537 proposed by Mr. Hampsher.

Although I have included the $1,695,573 in my adjustment relating to 2009 MISO network/non-ITC transmission charges, the amount is an estimate, rather than a known and measurable amount. I have included this as a placeholder, to show the approximate level until a better estimate becomes known and measurable amount later this year. I recommend that the actual amount the Board allows for this adjustment be based upon the difference between 2009 actual numbers through September 30, 2009, to be provided by IPL, plus October through December 2008, compared with actual 2008 amounts, instead of the $1,695,573 I have calculated. The 2009 estimated amounts for MISO network/non-ITC transmission expense proposed by IPL are not based upon contract or other fixed-type

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charges, but are based upon MISO rates and forecast load. Consequently, the October through December 2009 actual amounts will not be known until they are actually incurred because the actual charges will be the result of actual load during those months applied to whatever MISO rates are in effect. Any actual increases or decreases in charges for those months relative to the test period will not be known until after September 2009 and thus, should not be allowed as part of the adjustment.

OUT-OF-PERIOD TRANSMISSION EXPENSE

Q: The next proposed adjustment for transmission expense is set forth by Mr. Hampsher on his Exhibit___(CAH-1), Schedule B-18. Will you please describe this proposed adjustment?

A: The adjustment shown on B-18 is one of two out-of-period items for which adjustments have been proposed. The total transmission expense component proposed is $1,260,523 of which the Iowa portion is shown to be $1,186,278. This adjustment relates to non-ITC transmission refunds received during the test period as the result of a transmission rate settlement approved by the FERC. The adjustment is necessary so as to properly reflect actual test period book information. The proper amount

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of the adjustment, however, is $1,260,523, not the $1,186,278 shown on Mr. Hampsher's Schedule B-18 because the $1,260,523 is the Iowa allocation of the total amount. The $1,186,278 Mr. Hampsher used is the result of inadvertently performing the allocation to Iowa twice.

There was also a $93,828 account 456 revenue component related to the settlement which was not taken into consideration. Therefore, it is necessary to make an adjustment of $88,302 to increase test period revenue to recognize the IPL Iowa electric jurisdiction allocation of this item.

2008 ITC TRANSMISSION EXPENSE TRUE-UP

Q: The next proposed adjustment to increase transmission expense is set forth by Mr. Hampsher on his Exhibit___(CAH-1), Schedule B-25. Will you please describe this proposed adjustment?

A: The adjustment shown on B-25 is to recognize transmission expense that IPL will be charged by ITC relating to the 2008 transmission charges true-up. Mr. Hampsher explains the true-up process on page 48 of his direct testimony. The $54,174,400 amount proposed by Mr. Hampsher as the basis for this adjustment is an estimate which IPL planned to revise when

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the actual true-up amount becomes known. The amount constitutes the difference between what ITC recovered during 2008 and its total costs as reported in the 2008 FERC Form 1 report. The FERC allows the 2008 true-up to be charged to and recovered from ITC's customers during 2010 as an add-on to ITC's 2010 transmission rates. The actual amount of the 2008 true-up is now known and is $53,556,050. The total IPL allocation of this amount is $49,271,566 of which the IPL Iowa electric jurisdiction allocation in turn is $46,369,471. One-fourth of $46,369,471 is $11,592,368.

Q: Do you recommend that the Board allow IPL to approve IPL's proposed adjustment for the ITC 2008 true-up?

A: No. Although there should be an adjustment, I do not agree with the estimated amount proposed by IPL or the revised amount based upon the actual 2008 ITC true-up amount.

Q: What amount do you recommend that Board permit?

A: I recommend that $25,431,453 be used as the basis for the 2008 ITC true-up adjustment. This amount is shown on page 1, column (a), line 6 of my Schedule B.

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Q: What is the rationale for your proposed 2008 ITC true-up adjustment, and how did you calculate your recommended amount of $25,431,453?

A: The rationale underlying my recommendation regarding the 2008 ITC transmission expense true-up follows the same line of reasoning I used to determine the 2009 transmission expense adjustment amount. As IPL assured its customers and the Board that approval of the sale of its transmission system to ITC would not be harmful to customers because of the offsets provided by the ATA, I calculated the 2008 true-up adjustment so as be consistent with the expected higher costs to IPL's customers reflected in IPL's cost-benefit analysis relied upon by the Board in SPU-07-11. I show my calculation on page 1, column (a) of my Schedule B. I began my calculation with IPL's portion of the SPU-07-11 estimated 2008 ITC transmission revenue requirement of $104,414,341. Since there was no discount applied by ITC for 2008 transmission costs, I did not reduce the 2008 estimated amount of $104,414,341 as I did when calculating the 2009 ITC transmission expense adjustment. I then compared the $104,414,341 to IPL's actual 2008 book ITC-related transmission expense

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of $77,391,277 to arrive at the total adjustment of $27,023,114 of which $25,431,453 is allocable to IPL's Iowa electric jurisdiction. As I recommend the true-up be recovered over four years, it is necessary to calculate one-fourth of the total, which is $6,357,863, to determine the amount of the actual pro forma adjustment. This amount is shown on my Schedule B, page 1, column (a), line 10.

