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Executive Secretary

May 24, 2013

IOWA UTILITIES BOARD

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May 24, 2013

Ms. Joan Conrad, Executive Secretary
Iowa Utilities Board
1375 East Court Avenue, Room 69
Des Moines, IA 50319-0069

RE: Interstate Power and Light Company
Docket No. RPU-2012-0002 (TF-2012-0374)
Status Report on Regulatory Liabilities Related to Tax Benefit Rider

Dear Secretary Conrad:

Enclosed please find Interstate Power and Light Company's Status Report on Regulatory Liabilities Related to Tax Benefit Rider in the above-referenced docket, as filed today on EFS.

Very truly yours,

<u>/s/ Kent M. Ragsdale</u>
Kent M. Ragsdale
Managing Attorney – Regulatory

KMR/kjf
Enclosures

STATE OF IOWA

BEFORE THE IOWA UTILITIES BOARD

IN RE: **INTERSTATE POWER AND LIGHT COMPANY**	**DOCKET NOS. RPU-2012-0002 (TF-2012-0374)**

STATUS REPORT ON REGULATORY LIABILITIES RELATED TO TAX BENEFIT RIDER

COMES NOW, Interstate Power and Light Company (IPL) and, pursuant to the Order Approving Settlement Agreement and Canceling Hearing issued in the above-referenced docket by the Iowa Utilities Board (Board) on November 26, 2012 (November 26th Order), submits its Status Report on Regulatory Liabilities Related to the Tax Benefit Rider (TBR).

1. The Board's November 26th Order accepted the settlement (Settlement) reached among all parties in IPL's test year 2011 Iowa natural gas rate case. As part of that settlement, the parties had agreed that the Board should approve IPL's proposed Tax Benefit Rider (TBR) for an initial three years. In a previous IPL Iowa electric rate case (Docket No. RPU-2010-0001), IPL, with the Board's approval, had implemented a TBR for its Iowa retail electric customers.

2. The Board's November 26th Order approved the proposed TBR consistent with the Settlement. The Settlement made the following changes to IPL's initial TBR proposal: (1) the TBR should be applicable to all retail gas customer classes on an across-the-board basis; (2) the specific TBR credit amounts to be applied and the estimated amounts to be flowed through to the retail gas customer classes were

modified; and (3) the parties agree that after the initial three-year period, there should be a reconciliation.

3. The Board's November 26th Order required IPL to file reports every six months on the status of the Internal Revenue Service (IRS) audit, the amounts returned to IPL, and the amounts credited to customers.

4. Since the issuance of the November 26th Order, the Board, on February 19, 2013, issued an order in Docket No. ARU-2010-0001 (February 19, 2013 Order). The February 19, 2013, order addressed IPL's final Report on Regulatory Liabilities Related to Tax Benefit Rider (Electric Report) filed with the Board on December 14, 2012. The Report asked for finalization of the amounts to be used in the electric TBR. Because the IRS audits were completed and all tax adjustments with respect to the three tax projects (repair expenditures, allocation of mixed service costs and allocation of insurance proceeds from the 2008 flood), outlined in Docket No. ARU-2010-0001, have been made, the Board accepted the Electric Report. The February 19, 2013 Order also found that no further expenses or benefits from the three tax projects need to be included in the regulatory account or accounts used for the electric TBR.

5. Consistent with Docket No. ARU-2010-0001, IPL is requesting the Board approve the following two items:

a. The finalization of the amounts to be reflected in the regulatory liability account used for the TBR related to the Iowa retail gas jurisdiction of $47,785,395.

b. IPL has satisfied all Docket No. RPU-2012-0002 filing requirements and no further reporting obligations, related to the underlying tax projects, is required for IPL's Iowa retail gas jurisdiction.

6. This filing illustrates tax benefits for both IPL's Iowa electric and gas jurisdictions and fulfills the reporting requirement in the Board's November 26th Order , to conduct a reconciliation process that provides the status of the IRS audits and the final amounts to be returned to IPL retail gas customers in Iowa. This filing for IPL's retail gas jurisdiction in Iowa follows the same ratemaking principles for the electric TBR that was accepted by the IUB in Docket No. RPU-2010-0001.

To support these requests, IPL has organized this filing in the following sections:

A. BACKGROUND

7. On April 13, 2010, in Docket No. ARU-2010-0001, the Board approved regulatory liability treatment for tax benefits associated with three tax projects identified by IPL. These three tax projects were flood insurance proceeds, repair expenditures and mixed service costs. The flood insurance proceeds tax project related to the 2008 Flood and is considered a non-recurring event. The mixed service costs and repair

expenditures tax projects relate to accounting method changes which have been filed as part of IPL's federal income tax returns. The Board stated in its April 13, 2010 order that it wanted to continue to encourage utilities to aggressively pursue potential tax accounting changes that benefit customers and the utility. This order also noted that if the Board were to set rates based on IPL's new accounting method before the tax impacts of such changes were sustained on audit by the IRS, utilities would be discouraged from pursuing these strategies because the utility would bear most of the risk but customers would get most of the benefit, a risk-reward imbalance.

