

BEFORE THE
IOWA UTILITIES BOARD

FILED WITH
Executive Secretary
July 17, 2009
IOWA UTILITIES BOARD

Docket No. RPU-2009-0002

LARGE ENERGY GROUP

Direct Testimony

of

Robert J. Latham

July 17, 2009

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IOWA UTILITIES BOARD

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

2 **A.** My name is Robert J. Latham.

3 **Q.** My business address is 150 First Avenue NE, Suite 300, Cedar Rapids, Iowa 52401.

4 **Q. By whom are you presently employed and in what capacity?**

5 **A.** I am employed by Latham & Associates, Inc. (L&A), as President and Chief Executive
6 Officer.

7 **Q. Please describe your educational background.**

8 **A.** My academic background includes a B.S. in General Science, an M.A. in Economics and a
9 Ph.D. in Economics, all from the University of Iowa. I have also taken executive
10 management courses at Stanford and Columbia Universities.

11 **Q. Please describe your professional experience.**

12 **A.** Since November 1995, I have been employed as an energy advisor with L&A. Prior to
13 forming L&A, I was employed from April 1983 to October 1995 by IES Industries Inc.
14 and IES Utilities Inc. (IES) in a number of executive positions with responsibilities
15 including strategic planning, generation planning, integrated resource planning, corporate
16 affairs, class cost-of-service (CCS), rates, regulatory affairs and mergers and acquisitions.
17 (IES Industries Inc. and IES Utilities Inc. were subsequently merged into the present-day
18 Alliant Energy Company and Interstate Power and Light Company, respectively.) Most
19 recently I served as Senior Vice President – Finance for IES. Before my employment with
20 IES, I worked for the Iowa State Commerce Commission (ISCC), now the Iowa Utilities
21 Board (Board), from June 1976 to March 1983. At the ISCC, I was Director of Utility
22 Finance from 1976 to 1980, after which I was Director of the Rates Research and Policy

1 Division. From 1970 to 1976, I was an Assistant Professor of Economics at Pennsylvania
2 State University and, from 1973 to 1976, a Research Associate at its Center for the Study
3 of Environmental Policy.

4 **Q. Please describe your electric utility association activities.**

5 **A.** While at the ISCC, I was involved with Electric Power Research Institute and National
6 Association of Regulatory Utility Commissioners projects on electric generation
7 economics and pricing. While with IES, I served as a member of the Electric Power
8 Research Institute Utility Resource Planning and Management Subcommittee and as a
9 member of the Edison Electric Institute Strategic Planning Services Committee and Power
10 Supply Legislation Committee. I have previously testified before the Board and its
11 predecessor ISCC in a number of cases.

12 **Q. Please describe your business.**

13 **A.** L&A is an independent adviser to primarily Midwestern purchasers of natural gas and
14 electricity. We act as agents and advisors to our clients, which include schools, colleges,
15 universities, industrials, hospitals, and smaller municipal electric utilities and associations.
16 We also advise wind system clients on transmission and other market issues for wind
17 electric production and transmission. Our primary activities are the negotiation of short-
18 term and long-term electric supply and natural gas supply agreements, preparation of CCS
19 studies and rate designs, aggregation of clients into larger purchasing pools, oversight of
20 the administration of energy supply contracts, advice on strategic energy investments in
21 electric generation capacity, consultation on general energy strategies, advice on market
22 participation in the Midwest Independent Transmission System Operator (MISO) electric

1 market, and energy policy advice on legislative and regulatory affairs. L&A is
2 continuously involved in electric pricing, CCS issues and energy market transactions and
3 provides advice based on current market conditions.

4 **Q. On whose behalf do you present this testimony?**

5 **A.** This testimony is prepared on behalf of the Large Energy Group (LEG). LEG is a group
6 consisting of industrial, hospital and city electric customers of Interstate Power and Light
7 Company (IPL). Participants are located across all of IPL's historic rate zones of the
8 merged Iowa Electric, Interstate Power, Iowa Southern and Union Electric service
9 territories. Participants range from Kinze Manufacturing in Williamsburg to Guardian
10 Glass in DeWitt; from the City of Cedar Rapids to FMI Climax Molybdenum in Fort
11 Madison; from Deere & Company in Dubuque and Ottumwa to Rockwell Collins in Cedar
12 Rapids; from St. Lukes Hospital and Mercy Medical Center in Cedar Rapids to Agri-
13 Industrial Plastics in Fairfield; from Lehigh Cement in Mason City to Hormel Foods in
14 Osceola; and from International Paper Cedar River Mill in Cedar Rapids to Griffin Wheel
15 in Keokuk. (A complete list of current participants is attached as Exhibit _____ (RJL-1),
16 Schedule 1.)

17 The primary focus of LEG in this case is to ensure approval of rates in the IPL electric
18 system that are based on class cost of service (CCS) that reflect load factors, delivery
19 voltage levels, customer-related costs, levels of interruptibility and time of usage, without
20 subsidies among customer classes. Now that large general service (LGS) electric rates
21 have been equalized across all IPL rate zones (which occurred in Docket No. RPU-08-

1 05), LEG has attracted participants from all rate zones that are united under this common
2 primary CCS focus of LEG.