Q: Why do you propose a four year amortization period for the 2008 ITC transmission expense true-up adjustment?

A: The 2008 ITC true-up adjustment is a one-time charge and should be treated as a non-recurring item. When recovery of non-recurring items, such as storm damage, is allowed, those costs have historically been amortized over varying periods of time to coincide with the frequency of rate case filings. Including the total amount of one-time non-recurring items in the revenue requirement would likely lead to a substantial over-recovery. Providing for the recovery of the true-up adjustment using the amortization approach gives IPL the opportunity to recover the cost while diminishing the potential for significant over-recovery.

Q: You previously indicated that ITC may perform a true-up calculation

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each year under its FERC-approved tariff. Doesn't this fact suggest that a representative amount be could be used in setting IPL's revenue requirement?

A: No. While I recognize that ITC has the ability to calculate and assess a transmission cost true-up each year and that it is possible that there may be an ITC transmission expense true-up in future years, the amount of future true-ups is not known with any degree of certainty. For 2008, the ITC true-up adjustment is a very significant amount of money and is based upon an under recovery. Future true-ups may be for very different amounts or could be based upon a situation when ITC over-recovered its costs, thus requiring a refund, as opposed to the true-up requiring the collection of an under-recovery as occurred during 2008. Therefore, it is preferable to treat the 2008 ITC true-up as a one-time non-recurring item for purposes of determining the revenue requirement in this proceeding.

Q: IPL proposed two alternatives for including the 2008 ITC true-up in the revenue requirement in this proceeding. The first IPL alternative was to amortize the adjustment over four years with the unamortized balance being included in rate base. The second, and preferred, IPL

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alternative is to fully offset the true-up amount against the regulatory liability account established for making the $13,040,000 annual refund per the ATA. Why do you propose the amortization method rather than the alternative that fully offsets the 2008 true-up adjustment?

A: I have opted to recommend adoption of the amortization method because I believe that IPL's customers should receive annual refunds over eight years as promised by IPL as part of the ATA and the commitment to hold customers harmless for at least eight years. Using a large portion of the amount set up to make refunds early in the eight-year period will deprive IPL of funds to provide refunds in the later years to help offset the higher ITC transmission charges customers will be exposed to.

Q: IPL has also proposed that the unamortized portion of the true-up amount be included in IPL's rate base if the amortization method is used in this proceeding. Do you agree with this aspect of the proposed adjustment?

A: No. I recommend that no so-called "unrecovered 2008 ITC true-up costs" be included in rate base and have indicated to Mr. Turner that zero be

reflected in his schedules.

IPL will not actually be charged the true-up costs until 2010, and will pay those amounts over the course of the entire year. While it might be appropriate to include the unrecovered balance in rate base after the amounts were actually paid, the fact is that IPL has not paid any of the true-up amounts yet and should not be allowed to include anything in rate base yet. I recommend that the issue of whether unrecovered true-up costs should be allowed to be included in rate base be re-visited in the 2010 rate case that IPL has indicated it plans to file. By then there will actually be a balance and the issue of whether it should or should not be included in rate base can be resolved at that time. Including three-fourths of the "unrecovered" 2008 true-up costs in rate base before the true-up costs have actually been paid will result in IPL's customers paying what I believe would be an excessive amount of carrying costs since IPL would be earning a return on money it has yet to pay. Waiting until the 2010 rate case would resolve this issue.

2010 TRANSMISSION EXPENSE

Q: The last of the proposed adjustments to increase transmission

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expense is set forth by Mr. Hampsher on his Exhibit___(CAH-1), Schedule B-26. Will you please describe this proposed adjustment?

A: As Mr. Hampsher's schedule shows, IPL's proposed adjustment is based upon expected 2010 transmission expense of $156,171,830 compared to 2009 transmission expense of $137,560,863 The difference between the $156,171,830 and $137,560,863 produces an adjustment of $18,610,967. IPL's Iowa jurisdiction electric operations is allocated $17,514,781. The $156,171,830 estimated 2010 transmission expense consists solely of ITC network transmission charges, which IPL indicates will be known and measurable by September 2009. The $156,171,830 is the amount of estimated 2010 ITC transmission charges excluding IPL's portion of the estimated $54,174,400 2008 true-up which I previously discussed and which the FERC allows ITC to recover during 2010. IPL has correctly not included any adjustment for estimated 2010 non-ITC transmission charges.

Q: Do you recommend that the Board allow the $17,514,830 ITC transmission expense adjustment for 2010?

A: No, I do not. This amount is in excess of the hold-harmless amount of

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anticipated increase in transmission expense relied upon in the Transmission Sale Order.