8. In order to pursue these three tax projects, IPL hired outside consultants to assist in assessing the allocation of insurance proceeds from the 2008 Flood and with assessing all capitalized tax costs for the last 20 years to ensure all benefits from the repairs and mixed service costs change in accounting methods were captured. IPL had to support its positions and ensure appropriate documents were filed with the IRS to sustain these tax benefits. IPL has also spent considerable time updating its depreciation systems to capture the results of the audits of these three tax projects.

9. In the November 26th Order, the Board approved the use of the TBR that allowed IPL to return the estimated benefits of these three tax projects to its retail gas customers in Iowa, prior to all benefits having completed an IRS audit. The Board stated in the November 26th Order that, depending on final results from the IRS audit process, refund targets can be adjusted accordingly.

10. As presented in Table 1 below, the three year refund plan (calendar years 2013-2015), outlined in the November 26th Order, was based on estimated tax savings for these three tax projects as follows:

Table 1 – Estimated Gas Refund Targets (in millions)

Tax Project	Estimated Tax Benefit to IPL's Retail Gas Customers in Iowa
Repair Expenditures	$ 18 million
Insurance Proceeds for Flood	$ 4 million
Mixed Service Costs	$ 14 million
Total	$ 36 million

11. The November 26th Order approved a 2013 gas TBR refund target level of $12 million to IPL's retail gas customers in Iowa.

12. IPL proposed to update the credits available to customers once the IRS audits of the three tax projects were completed. Those audits have now been completed and IPL is providing the final accounting of tax benefits for IPL's gas customers in Iowa in Docket No. RPU-2012-002 in this filing. Table 2 displays the current status of total tax benefits for retail electric and gas jurisdictions in Iowa, including IPL's proposed treatment for deferred taxes for the electric jurisdiction in Docket No. RPU-2010-0001.

Table 2 – Total Gross Tax Benefits by Electric and Gas Jurisdiction

	Total	**Electric Jurisdiction (90.44%)**	**Gas Jurisdiction (9.56%)**
Flow Through Tax Benefits – Component 1	$499,847,225	$452,061,830	$47,785,395
2013 Deferred Tax Adj – Component 2	(24,320,176)	(24,320,176)	N/A
Subtotal	$475,527,049	$427,741,654	$47,785,395
Expected Refunds through 2013	(213,500,000)	(201,500,000)	(12,000,000)
Remaining gross benefits to refund after 2013	$262,027,049	$226,241,654	$35,785,395

As can be seen above, the expected refunds to IPL's Iowa retail gas jurisdiction of over $47 million is materially larger than the initial estimates presented in Table 1, of $36 million.

B. UPDATE ON TAX PROJECTS

13. As noted above, IPL has pursued for the benefit of its retail customers in Iowa three tax projects that are the subject of the refunds provided by the TBR. Updates on these three projects are provided below and are consistent with the Electric Report. IPL will provide an update in the following order

i. Flood Insurance Proceeds;
ii. Repair Expenditures;
iii. Mixed Service Costs; and
iv. Update Summary

i. Flood Insurance Proceeds

14. In 2008, IPL received approximately $99.3 million of insurance proceeds due to the 2008 Flood. For tax purposes, the allocation of these insurance proceeds between capitalized assets and current deductions was more heavily weighted towards capitalized assets. This provided a larger current tax deduction and a larger tax gain on the disposal of destroyed assets.

15. The amounts related to the Flood Insurance Proceeds tax project have been approved by the IRS as originally filed in IPL's 2008 federal income tax return. This review was completed by the IRS on October 22, 2010.

16. As shown in Table 3 below and on Schedule A, the total Iowa jurisdictional differences in IPL's federal and state tax liabilities due to the allocation of flood insurance proceeds related to the 2008 Flood was $14.4 million. This amount represents the cash benefit that IPL received from the IRS for this tax project. Table 3

shows the components of these net benefits by Federal and State as well as by flow through tax benefits and normalized deferred tax adjustments.

Table 3 – Jurisdictional differences in tax liabilities for Allocation of Flood Insurance Proceeds

Type of Tax	Federal	State	Total
Flow Through	$22,291,518	$2,766,752	$25,058,270
Normalized	-10,613,285	--	-10,613,285
Total net tax benefits	$11,678,233	$2,766,752	$14,444,985

ii. Repair Expenditures

17. IPL filed a change of method of accounting for tax purposes in 2009 to change its unit of property used for determining whether costs would be recorded as assets (capitalized) or repair expenditures (expensed). For example, for electric distribution property the unit of property was changed from a single pole, to all the poles in a circuit. As required, this calculation was completed for the last 20 years, so IPL could reflect its tax records as if it had always used this method of accounting.

