RPU-2010-0001

FILED WITH
Executive Secretary
December 14, 2012
IOWA UTILITIES BOARD

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December 14, 2012

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 Nos. RPU-2010-0001, ARU-2010-0001, (TF-2011-0010), (TF-2011-0133), (TF-2012-0640)
Report on Regulatory Liabilities Related to Tax Benefit Rider

Dear Secretary Conrad:

Enclosed please find Interstate Power and Light Company's (IPL) Report on Regulatory Liabilities Related to Tax Benefit Rider (Report), as filed today on EFS.

The Report notes that IPL intends to make a revision, to its November 20, 2012, filing in Board Docket No. TF-2012-0640. This revision is related to the amount of IPL's proposed normalized deferred tax adjustment that was originally included in certain attachments to IPL's November 20, 2012, filing in that docket. The tariff sheets that IPL filed in Board Docket No. TF-2012-0640 on November 20, 2012, will be unaffected by this revision. IPL plans on filing this revision on EFS today.

Very Truly Yours,

/s/ Kent M. Ragsdale
Kent M. Ragsdale
Managing Attorney - Regulatory

KMR/kjf
Enclosure

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IOWA UTILITIES BOARD

STATE OF IOWA

BEFORE THE IOWA UTILITIES BOARD

IN RE: **INTERSTATE POWER AND LIGHT COMPANY**	**DOCKET NOS. RPU-2010-0001** **ARU-2010-0001** **(TF-2011-0010)** **(TF-2011-0133)** **(TF-2012-0640)**

REPORT ON REGULATORY LIABILITIES RELATED TO TAX BENEFIT RIDER

COMES NOW, Interstate Power and Light Company (IPL) and, pursuant to the Final Decision and Order issued in the above-referenced docket by the Iowa Utilities Board (Board) on January 10, 2011 (January 10th Order), submits its final Report on Regulatory Liabilities Related to the Tax Benefit Rider (TBR).

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

   a. The finalization of the amounts to be reflected in the regulatory liability account used for the TBR related to the Iowa electric jurisdiction.

   b. The current status of total tax benefits of $427,741,654 for the Iowa electric jurisdiction including IPL's proposed treatment for deferred taxes in Docket No. RPU-2010-0001. This amount is composed of two components:

      i. Total gross tax benefits available to the Iowa electric jurisdiction of $452,061,830.

      ii. The reflection of a deferred tax adjustment for the Iowa electric jurisdiction until the appropriate deferred tax balances are reflected in rate base in IPL's next electric rate case. This adjustment for 2013 is $24,320,176.[1] The amounts in this filing only reflect the deferred tax adjustment through 2013. While a similar adjustment would be needed in future years until the next electric rate case, IPL reflected amounts in this filing with the adjustment through 2013 since it is clear that there will not be another electric rate case in 2013 due to the current application of a rate freeze.

c. IPL has satisfied all Docket No. RPU-2010-0001 filing requirements, related to Docket No. ARU-2010-0001, and no further reporting obligations, related to the underlying tax projects, is required for IPL's Iowa electric jurisdiction.

2. This filing illustrates tax benefits for both IPL's Iowa electric and gas jurisdictions, however IPL is only asking for finalization of the amounts to be used in the electric tax benefit rider with this filing. Consistent with the Board's November 26, 2012 Order in IPL's 2012 gas rate case, Docket No. RPU-2012-0002, IPL plans to file a report within six months with a similar update and provide the amounts that have been credited to Iowa gas customers. This filing for IPL's electric jurisdiction follows the same ratemaking principles for the electric TBR that were accepted by the IUB in Docket No. RPU-2012-0002.

[1] A comparable figure was provided in IPL's November 20, 2012, Tax Benefit Rider Third Year Compliance Filing. IPL's November 20, 2012, filing has been docketed as Board Docket No. TF-2012-0640. On page 1 of Interpretation No. IPL E2012-22, included with IPL's November 20, 2012, filing, IPL states: "The components include gross tax benefits (a.k.a. flow through benefits) of $80,758,506 offset by a normalized deferred tax adjustment of $24,538,506 resulting in a 2013 refund amount of $56,220,000." Page 1 of 1 of Attachment 4 of IPL's November 20, 2012, filing provides IPL's calculation that supports the normalized deferred tax adjustment of $24,538,506. On November 27, 2012, the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, filed a "Conditional Objection" stating "[f]urther analysis is required to determine the appropriateness of Interstate's proposed $24,538,506 deferred tax adjustment." Subsequent to November 27, 2012, IPL and the OCA have had additional dialogue regarding IPL's proposed $24,538,506 normalized deferred tax adjustment. As a result of those discussions, IPL has agreed to reduce its proposed normalized deferred tax adjustment to the amount of $24,320,176. IPL intends to make a revision to its November 20, 2012, filing in Board Docket No. TF-2012-0640 indicating that through this "Report on Regulatory Liabilities Related to Tax Benefit Rider" IPL's proposed $24,538,506 normalized deferred tax adjustment is being reduced to $24,320,176.