Q: What would be the appropriate amount of adjustment to recognize expected 2010 transmission expense that would serve to hold IPL's retail customers harmless consistent with the ATA terms discussed in IPL's testimony in SPU-07-11, and in the SPU-07-11 Transmission Sale Order?

A: The appropriate amount of 2010 transmission expense based upon a comparison of the expected 2009 and 2010 ITC revenue requirement billable to IPL is $4,479,450, of which the Iowa electric allocation is $4,215,611. This amount is shown on page 1, column (c), line 10 of my Exhibit___(CEF-1), Schedule B. This is the amount of 2010 Iowa electric transmission expense adjustment I recommend that IPL be allowed to include in its revenue requirement calculation in this proceeding in lieu of the $17,514,781 proposed by Mr. Hampsher, unless the actual proposed 2010 ITC transmission charges assignable to IPL, which will become known later in 2009, are less than $109,959,593 (net of ITC discount). In this somewhat unlikely case, the adjustment should be computed by

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substituting that amount for the $109,959,593 on my Schedule B, page 1, col. (c), line 3.

Q: Your proposed transmission expense pro forma adjustments reflect a substantial reduction from the levels that IPL believes that it will be required to pay to ITC for transmission service. If the Board accepts your recommendations, will such approval relieve IPL of the obligation to pay ITC for transmission service?

A: It is very unlikely that will be the case. As long as ITC is charging IPL its FERC authorized rates, IPL will be obligated to pay ITC.

Q: Will the fact that IPL will still have to pay ITC for transmission service at levels in excess of what you have recommended the Board allow IPL to recover from its customers unreasonably deprive IPL of a reasonable opportunity to earn its Board-authorized return?

A: No. IPL can use the gain realized from the sale of its transmission assets to ITC to offset the ITC transmission expense which I have recommended be excluded from the revenue requirement in this proceeding.

When the sale of IPL's transmission assets to ITC was approved by the Board and subsequently closed, IPL realized a substantial gain.

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According to IPL's response to OCA data request number 113, IPL realized an after-tax net gain of $217,754,242. The gain was included with what was transferred to IPL's parent, Alliant Energy Corporation as a dividend. I have identified a copy of this data request response as OCA Exhibit___(CEF-1), Schedule C. Although IPL utilized a portion of the pre-tax gain (approximately $88.7 million) to establish the regulatory liability account for paying the eight-year $13 million annual refund committed to as part of the ATA, IPL's customers received no portion of the after-tax gain amount of $217,754,242. Although I have not thoroughly investigated the income tax implications of using the gain as I recommend, there could be income tax advantages to IPL that could effectively make much more than the $217.8 million after-tax gain available for use in offsetting the ITC transmission costs. Moreover, the timing of the transmission asset sale transaction was such that IPL was able to take advantage of an opportunity that allowed the company to spread the payment of income taxes on the gain from the transaction over an eight-year period, providing an additional time value of money benefit which could also be applied to the transmission costs.

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1 IPL, in effect, promised that its customers would be held harmless
2 for at least eight years if the transmission asset sale was approved. My
3 recommended adjustments will allow IPL to recover from retail customers
4 the level of transmission costs cited to justify the sale of its transmission
5 assets to ITC. It is those levels of transmission costs that IPL relied upon
6 as the basis for its assurances that the ATA would hold customers
7 harmless from the higher rates that would result. The Board specifically
8 cited this commitment several times in its Transmission Sale Order
9 allowing the sale of IPL's transmission asset to ITC to take place.
10 It is obvious that IPL did not seek a commitment from ITC that
11 transmission costs during the eight-year post-transaction period would not
12 exceed the levels underlying the commitment IPL made to its customers.
13 The failure of IPL to protect its shareholders from consequences due to
14 unanticipated IPC cost increases should not excuse IPL from being
15 required to live up to the promise made to its customers and to the Board.
16 For the Board to allow IPL to ignore the sworn testimony and
17 commitments that have been made by IPL and pass along to its customers
18 the ITC cost increases in excess of the levels used in SPU-07-11 would

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send the signal to utilities that sworn testimony and commitments to customers and the Board need not be taken seriously. Accepting my recommendations and requiring IPL to honor the commitment it has made would constitute a clear and unequivocal message that the Board fully intends to hold utilities to the commitments made in the sworn testimony of their witnesses. Using the gain from the transmission sale to pay for the higher-than-expected ITC transmission charges would mitigate the potential harm to IPL's stockholders. To the extent the gain and tax deferral benefits resulting from the transmission sale are inadequate to fully cover ITC transmission charges during the eight-year hold-harmless period, the shareholders should be responsible for those costs as part of the bargain made by IPL's management in deciding to sell its transmission assets.

TRANSMISSION A&G EXPENSE

Q: Please describe the transmission A&G adjustment proposed by IPL and shown on Mr. Hampsher's Exhibit___(CAH-1), Schedule B-31.