18. The original accounting method change for repair expenditures was made in IPL's 2008 federal income tax return filed in September 2009 as amended in December 2009. With the initial review of the 2008 federal income tax return, the IRS denied 100% of the repair expenditures due to the limited guidance available for this change of method of accounting at that time. IPL protested this finding in November 2010 to the appellate division of the IRS.

19. IPL continued to file its 2009 and 2010 federal and state income tax returns using the change in method of accounting for repair expenditures, as requested

in IPL's 2008 federal income tax return and the IRS subsequently denied those adjustments as well. IPL appealed both the 2009 and 2010 adjustments. In October 2012, the IRS accepted IPL's proposed repair deductions which are discussed in more detail below.

20. The amounts related to Repair Expenditures are categorized into two separate classifications; electric distribution, and electric generation/gas distribution repair expenditures. Each of these categories is discussed in more detail below.

a. Electric Distribution Repair Expenditures

21. As noted above, IPL filed the original change of method for repair expenditures in the 2008 federal income tax return and continued with this method through 2010. During this time period, the Edison Electric Institute (EEI) requested an Industry Issue Resolution (IIR) for determining the amount of repair expenditures to be deducted for electric distribution assets. As a result, in August of 2011 the IRS issued Revenue Procedure 2011-43 which provided a safe harbor calculation that could be used to determine whether to capitalize or expense costs to maintain, replace, or improve electric transmission and distribution property for tax purposes.

22. Section 7.09 of this Revenue Procedure required taxpayers, who wanted to change to the safe harbor method, to adopt this new method in 2011. The safe harbor method was not substantially different from the method of accounting that IPL had originally requested in its 2008 through 2010 federal income tax returns. Consequently, IPL conformed to this safe harbor and adopted this method of accounting with its 2011 federal income tax return.

23. In conjunction with the release of Revenue Procedure 2011-43, the IRS's Large Business and International Division (LB&I) issued a Field Directive indicating that

IRS examiners should cease conducting examinations of the repairs expenditure issues. This Field Directive was followed by the examining agents if the taxpayer conformed to the new safe harbor guidance issued.

24. Due to new guidance being released and the Field Directive, the appellate division of the IRS returned IPL's case related to the 2008 through 2010 federal income tax returns to the examining agents. The examining agents reviewed the 2011 federal income tax return for the safe harbor accounting change and agreed that IPL was in compliance with Revenue Procedure 2011-43, therefore the IRS accepted all of IPL's prior electric distribution repair deductions with the 2011 federal income tax return.

25. The final audit report for the repair deductions was required to be reviewed and accepted by the IRS Joint Committee of Taxation, as well as the Congressional Joint Committee, before it would be considered final. IPL received a letter from the Congressional Joint Committee on October 9, 2012 which finalized the electric distribution repair deductions included in its 2008 through 2011 federal income tax returns.

b. <u>Electric Generation and Gas Distribution Repair Expenditures</u>

26. Similar to electric transmission and distribution assets, EEI and the American Gas Association requested two separate IIRs for determining the amount of repair expenditures that were allowed to be deducted for electric generation and gas distribution assets. These industry associations worked with the IRS to help develop guidance that could be used for electric and gas utilities to determine the appropriate amount of tax deduction and capitalization for electric generation and gas distribution repair expenditures.

27. Due to the anticipated release of guidance that is substantially similar to the method that IPL had taken on prior returns and the prior Field Directive issued related to auditing repair deductions, the IRS has reviewed and approved IPL's 2008 through 2011 electric generation and gas distribution repair expenditures. This IRS decision for electric generation and gas distribution repair expenditures was also approved through Congressional Joint Committee as part of IPL's IRS audit on October 9, 2012, for IPL's 2008-2011 federal income tax returns.

28. As shown in Table 4 below and on Schedule A, the total Iowa jurisdictional differences in IPL's federal and state tax liabilities due to the change in method of accounting for repair expenditures was $78.4 million. Table 4 shows the breakout of the cumulative twenty year impact of net benefits by Federal and State as well as by flow through taxes and normalized taxes.