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

A. BACKGROUND

B. UPDATE ON TAX PROJECTS

i. Flood Insurance Proceeds

ii. Repair Expenditures

iii. Mixed Service Costs

iv. Update Summary

C. FINAL ACCOUNTING AND SUPPORT

i. Schedule A – Summary and Calculation of 100% of Iowa Jurisdictional Differences in Federal and State Tax Liabilities

ii. Schedule B – Traditional Iowa Ratemaking Calculation

iii. Schedule C – Deferred Tax Adjustment for 2013 Tax Benefit Rider Factor

iv. Schedule D – Project Details and Adjustments

v. Schedule E – 2012 Tax Deductions With and Without Repair Method Change

vi. Schedule F – Jurisdictional Tax Rates

D. PROPOSAL

E. CONCLUSION

A. BACKGROUND

3. 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 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 Internal Revenue Service (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.

4. 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.

5. In its January 10, 2011 Order in Docket RPU-2010-0001, the Board approved the use of the TBR that allowed IPL to return the estimated benefits of these three tax projects to its electric customers, prior to the benefits having completed an IRS audit. The Board stated in the January 10th Order that, depending on final results from the IRS audit process, refund targets can be adjusted accordingly.

6. As presented in Table 1 below, the three year refund plan (2011-2013), outlined in the in the January 10th Order, was based on estimated tax savings for these three tax projects as follows:

Table 1 Estimated Electric Refund Targets (in millions)

Tax Refund Category	Estimated Iowa Electric Savings	Percentage	Targeted Refunds
Flood	$42	90%	$37.8
Repair	$121	70%	$85.0
Mixed Service	$93-$132	70%	$78.7
Total	$256-$295		$201.5

7. The Board's February 25, 2011 Order in Docket Nos. RPU-2010-0001 and TF-2011-0010 approved IPL's Compliance tariff implementing the TBR to refund the 2011 refund target level of $63.8 million to IPL's retail electric customers in Iowa.

8. IPL made an additional tariff filing on November 22, 2011, in Docket No. TF-2011-0133 for the second 12 months of the three year period. On December 20, 2011, the Board approved IPL's Compliance tariff implementing a refund target level for 2012 of $81.5 million to IPL's retail electric customers in Iowa.

9. IPL is also proposing to credit electric customers in Iowa $56.2 million in 2013, based on its filing made with the Board on November 20, 2012 in Board Docket No. TF-2012-0640. Therefore, the electric TBR is expected to credit customers an amount equal to $201.5 million through 2013 as targeted in the January 10th Order.

10. IPL has also proposed a gas TBR in its 2012 rate case (Docket No. RPU-2012-0002). In Docket No. RPU-2012-0002 IPL proposed to credit gas customers in Iowa an amount equal to $36 million over a three year period, beginning with the implementation of final rates in that gas rate case. By its Order dated November 26, 2012, the Board accepted IPL's TBR proposal for its gas customers in Iowa.

11. In both cases, IPL proposed to update the credits available to customers once the IRS audits of the three tax projects have been completed. Those audits have

now been completed and IPL will present the final accounting of tax benefits for IPL's gas customers in Iowa in Docket No. RPU-2012-0002 within six months as instructed in the Board's November 26, 2012 order in that docket, and is presenting the final accounting of the tax benefits for IPL's Iowa electric jurisdiction in this filing. Table 2 displays the current status of total tax benefits for electric and gas jurisdictions in Iowa, including IPL's proposed treatment for deferred taxes 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 electric jurisdiction of over $400 million, depending on the timing of the next rate case, is significantly larger than the initial estimates presented in Table 1, of $256-$295 million.

B. UPDATE ON TAX PROJECTS

12. As noted above, IPL has pursued for the benefit of its customers three tax projects that are the subject of the refunds provided by the TBR. Updates on these three projects are provided below. In addition, a summary reflecting the jurisdictional differences in federal and state tax liabilities is provided in a table with each section. IPL has also shown in these tables the regulatory components of

these tax liabilities (i.e. flow through and normalized). These amounts and concepts are discussed in further details during the discussions of Schedules A, B, C and D. 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. <u>Flood Insurance Proceeds</u>

13. 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.

14. 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.

15. 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.[2]

[2] IPL will further explain how these amounts are used in the proposed calculation of the total benefits, explain the regulatory treatment of normalized and flow through taxes and illustrate how the net tax benefits are proposed to be refunded to our customers later in this filing.

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

16. 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.

17. 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.

18. 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.

19. 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

20. 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.

21. 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.

22. 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.

23. 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.

24. 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>

25. 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.

26. 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.

27. 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.[3]

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

28. 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-

[3] IPL will further explain the calculation of these benefits, the regulatory components of these liabilities and illustrate how the net tax benefits are proposed to be refunded to our customers later in this filing.

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.

29. 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.

30. 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.[4]

[4] IPL will further explain the calculation of these benefits later in this filing.

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

31. 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. In addition, the total normalized adjustment for these three tax projects is shown below in Table 7 with the impact calculated through 2013.

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

Table 7 Total Normalized Tax Adjustments

Normalized Tax Adjustments	Federal/Total
Flood Insurance Proceeds	($10,613,285)
Repairs Expenditures	($90,437,801)
Mixed Service Costs	($36,518,764)
Total Normalized	($137,569,850)
Deferred Tax Adjustment through 2013*	($24,320,176)

*See calculation on Schedule C for details

32. 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 8 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 rider. These dates are used when calculating the time period for the appropriate deferred tax adjustment as illustrated on Schedule C below.

