

**FILED WITH
Executive Secretary**

August 15, 2012

IOWA UTILITIES BOARD

RPU-2012-0002



Alliant Energy Corporate Services
Legal Department
319-786-4505 – Phone
319-786-4533 – Fax

Kent M. Ragsdale
Managing Attorney - Regulatory

August 15, 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 No. RPU-2012-0002
Filing of Responses

Dear Secretary Conrad:

Enclosed please find Interstate Power and Light Company's Filing of Responses pursuant to the Iowa Utilities Board's Order issued on July 30, 2012 in the above-referenced docket, as filed today on EFS.

Very truly yours,

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

KMR/kjf
Enclosures

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

August 15, 2012

IOWA UTILITIES BOARD

STATE OF IOWA
BEFORE THE IOWA UTILITIES BOARD

IN RE:

INTERSTATE POWER AND LIGHT
COMPANY

DOCKET NO. RPU-2012-0002

FILING OF RESPONSES

COMES NOW, Interstate Power and Light Company (IPL) pursuant to the Iowa Utilities Board's (Board) "Order Granting Intervention, Permission to Appear Pro Hac Vice, and Directing Responses" issued on July 30, 2012, (July 30th Order) requiring responses about IPL's testimony and information provided by IPL witnesses, among others things, and hereby submits its response to Questions 1 through 11.

Question No. 1

Exhibit JPN-1, Schedule A-1, column d, line 26 (page 301 of IPL's IG-1 annual report for the year ended December 31, 2011) shows total test year volume of 55,365,243 Dekatherms. After removing adjustments of minus 753,350 Dekatherms relating to unbilled revenues (based on page 301.4, column d, lines 2-12 in the IG-1 annual report), the resulting test year volume in Exhibit JPN-1, Schedule A-1 relating to billed sales and transportation revenues would total 56,118,593 Dekatherms. However, in Exhibit DV-1, Schedule C, after removing test year volumes unrelated to billed rate revenues (i.e., after removing adjustments for unbilled revenues, "Company Use," and "Other Revenues-Fuel"), the remaining test year volume relating to billed sales and transportation rates is 55,412,380 Dekatherms.

Starting with the test year volume of 56,118,593 Dekatherms derived from Exhibit JPN-1, Schedule A-1 as described above, identify and explain the additional adjustments needed to derive total 2011 billed "Sales (Dth) Retail" units of 55,412,380 Dekatherms in Exhibit DV-1, Schedule C.

Response No. 1

Table 1 below shows the reconciliation of test year retail volumes between Exhibit JPN-1, Schedule A-1 and Exhibit DV-1, Schedule C.

Table 1 – Test Year Retail Volumes Reconciliation

Test Year Volumes	56,118,593 Dths	Included in Exhibit JPN-1, Schedule A-1
Marketer Group Transport Volumes	- 653,440 Dths	Included with transportation volumes in IG-1
Transportation Customer Losses	- 51,861 Dths	Included with transportation volumes in IG-1
August 2011 Journal Entry	-1,109,009 Dths	
September 2011 Journal Entry	1,108,096 Dths	
Billed Retail Units	55,412,380 Dths	Included in Exhibit DV-1, Schedule C

Exhibit ___(DV-1), Schedule C essentially reclassifies volumes from IPL's Form IG-1 to the appropriate categories for use in the revenue verification used to design rates. This reclassification process reflects certain adjustments that are primarily impacted by marketer overrun volumes, transportation losses, and certain billing adjustments that were entered as journal entries. In Exhibit ___(AHL-1) Schedule A, 794,443 Dths are recognized as "Other Revenue" volumes. Within these volumes, 653,440 Dths are related to marketer overrun volumes for group transportation balancing which is not specific to any particular rate code. In addition, 51,861 Dths are related to transportation customer specific losses. Finally, there was a journal entry adjustment of 1,109,009 Dths in August 2011, as an estimate for a gas transportation customer, that was later reversed in September 2011 for 1,108,096 Dths

Question No. 2

Exhibit DV-1, Schedule C, and Exhibit JPN-1, Schedule A-1 (page 301 of IPL's IG-1 annual report) both show total booked test year revenues of \$263,231,745 for 2011. However, after removing adjustments for unbilled revenues and non-rate revenues, the resulting revenue from billed sales and transportation rates would be \$269,402,957 in Exhibit JPN-1, Schedule A-1, and \$266,564,434 in Exhibit DV-1, Schedule C.