Table 4 – Jurisdictional differences in tax liabilities for Repair Expenditures

Type of Tax	Federal	State	Total
Flow Through	$145,973,856	$22,899,561	$168,873,417
Normalized	-90,437,801	--	-90,437,801
Total net tax benefits	$55,536,055	$22,899,561	$78,435,616

iii. Mixed Service Costs

29. IPL filed a change of method of accounting for tax purposes in 2011 to change its allocation of costs incurred by mixed service cost departments as part of its 2010 federal income tax return. A mixed service cost department is a department that supports both production activities (such as maintaining generation assets) and non-production activities (such as security, training and research). Following IRS guidance

issued in 2010 under Industry Director's Directive #5, a simplified calculation was adopted to perform the allocation of mixed service costs to production assets, electric and gas inventory and deductible costs. As required, this calculation was completed for the previous 20 years, so IPL could reflect its tax records as if it had always used this method of accounting.

30. IPL reflected a mixed service cost deduction of $144 million in its 2010 federal income tax return. Before filing the federal income tax return, the IRS audited the mixed service cost deduction and made some adjustments based on IRS industry guidance during 2011. IPL reviewed the adjustments proposed by the IRS and proposed additional changes which were subsequently agreed to by both IPL and the IRS. The agreement was documented as part of an Issue Resolution Agreement (IRA) on September 13, 2011. This IRA supported the amount of mixed service costs deductions included in IPL's 2010 federal income tax return filed in September 2011.

31. As shown in Table 5 below and on Schedule A, the total Iowa jurisdictional differences in IPL's federal and state tax liabilities due to the change in method of accounting for mixed service costs was $61.9 million. Table 5 shows the breakout of the cumulative twenty year impact of net benefits by Federal and State as well as by flow through taxes and normalized taxes.

Table 5 – Jurisdictional differences in tax liabilities for Mixed Service Costs

Type of Tax	**Federal**	**State**	**Total**
Flow Through	$82,041,096	$16,354,738	$98,395,834
Normalized	-36,518,764	--	-36,518,764
Total net tax benefits	$45,522,332	$16,354,738	$61,877,070

iv. Update Summary

32. All tax deductions taken for the three projects have been finalized with the IRS. The gross flow through benefits for these three tax projects are calculated in Table 6 below and discussed with the final accounting schedules.

Table 6 – Total Gross Flow Through Benefits

Flow Through Tax	Federal	State	Total
Flood Insurance Proceeds	$22,291,518	$2,766,752	$25,058,270
Repairs Expenditures	$145,973,856	$22,899,561	$168,873,417
Mixed Service Costs	$82,041,096	$16,354,738	$98,395,834
Total Flow Through	$250,306,470	$42,021,051	$292,327,521
Gross-up Rate	1.70988767%	1.70988767%	1.70988767%
Revenue Requirement	$427,995,948	$71,851,277	$499,847,225

33. The Joint Committee of Taxation as well as the Congressional Joint Committee reviewed the 2008 and 2009 federal income tax returns and accepted the audit reports as filed. In addition, the IRS accepted the changes made in the 2010 and 2011 federal income tax returns and provided IPL with certainty on these adjustments. Table 7 below shows the timing of when the audit procedures for these tax projects were completed and which federal income tax returns included the tax benefits accumulated in the regulatory liability account for the tax benefit riders.

<u>Table 7 – Date IRS examination was completed on each project</u>

Tax Project	Tax Return	Date IRS Audit was finalized
Flood Insurance Proceeds	2008	October 22, 2010
Repairs Expenditures	2008-2011	October 9, 2012
Mixed Service Costs	2010	September 13, 2011

C. FINAL ACCOUNTING AND SUPPORT

34. In its April 13, 2010, Order in Docket No. ARU-2010-0001, the Board granted IPL's request for an accounting ruling and authorized the establishment of the appropriate regulatory accounts to reflect 100% of the Iowa jurisdictional differences in federal and state tax liabilities from the three projects discussed above. IPL has attached accounting schedules that provide the detail of the jurisdictional differences along with the proposed regulatory accounting:

Schedule A – Summary and Calculation of 100% of Iowa jurisdictional differences in federal and state tax liabilities for three tax projects.

Schedule B – Traditional Iowa ratemaking calculation

Schedule C – Jurisdictional Tax Rates

35. As was described in the direct pre-filed testimony of IPL Witness Jennifer Janecek in Docket No. RPU-2012-0002, based on certainty of tax benefits at the time of the base rate cases, IPL used updated rate case accounting for the tax benefits between the electric rate case (Docket No. RPU-2010-0001) and the gas rate case (Docket No. RPU-2012-0002). As Ms. Janecek explained, the updated treatment of deferred tax balances between these two rate cases was based on the certainty of benefits available at the time of filing the two cases. The gas rate case appropriately

reflected all deferred taxes in the rate base and therefore will not need any further adjustment to rate base to finalize the accounting.

36. IPL's proposed final accounting below includes 100% of the Iowa jurisdictional differences in federal and state tax liabilities from the three separate projects. For the Iowa retail gas jurisdiction this amount is $47,785,395. IPL is expecting approximately $12 million of this total benefit of $47,785,395 to be refunded through 2013 to the Iowa gas customers in 2013. As of March 31, 2013, the refund to Iowa gas customers was $2,439,336.