Table 8 - Date IRS examination was completed on each project

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

33. 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 – Deferred Tax Adjustment for the 2013 Tax Benefit Rider Factor
>
> Schedule D – Project Details and Adjustments
>
> Schedule E – 2012 Tax Deductions With and Without Method Changes
>
> Schedule F – Jurisdictional Tax Rates

34. 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 different 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 different 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. Deferred tax balances need to reflect the amount of tax benefits IPL has received from the government due to accelerated depreciation that will be paid to customers ratably over the regulatory life of the asset. The amount of accumulated deferred income tax (ADIT) related to

accelerated depreciation is adjusted once the taxpayer takes immediate deductions for repair expenditures, mixed service cost allocations or allocation of insurance proceeds, and therefore those adjustments need to be reflected in the rate base. If this adjustment was not made, the customers would receive the tax benefits of these three projects and would retain the benefit of the reduced rate base as if these three projects were not pursued. This would equate to a double benefit and would be inconsistent with the intent of the Board's April 13, 2010 Order in Docket No. ARU-2010-0001 which wanted to pursue a risk/reward balance. IPL simply wants to ensure Iowa customers receive no more than 100% of the jurisdictional benefits of the differences between the historic methods and the new methods and not continue to provide historic benefits that have not been retained by IPL.

35. In particular, in its initial filing in Docket No. RPU-2010-0001, IPL did not reflect the impact to the ADIT balance related to the electric TBR, because prior to the Test Year 2009 electric rate case, IPL had accounted for the tax projects similar to the accounting that was approved in IPL's Test Year 2001 electric rate case (Docket RPU No. 02-3), where the Company did not reflect any changes in ADIT for a previous change of accounting method for mixed service costs in 2001 due to the uncertainty of sustaining such benefits under IRS audit.

36. The circumstances during the IPL's Test Year 2001 electric rate case were similar to Docket No. RPU-2010-0001 because the Board had authorized IPL to establish a deferred liability account due to IPL's proposed change in accounting for mixed service costs in 2001. (See Board's April 15, 2003 Order in Docket Nos. RPU-02-3, RPU-02-8 and ARU-02-1) IPL prepared the Test Year 2001 electric rate case as if the benefits had not been taken for the change in accounting method for mixed service

costs due to the uncertainty of the outcome with the IRS. This method was validated for the Test Year 2001 electric rate case since the deduction for mixed service costs was fully denied by the IRS. Consequently, all benefits taken were eventually reversed; therefore the Test Year 2001 Iowa electric rate case correctly reflected the balance of ADIT.

37. IPL duplicated this method in Docket No. RPU-2010-0001 due to the materiality of the items and the uncertainty on the IRS' final position. Not only was it unknown at the time if the IRS would accept the tax impacts of the change in accounting methods listed above, but also if accepted, the final amount of any tax benefits were uncertain. IPL's initial filing in Docket No. RPU-2010-0001 reflected the ADIT as if the tax methods were not accepted, but it was decided that IPL would finalize the accounting once the IRS' positions were known and certainty is reached. This approach is consistent with the Board's April 15, 2003 Order in Docket Nos. RPU-02-3, RPU-02-8 and ARU-02-1, pp. 51-55.

38. As noted earlier, certainty has been reached regarding the aforementioned tax projects which have been completed through audit with the IRS. Consequently, the benefits for all these tax projects will be realized and the ADIT liability related to accelerated depreciation needs to be adjusted. Without the deferred tax adjustment IPL would be in the situation where its Iowa retail electric customers would receive a double benefit for these three tax projects as mentioned above which would be counter to the incentives the Board stated in its April 13, 2010 order as discussed earlier. Not only would IPL's Iowa retail electric customers receive the benefit of the cash associated with the refunding of the tax benefits through the TBR,

they would get the added benefit of a rate base reduction by not reflecting the appropriate ADIT liability balance.

39. IPL's proposal, in its initial filing in Docket No. RPU-2010-0001, to calculate its revenue requirement under previous accounting methods and record these tax savings as a regulatory liability until all IRS audits have been completed was in lieu of reflecting the tax impacts of these three projects in current retail electric rates. If IPL had reflected these three projects in IPL's last electric rate case, the result would have changed customer rates by reducing tax expenses with the estimated flow through tax benefits and would have also increased rate base by the estimated impact of normalized deferred taxes. If these impacts were reflected in rates before final audit determination, IPL would have been at risk if the IRS disallowed the proposed tax treatment because IPL might not be able to recover the disallowed deductions from ratepayers. Ordering point 2 in the Board's April 13, 2010 order in Docket No. ARU-2010-0001 states:

> IPL shall calculate its revenue requirement under the previous accounting methods, including its allocation of insurance proceeds from the 2008 flood, until the IRS audit process is completed and shall maintain records for ratemaking purposes as if the accounting changes, including its allocation of insurance proceeds from the 2008 flood, never occurred.

40. IPL is proposing for the purpose of the final accounting of the tax benefits for the purpose of the electric TBR that the benefits of the tax projects are calculated the same way they would have been in the 2010 electric rate case if the amounts of the tax benefits were certain at such time.

41. 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 electric jurisdiction this amount is $427,741,654. The tax benefits can be divided into two components, the first component is the expected gross flow through benefits for the Iowa electric jurisdiction of $452,061,830. The second component is an adjustment to the regulatory liability for the normalized deferred tax adjustment that is required to calculate 100% of the Iowa jurisdictional differences in federal and state tax liabilities for these specific tax projects. This second component is calculated to be $24,320,176 through 2013. Approximately $201.5 million of this total benefit of $427,741,654 is expected to be refunded through 2013 to the Iowa electric customers.