3 **Q. What is the purpose of your testimony?**

4 A. The purpose of my testimony is to support the following positions in this rate case:

- 5 • The decisions in this case should clearly acknowledge the very significant impact
6 this proposed rate increase will have on the industrial, hospital and municipal
7 government participants in the LEG along with other IPL customers;
- 8 • CCS bases should be used to allocate rate revenue among customer classes to
9 prevent cross-subsidies among classes
- 10 • LGS rate structure should retain an intra-class cost basis for rates, including load
11 factor demand/energy, time of day, seasonal, voltage level and interruptible
12 pricing;
- 13 • Transmission charges should be recovered in rate cases rather than, as proposed by
14 IPL, by means of an automatic adjustment;
- 15 • If an automatic adjustment for the recovery of transmission costs is approved,
16 charges per kW demand should be cost-based by voltage delivery level;
- 17 • IPL's proposed power factor changes should be approved;
- 18 • IPL's proposed primary service discount changes should be approved with
19 modifications;
- 20 • IPL's proposed interruptible service rider revisions should be approved as
21 proposed;

- 1 • IPL's proposed Bulk Power tariff revisions should more clearly reflect
2 transmission voltage levels;
- 3 • Rate reductions to which IPL committed in Docket No. SPU-07-11 in connection
4 with the sale of IPL's transmission to ITC Midwest (ITC-M) should be reflected in
5 rate discounts now rather than in future years;
- 6 • IPL's proposed rate treatment of MISO ITC-M true-up charges, if approved,
7 should be amortized over a minimum of four years;
- 8 • IPL's proposed accelerated depreciation on existing Iowa electric meters should be
9 denied as not justified, particularly in this economic environment.

10 These issues are from the direct testimony of IPL witnesses Erik Madsen, David Vogensen
11 and Chris Hampsher. In general, I will be supporting IPL's proposals for rate design, with
12 exceptions relating to the transmission automatic adjustment mechanism, primary service
13 discounts and Bulk Power transmission levels.

14 **Q. What is the general perspective of the LEG participants with respect to this rate**
15 **case in today's general economic environment?**

16 **A.** There is virtual unanimity among the LEG participants that the level of IPL's proposed
17 rate increase, on top of existing rates that are among the highest in the region, deserves
18 particular attention by the Board in its deliberations in this case. Many of the LEG
19 participants face severe competitive threats in their markets, both in the United States and
20 internationally. At the same time, they are experiencing the severe impacts of the
21 international recession. Many have reduced employment as a result. The general
22 perspective is that this is a particularly poor time to have electric rate increases.

1 In this case, the Board has decisions to make regarding the overall level of rates, the
2 amortization of IPL's one-time costs over time, and the accelerating of transmission rate
3 discounts relating to the sale of IPL's transmission assets. In general, LEG participants
4 ask the Board to consider the current economic environment for the LEG participants,
5 along with other IPL customers, and decide to accelerate transmission discounts, amortize
6 one-time costs over a period of time, and carefully scrutinize the bases for IPL's rate
7 increase request.

8 **Q. Have you reviewed the portions of IPL's rate increase filing in this docket that**
9 **relate to CCS study issues?**

10 **A.** Yes. In particular, I have reviewed the testimony, exhibits and workpapers of IPL witness
11 Vognsen regarding IPL's CCS study as well as Mr. Vognsen's response to Iowa
12 Consumers Coalition (ICC) data request no. 5.13.

13 **Q. What have you concluded from your review?**

14 **A.** IPL's CCS filing generally reflects a continuation of the allocation of costs among
15 customer classes that was established in a prior IPL rate case, Docket No. RPU-04-01.
16 Mr. Vognsen describes the CCS methods in his direct testimony at page 36, line 20, to
17 page 40, line 22. Without going into detail, I can state that I agree with Mr. Vognsen's
18 approach of allocating costs among the customer classes, with three exceptions noted
19 below.

20 With this approach, it is clear that customer class revenues are based on the same IPL rate
21 of return as other classes. Costs are clearly allocated among classes for energy, demand
22 and customer-related costs. The average and excess demand (AED) method of allocating

1 generation capacity charges is fair to all classes, with the exception of Lighting customers.

2 The IPL allocation method is the approach the Board has approved in previous cases, with
3 the exception that transmission in this CCS is allocated based on 12 monthly coincident
4 peaks (12CP) rather than using the AED method as approved by the Board in prior cases.

5 The Board should not accept this 12CP method for allocation of transmission and should
6 continue to use the AED method for such transmission allocation in the CCS.

7 IPL proposes that transmission should be allocated based on 12 monthly coincident peaks,

8 but the issue is: Which coincident peaks should be used? At page 38, lines 16-17, of his

9 direct testimony, Mr. Vognsen testifies that “IPL is now billed by MISO for a monthly

10 transmission charge based upon its system coincident peak demand for transmission

11 service.” It is not clear what “its” references. “Its” clearly does not refer to the IPL

12 system coincident peak, since that is internal to IPL and not to the transmission system.

13 “Its” also does not refer to the MISO system coincident peak, since that system extends

14 well beyond the ITC-M transmission system. Actually, having reviewed a number of

15 MISO bills, I believe that “its” refers to the ITC-M system peak and is the basis on which

16 IPL and other transmission users of the ITC-M system are billed. In terms of materiality,

17 this correction would make little difference in the allocation of costs since IPL

18 transmission usage comprises a high percentage of the ITC-M transmission usage.

