RPU-2009-0002

FILED WITH
Executive Secretary
July 17, 2009
IOWA UTILITIES BOARD

OFFICE OF CONSUMER ADVOCATE

DIRECT TESTIMONY

OF

FASIL KEBEDE

In Re: INTERSTATE POWER AND LIGHT COMPANY

Docket No. RPU-2009-0002

July 17, 2009

Q: Please state your name and business address.

A: Fasil Kebede, 310 Maple Street, Des Moines, Iowa.

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

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

Q: What is your educational and professional background?

A: I received a Bachelor of Arts Degree in Business Administration from Wartburg College in 1979. Prior to joining the OCA in June 1989, I had been a Utility Analyst for the Utilities Division of the Iowa Department of Commerce since March 1987.

I have attended numerous meetings and seminars sponsored by the National Association of Regulatory Utility Commissioners (NARUC); and the National Association of State Utility Consumer Advocates (NASUCA).

Q: What are your job responsibilities?

A: My duties include reviewing and analyzing rate increase proposals, conducting field audits, and reviewing and investigating other utility matters. I have testified in many electric, gas, telephone, fuel procurement, and complaint proceedings.

Q: What is your responsibility in this proceeding?

A: I am responsible for presenting the Consumer Advocate's position on IPL's rate base and addressing certain income statement issues. The rate base exhibit presented by OCA witness Brian Turner OCA Exhibit ___ (BWT-1), Schedule C, reflects my recommendations as well as those of other OCA witnesses.

Rate Base

Q: What is OCA Exhibit ___ (BWT-1), Schedule C, Page 1 of 3?

A: OCA Exhibit ___ (BWT-1), Schedule C, Page 1 of 3 shows the calculation of the amount I have determined to be the Company's Iowa electric jurisdictional adjusted rate base. Column (A) shows the Iowa 13-month average balances of each rate base component as recorded in Company's books for the year ending December 31, 2008, as well as the cash working capital requirements. Column (B) and Columns (C) show adjustments to the 13-month average balances, and Column (D) shows the OCA recommended adjusted rate base.

Q: Explain how you arrived at the Company's 13-month average booked amounts included in rate base.

A: Company provided actual booked thirteen month-end balances for all balance sheet accounts used in the calculation of rate base. Iowa

jurisdictional balances are based on Company's allocation. I used Company's calculation of 13-month-end average balance for the year ended December 31, 2008, as a starting point to calculate rate base for purposes of this proceeding.

Q: What is the adjustment in OCA Exhibit ___ (BWT-1), Schedule C; Page 2 of 3, Column A?

A: Company proposed to include an adjustment to reflect 2008 plant additions for non-revenue producing major plant that were in-service as of the end of December 31, 2008 test year. There was an error in IPL's allocation of General plant in the adjustment proposed by Company. This error was corrected in Company's response to OCA Data Request No. 59, which I included as OCA Exhibit ___ (FK-1), Schedule A. The corrected level of plant addition and associated amounts of accumulated depreciation is shown on OCA Exhibit ___ (BWT-1), Schedule C, Page 2 of 3, column A, Lines 1 & 2. The adjustment for Iowa jurisdictional accumulated differed income taxes associated with non-revenue producing major plant in-service is $8,770,831, and the adjustment is shown on OCA Exhibit ___ (BWT-1), Schedule C, Page 2 of 3, column A, Line 9.

Q: What is the adjustment in OCA Exhibit ___ (BWT-1), Schedule C; Page 2 of 3, Column C?

A: As I have explained above, the company proposes the annualization of the year-end level of plant balances for 2008 test year. Company also proposes an accumulated depreciation adjustment intended to match the test year accumulated depreciation level with the proposed level of plant additions. The Company's recommendation is to increase accumulated depreciation by $60,919,760. The error that was corrected in Company's response to OCA Data Request No. 59, also affects the adjustment of accumulated depreciation by $88,344. The correct amount of adjustment for accumulated depreciation is $60,831,416. The adjustment is shown on OCA Exhibit ___ (BWT-1), Schedule C, Page 2 of 3, Column C.

<u>Income Statement</u>

Q: Company proposes an adjustment to increase test year O & M expense for increases in salaries and wages. Do you accept this adjustment as proposed by Company?

A: No.

Q: Please explain.

A: Company's proposed adjustment for salaries and wage (S & W) increases were based on annualized test year payroll increases, and an increase in post test year salaries and wages including a plan to enhance 401(K) contributions.

Company's proposed adjustment would increase test year operation and maintenance expense by $3,642,829. Of this amount $1,051,953 is related to salaries & wage increases implemented during 2008, $1,248,594 related to salaries & wage increases during 2009, and $1,342,282 is related to 401(K) plan in test year operation expenses, which includes an "enhanced" 401(K) plan increase for 2008. Company also proposed an adjustment of $175,499 to reflect the payroll tax increase based on the proposed increase of salary and wages for 2008 and 2009. Company's proposed increase for salaries and wages does not take the effect of workforce reduction during 2009 into consideration.

Q: What is the appropriate adjustment to reflect increases in salaries and wages?