42. 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. <u>Schedule A</u>

43. 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.

44. 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, & 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.

45. 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.

46. 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.

47. While it was agreed that IPL was to refund the difference in federal and Iowa tax liabilities, the Board's April 13, 2010 Order in Docket No. ARU-2010-0001 did not address how IPL was to account for the different regulatory treatment between flow through tax benefits and normalized tax benefits.

48. The method that IPL is proposing provides refunds to customers that would be consistent as if these three tax projects were fully reflected in a rate filing. This proposal is further illustrated with the Traditional Iowa Ratemaking Calculation shown on Schedule B. This proposed method will provide the customers with additional current benefits and provide IPL with the required adjustments necessary to reflect the deferred tax adjustment discussed in paragraphs 34 through 41 above. This method reflects traditional Iowa rate making practices that would have occurred if these tax projects had certainty at the time of the 2010 electric rate case. IPL is proposing that the deferred tax adjustment's impact to revenue requirement, as illustrated on Schedule C, is a reduction to the TBR billing credit which provides for the gross tax deductions. This ensures that the company is not unduly harmed for pursuing these benefits for customers, while still refunding to customers through the TBR a substantial increase in total benefits to $428 million from the $201 million initially targeted when the company pursued the initial rate filing.

ii. <u>Schedule B</u>

49. 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 and which differences would require an adjustment to normalized deferred taxes which are included in rate base.

50. 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.

51. All three of the tax projects included basis differences that should be flowed through to IPL's Iowa 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.

52. 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.

53. For ratemaking purposes, flow through benefits may be directly passed through to customers. In Iowa, this is the traditional rate making practice.

54. Normalized tax benefits from accelerated depreciation are not available to be given directly back to customers through reduced revenue requirement from lower operating expenses. IPL is required to keep these cash benefits or it would be considered a normalization violation.

55. In accordance with order point 2 in the Board's April 13, 2010 order in Docket No. ARU-2010-0001, discussed earlier, in the 2010 Electric rate case, IPL did not flow through to customers the basis differences and regulatory depreciation for the tax projects that were deferred and in addition, IPL left the historical normalized deferred tax as a reduction to rate base. IPL's proposed final accounting is reflected on Schedule B, lines 27-30 and Schedule C. This Proposed Refund Calculation treats the total benefits separately as they would have been reflected in a rate case. Therefore, IPL is proposing to refund 100% of the flow through tax benefits by grossing up to a revenue requirement the basis differences offset by the regulatory depreciation which equals $499,847,225 as reflected in Schedule B, line 29, column d.

56. In addition, IPL is proposing an adjustment to the regulatory liability for the normalized deferred tax impact on rate base, on an annual basis, until its next electric rate case when appropriate normalized deferred tax balances will be reflected in rate base. This proposal is consistent with how these projects would have been reflected in Docket No. RPU-2010-0001, if all amounts were certain at such time. The calculation of the normalized tax reduction is illustrated and explained as part of Schedule C.

iii. <u>Schedule C</u>

57. As noted above, the deferred tax adjustment's impact to revenue requirement is illustrated on Schedule C as a reduction to the TBR billing credit which provides for the gross tax deductions. The rate base adjustment is necessary to ensure 100% of the jurisdictional differences are reflected in the refunds provided to customers. The calculation provided in Schedule C reflects the normalized deferred

taxes as calculated on Schedule B and provides the traditional Iowa rate making treatment for the normalized deferred tax liability adjustment.

58. Schedule C reflects all of the normalized deferred tax adjustments to rate base at the time the IRS audits were completed and further calculates the revenue requirement impact which is consistent with order point 2 in the Board's April 13, 2010 order in Docket No. ARU-2010-0001. The dates each specific project was completed are shown in column a, lines 1-3 and are consistent with Table 6 shown above.

59. The total amounts of deferred tax adjustments shown on lines 4 and 5 are multiplied by the average gross plant allocator for Iowa electric jurisdiction from Docket No. RPU-2010-0001 shown on line 6. Only the electric jurisdiction percentage is used for the adjustment to rate base since this deferred tax adjustment was included in IPL's recently approved natural gas rate case -- Docket No. RPU-2012-0002.

60. The total Iowa electric portion shown on line 7 is then multiplied by the after-tax weighted average cost of capital shown on line 8 which is consistent with how rate base impacts were calculated in Docket No. RPU-2010-0001. Consistent with Iowa rate making practices, the tax impacts are grossed up to a revenue requirement to provide the total impact of the deferred tax adjustment through 2013 of $24,320,176 shown on line 11, column f.

61. For the Iowa electric jurisdiction only, IPL is proposing that the calculated adjustment on Schedule C is reflected as a reduction to the billing credit that is utilized for the tax benefit rider refunds. This adjustment was also discussed

and reflected as part of IPL's November 20, 2012 filing in Board Docket No. TF-2012-0640 filing.

iv. Schedule D

62. Schedule D ties in the amounts in the regulatory liability account to the federal income tax returns for each of the three tax projects. The first part of Schedule D provides IPL's total depreciation system impacts for the basis adjustments and total depreciation with and without these projects. The second part shows adjustments that were made outside of IPL's depreciation accounting system to reflect needed adjustments to ensure that 100% of the Iowa jurisdictional differences in federal and state tax liabilities were provided to customers.

v. Schedule E

63. 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 the intent of the Board's April 13, 2010 order in Docket No. ARU-2010-0001. All tax benefits related to assets placed in service and reflected in current rates have been accounted for and provided in this filing based on current IRS guidance and federal and Iowa enacted tax rates.