19 **Q. What are the two additional exceptions LEG takes to the CCS methods used by Mr.**
20 **Vognsen?**

1 **A.** As presented in previous IPL electric rate cases, LEG and its associated Community
2 Coalition for Rate Fairness (CCRF) disagree with prior Board positions with respect to
3 two assumptions of the CCS.
4 First, the Board should recognize that IPL plans for its generation based on the firm load
5 of its customers. The interruptible load of IPL’s customers is interruptible and does not
6 cause incremental demand for IPL generation capacity. Therefore, the CCS should use an
7 AED allocator for generation based on the firm loads of the customer classes, excluding
8 the interruptible load. This would accurately reflect the CCS generation capacity costs
9 among customer classes, and rates, including interruptible credits, could be based on these
10 results. By contrast, IPL and the Board use a hypothetical peak demand estimate of total
11 demand by class for AED allocation of generation capacity, ignoring the fact that
12 interruptible load is not contributing to the firm peak load basis for additional generation
13 capacity. The IPL and Board method then adjusts these artificial cost calculations
14 downward by interruptible and other credits to arrive at the CCS for each customer class.
15 LEG strongly believes that IPL and the Board should adopt this LEG proposal for more
16 clearly allocating generation costs on the basis of the firm loads that cause the demand for
17 such generation capacity.
18 Second, the Lighting customers have usage that occurs in the evening. Summer early
19 evening lighting usage may fall in the defined on-peak period that ends at 9 p. m. CDT.
20 However, the lighting that would occur coincident with the time of the IPL monthly peak
21 would be very minor, if any, since those peaks are generally in mid to late afternoons.
22 Yet, IPL treats Lighting as if monthly peak for the class occurs at the late afternoon time

1 of the monthly coincident peak similar to the residential and general service class loads.
2 As a result the Lighting class is allocated significant generation capacity costs based on a
3 totally unrealistic assumption. The difference, as shown by Mr. Vognsen's
4 Exhibit___(DV-1), Schedule 1, Page 1, is that the AED approach allocates 0.709 % of the
5 retail generation capacity to Lighting whereas the 12CP approach allocates 0.335% to
6 Lighting; in other words, the AED method more than doubles the 12CP allocation to the
7 Lighting class. As a result, municipal governments, including the City of Cedar Rapids,
8 pay Lighting rates that are significantly higher than the cost of providing service to them,
9 particularly for the generation capacity component of those costs.

10 **Q. What are your recommendations regarding CCS?**

11 **A.** LEG fundamentally believes that rates should be cost-based using objective CCS methods
12 for allocating revenue requirements across rate classes, including the AED allocation of
13 generation capacity, except for Lighting. In this case, IPL proposes (Vognsen direct
14 testimony, page 8, lines 8-16, and page 41, lines 5-8) to ignore its own CCS and instead
15 base rates on uniform percentage increases in base rates, exclusive of the energy
16 adjustment clause, energy efficiency cost recovery and excess facilities charges, until the
17 rate equalization process among rate zones has been completed.

18 The Board should order IPL to submit final rates based on the CCS results among classes.
19 IPL should use the AED method of allocating transmission demand, following Board
20 precedent. In this proceeding, contrary to precedent, IPL used the 12CP method in this
21 CCS, from Vognsen's Exhibit___(DV-1), Schedule I, page 4. If the Board orders IPL to
22 submit rates based on the CCS results among classes, the LEG-proposed modifications to

1 IPL's CCS should be made. In addition, the retail revenue requirements should clearly
2 exclude the costs associated with wholesale/resale sales as acknowledged by Mr. Vognsen
3 at page 35, line 15 to Page 36, Line 19. Rates within customer classes should, as
4 proposed by Mr. Vognsen, be based on uniform percentage increases in base rates,
5 exclusive of the energy cost adjustment, energy efficiency cost recovery and excess
6 facilities charges.

7 **Q. Why do you agree with Mr. Vognsen's proposal, at page 7, line 12, to page 8, line 7,**
8 **of his direct testimony, that Board-ordered rate increases should be uniform**
9 **percentage increases in base rates to meet final revenue requirements excluding**
10 **energy adjustment clause (EAC), energy efficiency cost recovery, and excess**
11 **facilities charge revenues?**

12 **A.** This IPL proposal should be approved unless the Board agrees to establish base rates
13 among customer classes using the CCS approach as LEG recommends. The preferred
14 alternative is to use the Vognsen pricing approach but within customer classes based on
15 the LEG CCS study assumptions.

16 LEG believes that the existing rate structure provides strong rate incentives to customers
17 using rates that are reasonably cost-based. The structure of these rates encourages
18 customers to improve load factors and power factors, accept interruptibility of load at
19 peak, and reduce on-peak and summer period usage. In particular, these incentives allow
20 IPL to avoid very significant generation capital expenditures for the ultimate benefit of
21 IPL customers in general. These particular rate incentives are available to LGS and Bulk
22 Power customers. Residential and General Service customers also have strong rate

1 incentives to efficiently utilize electric service, particularly during time of day on-peak and
2 summer periods.

3 IPL's rate design proposal continues to provide these generally cost-based incentives for
4 all of these customer classes. LGS and Bulk power customers, in particular, have invested
5 millions in response to these rate incentives to accept interruptibility of load and to shift
6 usage to off-peak periods.

