

January 22, 2016

IOWA UTILITIES BOARD

**TF-2012-0657
(RPU-2012-0002)**



Alliant Energy Corporate Services, Inc.
Legal Department
319-786-4236 – Phone
319-786-4533 – Fax

Samantha C. Norris
Senior Attorney

Interstate Power and Light Co.
An Alliant Energy Company

Alliant Tower
200 First Street SE
P.O. Box 351
Cedar Rapids, IA 52406-0351

Office: 1.800.822.4348
www.alliantenergy.com

January 22, 2016

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

RE: Interstate Power and Light Company
Docket Nos. TF-2012-0657 (RPU-2012-0002)
Interpretation No. G2015-29
Tax Benefit Rider

Dear Executive Secretary:

Enclosed please find Interstate Power and Light Company's proposed natural gas compliance filing of the Tax Benefit Rider, as filed today on EFS.

Very truly yours,

/s/ Samantha C. Norris
Samantha C. Norris
Senior Attorney

SCN/tab
Enclosures

Interstate Power and Light Company

January 22, 2016

INTERPRETATION NO. IPL G2015-29

**TAX BENEFIT RIDER REPORT
FOURTH YEAR COMPLIANCE FILING**

RE: Docket Nos. TF-2012-0657(RPU-2012-0002)

Purpose

The Iowa Utilities Board (Board) issued a final order in Docket No. RPU-2012-0002 on November 26, 2012 (November 2012 Order) approving a settlement agreement (Settlement) between Interstate Power and Light Company (IPL), the Office of Consumer Advocate (OCA), and the Iowa Consumers Coalition (ICC) pertaining to IPL's proposal for a general increase in natural gas rates. The Board determined that the overall Settlement, including the increase in revenue and rates agreed to in the Settlement, was reasonable based upon the record in the case and the Settlement provided an overall annual increase of \$10.5 million to be applied as a uniform percentage increase of 12.95 percent across customer classes based on class non-fuel and non-energy efficiency cost recovery (EECR) rate revenues of \$82,429,442.90. The overall revenue increase was 3.99 percent based upon the annual revenue increase of \$10.5 million and the total annual revenue requirement of \$263,047,271.79, which includes the cost of gas.

The Board also found that the Tax Benefit Rider (TBR) as agreed to in the Settlement was a reasonable method of returning identified tax savings to customers. The TBR agreed to in Article XI of the Settlement provided an offset to the rate increases by customer class that spread the tax benefits in three equal installments of \$12 million annually over the three year period of 2013 through 2015. The \$12 million tax benefit credit more than offset the final \$10.5 million increase agreed to in the Settlement, effectively delaying the rate increase to customers.

Since the Board's November 2012 Order, IPL will have credited to customers approximately \$35 million in the three year period from 2013 through the end of 2015. As described in this filing, IPL has additional tax savings dollars to credit to customers in 2016. This filing describes IPL's plan to do so in addition to its plan for TBR credits in 2016.

As described below, for informational purposes only, IPL will refund the remaining amounts within the TBR regulatory liability account in 2016. This proposed plan uses the same accounting methodology approved by the Board for the initial TBR credits for 2013 through 2015.

Background

The Settlement TBR allocated the tax benefit credits in proportion to the customer class rate increases and specifically offset the customer charge increases of the Residential and General Service classes and the demand rate increase of the Large General Service (LGS) and Contract Demand class. The TBR offset credits did not reduce base tariff rates, but are reflected in a separate TBR rider and shown as a separate line item on customer bills.

The tax benefits were derived from three categories:

- (1) proceeds from the 2008 flood of \$4 million;
- (2) mixed service costs of \$14 million; and
- (3) repair expenditures of \$18 million.

The TBR tariff provides billing credits to customers from the regulatory liability account established for income tax benefits that were authorized by the Board in Docket No. ARU-2010-0001. Table 1 below is from Attachment C to the Settlement Agreement in Docket No. RPU-2012-0002.