64. IPL did maintain its depreciation system records that calculated the basis and depreciation adjustments with and without the tax projects as reflected in Schedule D. While IPL kept records showing the adjustment, as if these methods were not changed, IPL is filing its current income tax returns reflecting the changes in accounting. In lieu of receiving tax benefits from the government for IPL's historic method of accounting, IPL's customers will receive the benefits of the new method of accounting. For example, Docket No. RPU-2010-0001 reflected a certain level of

depreciation deductions for historic assets. Since IPL changed its method of accounting and deducted over $154 million in remaining tax basis for these three tax projects (as shown in Schedule A) there is no longer an ability to take depreciation deductions for these assets in its future income tax returns. In lieu of a depreciation expense, IPL is allowed, for income tax purposes, to reflect current repair expenditures and current deductions or income for allocations of mixed service costs.

65. Changing its method of accounting is expected to allow IPL to deduct more repairs expenditures in the current year; however its depreciation expenses are reduced since the remaining basis of the assets that qualified as repair expenditures in the past no longer have any basis in the current year which can be depreciated. In other words, a current repair deduction replaces historic and current depreciation deductions used to set rates. All cumulative benefits and adjustments through audit are reflected in this filing. IPL plans to reflect future impacts, both positive and negative, to their financials using traditional Iowa ratemaking principles. No additional benefits will be reflected in the regulatory liability and no further adjustments will be made to accumulated deferred income tax balances. The next rate filings will set rates based upon the current methods of accounting that were sustained under audit.

66. To support and further illustrate the cash flow impacts to IPL for 2012 from these three tax projects, IPL has provided Schedule E. In this schedule, IPL shows the amount of estimated federal tax depreciation IPL would have deducted for 2012 of $40,557,312 if these projects were not pursued. This amount is compared to the estimated amount of repair deductions taken for 2012 of $27,008,974. The differential between these two amounts is expected to result in $13,548,338 of fewer deductions reducing the cash benefits for IPL. For Iowa depreciation this schedule

shows a difference of $6,888,146 of fewer deductions decreasing the cash benefit for IPL. The impact of the Federal and Iowa changes in deductions is expected to result in $4,790,141 of fewer cash benefits for IPL for 2012. Despite IPL receiving fewer cash benefits for 2012 from these three tax projects, IPL believes it would be inconsistent with the Board's intent to continue to record these subsequent income tax expense and benefits to the regulatory liability account after IRS audit completion.

vi. <u>Schedule F</u>

67. 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 F, 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 F 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.

68. 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

69. IPL is proposing to refund the estimated benefits of $427,741,654 as estimated through 2013 to Iowa electric customers through the TBR billing credits. As Table 2 shows, over $201 million is expected to have been refunded to electric customers by the end of 2013 leaving on estimated $226 million of remaining gross benefits to refund after 2013.

70. The amount IPL is proposing to refund to retail electric customers consists of two components, which include the gross flow through benefits of $452,061,830 and a normalized deferred tax adjustment of $24,320,176 shown on Schedule C as calculated through 2013. The deferred tax adjustment is necessary to reflect 100% of the jurisdictional differences. The 2013 electric tariff filing proposal is shown below:

Billing Credit Calculation:

Total Amount of Gross Tax Benefits to Refund in 2013	$80,540,176
Total Reduction for Deferred Tax Adjustment (Schedule C)	(24,320,176)
Total Billing Credit to Customers	$56,220,000

71. 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. IPL will provide a proposed schedule of the remaining benefits to refund once the final accounting is approved.

E. CONCLUSION

72. This Report appropriately incorporates the Board's intent with these three tax projects, as expressed through its January 10th 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 three items;

a. The finalization of the amounts to be reflected in the regulatory liability account for these three tax projects used for the TBR related to the Iowa electric jurisdiction.

b. The current status of total tax benefits for these three tax projects of $427,741,654 for the Iowa electric jurisdiction, including IPL's proposed treatment for deferred taxes in Docket No. RPU-2010-0001.

c. IPL has satisfied all Docket No. RPU-2010-0001 filing requirements, related to Docket No. ARU-2010-0001, and no further reporting obligations, related to the underlying tax projects, is required for IPL's Iowa electric jurisdiction. IPL will provide an update for the three tax projects for the gas customers and will provide further updates on the amounts of the regulatory liability account and future tariff filings required to ensure the distribution of all benefits 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 14th day of December, 2012, at Cedar Rapids, Iowa.