37. IPL is also requesting a return to traditional Iowa rate making practices for any subsequent income tax expenses and benefits from these three separate tax projects consistent with ARU-2010-0001. The timing and amount of remaining refunds for the tax benefits accumulated in the regulatory liability account are expected to be determined by the Board in future tariff filings. IPL therefore presents, in the following paragraphs, a description of the schedules that IPL is supplying to assist in the explanation of the final update on the three tax projects identified by the Board for regulatory liability/TBR treatment.

i. Schedule A

38. IPL proposed in Docket No. ARU-2010-0001 that if the new accounting methods, including the allocation of insurance proceeds from the 2008 Flood, are sustained under IRS audit, IPL will refund to customers 100 percent of the Iowa jurisdictional differences in federal and state income tax liabilities. Since the IRS has completed their audits of these projects, Schedule A provides a summary of the tax benefits derived from flood insurance proceeds, repair expenditures and mixed service

costs totaling $154,757,672. This amount represents the total cash benefits that IPL received or will receive by pursuing these three tax projects.

39. A summary of how the tax benefits were calculated is shown on page 2 of Schedule A. The federal and Iowa tax deductions for each project are shown on lines 1 & 8 as well as adjustments for tax depreciation deductions on lines 2, 3, 9, and 10 that were required to be added back on the federal and Iowa income tax returns. As shown on Schedule A, the gross tax deductions for federal and state purposes are constant on lines 1 and 8; however the federal and Iowa depreciation required to be added back varies on lines 3 and 10. One example of why differences occurred between federal and Iowa depreciation is the applicability of bonus depreciation for federal purposes which was not always available for Iowa tax purposes.

40. The total tax depreciation that is added back on Schedule A, page 2 is shown in two components. The first component is depreciation expense taken for regulatory purposes which is shown on lines 2 and 9. The second component is the excess of tax depreciation over regulatory depreciation allowed by the Internal Revenue Code, which includes differences caused by Modified Accelerated Cost Recovery System (MACRS) rates and bonus depreciation shown on lines 3 and 10. These two components in total equal the tax depreciation add back that was required to be reflected in the income tax returns for these three tax projects.

41. The gross deductions less the depreciation adjustments equal the net deductions taken on the income tax returns. The total change in deductions on lines 5 and 12 are multiplied by the tax rates on lines 6 and 13 used for the federal and Iowa taxes to provide the total Iowa jurisdictional difference in federal and Iowa tax liabilities which is reflected on lines 7 and 14, respectively.

ii. Schedule B

42. In Docket No. ARU-2010-0001, it was agreed that IPL will refund to customers 100 percent of the Iowa jurisdictional differences in federal and state income tax liabilities. On Schedule B, IPL provides further details on the total differences and which tax depreciation differences would provide flow through tax benefits.

43. As shown on Schedule B, the Federal and State flow through tax benefits are derived from the basis differences between the amounts being capitalized for regulatory purposes and the amounts being capitalized for tax purposes. In addition, consistent with traditional Iowa rate making practices, all differences between the regulatory depreciation portion of federal depreciation and all Iowa depreciation provide flow through benefits to IPL's Iowa customers.

44. All three of the tax projects included basis differences that should be flowed through to IPL's Iowa retail electric and gas jurisdictions. Consistent with Schedule A, the amounts on lines 1 and 13 of Schedule B show the total basis differences deducted on our federal and Iowa income tax returns.

45. Federal normalized deferred taxes are derived from the portion of tax depreciation related to federal accelerated depreciation. All three tax projects had to add back accelerated tax depreciation that had been deducted in the past. This accelerated depreciation reduces the normalized deferred tax liability available to reduce rate base. There will be no normalized deferred tax adjustment for the gas jurisdiction since this amount was appropriately reflected in the November 26th Order.

iii. Schedule C

46. The income tax rates that were used in the final TBR accounting described above reflect the tax rates for IPL's Iowa jurisdiction only. As shown on

Schedule C, when calculating the tax impacts of a hypothetical $100,000 of income, the result would reflect the rates used in IPL's calculation of 31.553% for federal taxes and 7.480% for Iowa taxes. These rates are shown in column (a) of lines 42 and 57 which calculates the Federal and Iowa tax paid in the Iowa jurisdiction. Currently enacted statutory tax rates are used in these rate calculations. Schedule C illustrates how the statutory rates that IPL uses in the accounting for the TBR are allocated between the Minnesota and Iowa jurisdictions. The Iowa jurisdictional rate for both Federal and Iowa were used when determining the total tax benefits for the Iowa customers.