Starting with the test year revenues of \$269,402,497 derived from Exhibit JPN-1, Schedule A-1 as described above, identify and explain the additional adjustments needed to derive the "Present" rate revenues of \$266,564,434 described above, in Exhibit DV-1, Schedule C.

Response No. 2

See Table 2 below for the reconciliation of test year retail revenues between Exhibit JPN-1, Schedule A-1 and Exhibit DV-1, Schedule C.

Table 2 – Test Year Retail Revenues Reconciliation

Test Year Revenues	\$269,402,957	Exhibit JPN-1, Schedule A-1
Marketer Group Transport Gas Revenues	- \$2,723,616	Included with transportation volumes in IG-1
Unclassified Revenues	- \$113,951	Reflected individual customer classes in IG-1
August 2011 Journal Entry	-\$441,305	
September 2011 Journal Entry	\$439,310	
Misc. Adjustments	\$1,039	
Billed Retail Revenue	\$266,564,434	Exhibit DV-1, Schedule C

Exhibit ___(DV-1), Schedule C essentially reclassifies revenues from IPL's Form IG-1 to the appropriate categories for use in the revenue verification used to design rates. This reclassification process reflects certain adjustments that are primarily impacted by marketer overrun revenues, unclassified sales, and certain billing adjustments that were entered as journal entries. In Exhibit ___(AHL-1) Schedule A, \$3,681,583.01 are

recognized as "Other Revenue" fuel revenue. Within this amount is, \$2,723,616, related to marketer overrun fuel costs for group transportation balancing which is not specific to any particular rate code. In IPL's Form IG-1, this amount was classified as transportation revenue. In addition, \$113,951 was related to unclassified revenue. There was also a journal entry adjustment of \$441,305 in August 2011 as an estimate for a gas transportation customer that was later reversed in September 2011 for \$439,310. Finally, there were some minor miscellaneous adjustments throughout the year which totaled approximately \$1,000.

Question No. 3

In Exhibit DV-1, Schedule C, describe what "Unclassified" revenues are and explain how and why they would increase if IPL's proposed tariff rate increases are approved.

Response No. 3

Unclassified revenues are simply the difference between revenues that are generated when test year billing determinants are re-priced at tariff rates, as part of the revenue verification, and booked revenues. Consistent with prior IPL gas rate cases, to reconcile test year booked revenues by rate classification to the re-priced billing determinants, a small amount of revenue (the difference between the results of the test year booked revenues and the re-priced billing determinants), is described as "Unclassified". This typically results from rounding and billing adjustments that occur throughout the test year (e.g. the billing units adjusted not matching the revenue adjustment). IPL increased the unclassified revenue by the proportionate increase in overall non-fuel revenue to base retail non-EECR/non-fuel revenue. In this case, it was computed as follows: $\$14,785.604 / \$83,584,209 \times \$113,950 = \$20,156$. The increase

in the unclassified revenues is then pro-rated to each of the customer classifications using the overall increase assigned to the class. This is the same practice as that used by IPL in previous gas rate cases.

Question No. 4

On page 18, lines 4-5 of his direct testimony, Witness Vognsen notes that IPL is updating its Gas Service Agreement and Gas Transportation Agreement because several of the provisions are out of date. Describe the provisions that are out of date and how they are being changed.