Interstate Power and Light Company **Schedule A**
Tax Benefit Rider Calculation
Summary and Calculation of 100% of Iowa Jurisdictional 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 Jurisdictional 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**

Source:
Line 1, 2, 3, 8, 9, and 10 columns a, b, c, d, e and f: Schedule D Page 2 of 2.
Line 6 and 13 column b, d, and f: Schedule F

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 Taxes	*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)**

See Schedule C for Proposed Rate Calculation for Deferred Tax Adjustment

Interstate Power and Light Company **Schedule C**

Iowa Electric Utility

Calculation of Deferred Tax Adjustment for 2013 Tax Benefit Rider Factor

Calculation of the understatement of IPL Iowa ADIT in rate base by calendar year*

		(a)	(b)	(c)	(d)	(e)	(f)
Line No.	Tax Project	Resolution Date with IRS	Historic Normalized Benefits of Three Tax Projects	2011	2012	2013	
1	Allocation of flood insurance proceeds	10/22/2010	10,613,285	$10,613,285	$10,613,285	$10,613,285	
2	Mixed service costs	09/13/2011	36,518,764	10,905,603	36,518,764	36,518,764	
3	Repairs expenditures	10/09/2012	90,437,801		20,509,119	90,437,801	
4	Understatement of IPL Iowa ADIT in rate base		$137,569,850	$21,518,888	$67,641,168	$137,569,850	

Calculation of the deferred tax adjustment (based on rate base understatement above)

Line No.		(b)	2011	2012	2013	Total
5	Understatement of IPL Iowa ADIT in rate base	$137,569,850	$21,518,888	$67,641,168	$137,569,850	
6	Average Gross Plant - Iowa Allocator (Excluding Steam)	90.44%	90.44%	90.44%	90.44%	
7	Understatement of IPL Iowa Electric ADIT in rate base	$124,418,173	$19,461,683	$61,174,672	$124,418,173	
8	After-Tax Weighted Average Cost of Capital	6.930%	6.930%	6.930%	6.930%	
9	Deferred Tax Adjustment (After-Tax)	$8,622,179	$1,348,695	$4,239,405	$8,622,179	$14,210,279
10	Income Tax Gross-Up Factor	1.711	1.711	1.711	1.711	1.711
11	Deferred Tax Adjustment (Pre-Tax)	$14,756,425	$2,308,223	$7,255,528	$14,756,425	$24,320,176

**Once a tax project has been resolved with IRS, IPL rate base becomes understated and customers begin receiving double benefit. Understatement of rate base is pro-rated in a given calendar year based on timing of IRS resolution.*

Source:
Line 6, column (b): Evidence Tab 12, page 9 (Basis E(3) - Ave Gross Plant - Iowa (GPIA), adjusted to exclude Steam business) from Docket No. RPU-2010-0001
Line 8, column (b): Schedule B from IUB Order Granting Request For Clarification from Docket No. RPU-2010-0001
Line 10, column (b): Income Tax Gross-Up Factor Formula = 1 / (1 - Iowa statutory tax rate of 41.57%) = 1 / (0.5843)

Interstate Power and Light Company
Tax Benefit Rider Calculation
Project Details and Adjustments

FEDERAL

Line No.	Description Total	(a) 2008 Flood Insurance Proceeds Depreciation Reports Without Flood	(b) With Flood	(c) Difference	(d) 2010 Mixed Service Costs Depreciation Reports Without 263A	(e) With 263A	(f) Difference	(g) 2011 Repairs Expenditures Depreciation Reports Without Repairs	(h) With Repairs	(i) Difference
	Adjustments in Depreciation System									
1	Basis Differences of Capitalized Assets (Flow Through)	0	0	0	0	(377,108,396)	**(377,108,396)**	0	(587,265,879)	**(587,265,879)**
2	Regulatory Depreciation (Flow Through)	(51,679,965)	(52,463,721)	(783,756)	(80,111,698)	33,603,377	**113,715,075**	(345,313,243)	(211,967,125)	133,346,118
3	Net Flow Through Adjustments	(51,679,965)	(52,463,721)	(783,756)	(80,111,698)	(343,505,019)	(263,393,321)	(345,313,243)	(799,233,004)	(453,919,761)
4	Normalized Depreciation (Accelerated Depr)	(816,802,263)	(783,235,920)	33,566,343	(1,542,413,272)	(1,424,840,113)	117,573,159	(1,643,726,531)	(1,357,321,323)	286,405,208
5	Net Normalized Adjustments	(816,802,263)	(783,235,920)	33,566,343	(1,542,413,272)	(1,424,840,113)	117,573,159	(1,643,726,531)	(1,357,321,323)	286,405,208
6	Total Net Book Basis vs. Net Tax Basis	(868,482,228)	(835,699,641)	32,782,587	(1,622,524,970)	(1,768,345,132)	(145,820,162)	(1,989,039,774)	(2,156,554,327)	(167,514,553)
	Adjustments to Regulatory Liability									
7	Flood Deferred Gain	0	(77,620,996)	(77,620,996)	0	0	0	0	0	0
8	Flood Refund reflected in 2008 Electric Rate case	0	7,757,000	7,757,000	0	0	0	0	0	0
9	Non-Utility Assets (Basis)	0	0	0	0	6,822,593	6,822,593	0	0	0
10	Non-Utility Assets Flow-back	0	0	0	0	(3,439,336)	(3,439,336)	0	0	0
11	CWIP - Repairs adjusted for MSC	0	0	0	0	0	0	0	2,200,000	2,200,000
12	CWIP - Repairs Deduction	0	0	0	0	0	0	0	(11,720,827)	(11,720,827)
13	Cost of Removal adjustment not in PowerTax	0	0	0	0	0	0	0	810,596	810,596
14	Adjustments to Flow Through Differences	0	(69,863,996)	(69,863,996)	0	3,383,257	3,383,257	0	(8,710,231)	(8,710,231)
15	Non-Utility Assets	0	0	0	0	(1,834,692)	(1,834,692)	0	0	0
16	CIAC	(16,550,046)	(16,480,065)	69,981	(16,379,597)	(16,380,384)	(787)	(14,868,708)	(14,652,459)	216,249
17	Adjustments to Normalized Differences	(16,550,046)	(16,480,065)	69,981	(16,379,597)	(18,215,076)	(1,835,479)	(14,868,708)	(14,652,459)	216,249
	SUMMARY									
18	Net Normalized Depreciation	(833,352,309)	(799,715,985)	33,636,324	(1,558,792,869)	(1,443,055,189)	115,737,680	(1,658,595,239)	(1,371,973,782)	286,621,457
19	Net Flow Through Basis/Depreciation	(51,679,965)	(122,327,717)	(70,647,752)	(80,111,698)	(340,121,762)	(260,010,064)	(345,313,243)	(807,943,235)	(462,629,992)
20	Total Basis/Depreciation Differences	(885,032,274)	(922,043,702)	(37,011,428)	(1,638,904,567)	(1,783,176,951)	(144,272,384)	(2,003,908,482)	(2,179,917,017)	(176,008,535)
21	Federal Jurisdictional Tax Rate			31.5530%			31.5530%			31.5530%
22	**100% Federal Tax Liability Difference**			**(11,678,233)**			**(45,522,332)**			**(55,536,055)**
23	**TOTAL Federal Jurisdictional Differences for all Projects**									**(112,736,620)**