47. In a typical rate case, IPL calculates tax expense using the currently enacted statutory tax rates shown on lines 8, 9 and 10, however the income and expenses that utilize those rates to calculate tax expense only include the portion of income and expenses allocated to the Iowa jurisdiction. The results of using the total IPL tax benefits multiplied by jurisdictional income tax rates would be consistent with the results of using IPL jurisdictional tax benefits multiplied by statutory income tax rates. IPL made the decision to keep the tax benefits at 100%, so the benefits would reflect the total changes to IPL's tax returns and depreciation systems. An approximation of the average gross plant allocator was used to determine the amount of the deductions that would have been allocated to each of the Iowa and Minnesota jurisdictions, since all three tax projects are related to gross plant investments.

D. ACCOUNTING PROPOSAL

48. IPL is proposing to refund the estimated benefits of $47,785,395 to Iowa retail gas customers through the TBR billing credits. As Table 2 shows, $12 million is

expected to have been refunded to gas customers by the end of 2013 leaving an estimated $36 million of remaining gross benefits to refund after 2013.

49. Now that IRS certainty has been achieved, IPL is requesting that the Board agree to these amounts as final and that no further expenses or benefits from these three projects will be included in the regulatory liability account used for tax benefit rider.

E. CONCLUSION

50. This Report appropriately incorporates the Board's intent with these three tax projects, as expressed through its November 26th Order in the instant docket, as well as its April 13, 2010, Order in Docket No. ARU-2010-0001. Therefore, IPL requests that the Board approve the following two items;

a. The finalization of the amount of total tax benefits for these three tax projects of $47,785,395 to be reflected in the regulatory liability account used for the TBR related to the Iowa retail gas jurisdiction.

b. IPL has satisfied all Docket No. RPU-2012-0002 filing requirements, related to Docket No. ARU-2010-0001, and no further reporting obligations, related to the underlying tax projects and the status of IRS audits, is required for IPL’s Iowa retail gas jurisdiction. IPL will provide further updates on the amounts of the regulatory liability account in future tariff filings required to ensure the distribution of all benefits to IPL’s Iowa retail gas customers for these three tax projects.

WHEREFORE, Interstate Power and Light Company respectfully requests Iowa Utilities Board approval of its final amounts of the three tax projects and the final accounting contained herein as set forth above.

Respectfully submitted,

INTERSTATE POWER AND LIGHT COMPANY

By: *<u>/s/ Kent M. Ragsdale</u>*

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Dated this 24th day of May, 2013, at Cedar Rapids, Iowa.

Interstate Power and Light Company
Tax Benefit Rider Calculation
Summary and Calculation of 100% of Iowa Jurisdicitonal Difference in Federal and State Tax Liabilities

Line No.	Description	(a) **Flood**	(b) **MSC**	(c) **Repairs**	(d) **Total**
1	Total Fed	$11,678,233	$45,522,332	$55,536,055	$112,736,620
2	Total State	$2,766,752	$16,354,738	$22,899,561	$42,021,051
3	**Total Tax Benefits**	$14,444,985	$61,877,071	$78,435,616	**$154,757,672**

Source:
Schedule A page 2 of 2 for calculations supporting the amounts in line 1 and 2, columns a, b, and c.

Interstate Power and Light Company
Tax Benefit Rider Calculation
Summary and Calculation of 100% of Iowa Jurisdicitonal Difference in Federal and State Tax Liabilities

Line No.	Description	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
		Flood		Mixed Service Costs		Repairs		Total	
	Federal								
1	Gross Tax Deduction		$69,863,996		$370,285,803		$595,976,110		$1,036,125,909
	Previous Depreciation								
2	Regulatory	$783,756		(110,275,739)		(133,346,118)		($242,838,101)	
3	Accelerated Tax	($33,636,324)		($115,737,680)		($286,621,457)		($435,995,461)	
4	Total Tax Depreciation Addback		($32,852,568)		($226,013,419)		($419,967,575)		($678,833,562)
5	Total Net Tax Deduction		$37,011,428		$144,272,384		$176,008,535		$357,292,347
6	Federal Tax Rate		31.553%		31.553%		31.553%		31.553%
7	**Federal Tax Benefits**		**$11,678,233**		**$45,522,332**		**$55,536,055**		**$112,736,620**
	State								
8	Gross Tax Deduction		$69,863,996		$ 370,285,803		$ 595,976,110		$1,036,125,909
	Previous Depreciation								
9	Regulatory	$783,756		(110,275,739)		(133,346,118)		($242,838,101)	
10	Accelerated Tax	(33,658,295)		(41,359,102)		(156,479,504)		($231,496,901)	
11	Total Tax Depreciation Addback		($32,874,539)		($151,634,841)		($289,825,622)		($474,335,002)
12	Total Net Tax Deduction		$36,989,457		$218,650,962		$306,150,488		$561,790,907
13	State Tax Rate		7.480%		7.480%		7.480%		7.480%
14	**State Tax Benefits**		**$2,766,752**		**$16,354,738**		**$22,899,561**		**$42,021,051**
15	**Total Net Tax Benefits**		**$14,444,985**		**$61,877,071**		**$78,435,616**		**$154,757,672**