Response No. 4

Both IPL's Gas Service Agreement and its Gas Transportation Agreement were re-written, as well as restructured, to provide a more logical and sequential flow for easier reference. In general, the paragraphs in the former agreements have been broken down into section headings and numbered sections in the new proposed agreements.

Specifically, the recital provisions on the first page of the agreements are new. The references in the old agreements to facility extensions have been removed since those provisions are now addressed through IPL's facility extension agreements. In addition, Exhibits B and C are new for the Gas Service Agreement. New Exhibit B replaces the old Exhibit B for the Gas Transportation Agreement and Exhibit C is new. The versions of the Gas Service and Gas Transportation Agreements with "take-or-pay" provisions are the revised agreements with an additional take-or-pay provision. The facility extension agreements are the same as those in the existing tariff except they are found on different tariff sheets. Table 3 below outlines where the provisions of the old service agreements can now be found in the new service agreements, for both the Gas Service and Gas Transportation Agreements.

Table 3 –Location Changes of Service Agreement Provisions

Old Service Agreements	New Service Agreements
Paragraph 1	Facilities extension reference eliminated. Contract length now in “Term Section” and succession provision now broken down into “Savings Clause”, “Survival Clause”, and “Contracts Document Clause”.
Paragraph 2	Service Characteristics section
Paragraph 3	Rates and Billing section
Paragraph 4	Exhibit B
Paragraph 5	Limitation of Liability section and Force Majeure section.
Paragraph 6	Successors and Assigns sections
Exhibit A	Facilities extension reference eliminated.
Exhibit B	Replaced by New Exhibit B.

Question No. 5

The new tariff sheet for Section 15, which renumbers First Revised Sheet 282 as Original Sheet 313, also has changes which seem to return the wording of subsection 15.02 to a version previously used in Original Sheet 282. Is this IPL's intent?

Response No. 5

No, this was not IPL's intent. The wording of subsection 15.02 should have been identical to First Revised Sheet No. 282. This correction will be reflected in IPL compliance tariff filing.

Question No. 6

On page 20, lines 8-11 of his direct testimony, Witness Sullivan describes how separate subclasses for sales and transportation customers, in both the General Service and Large General Service classes, are represented in the class cost-of-service study in order to reflect their different load characteristics. In lines 14-20, he further explains:

While these subclasses are used to facilitate cost allocation to the overall class, the results of the cost of service study by subclass are not intended to develop separate rates for the subclasses. Customers within the General Service and Large General Service classes can and do migrate between sales and transportation services and any differences in resulting cost allocation between subclasses can therefore be transient.

Under what conditions would the different load characteristics between the sales and transportation subclasses lead IPL to establish separate tariff rates for General Service Sales and General Service Transportation customers, and for Large General Service Sales and Large General Service Transportation customers?

Response No. 6

IPL believes the same distribution rates (i.e. commodity charges) for sales and transportation service should be charged where the availability (“applies to” section of the tariff) for the sales and transportation service is the same. In other words, if customers are allowed to freely move between sales and transportation service where the availability of sales and transportation service is the same, the distribution rates for sales and transportation service should then be the same. If the distribution rates are not the same, an incentive is created for customers to migrate to the lower rate. This migration would be transitory because it would create a cycle of changing the makeup of the classes, changing the cost allocation, and changing the rates and then, ultimately, returning back to where the customers presently reside once the rates are equal again based upon a future class cost of service study and, thus, cost-based rates. The

appropriate price distinction between sales and transportation service is reflected in the customers' cost of gas supply, and, in some cases, a higher fixed monthly charge for additional administrative costs, if any.

Question No. 7

On page 44, lines 17-19 of his direct testimony, Witness Sullivan states:

The average and excess demand approach I am using for IPL is the same methodology used by IPL in its last rate case in Board Docket No. RPU-05-1. However, in Docket No. RPU-05-1, IPL included the peak load requirements of interruptible customers in deriving its average and excess allocation factor, and based the "Excess" portion of average and excess demand on IPL's system peak demand rather than the summation of class peak demands.