Source: Depreciation reports with gross Tax Benefit Rider basis adjustments

Interstate Power and Light
Tax Benefit Rider Calculation **Schedule D**
Tax Benefit Rider In PowerTax 257 Reports Summary

IOWA

Line No.	Description Total	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		2008 Flood Depreciation Reports			2010 MSC Depreciation Reports			2011 Repairs Depreciation Reports		
		Without Flood	With Flood	Difference	Without 263A	With 263A	Difference	Without Repairs	With Repairs	Difference
	Adjustments in Depreciation System									
1	Basis Differences of Capitalized Assets (Flow Through)	0	0	0	0	(377,108,396)	**(377,108,396)**	0	(587,265,879)	**(587,265,879)**
2	Regulatory Depreciation (Flow Through)	(51,679,965)	(52,463,721)	(783,756)	(155,300,571)	(41,585,496)	**113,715,075**	(275,973,822)	(142,627,704)	133,346,118
3	Additional Accelerated Depreciation (Flow Through)	(705,072,330)	(671,484,016)	33,588,314	(947,966,918)	(905,811,814)	42,155,104	(1,168,794,797)	(1,012,531,542)	156,263,255
4	Net Flow Through Adjustments	(756,752,295)	(723,947,737)	32,804,558	(1,103,267,489)	(1,324,505,706)	(221,238,217)	(1,444,768,619)	(1,742,425,125)	(297,656,506)
5	Total Net Book Basis vs. Net Tax Basis	(756,752,295)	(723,947,737)	32,804,558	(1,103,267,489)	(1,324,505,706)	(221,238,217)	(1,444,768,619)	(1,742,425,125)	(297,656,506)
	Adjustments to Regulatory Liability									
6	Flood Deferred Gain	0	(77,620,996)	(77,620,996)	0	0	0	0	0	0
7	Flood Refund reflected in 2008 Electric Rate case	0	7,757,000	7,757,000	0	0	0	0	0	0
8	Non-Utility Assets (Basis)	0	0	0	0	6,822,593	6,822,593	0	0	0
9	Non-Utility Assets Flow-back	0	0	0	0	(3,439,336)	(3,439,336)	0	0	0
10	CIAC	(16,550,046)	(16,480,065)	69,981	(16,379,597)	(16,380,384)	(787)	(14,868,708)	(14,652,459)	216,249
11	CWIP - Repairs adjusted for 263A	0	0	0	0	0	0	0	2,200,000	2,200,000
12	CWIP - Repairs Deduction	0	0	0	0	0	0	0	(11,720,827)	(11,720,827)
13	Cost of Removal adjustment not in PowerTax	0	0	0	0	0	0	0	810,596	810,596
14	Non-Utility Assets (Normalized Depreciation)	0	0	0	0	(795,215)	(795,215)	0	0	0
15	Additional Flow Through Benefits	(16,550,046)	(86,344,061)	(69,794,015)	(16,379,597)	(13,792,342)	2,587,255	(14,868,708)	(23,362,690)	(8,493,982)
16	Net Flow Through Depreciation	(773,302,341)	(810,291,798)	(36,989,457)	(1,119,647,086)	(1,338,298,048)	(218,650,962)	(1,459,637,327)	(1,765,787,815)	(306,150,488)
17	Iowa Jurisdictional Tax Rate			7.4798%			7.4798%			7.4798%
18	100% State Tax Liability Difference			(2,766,752)			(16,354,738)			(22,899,561)
19	**TOTAL State Jurisdictional Differences for all projects**									**(42,021,051)**

Source: Depreciation reports with gross Tax Benefit Rider basis adjustments

Interstate Power and Light Company — Schedule E

IPL's Tax Benefit Rider Final Accounting

2012 Tax Deductions With and Without Repair Method Change

I. Tax Return Estimate if Method Changes were not filed

		Federal Estimated 2012 Depreciation	Iowa Estimated 2012 Depreciation
1	Tax Depr - Elec Production Repairs	(12,975,315)	(17,188,094)
2	Tax Depr - Elec Distribution Repairs	(14,187,543)	(21,557,019)
3	Tax Depr - Gas Distribution Repairs	(2,367,736)	(3,571,710)
4	Tax Depr - Mixed Service Costs (MSC)	(15,698,890)	(25,463,828)
5	Tax Bonus Depr - Repairs	(19,755,264)	-
6	Tax Bonus Depr - MSC	(11,925,881)	-
7	Book Depr Addback - Repairs	21,052,473	21,052,473
8	Book Depr Addback - MSC	15,300,844	15,300,844
9	**Total Depreciation Adjustment**	$ (40,557,312)	$ (31,427,334)