Interstate Power and Light Company **Schedule B**
Tax Benefit Rider Calculation
Traditional Iowa Rate Making Calculation

Line No.	Description		(a) Flood	(b) Mixed Service Costs	(c) Repairs	(d) Total
	Federal					
	Flow Through Items (Reflected in Regulatory Liability)					
1	Tax Basis Deduction		$ 69,863,996	$ 370,285,803	$ 595,976,110	$ 1,036,125,909
2	Regulatory Tax Depreciation		783,756	(110,275,739)	(133,346,118)	(242,838,101)
3	Total Flow Through Deductions	*line 1 + line 2*	70,647,752	260,010,064	462,629,992	793,287,808
4	Tax Rate		31.553%	31.553%	31.553%	31.553%
5	**Flow Through Tax Benefits**	***line 3 * line 4***	**$ 22,291,518**	**$ 82,041,096**	**$ 145,973,856**	**$ 250,306,470**
6	Gross-up		1.709888	1.709888	1.709888	1.709888
7	Revenue Requirement	line 5 * line 6	$ 38,115,992	$ 140,281,059	$ 249,598,897	$ 427,995,948
	Normalized Items (Reflected in Deferred Tax Adjustment)					
8	Normalized Tax Depreciation		$ (33,636,324)	$ (115,737,680)	$ (286,621,457)	$ (435,995,461)
9	Total Normalized Tax Depreciation		$ (33,636,324)	$ (115,737,680)	$ (286,621,457)	$ (435,995,461)
10	Tax Rate		31.553%	31.553%	31.553%	31.553%
11	Adjustment to Normalized Deferred Taxes	*line 9 * line 10*	$ (10,613,285)	$ (36,518,764)	$ (90,437,801)	$ (137,569,850)
12	**Difference in Jurisdictional Federal Tax Liability**	***line 5 + line 11***	**$ 11,678,233**	**$ 45,522,332**	**$ 55,536,055**	**$ 112,736,620**
	Iowa					
	Flow Through Items (Reflected in Regulatory Liability)					
13	Tax Basis Deduction		$ 69,863,996	$ 370,285,803	$ 595,976,110	$ 1,036,125,909
14	Flow Through Tax Depreciation		$783,756	(110,275,739)	(133,346,118)	(242,838,101)
15	Total Flow Through Deductions	*line 13 + line 14*	$ 70,647,752	$ 260,010,064	$ 462,629,992	$ 793,287,808
16	Tax Rate		7.480%	7.480%	7.480%	7.480%
17	**Flow Through Tax Benefits**	***line 15 * line 16***	**$ 5,284,338**	**$ 19,448,332**	**$ 34,603,975**	**$ 59,336,645**
18	Gross-up		1.709888	1.709888	1.709888	1.709888
19	Revenue Requirement	*line 17 * line 18*	$ 9,035,624	$ 33,254,464	$ 59,168,911	$ 101,458,998
	Flow Through Items (Reflected in Regulatory Liability)					
20	Accelerated Tax Depreciation		(33,658,295)	(41,359,102)	(156,479,504)	(231,496,901)
21	Additional Flow Through Deductions		(33,658,295)	(41,359,102)	(156,479,504)	(231,496,901)
22	Tax Rate		7.480%	7.480%	7.480%	7.480%
23	**Flow Through Tax Benefits**	***line 21 * line 22***	**(2,517,586)**	**(3,093,594)**	**(11,704,414)**	**(17,315,594)**
24	Gross-up		1.709888	1.709888	1.709888	1.709888
25	Revenue Requirement	*line 23 * line 24*	(4,304,789)	(5,289,698)	(20,013,233)	(29,607,720)
26	**Difference in Jurisdictional State Tax Liability**	***line 17 + line 23***	**2,766,752**	**16,354,738**	**22,899,561**	**42,021,051**
	Proposed Refund Calculation					
	Total					
27	Gross Flow Through Taxes	*line 5, 17 & 23*	25,058,270	98,395,835	168,873,418	292,327,522
28	Gross-up		1.709888	1.709888	1.709888	1.709888
29	Revenue Requirement for Flow Through Ta	*line 26 * line 27*	42,846,826	168,245,824	288,754,575	499,847,225
30	**Normalized Deferred Taxes**	***line 11***	**(10,613,285)**	**(36,518,764)**	**(90,437,801)**	**(137,569,850)**