7 For these reasons, this IPL general rate design proposal should be accepted, with the
8 exceptions noted below. In particular, LEG objects to the IPL proposal for an automatic
9 adjustment mechanism for transmission costs, noted at page 9, lines 9-20, of Mr.
10 Vognsen's direct testimony.

11 **Q. Have you reviewed the IPL proposal for an automatic adjustment for recovery of**
12 **transmission costs in Mr. Madsen's direct testimony (at page 4, line 5, to page 12,**
13 **line 3), Mr. Vognsen's direct testimony (at page 16, line 9, to page 22, line 7, and**
14 **Exhibit ____ (DV-1), Schedule E), and Mr. Hampsher's direct testimony (at page**
15 **32, line 21, to page 33, line 12, and Exhibit ____ (CAH-1), Schedule 9)?**

16 **A.** Yes. The testimony provides an estimate of the additional transmission charges for 2009
17 compared to 2008 (Exhibit ____ (CAH-1), Schedule 9), an allocation of these costs to
18 Iowa retail customers, an automatic adjustment recovery mechanism, and a proposed rate
19 structure for the automatic adjustment. I strongly disagree with, and the LEG vigorously
20 opposes, IPL's transmission cost automatic adjustment proposal.

21 IPL proposed the sale of its transmission system to ITC-M. Obviously, IPL had
22 expectations at the time of the sale regarding levels of ITC-M transmission charges.

1 However, I am not aware of any proposal by IPL during the course of those proceedings
2 for an automatic adjustment mechanism for recovery of transmission costs. IPL reaped
3 the reward of significant compensation in the transmission sale to ITC-M, and now wants
4 to pass along any resulting costs through an automatic adjustment mechanism that was not
5 part of the sale proposal that was approved by the Board.

6 **Q. Please describe these transmission charges. Who are the suppliers, and who pays**
7 **the bills?**

8 **A.** In Mr. Hampsher's direct testimony at page 9, line 16, to page 10, line 14, his
9 workpapers for Exhibit _____ (CAH-1), Schedule 9, Mr. Vognsen's direct testimony at
10 page 19, line 16, to page 20, line 3, and Mr. Madsen's direct testimony at page 5, lines 7-
11 20, and page 7, lines 13-18, these questions are answered to some extent, but significant
12 uncertainties remain.

13 According to Mr. Madsen, these transmission charges to be recovered by means of the
14 proposed automatic adjustment mechanism are for MISO Schedule 9 Network Integration
15 Transmission Service. However, according to Mr. Vognsen, the transmission charges to
16 be recovered would also include MISO Schedule 1 - Scheduling, System Control and
17 Dispatch Service, Schedule 2 - Reactive Supply and Voltage Control, Schedule 10 -
18 MISO IOS Cost Adder, Schedule 11- Wholesale Distribution Service, Section 23 –
19 Recovery of Schedule 10 and Schedule 17 Costs from Certain GFAs, and Schedule 26 –
20 Network Upgrade Charge from Transmission Expense. Yet, Mr. Vognsen's Schedule E
21 includes a 2009 transmission estimate overall of \$154 million that is almost identical to the
22 \$153.7 million 2009 estimate from Mr. Hampsher's Schedule B-9. Mr. Hampsher's

1 Schedule B-9 workpapers clearly demonstrate that the \$154 million estimate for 2009
2 includes MISO non-Schedule 9 charges of \$13 million but also includes transmission,
3 ancillary services and direct assignment facilities charges from MidAmerican Energy,
4 Western Area Power Authority, Corn Belt Power Coop, NE Missouri Power Coop and
5 PJM ISO of another \$3 million. From this one can only conclude that IPL's automatic
6 adjustment proposal is not clear as to which "transmission" charges are to be included.
7 To add more confusion, Mr. Madsen testifies at page 7, lines 4-11, and also at page 8,
8 lines 10-17, of his direct testimony that "IPL has been receiving MISO invoices related to
9 ITC-M transmission costs in providing transmission service to IPL for the benefit of all of
10 IPL's electric customers." While it may be true that IPL receives a copy of a MISO
11 invoice for ITC-M Schedule 9 transmission, the MISO bills are actually received and paid
12 by Alliant Energy Corporate Services on a combined basis for IPL and WPL in Wisconsin.
13 According to Mr. Hampsher's testimony at pages 9 and 10 and as verified in the attached
14 Exhibit _____(RJL-1), Schedule 5, these services are provided under the Service
15 Agreements among the Alliant Energy utilities. MISO invoices are issued to Alliant
16 Energy and apparently do not contain separate charges for IPL and WPL. From Mr.
17 Hampsher's Schedule 9 workpapers and the attached Exhibit _____(RJL-1), Schedule 6,
18 these transmission billings also include transmission and related services from a number of
19 other non-MISO suppliers. Transmission service bills from other suppliers are also
20 apparently paid by Alliant Energy Corporate Services according to the Service
21 Agreements.

1 The MISO bills in particular include wholesale transactions and certain energy
2 transactions, and it would be difficult to monitor the allocation of MISO costs among
3 those charges to be certain there is no double collection of costs through IPL's proposed
4 automatic adjustment and the existing energy adjustment clause.

5 From my review of MISO bills for other clients, they include numerous Schedules in
6 addition to those included by Mr. Vognsen and it is not clear why Mr. Vognsen chose only
7 certain MISO Schedules to include in the proposed automatic adjustment. For Schedules
8 2 and 11, in particular, it is not at all clear whether these are non-energy charges that are
9 properly allocated to retail customers.