A: This proposed adjustment also relates to the transmission sale case, SPU-07-11. In assuming that Applicants would receive the Board's approval

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the sale of IPL's transmission assets to ITC, ITC recognized that it would need to establish an operating structure and hire personnel to operate the newly-acquired transmission system. A number of IPL's employees who worked in the area of transmission operations were expected to go to work for ITC. As a result of the expected transfer of personnel from IPL to ITC, IPL was of the belief that the company would experience a reduction of administrative and general (A&G) expenses. The amount of the A&G adjustment proposed in this proceeding is the same as was used in the Applicants' cost-benefit analysis in SPU-07-11. Although I had my doubts in SPU-07-11 about the potential of IPL being able to realize those savings, the amount was included in IPL's cost-benefit analysis which was cited by the Board in determining that IPL's customers would be held harmless due to the ATA, and I believe IPL should be held to the cost-benefit analysis relied upon to justify the sale of its transmission assets. Consequently, I believe the proposed transmission A&G adjustment should be accepted.

Q: You stated that you have based the amount of your proposed transmission expense pro forma adjustments on the "hold-harmless"

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levels of transmission expense reflected in the SPU-07-11 proceeding cost-benefit analysis sponsored by the Applicants. Does this mean that your adjustments actually hold IPL's customers harmless from the higher transmission costs resulting from the sale of IPL's transmission system to ITC?

A: No. As can be seen from my Schedule B, page 1, column (d), line 3, the 2008 through 2010 three-year total transmission expense level based upon SPU-07-11 costs that I used to calculate the pro forma transmission expense adjustments totals almost $320 million. The estimated IPL transmission revenue requirements for the same period, as shown on my Schedule A, page 3, columns (b) through (d), on line 5, which assumes IPL did not sell its transmission assets, is approximately $260 million for the same period. The difference of almost $60 million is not offset by the some $26.08 million in refunds that will be made by IPL during 2009 and 2010 and the value of the cost of capital benefit of the ATA, which was estimated by IPL in SPU-07-11 to be worth about $24 million over the same two-year time period. In my view, the cost of capital benefit estimated by IPL is overstated. In any case, this some $60 million ITC-

related transmission costs which IPL's customers will be required to pay for 2008, 2009, and 2010 transmission expense, based upon my adjustments, is about $10 million more than what they would have paid if IPL had not sold its transmission system, irrespective of the some $50 million offsets provided by the ATA, and including the ITC discounts (which are taken into consideration in my calculation of allowable transmission expense).

ITC TRANSMISSION EXPENSE ADJUSTMENT MECHANISM

Q: IPL's witness Mr. Erik C. Madsen proposes that IPL be permitted to implement an automatic adjustment clause mechanism for ITC transmission costs similar to the purchased gas adjustment clause and the energy adjustment clause. Do you agree with Mr. Madsen that such a mechanism should implemented?

A: Yes. The approval of the sale of IPL's transmission system to ITC has resulted in transmission expenses no longer being significantly within the control of IPL. IPL has no option but pay ITC at whatever FERC-approved rates ITC charges, and little practical ability to challenge ITC's rates. Transmission charges, while perhaps not as large a component of

IPL's total costs as fuel, are still significant. I also believe that the level of ITC transmission charges is likely to be subject to significant fluctuations from year-to-year. Consequently, I am recommending that IPL be permitted to implement the proposed automatic adjustment mechanism, but with some qualifications.

Q: What qualifications do recommend the Board impose upon IPL's implementation of the automatic adjustment mechanism for ITC transmission charges?

A: As I have previously testified, IPL committed to hold its customers harmless if the Board approved the sale of its transmission assets to ITC. The underlying basis for this commitment involved specific assumptions of what post-transaction transmission costs would be. My recommendations concerning the appropriate level of 2009 ITC transmission costs, 2010 ITC transmission costs, and the allowable level of true-up of 2008 ITC transmission costs were based upon those amounts. If the Board allows IPL to implement that transmission automatic adjustment, IPL should not be allowed to include in the automatic adjustment mechanism any more transmission costs than the

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levels I have recommended. Beyond 2010, IPL should not be allowed to include annually in the automatic adjustment mechanism any more transmission costs than the Iowa jurisdiction electric operations allocation of transmission costs shown on page 3, line 10 of my Schedule A, less the ITC discount of $4,125,000 that I previously discussed, of which the IPL electric operation share is about $3,795,000.

Q: Your Schedule A, page 3, line 10 only shows information for the time period 2008 through 2012. What levels of transmission expense should be recoverable through the ITC transmission expense automatic adjustment mechanism for the remaining four years of the eight-year hold-harmless period?