Interstate Power and Light Company
Tax Benefit Rider Calculation
Jurisdictional Income Tax Rates

SCHEDULE C

Applicable Flowthrough Rates for Federal and Iowa

Federal Flowthrough Rate	31.553%
Iowa Flowthrough Rate	7.480%
Total Federal and Iowa Flowthorugh Rate	39.033%

Calculations Parameters:

IPL activity in Iowa Regulatory Jurisdiction based on historical activity.	**94%**
IPL activity in Minnesota Regulatory Jurisdiction based on historical activity.	**6%**
Federal Taxes deductible/taxable on Iowa	**50%**
Other state taxes are deductible/taxable on Iowa	**100%**
Federal Statutory Rate	**35.0%**
Iowa Statutory Rate	**12.0%**
MN Statutory Rate	**9.8%**

Detailed Calculations:

Total Federal and State Statutory Rate Calculation $100,000

	(a) Federal Tax - Iowa Jurisdiction	(b) Federal Tax - Minnesota Jurisdiction	(c) Iowa Tax - Iowa Jurisdiction	(d) Iowa Tax - Minnesota Jurisdiction	(e) Minnesota Tax - Minnesota Jurisdiction
Pretax Book Income	94,000	6,000	100,000	-	100,000
Fed deduct (1/2 Fed tax)			(15,767)	(15,767)	n/a
State Deduct*			(588)	(588)	n/a
	94,000	6,000	83,645	(16,355)	100,000
Appt Rate			**94.000000%**	**6.000000%**	**6.0000%**
			78,627	(981)	6,000
State Tax Rate			12.00%	12.00%	9.80%
State Income Taxes	(9,435)	(470)	9,435	(118)	588
	84,565	5,530			
Federal Tax Rate	35.000%	35.000%			
Federal Income Taxes	29,598	1,935			
	39,033	**2,406**			
Rate (Tax/PTBI)	**29.598%**	**1.935%**	**9.435%**	**-0.118%**	**0.588%**
Total Statutory Tax Rate	**41.439%**				
Total Iowa Jurisdiction	**39.033%**	columns (a) and (c)			
Totall Minnesota Jurisdiction	**2.406%**	columns (b), (d) and (e)			

Federal Calculation without Iowa $ 100,000

	(a) Federal Tax - Iowa Jurisdiction	(b) Federal Tax - Minnesota Jurisdiction	(c) Iowa Tax - Iowa Jurisdiction	(d) Iowa Tax - Minnesota Jurisdiction	(e) Minnesota Tax - Minnesota Jurisdiction
Pretax Book Income	94,000	6,000	-	-	100,000
Fed deduct (1/2 Fed tax)			(17,783)	(17,783)	n/a
State Deduct*			(588)	(588)	n/a
	94,000	6,000	(18,371)	(18,371)	100,000
Appt Rate			**94.000000%**	**6.000000%**	**6.0000%**
			(17,269)	(1,102)	6,000
State Tax Rate			12.00%	12.00%	9.80%
State Income Taxes	2,072	(456)	(2,072)	(132)	588
	96,072	5,544			
Federal Tax Rate	35.000%	35.000%			
Federal Income Taxes	33,625	1,940			
	31,553	**2,396**			
Rate (Tax/PTBI)	**33.625%**	**1.940%**	**-2.072%**	**-0.132%**	**0.588%**
Federal Rate	**31.553%**	columns (a) and (c)			

Iowa Only Calculation $ 100,000

	(a) Federal Tax - Iowa Jurisdiction	(b) Federal Tax - Minnesota Jurisdiction	(c) Iowa Tax - Iowa Jurisdiction	(d) Iowa Tax - Minnesota Jurisdiction	(e) Minnesota Tax - Minnesota Jurisdiction
Pretax Book Income	-	-	100,000	-	-
Fed deduct (1/2 Fed tax)			2,016	2,016	n/a
State Deduct*			-	-	n/a
	-	-	102,016	2,016	-
Appt Rate			**94.000000%**	**6.000000%**	**6.0000%**
			95,895	121	-
State Tax Rate			12.00%	12.00%	9.80%
State Income Taxes	(11,507)	(15)	11,507	15	-
	(11,507)	(15)			
Federal Tax Rate	35.000%	35.000%			
Federal Income Taxes	(4,028)	(5)			
	7,480	**9**			
Rate (Tax/PTBI)	**-4.028%**	**-0.005%**	**11.507%**	**0.015%**	**0.000%**
Total	**7.480%**	columns (a) and (c)			

Iowa Jurisdictional Tax Rates	
- Federal Rate	**31.553%**
- State Rate	**7.480%**
Total Iowa Jurisdiction Rate	**39.033%**