10 In sum, IPL's proposed transmission cost automatic adjustment is not at all clear
11 regarding: the scope of services to be defined as "transmission;" inclusion of non-MISO
12 transmission and ancillary service providers; separation of charges between IPL and WPL;
13 and distinguishing charges between transmission and non-transmission. Given this lack of
14 clarity, it would be very difficult to monitor the costs to be included in an automatic
15 adjustment mechanism, let alone verify the costs and collections of these costs. For these
16 reasons alone, the rejection of the proposal is warranted.

17 **Q. Have you reviewed Mr. Madsen's direct testimony, at page 6, line 13, to page 8, line**
18 **22, regarding whether IPL's proposed transmission cost automatic adjustment**
19 **meets the necessary eligibility criteria for automatic adjustments under Board**
20 **rules?**

1 **A.** Yes – and I have concluded that it fails to satisfy those criteria, and hence is not an
2 appropriate automatic adjustment mechanism. The Board’s rules on automatic adjustment
3 mechanisms are instructive:

4 199—20.9(476) Electric energy sliding scale or automatic adjustment. A
5 rate-regulated utility’s sliding scale or automatic adjustment of the unit
6 charge for electric energy shall be an energy clause.

7
8 20.9(1) Applicability. A rate-regulated utility’s sliding scale or
9 automatic adjustment of electric utility energy rates shall recover
10 from consumers only those costs which:

11 Are incurred in supplying energy;

12 Are beyond direct control of management;

13 Are subject to sudden important change in level;

14 Are an important factor in determining the total cost to
15 serve; and

16 Are readily, precisely, and continuously segregated in the
17 accounts of the utility.

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24 First, and foremost, these rules apply to automatic adjustment of rates for **electric energy**.

25 They do not apply to electric costs that might be allocated based on energy but apply to
26 energy itself. The rules do not also specify that these apply to the demand or capacity
27 components of costs or to other costs incurred in providing electric service.

28 Transmission rates are primarily for the recovery of costs associated with transmission
29 investments and are, by MISO, ITC-M and IPL, tied to system coincident peak demand
30 kW. Mr. Vognsen, at page 38 of his testimony, notes that with “the sale of IPL’s
31 transmission assets to ITC-M, the rate base associated with these assets is no longer
32 reflected in IPL’s rate base. IPL is now billed by MISO for a monthly transmission charge

1 based upon its system coincident peak demand for transmission service. This demand
2 charge reflects ITC-M's ownership of the assets formerly owned by IPL. As a result, a
3 12 monthly coincident peak demand allocation factor was applied to transmission
4 expenses. This reflects how MISO bills IPL for transmission expenses and is a departure
5 of how IPL previously allocated transmission expenses when IPL owned the transmission
6 assets." From Mr. Vognsen's testimony, these transmission service rates are demand kW
7 related, they are primarily based on rate base assets, and only with the sale to ITC-M did
8 the revenue requirements change from rate base to expense revenue requirements.

9 The Board energy clause in Section 20.9(2) is even more clear regarding applicability only
10 to electric energy. It applies to specific FERC energy accounts that are eligible for
11 inclusion in the energy clause and these accounts do not include transmission capacity
12 accounts. The transmission charges are clearly demand kW based and are not for energy.
13 Therefore, because these are not energy costs, the Board rules for "sliding scale or
14 automatic adjustment of the unit charge for electric energy" do not apply. The IPL
15 proposed automatic adjustment mechanism should be denied for the reason.

16 **Q. Do you agree with Mr. Madsen's testimony, at page 6, line 13 to page 8, line 21, that**
17 **IPL's proposed transmission cost automatic adjustment is in accord with Board**
18 **criteria for such mechanisms?**

19 **A.** No. I believe the Board rules require a proposed automatic adjustment to meet all of the
20 criteria listed in the rules. I do not believe this proposal meets any of these criteria.

- 21 • **Transmission services charges are not incurred in supplying energy.** These
22 charges are incurred in supplying capacity to meet kW demands. As noted by Mr.

1 Vognsen, they are billed by MISO on a kW demand basis and this is how IPL itself
2 allocates these costs. If the Board's rules applied to demand cost components, the
3 electric energy condition and the FERC energy accounts would not have been the
4 only such items in the Board's rules.

- 5 • **Transmission services charges are not beyond the direct control of**
6 **management.** IPL management has pricing, load control or interruptible options
7 that affect the level of the IPL load that is coincident with the monthly ITC-M
8 peaks. It is these peaks that determine the allocation of ITC-M transmission
9 charges and that ultimately affect the ITC-M bills. IPL management has control
10 over the timing of its IPL rate increase proposals.

- 11 • **Transmission services charges are not subject to sudden important change in**
12 **level.** IPL uses ITC-M transmission cost estimates from 2008 to 2011 to argue
13 that sudden and important change in levels of transmission charges are expected.
14 However, IPL has known since it proposed the sale of the transmission system that
15 ITC-M transmission prices were to be fixed for 2008 at previous IPL levels and
16 that ITC-M would have an automatic true-up mechanism to ensure recovery of all
17 and only of the actual 2008 costs, ITC-M would be making transmission
18 investments in the old IPL system, ITC-M would have higher capital costs and
19 expenses would likely be increased. This is not new sudden important information.
20 That fact that these ITC-M charges are higher, following the FERC pricing that
21 IPL knew was in place, was certainly not sudden and should not have come as a
22 surprise to IPL. Further, IPL has told LEG participants that it expects to file for

1 an electric rate increase next year. Finally, IPL has not demonstrated that its
2 perceived sudden changes in transmission charges will continue for the foreseeable
3 future.

