

May 08, 2009

IOWA UTILITIES BOARD

STATE OF IOWA

BEFORE THE IOWA UTILITIES BOARD

<b>IN RE:</b>  <b>INTERSTATE POWER AND LIGHT COMPANY</b>	<b>WRU-2009-0018-0150</b>  <b>DOCKET NO. RFU-2009-0001</b> <b>WRU-2009-0150-_____</b> <b>(RPU-2009-0002, SPU-07-11)</b>
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**REFUND PLAN AND REQUEST FOR WAIVER - 2009**

**COMES NOW**, Interstate Power and Light Company (IPL) and, pursuant to Iowa Code §17A.9A, files this request with the Iowa Utilities Board (Board) for approval of a refund plan and a waiver of Iowa Administrative Code §20.9(2) and in support states:

**Background**

1. On September 20, 2007, the Board issued, in Docket No. SPU-07-11, an Order Terminating Docket and Recommending Delineation of Transmission and Local Distribution Facilities (SPU-07-11 Order). The SPU-07-11 Order allowed IPL to complete the sale of its transmission assets to ITC Midwest, LLC (ITC-Midwest). The SPU-07-11 Order also authorized IPL to establish a regulatory liability account for the benefit of customers as necessary to implement the Alternative Transmission Adjustment (ATA). (SPU-07-11 Order, p. 84)

2. In the SPU-07-11 Order, the ATA offered by IPL and ITC-Midwest, as described on page 43 of the SPU-07-11 Order, included the following provision:

"1. IPL customers would receive a direct refund of \$13,040,000 each of the first eight years after ITC Midwest transmission charges are included in IPL's rates (Tr. 67)".

On March 17, 2009, IPL filed an Application for Increase in Electric Rates, Docket No. RPU-2009-0002 (2009 Rate Case). As part of that filing, the Company has filed a Notice with the Board that IPL has elected to exercise its rights, under Iowa Code § 476.6(10) (2008) to implement interim rates, on March 27, 2009. The Interim Rates reflect increases related to increases in ITC-Midwest's 2009 FERC approved transmission tariff rate.

3. IPL believes any direct refund to customers from the ATA, that is intended to reduce costs for retail electric customers, should be applied in a manner that offsets the increased costs associated with the ITC-Midwest sale. This would ensure that the retail customers who experience the increased costs realize the benefit of the ATA refund.

4. Through this filing IPL proposes a refund plan for 2009 and a preferred alternate proposal. The base proposal includes a refund obligation (total IPL) of \$13 million, using a reduction to the Rider EAC – Energy Adjustment Clause (EAC) as the refunding mechanism over a nine month period. The preferred alternative uses the same mechanism but doubles the refund amount and uses the remaining seven months of calendar year 2009 as the refund period. This alternative is based, in part, on feedback IPL has received from customers as part of its 2009 Rate Case communication plan.

5. The steps for the proposed 2009 ATA refund plans are described in more detail below. IPL's goals for the 2009 ATA refund are to benefit customers promptly, avoid erratic rate changes, and to implement without unnecessary administrative burden.

6. IPL will propose ATA refunds beyond the initial 2009 timeframe in a separate filing.

### **2009 ATA Refund Plan**

7. Pursuant to the SPU-07-11 Order, with the filing of the 2009 Rate Case that reflects increased costs associated with the ITC-Midwest sale, IPL is now obligated to provide a direct refund of \$13,040,000 to IPL customers. IPL determined, from work papers in Docket No. SPU-07-11, that the annual refund amount in the ATA should be \$13,041,246 (Annual ATA Refund Amount) and proposes to use \$13,041,246 to calculate the annual refund amount due to IPL's Iowa customers. The SPU-07-11 Order is silent on the method of refund to IPL customers.

8. IPL proposes to refund the Annual ATA Refund Amount to its Iowa electric retail customers using the EAC mechanism. IPL will reduce the Iowa EAC factor by including the Iowa portion of the Annual ATA Refund Amount (Iowa Annual ATA Refund Amount). This refund method is proposed in lieu of the more time consuming and expensive options of issuing customers individual one-time bill credits or refund checks. The exact amount refunded will be based on sales. Any over or under refunding will be minor and applied to the balance of the ATA refund liability account.