A: I have attached Exhibit__(CEF-1), Schedule D. This is a reproduction of the 2008 through 2016 portion of Schedule F of the cost-benefit analysis prepared by IPL in response to the Board's questions in Docket No. SPU-07-11. This schedule was prepared by IPL to show a twenty-year cost-benefit analysis assuming inclusion of the ATA in the analysis. Line 2 represents the estimated ITC revenue requirement impact upon IPL if the transmission sale was approved by the Board. The amounts shown on

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line 2 for the years 2013 through 2016, less $3,795,000, should be the maximum amount IPL should be allowed to recover from its customers through the automatic adjustment mechanism.

Q: Are there any other qualifications regarding implementation of the proposed automatic adjustment mechanism that the Board should require?

A: All adjustments made to the revenue requirement in this proceedings related to transmission expense should be eliminated and an adjustment reflected to remove book 2008 ITC-related transmission expense from the revenue requirement calculation so as to exclude ITC transmission-related costs from base rates. Due to the large amount of the 2008 ITC transmission cost true-up, I would recommend that the true-up be spread over a four-year period so as to lessen the severity of the rate impact upon IPL's customers. As for the proposal to include any unamortized portion in rate base, I continue to recommend that this issue be addressed in IPL's planned 2010 rate case. Following the implementation of final rates in this proceeding, all Board approved ITC-related transmission expense recovery should be through the automatic adjustment mechanism and

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none as a part of base rates.

SGS #4 PRE-CONSTRUCTION (CANCELLATION) COSTS

Q: Please describe the adjustment to recover Sutherland Generating Station Unit 4 preliminary survey and investigation costs proposed by IPL and shown on Mr. Hampsher's Exhibit___(CAH-1), Schedule B-34.

A: Although Mr. Hampsher identifies the costs as "preliminary survey and investigation costs" associated with pre-construction activities for the proposed SGS unit number 4 generating plant, the term "cancelation costs" is also used in reference to such costs. This is somewhat of a misnomer as the costs are not a result of IPL canceling plans to build the plant, but are costs incurred prior to IPL's decision to cancel plans to construct the plant before actual construction commenced. For the purposes of my testimony, however, both terms refer to the same costs.

In any case, SGS#4 is, or was, a coal-fired electric generation facility that IPL planned to construct in Marshalltown, Iowa. The Board granted IPL a preliminary certificate to construct the SGS#4 plant in Docket No. GCU-07-1 and approved advance ratemaking principles

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applicable to the plant in Docket No. RPU-08-1. On March 26, 2009, the Board issued an order accepting IPL's notice of its plan to cancel the construction of the proposed SGS#4 plant. During the time prior IPL's decision to cancel plans to construct SGS#4, IPL incurred and deferred some $30.3 million in pre-construction costs (and proposes to collect from its customers over $45 million.

IPL has proposed that it be allowed to recover the SGS#4 preliminary survey and investigation costs from ratepayers over a five-year period or be allowed to use the proceeds from the regulatory liability account established using the gain from the sale of the Duane Arnold Energy Center (DAEC). This transaction was authorized by the Board in Docket No. SPU-05-15. The amortization approach proposed by IPL would result in about $8.5 million being included in IPL's revenue requirement in this proceeding if the adjustment is allowed by the Board. If the entire amount were charged against the DAEC regulatory liability account, there would be no immediate impact upon ratepayers, but the regulatory liability account, with was to be used to offset AFUDC associated with the construction of new generation, would be substantially

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reduced, leaving less available to help offset the cost of future generating plant.

Q: What basis does IPL rely upon in seeking recovery of the SGS#4 cancellation costs from ratepayers?

A: IPL witness Mr. Thomas L. Aller discusses IPL's decision to not go forward with the construction of the proposed SGS#4 facility. Mr. Aller cites the Board's approval of ratemaking principle number 4 in IPL's ratemaking principles proceeding Docket No. SPU-08-1 as allowing IPL to recover the SGS#4 preliminary survey and investigation costs. This ratemaking principle provides that:

> If IPL cancels construction of the proposed SGS Unit 4 for good cause, IPL's prudently incurred costs shall be amortized over a period of no more than five years no later than six months after the cancellation. The annual amortization shall be included in the calculation of IPL's revenue requirement, but the unamortized balance shall not be included in rate base in any determination of interim and final rates thereafter during the period of amortization provided however, that the prudence of the costs and the good cause for cancellation may be disputed by any party and shall be subject to determination by the Board.

Q: What is your recommendation concerning IPL's proposal to recover the SGS#4 preliminary survey and investigation costs?

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A: I have two alternatives concerning the treatment of the SGS#4 costs. My first (and primary) recommendation is that the Board not permit IPL to recover any of these costs from its ratepayers. In the event the Board does not adopt this recommendation, I recommend that IPL's shareholders and ratepayers share in bearing those costs.

I have concerns with what should constitute the appropriate amount of "prudently incurred costs" that should be considered eligible for recovery, in the event the Board decides to allow IPL to recovery some or all of the SGS#4 preliminary survey and investigation costs . I will address this matter later.