Provide a revised version of Witness Sullivan's class cost-of-service study (Exhibit TJS-1, Schedules B through B-9 and Schedule C – including a revised version of the Excel workbook labeled "IPL_COS_Final"), in which:

- a. The load factors for General Service Sales and Large General Service (LGS) Sales (Exhibit TJS-1, Schedule B-9, page 1, line 2, columns D and G) are calculated based on the peak load requirements of all class sales customers, including interruptible customers;**
- b. The "Excess" portion of the "Mains Allocator" (Exhibit TJS-1, Schedule B-9, page 2, column B, line 50) are derived from the Highest Day of System Peak Deliveries (page 516 of IPL's IG-1 annual report for the year ended December 31, 2011, column c, line 4) minus system peak day deliveries for the LGS Contract Demand class, rather than the summation of class "Peak Day - Dth" (Exhibit TJS-1, Schedule B-9, page 1, column B, line 3); and**
- c. The "Average & Excess Allocator" (Exhibit TJS-1, Schedule B-9, page 1, line 27) are based on the formula "(Line 21 x Line 49 Column C) + (Line 26 x Line 50 Column C)" rather than "(Line 20 + Line 25) / (Line 20 Total + Line 25 Total)."**

Response No. 7

IPL would like to first clarify Witness Sullivan's use of the Average and Excess methodology. The quotation from Mr. Sullivan's testimony from Page 24, Lines 17-19 is an incomplete characterization of the methodology proposed and discussed by Mr. Sullivan in his direct testimony and exhibits. Mr. Sullivan's use of "same methodology"

on Page 24 means that Mr. Sullivan is using the Average and Excess methodology which is the same methodology used by IPL in its prior retail gas rate case and the same methodology Mr. Sullivan has used in the Black Hills Energy's last five retail gas rate cases. The intent of the discussion on Pages 24-27 of Mr. Sullivan's direct testimony is to explain why the Average and Excess methodology is used in Iowa rather than other commonly used methodologies (such as Minimum System, Zero Intercept among other methods) that include a customer component of gas mains. The actual mathematical calculation, however, of how Mr. Sullivan applies the Average and Excess methodology is slightly different from how IPL applied it in its prior retail gas rate case.

The complete discussion of how Mr. Sullivan believes the Average and Excess methodology should be applied is in his direct testimony on Pages 27-29. In the mains allocation Mr. Sullivan has used for Black Hills Energy, the Excess component for interruptible customers has appropriately and consistently been set equal to 0 and the Excess portion has been consistently based on system capability, which is better reflected by the use of class design peak day requirements, rather than actual test year system peak day, which is impacted by transitory influences such as weather.

Attachment IUB-7 (in Excel format) contains the IUB's requested alterations in parts a, b and c of this question. The IUB's requested alterations are highlighted in yellow in the Excel spreadsheet.

Question No. 8

Regarding IPL's Interim rate design, on page 4, lines 6-10 of her direct testimony, Witness Lenzen states:

Interim rate increases are determined by applying a uniform percentage increase across customer classes and are based on the non-fuel proportionate share of the total Iowa interim revenue requirement. This approach follows IPL's

past practice that was accepted by the Iowa Utilities Board (Board) in Docket No. RPU-02-7.

However, in its October 4, 2002, *Order Setting Temporary Rates and Approving Corporate Undertaking* in Docket No. RPU-02-7, the Board stated:

IPL has agreed to accept a temporary rate design based upon the Board's decision on temporary rates for MidAmerican in Docket No. RPU-02-2. The Board will adopt the same temporary rate design. This method generally applies three criteria for designing temporary rates.

1. Rate codes with proposed final rate reductions receive no temporary increases;
2. No rate code receives a temporary increase larger than the increase proposed for final rates; and
3. The temporary increases are otherwise applied on a uniform percentage basis to monthly non-gas cost/non-EECR rate elements.