9. The funds from the ATA regulatory liability account are to be refunded to all IPL customers in Iowa and Minnesota. The allocation for Iowa was determined from information in Board Docket No. SPU-07-11. This information resulted in a determination that 88.3% of the Annual ATA Refund Amount should be refunded to

Iowa customers. The determination of the refund allocation percentages is provided in Attachment A. The calculation of the Iowa Annual ATA Refund Amount is provided below:

<u>Annual IPL ATA Refund</u>	<u>IA Allocation Factor</u>	<u>IA Annual ATA Refund</u>
\$13,041,246	88.3%	\$11,515,420

10. The 2009 ATA Refund Plan would begin in the first billing month after Board approval of this plan. IPL proposes to refund the 2009 Iowa Annual ATA Refund Amount over a period of nine months, corresponding to the anticipated period interim electric rates would be in effect in Docket No. RPU-2009-0002. IPL is willing to modify the length of the refund period in order to refund the entire 2009 Iowa Annual ATA Refund Amount in calendar year 2009, if the Board believes this is a more reasonable option. IPL will calculate a refund factor using the total 2009 Iowa Annual ATA Refund Amount divided by the forecasted Iowa retail sales for the Board-approved refund period. This refund factor will be subtracted from the EAC factor which would otherwise have been billed. Each month, the dollar amount withdrawn from the ATA regulatory liability account will be the refund factor times the kWh sales for that month. A demonstration of this is shown in Attachment B. IPL will supply an update of this record each month in its EAC filing.

#### **Alternate 2009 ATA Refund Plan**

11. In response to the recent economic conditions and feedback from IPL's customers regarding the ATA regulatory liability account funds, IPL proposes an alternate refund plan for 2009. This is IPL's preferred approach for the 2009 ATA regulatory liability account refunding. IPL proposes to refund twice the Iowa Annual

ATA Refund Amount in 2009 or \$26,082,492. As part of its 2009 Rate Case communication plan, IPL has been discussing rate impacts with its customers. During these discussions, some customers have indicated a desire to see the ATA regulatory liability account refunds accelerated. IPL believes an alternate proposal responds to the economic pressures being experienced by IPL's customers. The alternate proposal will provide additional funds to customers in the current year instead of holding the ATA regulatory liability account funds for future refunds to be spread over a longer period as contemplated in the "2009 ATA Refund Plan" described above.

12. The Alternate 2009 ATA Refund Plan would begin in the first billing month after Board approval of this plan. IPL will calculate a refund factor using the total Iowa portion of the Alternate 2009 ATA Refund Amount divided by the forecasted Iowa retail sales for the Board-approved refund period. This refund factor will be subtracted from the EAC factor which would otherwise have been billed. Each month, the dollar amount withdrawn from the ATA regulatory liability account will be the refund factor times the kWh sales for that month. A demonstration of this is shown in Attachment C. IPL will supply an update of this record each month in its EAC filing.

13. IPL believes the Alternate 2009 ATA Refund Plan best meets the goals to benefit customers promptly, avoid erratic rate changes, and to implement the refund without unnecessary administrative burden. The Alternate 2009 ATA Refund Plan will offset a significant portion of the interim rate increase providing a tangible

benefit to customers in 2009. The benefit to customers from this alternate proposal is shown in the table below:

	June 2009 –December 2009			
Annual Interim Revenue Requirement	Approx. Interim Monthly Revenue Requirement	Alternate 2009 IA ATA Refund Amount per mo.	Net Interim Rate Monthly Revenue	Reduction in Monthly Interim Rate Impact to Customers
\$84M	\$7.3M	-\$2.6M	\$4.7M	35.6%

### Waiver Request

14. As part of this filing IPL is requesting a waiver of the requirements of 199 Iowa Administrative Code §20.9(2)2 in order to allow the use of the EAC as a refunding mechanism for the ATA regulatory liability account. In granting a waiver from 199 Iowa Administrative Code §20.9(2)2“a”, the Board must consider whether the waiver criteria in 199 Iowa Administrative Code §1.3 are met. These criteria are: 1) the application of the rule would pose an undue hardship, 2) the waiver would not prejudice the substantial legal rights of any person, 3) the provisions waived are not specifically mandated by statute, and 4) substantially equal protection of public health, safety, and welfare will be afforded after the waiver.