Q: Why do you recommend that IPL not be allowed to recover the SGS#4 preliminary survey and investigation costs costs?

A: First, I believe that IPL's reliance on the Docket No. RPU-08-1 ratemaking principle #4 is misplaced. Although the Board did approve ratemaking principles in Docket No. RPU-08-1, IPL did not accept those principles and did not proceed to construct the plant. Instead, IPL notified the Board that it had cancelled plans to construct the SGS#4 plant and that accordingly, the ratemaking principles approved by the Board were moot,

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with the exception of principle number 4, relating to cancellation cost recovery. Secondly, IPL's unwillingness to accept the terms of the Board's ratemaking principles decision does not, in my opinion, constitute "good cause" for cancelling plans to construct SGS#4.

I submit for the Board's consideration that IPL should not be permitted to pick and choose from among the Board's approved ratemaking principles and select only the one which it wants. The Board considered IPL's request for approval of ratemaking principles and approved all of IPL's requested ratemaking principles, although not exactly as IPL proposed. It is my opinion that none of the proposed ratemaking principles have any force and effect unless they are all accepted by IPL and IPL proceeds with construction of SGS#4. For ratemaking principle number 4 to be of any effect, IPL would need to actually start construction of the plant and at some point cancel construction activities for good cause. There is nothing in the Board's order that I saw which would suggest that ratemaking principle number 4 was equally applicable whether IPL accepted the Board's approved ratemaking principles and proceeded with construction or decided the

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ratemaking principles were not acceptable and withdrew its application for a certificate as provided for by Iowa law. IPL offers little in the way of argument, justification, or rationale for being allowed to recover the SGS#4 cancelation costs other than it is allowed pursuant to ratemaking principle number 4.

Q: In the event the Board does determine that ratemaking principle number 4 may be relied-upon in the manner proposed by IPL, do you agree that "good cause" existed to cancel SGS#4?

A: No. Although Mr. Aller discusses a number of factors considered in reaching the decision to cancel plans to construct SGS#4, with the possible exception of weight placed by IPL on the uncertainty relating to future environmental regulation, the "cause" for cancelation of SGS#4 appears to me to be IPL's unwillingness to accept risk that the Company perceived being exposed to as a result of the ratemaking principles established by the Board. There were a number of parties involved in IPL's ratemaking principles proceeding. The Board considered the evidence presented by IPL and the other parties and issued an order establishing ratemaking principles deemed to be just and reasonable. If,

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as is obvious, IPL did not like those ratemaking principles as a whole, it is certainly IPL's prerogative to not accept them and walk away from the project. This is not, however, a suitable reason to charge its customers almost $43 million that had been spent to get to the point of receiving Board-approved ratemaking principles. IPL's perception that the Board's decision involved too much risk for IPL's stockholders should not be considered a "good cause" to saddle just the ratepayers with costs of the magnitude proposed by IPL.

Q: What factors do you think could constitute "good cause" to cancel the plant?

A: The first that comes to mind is that more up-to-date studies showed that changes in load requirements demonstrated that the plant was not needed to meet the long-term electricity requirements of IPL's customers. Another might be that for whatever reasons the estimated cost to construct the plant had increased so significantly that building the plant could no longer be justified.

Q: Did IPL cite either of those considerations as being among the "combination of factors" IPL's decision to cancel SGS#4 was based

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upon?

A: No. Mr. Aller did not discuss, that I read, IPL's perception of changes in its customers' future electricity requirements being a consideration, nor did he state that the estimated cost to build SGS#4 had increased to unacceptable levels. In regard to the cost issue, he stated only that IPL's primary contractor KBV Sutherland Power Contractors indicated the plant could not be built at the level of cost cap set by the Board in its ratemaking principles decision.

Q: You recommended that as an alternative, IPL's shareholders and ratepayers share in bearing the SGS#4 cancellation costs. What is the basis for this recommendation?

A: As I previously discussed, I do not believe the Board should allow IPL to rely upon ratemaking principle number 4 as a guarantee that it may recover the cancelation costs from its customers. If the Board disagrees with my interpretation in whole or in part, there is still this issue of how much "good cause" existed to cancel plans to build the plant and whether the company, its shareholders, or its ratepayers primarily benefit from the decision to not go forward. If good cause existed to cancel plans to build

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SGS#4, the decision was probably good for both the stockholders and ratepayers. Consequently then, it is reasonable that both parties should share in the cost of the decision, with each bearing fifty percent of the allowable costs.

Q: You stated that in the event recovery was allowed by the Board, you had concerns regarding the appropriate amount of what should constitute the preliminary survey and investigation costs eligible for recovery. Would you please describe these concerns?

A: Yes. I believe that IPL has overstated the amount of SGS#4 preliminary survey and investigation costs that should be eligible for recovery, regardless of whether ratepayers, stockholders, or both pay them. Mr. Hampsher's Schedule B-34 shows $45,345,000 as the total amount which IPL proposes to recover. This amount is simply not the correct amount should recovery be allowed by the Board.