- 4 • **Transmission services charges are not an important factor in determining the**
5 **total cost to serve.** According to Mr. Hampsher's Exhibit _____(CAH-1),
6 Schedule A and Schedule B-9, 2008 transmission charges allocated (94.11%) to
7 Iowa electric utility customers amounted to about \$86 million out of total
8 operating revenues of \$1,224 million, or about 7%, and this percentage could
9 increase to 10% in 2009. A 10% increase in such costs would therefore mean a
10 change of about 1% of total revenues. The same argument for automatic
11 adjustment could be made for distribution costs as well. This is not unique to
12 transmission charges.

- 13 • **Transmission services charges are not readily, precisely, and continuously**
14 **segregated in the accounts of the utility.** Contrary to Mr. Madsen's assertion at
15 page 8, line 8-17, the transmission costs to be included in the costs recovered by
16 means of the proposed automatic adjustment mechanism are not readily, precisely
17 and continuously segregated in the accounts of the utility. As discussed above, it
18 is not clear which MISO Schedules would be included, which non-MISO
19 transmission would be included, whether these are purely transmission costs for
20 retail customers and whether these apply to IPL or to WPL.

21 For these reasons, the IPL proposal for an automatic adjustment mechanism for recovery
22 of transmission costs, however defined, should not be approved.

1 **Q. If an automatic adjustment mechanism for recovery of transmission costs is**
2 **approved, how should the rates per kW demand reflect differing voltage delivery**
3 **levels?**

4 **A.** Mr. Vognsen, at page 18, line 13, to page 19, line 2, of his direct testimony and in
5 Exhibit____(DV-1), Schedule E, describes the IPL proposal for developing rates for the
6 transmission automatic adjustment. As shown in his Schedule E, he recommends reducing
7 the LGS base rate demand charges by \$2.13/kW/month to remove the estimated
8 transmission charges from existing base rates. He then calculates an estimated
9 \$3.92/kW/month adjustment factor for the LGS class.

10 Unfortunately for many LGS customers, this proposal would result in an immediate
11 increase in rates, since the existing base rate demand charges are subject to Primary
12 Service Discounts ranging from 4.42% to 10.00% depending on delivery voltage level.
13 By removing the \$2.13/kW/month estimated transmission component of the demand
14 charges and including it as part of the automatic adjustment, the LGS primary service
15 customers will lose their discounts on the amount of the demand charge removed from the
16 base rates. The resolution of this issue would be to include the primary service discount
17 on the transmission \$/kW adjustment as well. That would avoid this obvious omission of
18 these primary service discounts. The recommended revision to the proposed Regional
19 Transmission Service Clause is attached as Exhibit____(RJL-1), Schedule 4.

20 **Q. Have you reviewed IPL's proposed revisions to the LGS tariff power factor service**
21 **provisions, as discussed at page 24, line 17, to page 25, line 3, of Mr. Vognsen's**
22 **direct testimony?**

1 **A.** Yes. The proposal to establish a 100% power factor if the customer is providing kilovars
2 to the IPL system at the time the billing demand is set is reasonable. By definition, the
3 power factor cannot exceed 100%. This revision should not have any effect if kW and
4 kvars are measured correctly and power factor is correctly calculated. LEG does not
5 object to this revision to the LGS tariff if it makes the tariff more clear under conditions
6 where a customer is providing kvars at the time the billing demand is set.

7 **Q.** **Have you reviewed IPL’s proposed revisions to the LGS primary service discount**
8 **provisions, as set forth at page 25, lines 4-16, of Mr. Vognsen’s direct testimony?**

9 **A.** Yes. Mr. Vognsen proposes primary service discount provision revisions to reflect the
10 reality that the definition of transmission delivery voltage level has changed with the sale
11 of IPL transmission to ITC-M. This proposal should be accepted with modifications. The
12 proposal should be revised to correct an obvious typographical error and to delete a
13 redundant clause.

14 With ITC-M, the definition of transmission voltage level is service at transmission delivery
15 voltage of 34,500 volt and higher. The obvious typographical error is in the definition of
16 eligibility for the 4.42% primary service discount. As proposed, eligibility is defined as:
17 “4.42% for 4,160 to 34,500 volt service” where the customer provides the transformation
18 devices. However, a 7.5% discount would apply for 34,500 and 69,000 volt service. The
19 lower discount of 4.42% should not apply to 34,500 volt service since that is already
20 transmission voltage and 34,500 volt service should be included with the 69,000 volt
21 service. The corrected eligibility definition should be “4.42% for 4,160 to less than

1 34,500 volt service.” Otherwise, there is no basis for distinction between a 4.42%
2 discount or a 7.5% discount at 34,500 volts.

3 Further, for both the 4.42% and the 7.5% discounts, the customer furnishes “approved
4 transformation and protective services.” Therefore, the additional requirement for a
5 7.50% discount for 34,500 volt service where “customer assumes all responsibility
6 transforming voltage from transmission level” is not relevant and should be removed from
7 the tariff. The latter clause is a distinction without a difference and is subsumed in the
8 “approved transformation and protective services” condition.