15. As previously noted, a strict application of electric energy automatic adjustment account balance and the requirement to provide direct refunds would pose undue hardships. A granting of the waiver request would not prejudice the substantial legal rights of any person and the equal protection of public health, safety, and welfare will be afforded after the waiver. Lastly, the provisions of the Board’s rules, for which a waiver is sought, are not specifically mandated by statute.

**WHEREFORE**, Interstate Power and Light Company respectfully requests the Iowa Utilities Board to approve either IPL's 2009 ATA Refund Plan or Alternate 2009 ATA Refund Plan and grant IPL's waiver from the requirement of 199 Iowa Administrative Code §20.9(2)2 "a" for the reasons set forth above.

Respectfully submitted,

**INTERSTATE POWER AND LIGHT COMPANY**

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Dated this 8<sup>th</sup> day of May, 2009, at Cedar Rapids, Iowa.

**Attachment A**  
Calculation of Allocation Factors for IA & MN  
ATA Regulatory Liability Account Refunds

As a result of the 2007 sale of IPL's transmission assets in Iowa and Minnesota to ITC Midwest, LLC (ITC Midwest), benefits were to be provided to IPL's customers in each state to provide a net positive benefit to customers from the transaction. The allocation of these benefits had to be determined based on several factors.

The net present value (NPV) of the 20-year cost-benefit of the sale of IPL's transmission assets to ITC Midwest was calculated after FERC set the ROE for ITC's formula rates at 12.38%. Consistent with how transmission costs have been allocated in the past, the NVP of the cost-benefit between Iowa and Minnesota customers has been allocated using the system coincident peak (SCP) for 2007, the year the transmission sale analyses were performed. These are shown as 93.13% for Iowa and 6.87% for Minnesota. This is shown on Line 3 of page 3 of this Attachment.

The sale of IPL's transmission assets resulted in a reduction in the cost of capital to IPL. This reduction in the cost of capital is addressed differently in each state. Iowa does not include changes in the short-term capital costs while Minnesota does. This resulted in differences in the direct allocation of this benefit to customers in each state. As you can see, the cost of capital benefit was virtually all attributed to Iowa. This is shown on Line 4 of page 3 of this Attachment.

The Alternative Transmission Adjustment (ATA) included refunds to IPL customers from a regulatory liability account and discounts from ITC Midwest to IPL. These additional benefits to customers were required to be allocated to customers in Iowa and Minnesota. Due to the differences in the direct allocation of reductions in the cost of capital for each state, the use of SCP as the allocation method for these additional benefits to customers would not yield an overall positive result to IPL's Minnesota customers. Since the overall objective of the application of benefits from the transaction was to ensure a benefit to customers in each state, the allocation of the ATA refund and ITC Midwest discounts was done in a trial-and-error manner in order to achieve this result. These two benefits are shown on Lines 5 and 6 of page 3 of this attachment.

The allocation factors on lines 5 and 6 for Iowa and Minnesota were adjusted until the net result of the sale of IPL's transmission assets in each state resulted in a positive benefit. The net result of the transaction for IPL customers in each state is shown on Line 7 of page 2 of this attachment. The allocation factors for refunds from the ATA regulatory liability account and ITC Midwest discounts which achieved this result were 88.3% for Iowa and 11.7% for Minnesota. This is shown on Line 8 of page 3 of this attachment.

Based on this calculation on page 3, the allocation factor used by IPL to determine the Iowa portion of the refunds to be made from the ATA regulatory liability account is 88.3%.