A: Company's total adjustment for salaries and wages of $3,642,829 includes enhanced 401(K) adjustment with which I do not agree. I accept and reflect Company's proposed increase of $1,051,953 to the test year 2008 level of salaries and wage expenses to reflect an annualized payroll

increases during 2008, and Company's proposed increase of $1,248,594 for an annualization of union contract increases in effect in 2009. I also accept the proposed 401(K) plan increase of $61,521 associated with test year salaries and wage increases, and payroll tax of $175,499 associated with the above mentioned salaries and wage increases. The calculation is shown on OCA Exhibit ___ (FK-1), Schedule C. The adjustment is reflected on OCA Exhibit ___ (BWT-1), Schedule B, Page 2 of 9, Column A.

Q: Company proposes an adjustment to increase test year O & M expenses for contribution of "enhanced" 401(K) plan by $1,280,761. Do you accept this adjustment?

A: No. I didn't accept Company's proposed adjustment for enhanced 401(K) plan, which was above and beyond the contribution for 2008 test year and an expected employer increase for calendar 2009. In IPL's response to OCA Data Request No. 111, which is filed as OCA Exhibit ___ (FK-1), Schedule F, Company explains that the salary and wage decreases based on the workforce reduction calculation shown in response to OCA Data Request No. 100 does not reflect the recently announced cuts in enhanced 401(K) and employee furloughs. Based on Company's response, the proposed increase for enhanced 401(K) plan

will not materialize. Therefore, a pro forma adjustment is unnecessary. Such an adjustment, if accepted, would charge customers for expenses IPL did not incur during the test year or would not incur in 2009.

Q: Can you explain why company failed to reflect the workforce reduction in its calculation of salaries and wage increases?

A: Company did not announce the workforce reduction until April 2009, and the workforce reduction was not completed until the end of May 2009. Company's response to OCA Data Request No. 108 filed as OCA Exhibit ___ (FK-1), Schedule B, explains that the effect of workforce reduction was not reflected in the rate case filing because the information was not available at the time of the filing in March.

Q: What is the effect of the workforce reduction on the level of salaries and wages for the test year?

A: Company's response to OCA Data Request No. 100 filed as confidential OCA Exhibit ___ (FK-1), Schedule E, shows a total of Iowa jurisdictional electric salaries and wage reduction of $4,222,156 for calendar year 2008. The amount shown above is calculated by using the base pay for the employees that were affected by the workforce reduction that occurred in May 2009.

Q: What is your recommendation?

A: My recommendation is to include an adjustment to reflect the impact of salaries and wages increase implemented during 2008. However, the adjustment needs to match reduced employee or workforce level while rates are in effect. To do this, I recommend an adjustment to reduce the test year operating and maintenance expense by the amount that reflects the work force reduction.

Q: Why are you eliminating from test year 2008 operating and maintenance expenses the salaries and wages for employees who were affected by workforce reduction in May 2009?

A: The employees affected by the workforce reduction that occurred in May 2009 were full time employees during the test year, and the salaries and wages of these employees were included in Company's test year operating and maintenance expenses. Since these employees are no longer employed by the Company, the 2008 level of salaries and wages is unrepresentative of the level of salaries & wage expenses IPL will incur in 2009 and beyond when rates approved in this proceeding will be in effect. Consequently, the salaries and wages of these employees should be removed from test year operating and maintenance expenses. An adjustment to reduce test year salaries and wages by $4,222,156 reflects reduced number of employees.

Q: Do you have an Exhibit that shows the calculations of the adjustment that reflects the workforce reduction you have described above?

A: Yes. OCA Exhibit ___ (FK-1), Schedule D, supported by Company's response to OCA Data Request No. 100 filed as Confidential OCA Exhibit ___ (FK-1), Schedule E shows the calculation of the test year salaries and wages adjustments. The amount of adjustment for workforce reduction for test year 2008 as I have explained above is $4,222,156. The effect of work force reduction on salaries and wages is a reduction to the test year operating expenses of $3,200,615 including benefits, maintenance expenses of $787,822, and a reduction to payroll tax expenses of $233,719. The adjustment is shown on OCA Exhibit ___ (BWT-1), Schedule B, Page 9 of 9, Column B.

Q: Does the 2009 workforce reduction affect Company's proposed salaries and wage increases for 2009?

A: No. The post test year 2009 payroll increase of $1,248,594 is based on the increases for union contracts, while the workforce reduction affected only non-contract employees. The company did not include any salaries and wage increases for non-contract employees for calendar 2009.

Q: Why is the depreciation expense associated with non-revenue producing major plant that was in-service as of the end of

December 31, 2008, that you reflected in the income statement different than what was proposed by Company?

A: In its initial filing Company proposed to increase depreciation expense associated with non-revenue producing major plant that was in-service as of the end of December 31, 2008. There was an error in the allocation of general plant, and the correction was made in rate base. This error was corrected in Company's response to OCA Data Request No. 59, which I included as OCA Exhibit ___ (FK-1), Schedule A. The adjustment of $1,025,968 is shown on OCA Exhibit ___ (BWT-1), Schedule B, Page 4 of 9, Column A, which reflects the corrected amount of depreciation expense associated with the correct level of general plant in rate base.

Q: Does this conclude your testimony?

A: Yes, it does.

STATE OF IOWA)
) SS: AFFIDAVIT OF FASIL KEBEDE
COUNTY OF POLK)

I, Fasil Kebede, being first duly sworn on oath, depose and state that I am the same Fasil Kebede 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/ Fasil Kebede
Fasil Kebede

Subscribed and sworn to before me, A Notary Public, in and for said County and State, this 15th day of July, 2009.

/s/ Craig F. Graziano
Notary Public

My Commission expires: June 14, 2011