9 Finally, it is not clear whether the additional “customer assumes” clause applies to
10 both 69,000 and 34,500 volt service or only to 34,500 volt service. However, the
11 transformation requirement applies in any event.

12 Therefore, IPL’s proposed primary service discount language should be changed to
13 “4.42% for 4,160 to less than 34,500 volt service” and the “customer assumes” clause
14 should be removed. These changes would reflect the fact that 34,500 volt delivery is
15 already transmission delivery voltage and would make it clear which primary service
16 discount applies to transmission delivery voltage. These suggested revisions to the IPL
17 proposed tariff are included as Exhibit _____(RJL-1), Schedule 2.

18 **Q. Do you support IPL’s proposed changes to the interruptible service option rider as**
19 **affecting interruptible customers in the old IPC rate zone, as set forth in the direct**
20 **testimony of Mr. Vognsen at page 25, line 17, to page 28, line 9?**

21 **A.** Yes. This proposal removes conditions on interruptible service that apply only to some
22 legacy IPC rate zone interruptible customers. The proposal removes a special

1 administrative charge, adds the primary service discount to the non-firm billing demand,
2 and conforms the summer demand ratchet provisions to those of the other rate zones. The
3 only potential issue is the impact on some customers of the change in the demand ratchet.
4 IPL argues that these impacts can be mitigated. In any event, these changes have been
5 anticipated for years.

6 LEG's interruptible participants actively participated in the Board proceeding (Docket No.
7 EEP-02-28) that established the interruptible rate terms and conditions. In its April 27,
8 2005, order approving the settlement in that docket, the Board noted (at page 5):

9 The settlement makes no change to the overall interruptible credit levels
10 adopted in Docket No. RPU-04-1 and applies IPL's mitigation proposal to a
11 four-year credit equalization plan. Current credits differ according to rate zone
12 and when customers began participating, with earlier participants
13 grandfathered in at higher credit levels. The four-year credit equalization plan
14 would eliminate zonal differences and significantly reduce the differences
15 between grandfathered and non-grandfathered participants.
16

17 As a result of that proceeding, certain legacy IPC interruptible customers were provided
18 an extended interruptible rate credit equalization schedule that was one year longer than
19 the schedule for comparable customers from other rate zones. The rates and the
20 interruptible credits are already equalized for the other rate zones and this IPL proposal
21 simply completes that transition process for legacy IPC interruptible customers.

22 **Q. Do you support IPL's proposed changes to its Bulk Power tariff, as described in the**
23 **direct testimony of Mr. Vognsen at page 28, line 10, to page 31, line 6?**

24 **A.** Yes. I support this proposal with one clarifying exception. Mr. Vognsen testifies that
25 these changes result from IPL's sale of its transmission system to ITC-M. Under the
26 terms of that sale, 34.5 kv delivery is classified as transmission service. In the proposed
27 Bulk Power availability section, this service would be available "only for bulk transmission

1 voltage level supply at transmission voltage level or above...” For clarity, this section
2 should include the definition of “transmission voltage level.” This availability clause
3 should be revised to “only for bulk transmission voltage level supply at transmission
4 voltage of 34.5 kv or above.” This lack of clarity has been confusing to one LEG
5 participant considering this service and could be used by IPL to discourage use of this
6 tariff when the actual transmission voltage levels are misunderstood. My suggested
7 revision to the IPL proposed tariff is included as Exhibit _____(RJL-1), Schedule 3.
8 With that revision, the LEG strongly supports this IPL Bulk Power proposal. For years,
9 LEG and the associated CCRF group of IPL customers have argued in favor of making
10 this option available to transmission voltage delivery customers. IPL has been very
11 reluctant to make this available and even resorted to “freezing” the tariff to limit access.
12 LEG appreciates this change in IPL’s perspective. LEG also appreciates IPL’s proposal
13 to make this Bulk Power tariff available to interruptible customers. Finally, there is no
14 reason to retain the special standby service provisions of the current Bulk Power tariff.
15 For reasons made obvious earlier in my testimony, LEG does not support the Regional
16 Transmission Service Clause of this proposed tariff.

17 **Q. Have you reviewed Mr. Madsen’s direct testimony at page 12, line 4, to page 14, line**
18 **8, regarding IPL’s commitment to share with customers some of the sales proceeds**
19 **it received from the ITC-M transmission sale?**

20 **A.** Yes. LEG strongly believes these rate discounts tied to IPL conditions for the sale of its
21 transmission to ITC-M should be reflected in rate discounts now rather than in future

1 years. Our difference with Mr. Madsen's proposal is simply with respect to timing of
2 these price discounts.

3 As noted above, LEG participants, among other IPL customers, are experiencing
4 significant current economic pressures. They strongly desire to see these refunds
5 accelerated rather than extended over an eight-year period. In light of the magnitude of
6 IPL's proposed rate increase and the current economic pressures to which LEG
7 participants and other IPL customers are subject, this is an excellent time to accelerate
8 these rate discounts.