Attachment A

Interstate Power and Light Company  
Transmission Transaction  
Regulatory Liability Split Between IA and MN

After FERC Order								
Description	IUB Response No. 6	Allocator Description	Allocation Percentages		IA Amt.	MN Amt.	Total IPL	
			IA	MN				
Line 3	A	SCP	93.13%	6.87%	\$ (162,851)	\$ (12,013)	\$ (174,864)	
Line 4	B	COC Red.	Direct	Direct	119,135	272	119,407	
Line 5	IPL Refunds		88.3%	11.7%	68,587	9,088	77,675	
Line 6	ITC Discounts		88.3%	11.7%	21,694	2,875	24,569	
Line 7					<u>\$ 46,566</u>	<u>\$ 221</u>	<u>\$ 46,787</u>	
Line 8					<u>88.3%</u>	<u>11.7%</u>	<u>100.0%</u>	

Objective is to make the transaction beneficial to customers.

A - NPV of Cost-Benefit Analysis of Transmission Asset Sale  
B - Cost of Capital Reduction due to Transmission Asset Sale

Source:

Line 3: IPL response to IUB Request No. 6, after adjusting ROE to 12.38%.  
Line 4: IPL response to IUB Request No. 6, Schedule J, page 2.

Lines 5 & 6: Amounts to be allocated from IUB Request No. 6, Schedule F, lines 5 & 6. Allocated on ratio shown on line 8.

Line 8: Allocation ratio based upon trial and error in order to make both jurisdictions positive.

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Attachment B

**Iowa Allocation of Annual Refund Amount**

$$\begin{array}{l} \text{Annual Refund} \\ \$ 13,041,246 \end{array} \times \begin{array}{l} \text{IA Allocation} \\ 88.3\% \end{array} = \begin{array}{l} \text{IA Annual Refund} \\ \$ 11,515,420 \end{array}$$

**Refund Factor**

$$\begin{array}{l} \text{IA Annual Refund} \\ \$ 11,515,420 \end{array} / \begin{array}{l} \text{kWh Sales} \\ 11,233,684,314 \end{array} = \begin{array}{l} \text{IA Refund Factor} \\ \$ 0.0010 \end{array} /\text{kWh}$$

**2009 IA Annual ATA Refund Amount Distribution**

	Estimated Iowa Retail kWhs	Refund Factor	Refund Distribution
Jun-09	1,195,300,026	\$ 0.0010	\$ 1,195,300
Jul-09	1,354,659,824	\$ 0.0010	\$ 1,354,660
Aug-09	1,321,280,101	\$ 0.0010	\$ 1,321,280
Sep-09	1,213,738,100	\$ 0.0010	\$ 1,213,738
Oct-09	1,178,361,818	\$ 0.0010	\$ 1,178,362
Nov-09	1,158,635,336	\$ 0.0010	\$ 1,158,635
Dec-09	1,265,481,450	\$ 0.0010	\$ 1,265,481
Jan-10	1,344,818,693	\$ 0.0010	\$ 1,344,819
Feb-10	1,201,408,965	\$ 0.0010	\$ 1,201,409
Totals	11,233,684,314		\$ 11,233,684

Note: IPL is limited to four decimal places for the factor.

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Attachment C

**Alternate Proposal**

**Iowa Allocation of Annual Refund Amount**

$$\frac{\text{Annual Refund} \times 2}{\$ 26,082,492} \times \frac{\text{IA Allocation}}{88.3\%} = \frac{\text{IA Annual Refund}}{\$ 23,030,840}$$

**Refund Factor**

$$\frac{\text{IA Annual Refund}}{\$ 23,030,840} / \frac{\text{kWh Sales}}{8,687,456,656} = \frac{\text{IA Refund Factor}}{\$ 0.0027 / \text{kWh}}$$

**2009 IA Annual ATA Refund Amount Distribution**

	Estimated Iowa Retail kWhs	Refund Factor	Refund Distribution
Jun-09	1,195,300,026	\$ 0.0027	\$ 3,227,310
Jul-09	1,354,659,824	\$ 0.0027	\$ 3,657,582
Aug-09	1,321,280,101	\$ 0.0027	\$ 3,567,456
Sep-09	1,213,738,100	\$ 0.0027	\$ 3,277,093
Oct-09	1,178,361,818	\$ 0.0027	\$ 3,181,577
Nov-09	1,158,635,336	\$ 0.0027	\$ 3,128,315
Dec-09	1,265,481,450	\$ 0.0027	\$ 3,416,800
Total	8,687,456,656		\$ 23,456,133

Note: IPL is limited to four decimal places for the factor.