Q: Why is the amount of SGS#4 preliminary survey and investigation costs proposed by Mr. Hampsher incorrect?

A: There are two amounts included in the $45,354,000 Mr. Hampsher proposes that IPL be allowed to recover which I believe should not be

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1 considered as recoverable SGS#4 preliminary survey and investigation
2 costs. The first is the $15,057,918.97 shown on Mr. Hampsher's
3 Workpaper WP B-34(a). This $15,057,918.97 represents costs charged
4 {[redacted]
5 [redacted]
6 [redacted]
7 [redacted]
8 [redacted]
9 [redacted]
10 [redacted]
11 [redacted]
12 [redacted]
13 [redacted]
14 [redacted]
15 [redacted]} The $15,057,918.97 should be excluded
16 from any amount of SGS#4 preliminary survey and investigation costs
17 that the Board might deem recoverable from IPL's ratepayers.
18 Of the remaining $30,287,393 of deferred SGS#4 preliminary

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survey and investigation costs that are shown on Mr. Hampsher's Workpaper WP B-34(a), $5,836,556 relates to land that IPL purchased to be used for SGS#4. IPL is currently holding this land and plans to hold it for future use. It would be improper to permit IPL to recover the cost of this land from ratepayers. If IPL has plans to use the land for a future generating plant, or other purposes, the land should be accounted for appropriately until put into use. If IPL has no plans for future use of the land, it should be sold, in which case IPL would recover some, all, or potentially more than was paid for the land. The $5,836,556 in land costs should be deducted from the $30,287,393. $30,287,393 less $5,836,556 is $24,450,837, which is the maximum amount of SGS#4 preliminary survey and investigation costs which should be considered eligible for recovery, not the $45,345,000 proposed by IPL. The Iowa electric allocation of the $24,450,837 would be $23,010,683.

Q: If the Board determines that IPL should be allowed to rely upon the SGS#4 cancelation cost ratemaking principle number 4, that good cause did exist to cancel plans to construct SGS#4, and that the $23,010,683 should be recoverable from ratepayers, do you have an

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opinion as to whether the amortization method or using the DAEC regulatory liability account is the more reasonable method of recovery?

A: Yes. My recommendation would be to be to use the regulatory liability balance to offset these costs. There is more than enough in the DAEC regulatory liability account to allow for full offset of the $23,010,683. Using the regulatory liability account will reduce the amount of rate increase IPL's customers would otherwise experience. Not only are customer's facing a substantial rate increase request from IPL, but the current economic situation is not a good time for higher rates, so all reasonable steps which can mitigate the amount of any increase should be taken. If the Board agrees with my recommendation that costs eligible for recovery should be shared between ratepayers and stockholders, the one-half of the $23,010,683 for which ratepayers would be responsible should be deducted from the DAEC regulatory liability account.

CAPACITY DEMAND

Q: Please describe the capacity demand adjustment proposed by IPL and shown on Mr. Hampsher's Exhibit___(CAH-1), Schedule B-7.

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A: Mr. Hampsher proposed an adjustment for changes in capacity demand purchase costs. The total amount of proposed adjustment is $7,035,905 of which the IPL Iowa electric jurisdiction allocation is $6,621,490.

Q: Do you recommend that the Board allow the $6,621,490 capacity demand adjustment proposed by IPL?

A: While I agree that an adjustment is appropriate, the amount originally proposed by Mr. Hampsher is not the appropriate amount. The majority of the adjustment is comprised of capacity demand costs associated with the DAEC purchased power agreement. The IPL Iowa electric jurisdiction allocation of the DAEC-related amount is $4,980,301. This is the appropriate amount of the adjustment. I show the calculation of this amount on my Exhibit__(CEF-1), Schedule F.

The remaining amounts included as part of IPL's proposed adjustment consisted of estimates of 2009 capacity purchases IPL planned to make. I have excluded these items from my adjustment.

Q: Why have you excluded the other portions of IPL's proposed capacity demand adjustment?

A: Subsequent to the filing of the IPL rate case, IPL has changed its plans

with regard to capacity demand purchases and has determined that there will be no such purchases during 2009. As indicated by IPL's response to OCA data request number 45, a copy of which I have identified as OCA Exhibit___(CEF-1), Schedule G, changes made by the Midwest ISO and anticipated decreases in demand and energy requirements has prompted IPL to decide that no capacity purchases will be made during 2009. Therefore, it is necessary to remove the 2009 non-DAEC estimated capacity demand amounts from IPL's adjustment.

CAPACITY SALES

Q: Please describe the capacity sales adjustment proposed by IPL and shown on Mr. Hampsher's Exhibit___(CAH-1), Schedule B-17.

A: Mr. Hampsher proposed an adjustment for changes in capacity sales. The total amount of proposed adjustment is $81,000 of which the IPL Iowa electric jurisdiction allocation is $76,229.