II. Current Tax Return Estimate

		Federal Repair Deductions	Iowa Repair Deductions
10	Tax Repairs	39,510,529	39,510,529
11	Book Depr Addback - Repairs	(21,052,473)	(21,052,473)
12	Tax MSC	23,851,762	23,851,762
13	Book Depr Addback - MSC	(15,300,844)	(15,300,844)
14	Book Depr Addback - Flood		(2,469,786)
15	Total Depreciation Adjustment	27,008,974	24,539,188

III. Difference

		Federal	Iowa	
16	Difference	$ (13,548,338)	$ (6,888,146)	
17	Jurisdictional Tax Rates	31.55%	7.48%	
18	Federal Tax on Difference	(4,274,907)	(515,233)	(4,790,140)
				Cash Detriment

Interstate Power and Light Company **Schedule F**
IPL's Tax Benefit Rider Final Accounting
Jurisdictional Income Tax Rates

Applicable Jurisdictional Tax Rates for Federal and Iowa

1	**Federal Tax Rate for Iowa Jurisdiction**	**31.553%**
2	**Iowa Tax rate for Iowa Jurisdiction**	**7.480%**
3	**Total Federal and Iowa Jurisdictional Rate**	**39.033%**

Calculations Parameters:

4	IPL activity in Iowa Regulatory Jurisdiction based on historical activity.	**94%**
5	IPL activity in Minnesota Regulatory Jurisdiction based on historical activity.	**6%**
6	Federal Taxes deductible/taxable on Iowa	**50%**
7	Other state taxes are deductible/taxable on Iowa	**100%**
8	Federal Statutory Rate	**35.0%**
9	Iowa Statutory Rate	**12.0%**
10	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
11	Pretax Book Income (PTBI)	94,000	6,000	100,000	-	100,000
12	Federal deduct (1/2 Fed tax)			(15,767)	(15,767)	n/a
13	State Tax Deduction			(588)	(588)	n/a
14		94,000	6,000	83,645	(16,355)	100,000
15	Apportionment Rate			**94.000000%**	**6.000000%**	**6.0000%**
16				78,627	(981)	6,000
17	State Tax Rate			12.00%	12.00%	9.80%
18	State Income Taxes	(9,435)	(470)	9,435	(118)	588
19						
20	Subtotal	84,565	5,530			
21	Federal Tax Rate	35.000%	35.000%			
22	Federal Income Taxes	29,598	1,935			
23	Total Jurisdictional Taxes	**39,033**	**2,406**			
24	**Income Tax Rate (Tax/PTBI)**	**29.598%**	**1.935%**	**9.435%**	**-0.118%**	**0.588%**
25	**Total Statutory Tax Rate**	**41.439%**				
26	**Total Iowa Jurisdiction**	**39.033%**	columns (a) and (c)			
27	**Total 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
28	Pretax Book Income (PTBI)	94,000	6,000	-	-	100,000
29	Federal deduct (1/2 Fed tax)			(17,783)	(17,783)	n/a
30	State Tax Deduction			(588)	(588)	n/a
31	Pre-apportioned Income	94,000	6,000	(18,371)	(18,371)	100,000
32	Apportionment Rate			**94.000000%**	**6.000000%**	**6.0000%**
33	State Taxable Income			(17,269)	(1,102)	6,000
34	State Tax Rate			12.00%	12.00%	9.80%
35	State Income Taxes	2,072	(456)	(2,072)	(132)	588
36						
37	Federal Taxable Income	96,072	5,544			
38	Federal Tax Rate	35.000%	35.000%			
39	Federal Income Taxes	33,625	1,940			
40	**Total Jurisdictional Taxes**	**31,553**	**2,396**			
41	**Income Tax Rate (Tax/PTBI)**	**33.625%**	**1.940%**	**-2.072%**	**-0.132%**	**0.588%**
42	**Federal Tax Rate - Iowa Jurisdiction**	**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
43	Pretax Book Income (PTBI)	-	-	100,000	-	-
44	Federal deduct (1/2 Fed tax)			2,016	2,016	n/a
45	State Tax Deduction			-	-	n/a
46	Pre-apportioned Income	-	-	102,016	2,016	-
47	Apportionment Rate			**94.000000%**	**6.000000%**	**6.0000%**
48	State Taxable Income			95,895	121	-
49	State Tax Rate			12.00%	12.00%	9.80%
50	State Income Taxes	(11,507)	(15)	11,507	15	-
51						
52	Federal Taxable Income	(11,507)	(15)			
53	Federal Tax Rate	35.000%	35.000%			
54	Federal Income Taxes	(4,028)	(5)			
55	Total Jurisdictional Taxes	**7,480**	**9**			
56	**Income Tax Rate (Tax/PTBI)**	**-4.028%**	**-0.005%**	**11.507%**	**0.015%**	**0.000%**
57	**Iowa Jurisdictional Tax Rate**	**7.480%**	columns (a) and (c)			