9 Acceleration of these rate discounts actually increases value to customers compared to
10 receipt over eight years. The relatively low discount rate of four percent was used to
11 calculate the annual refund amount of the eight-year refund period contemplated in
12 Docket No. RPU-07-11. In this distressed economy, a four percent interest rate is a very
13 low cost of money for nearly all of the LEG participants. They recognize this and
14 reasonably believe they have better uses for those dollars than collecting four percent
15 interest on them. Where business survival is an issue, these accelerated refunds are even
16 more relevant.

17 To be received on a timely and systematic basis, these discounts should be reflected in
18 IPL's EAC. Upon approval by the Board, these remaining discounts should be recovered
19 by customers over a period of not more than two years. This method would accelerate the
20 refund process, provide an existing method of distributing these refunds, and provide
21 verification of these refunds. This provides a mechanism that decouples the refunds IPL

1 agreed to make in Docket No. RPU-07-11 from the adjustments IPL has proposed in the
2 current case.

3 **Q. Have you reviewed the discussion of the rate treatment of the ITC-M true-up in**
4 **2010 based on 2008 results that appears in Mr. Hampsher's direct testimony at page**
5 **47, line 22, to page 49, line 3, and page 83, line 23, to page 87, line 9, and in**
6 **Exhibit _____ (CAH-1), Schedule B-25 and Schedule B-8?**

7 **A.** Yes. I have been involved in this issue on behalf of another client (Resale Power Group
8 of Iowa) and participated in discussions with and presentations by ITC-M. While the
9 amount is not certain, there will be a true-up of these transmission charges in 2010.
10 Presuming the level of true-up costs is verified and an accurate amount is attributed to IPL
11 Iowa retail customers, the preferred method of cost recovery is over the four-year period
12 Mr. Hampsher proposes (at page 48, lines 12-17, of his direct testimony) with associated
13 rate base treatment of the average balance (at page 86, line 16, to page 87, line 2).
14 Mr. Hampsher then offers IPL's preferred alternative (at page 48, lines 18-23) with
15 associated rate base treatment of the average balance (at page 86, line 16, to page 87, lines
16 3-9). That preferred alternative would offset these true-up rate requirements with the rate
17 discounts, discussed above, that the Board required as a condition of the IPL sale of
18 transmission to IPL-M. LEG disagrees with the coupling of these potentially offsetting
19 impacts on overall rates. The rate discounts should be distributed to IPL customers
20 sooner than is provided by this proposed coupling of two different issues.

21 **Q. Have you reviewed the discussion about the acceleration of depreciation on existing**
22 **Iowa electric meters that appears in the direct testimony of Mr. Madsen at page 14,**

1 **line 9, to page 20, line 12, and the direct testimony of Mr. Hampshire at page 61,**
2 **line 19, to page 62, line 4, at page 98, line 15-22, and in Exhibit _____(CAH-1),**
3 **Schedule D-14 and Schedule B-32?**

4 **A.** Yes. I do not agree with this proposal to accelerate depreciation on the Iowa electric
5 meters on the expectation that Advanced Metering Infrastructure (AMI) is imminent. As
6 shown in Mr. Hampsher's Schedule D-14, this would result in a reduction in rate base for
7 the test year of \$1,552,242. However, as reflected in his Schedule B-32, it would result in
8 an increase in the Iowa depreciation expense of \$3,104,485, for a net increase in rates of
9 about \$2.8 million.

10 The justification for this proposal is Mr. Madsen's expectation that, at some time, IPL will
11 likely install AMI, thereby rendering all existing metering, apparently, obsolete. At page
12 15, lines 5-14, of his direct testimony, Mr. Madsen describes potential benefits of AMI in
13 the form of operational savings, demand side improvements, customer energy efficiency
14 information and a possible "smart grid." While all of these are possibilities, no
15 demonstration is offered regarding IPL's plan for use of AMI in any of these applications.
16 No demonstration is made that this particular technology is at all cost-effective in
17 providing any of these benefits. However, according to Mr. Madsen's direct testimony at
18 page 17, lines 14-23, IPL would, apparently, ask LEG and the Board to delay CCS
19 adjustments and delay rate design changes because "major rate design changes for the
20 residential and general service rate classes should probably be done in conjunction with the
21 implementation of AMI." LEG strongly believes that, at this time, this implicit

1 commitment to meter technology and rates based on the technology is premature and
2 accordingly urges rejection of this proposed adjustment.

3 **Q. Does this conclude your written direct testimony?**

4 **A. Yes, it does.**

AFFIDAVIT OF ROBERT J. LATHAM

**FILED WITH
Executive Secretary
July 17, 2009
IOWA UTILITIES BOARD**

STATE OF IOWA)
) ss
COUNTY OF LINN)

I, Robert J. Latham, being first duly sworn on oath, depose and state that I am the same Robert J. Latham identified in the foregoing direct testimony; that I have caused the foregoing direct testimony, including any exhibits, to be prepared and am familiar with the contents thereof; and that the foregoing direct testimony, including any exhibits, is true and correct to the best of my knowledge, information, and belief as of the date of this affidavit.

/s/ Robert J. Latham
Robert J. Latham

Subscribed and sworn to before me,
a Notary Public in and for said County and State,
This 13th day of July, 2009.

/s/ Joyce Rasmussen
Notary Public

My commission expires: 01-12-2010

[NOTARY SEAL IOWA]	JOYCE RASMUSSEN Commission Number 125660 MY COMMISSION EXPIRES January 12, 2010
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