Q: Do you recommend that the Board allow the $76,229 capacity sales adjustment proposed by IPL?

A: I have recommended to OCA witness Mr. Turner that he use zero in his revenue requirement schedules for this issue. The 2009 amount of

capacity sales is not sufficiently known at this time, nor do I believe that it will become known, so as to provide a reasonable basis for an adjustment. Moveover, as IPL has revised its plans and no longer intends to make any capacity purchases during 2009, there would be less capacity available for IPL to sell. The test period amount is sufficiently representative and is what should be used for setting rates in this proceeding.

OUT-OF-PERIOD INCOME TAXES

Q: Please describe the out-of-period income taxes adjustment proposed by IPL and shown on Mr. Hampsher's Exhibit___(CAH-1), Schedule B-37.

A: I have reviewed this adjustment and recommend that it be accepted. The adjustment eliminates non-recurring and/or out-of-period items from book test period operating results.

NON-PROPERTY RELATED DEFERRED INCOME TAXES

Q: Please describe the non-property related deferred income taxes adjustment proposed by IPL and shown on Mr. Hampsher's Exhibit___(CAH-1), Schedule B-38.

A: Iowa precedent established by the Board and followed in numerous past

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rate cases provides that deferred federal income taxes for ratemaking purposes are to be based solely upon property-related tax/book timing differences. For accounting purposes IPL accrues and books deferred federal income taxes for all tax/book time differences. Therefore, it is necessary to calculate a pro-forma adjustment in rate cases to reverse the non-property related deferred federal income taxes. I believe that the adjustment reflected on Mr. Hampsher's Schedule B-38 is appropriate and should be accepted.

Q: Does this conclude your prepared direct testimony?

A: Yes, it does.

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JURISDICTION	DOCKET NUMBER	UTILITY SERVICE
SOUTH DAKOTA	F-3354	ELECTRIC
	F-3355	NATURAL GAS
	F-3359	ELECTRIC
	F-3360	NATURAL GAS
	F-3367	ELECTRIC
	F-3369	ELECTRIC
	F-3370	ELECTRIC
IOWA	RPU-79-7	ELECTRIC
	RPU-81-34	GAS/ELECTRIC
	RPU-81-40	TELEPHONE
	RPU-81-54	WATER
	RPU-82-2	ELECTRIC
	FCU-82-4	NATURAL GAS
	RPU-83-23	ELECTRIC
	RPU-85-14	NATURAL GAS
	RPU-85-21	NATURAL GAS
	RPU-86-10	WATER
	ARG-86-150	NATURAL GAS
	ARG-86-151	NATURAL GAS
	ARG-86-152	NATURAL GAS
	ARG-86-154	NATURAL GAS
	ARG-86-155	NATURAL GAS
	ARG-86-222	NATURAL GAS
	ARG-86-225	NATURAL GAS
	RPU-87-3	NATURAL GAS
	RPU-87-6	ELECTRIC
	RPU-89-1	NATURAL GAS
	PGA-88-118	NATURAL GAS
	RPU-89-3	NATURAL GAS
	RPU-89-7	NATURAL GAS
	RPU-89-9	ELECTRIC
	RPU-90-10	WATER
	RPU-91-2	WATER
	RPU-91-5	NATURAL GAS
	RPU-91-6	ELECTRIC
	RPU-92-5	GAS/ELECTRIC
	INU-93-1	ELECTRIC
	ECR-93-1	ELECTRIC/GAS

	ECR-93-2	ELECTRIC
	RFU-94-2	NATURAL GAS
	RPU-94-3	NATURAL GAS
	PGA-94-140	NATURAL GAS
	APP-96-1/RPU-96-8	ELECTRIC
	TF-98-113/114	ELECTRIC
	SPU-98-8	MERGER CASE
	RPU-01-03	ELECTRIC
	ARC-01-150/151	ELECTRIC
	RPU-01-9	ELECTRIC
	RPU-02-3	ELECTRIC
	ARU-02-1	ELECTRIC
	ERB-02-151	ELECTRIC
	ERB-02-156	ELECTRIC
	RPU-02-6	ELECTRIC
	RPU-02-7	NATURAL GAS
	RPU-05-2	NATURAL GAS
	SPU-05-15	ELECTRIC
	SPU-07-11	ELECTRIC
	RPU-08-1	ELECTRIC
	RPU-08-3	NATURAL GAS
	RPU-09-3	ELECTRIC
FERC	RP82-71	NATURAL GAS
	CP82-542	NATURAL GAS
	CP83-14	NATURAL GAS

STATE OF IOWA)
) SS: AFFIDAVIT OF CHARLES E. FUHRMAN
COUNTY OF POLK)

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

Subscribed and sworn to before me, A Notary Public, in and for said County and State, this 16th day of July, 2009.

/s/ Craig F. Graziano
Notary Public

My Commission expires: June 14, 2011.