Table 1 – Tax Benefit Rider (RPU-2012-0002)

Annual Dollars

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Residential	\$ 7,248,738	\$ 7,248,738	\$ 7,248,738
General Service	\$ 3,583,788	\$ 3,583,788	\$3,583,788
Large General Serv	\$ 1,001,610	\$ 1,001,610	\$1,001,610
Contract Demand	\$ 165,984	\$ 165,984	\$ 165,984
Total	\$ 12,000,120	\$ 12,000,120	\$12,000,120

Tax Projects

Repair		\$ 6,000,240	\$12,000,120
Flood	\$ 4,000,000		
Mixed Services	\$ 8,000,120	\$ 5,999,880	

<u>Year</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
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The Board's November 2012 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. On February 19, 2013, the Board issued an order in Docket No. ARU-2010-0001 (February 2013 Order). The February 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 Electric Report asked for finalization of the amounts to be used in the electric TBR. The IRS audits were completed for 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. The February 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.

On May 24, 2013, IPL filed a status report (May Status Report) related to the natural gas TBR. Consistent with the Board's February 2013 Order in Docket No. ARU-2010-0001, IPL similarly requested the Board to finalize the recovery amounts to be reflected in the regulatory liability account used for the natural gas TBR. The total amount finalized is \$47,785,395 as depicted in Table 2 below.

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

The Board in its July 26, 2013 order in Docket No. RPU-2012-0002 accepted IPL’s May Status Report for the natural gas TBR and approved the final accounting. As a result, IPL will have an additional \$11,785,395 to refund back to its customers.

Natural Gas TBR Status

Captured in Table 3 below is an update of the distribution of the tax benefits by project and customer class following the approved allocation method in RPU-2012-0002.

Table 3 – Updated Tax Benefit Rider (RPU-2012-0002)

Annual Dollars

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>
Residential	\$7,248,738	\$7,248,738	\$7,248,738	\$7,118,114
General Service	\$3,583,788	\$3,583,788	\$3,583,788	\$3,519,095
Large General Serv	\$1,001,610	\$1,001,610	\$1,001,610	\$985,014
Contract Demand	\$165,984	\$165,984	\$165,984	\$162,812
Total	\$12,000,120	\$12,000,120	\$12,000,120	\$11,785,035

Tax Projects

Repair		\$6,000,240	\$12,000,120	\$9,604,578
Flood	\$4,000,000			\$96,157
Mixed Services	\$8,000,120	\$5,999,880		\$2,084,301

Year	2013	2014	2015	2016
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For the Residential and General Service customer classes, IPL provides a credit to these customers as a fixed amount per billing day similar to how the customer charge is

computed. For Contract Demand class customers, the credit is applied on the basis of monthly contract demand. For the Large General Service class, the credit is based upon a percentage applied to the non-gas charges on a customer's bill. As a result, the total amount of credits by customer class will vary from year to year. Table 4 below provides the amounts credited by customer class since the TBR went into effect.

Table 4 – TBR Dollars Credited by Customer Class

	<u>Actuals</u> <u>1/2013 -</u> <u>11/2015</u>	<u>Estimated</u> <u>12/2015</u>	<u>Total</u>	<u>Target</u>
Residential	\$(20,619,459)	\$(680,167)	\$(21,299,627)	\$21,746,213
General Service	\$(10,195,519)	\$(339,028)	\$(10,534,547)	\$10,751,365
Large General Serv	\$(2,355,593)	\$(86,470)	\$(2,442,063)	\$3,004,829
Contract Demand	\$(480,104)	\$(13,832)	\$(493,936)	\$497,952
Total	\$(33,650,676)	\$(1,119,497)	\$(34,770,173)	\$ 36,000,359

Consistent with the Settlement, IPL's natural gas TBR tariff provides that the reconciliation, after the IRS audits are completed, should refund the credit balance over a 12 month period. With an additional \$11,785,395 resulting from the finalization of the regulatory liability account plus approximately a \$1,200,000 reconciliation balance projected from the initial three year refund period, IPL has adequate funds to continue the credit levels at the same TBR tariff rates for 2016 as has been utilized for 2013 through 2015. In addition, the reconciliation credit balance from the initial three year period will provide a safety net that should preclude an over-refund situation from occurring in 2016. Therefore, there will be no changes required for the existing TBR tariff rates to continue crediting customers at similar levels in 2016.

Final Reconciliation

IPL will prepare a final reconciliation in the first quarter of 2017 after the 2016 billing cycles have been completed. This final report will provide IPL's plan for the final disposition on any residual balance remaining in the regulatory liability account.

Prepared by Dave Vognsen
 Interstate Power and Light Company
 Lead Regulatory Affairs Consultant
 Regulatory Pricing – West
 Voice: 319-786-4679
 E-mail: DavidVognsen@AlliantEnergy.com