Explain either:

- a) How IPL's interim rate design in this case meets the Board's three criteria for designing temporary rates in Docket No. RPU-02-7; or
- b) Why the Board's three criteria should not be applicable in this case.

Response No. 8

Summary Response:

IPL believes the Board should allow different criteria when utilities use the "ten-day rule" for implementing interim rates. The criteria for this circumstance should include, as a default position, that all rates are increased a uniform percentage, pending the outcome of the case. This provides three benefits:

- Allows utilities to protect their opportunity to adequately earn allowed returns during the interim rate period;
- Protects customers from "pre-judging" the outcome of the rate design portion of the case based only on the initial proposed class cost of service study offered by the company; and
- Provides due process for all parties while the case is contested.

This alternative route for establishing interim rates under the ten day rule also acknowledges that the Board does not resolve conflicts between the criteria (discussed below) as it does under the 90 day rule.

Detailed Response:

As referenced above, the Board indicates that the method used to design temporary rates generally applies the three criteria. However, the Board, on page 12 of that Order, specifically stated:

The Board recognizes that the application of the first two criteria may mean that some rates will not comply with the third criteria. The Board finds this is acceptable and unavoidable due to the interrelationships between full service and transportation rate codes and rate structures. Under the temporary rate design approved by the Board, some rate codes may receive more than the uniform increase.

The Board's Order, in Docket No. RPU-02-7, recognized the complications associated with attempting to comply with all three criteria. In IPL's interim rate design, all customer classes received an increase. In addition, there were no customer classes receiving a proposed rate decrease under final rates. The temporary increase was applied on a uniform percentage increase to the non-gas cost/non-EECR prices. Therefore, the question pertains to the applicability of criterion two, in which an interim increase for a rate code is limited to the proposed final increase.

Referring back to the Board's criteria, if there is any proposed revenue shifting between customer classes as a result of a new class cost of service study, IPL believes a utility would be required, under criteria two, to reflect that revenue shifting under interim rates (but this would be before the class cost of service study has been litigated and the evidentiary record fully developed on the issue.) The regulatory principles for

the final revenue allocation based on the class cost of service study will not be established until a final Board decision is rendered. It has been IPL's experience that a class cost of service study is litigated along with the rate design changes and the Board ultimately needs to make a finding of fact in regard to the class cost of service study and resulting revenue allocation. A uniform percentage increase, as IPL used in its interim rate design in the instant docket, essentially holds the existing rate design and class allocations static until the revenue allocation issue is litigated and the record fully developed regarding rate design.

Further, strictly following the previous Board criteria – where one class of customer can never get an interim increase if the utility proposes a rate reduction for that class – provides benefits to that class that other groups would not enjoy. This would occur if the class actually gets an increase under the final ruling from the Board, but avoided paying any increase during the interim rate period. This would mean the other classes had to shoulder a greater percentage of the interim increase than they arguably should have.

IPL notes that these criteria were published prior to the Iowa legislature enacting the revised interim rate provision to 476.6(10)b through Senate File 2240 (2004). This provided a new option for utilities to implement interim rates within ten days consistent with prior regulatory practices.

IPL avers that requiring a utility to strictly follow all three criteria for interim rates would essentially negate the legislative purpose of 476.6(10)b.

Question No. 9

On pages 15-16 of her direct testimony, Witness Lenzen suggests that the Tax Benefit Rider (TBR) proposed in this case is similar to the TBR proposed and

approved in IPL's last electric rate case (Docket No. RPU-2010-0001), but notes that the TBR approved in IPL's last case spread the tax benefits across all customers on a uniform cent-per kWh (kilowatt hour) basis, whereas the TBR in this case would assign the tax benefits selectively to the Residential, General Service, and LGS contract demand classes in the form of fixed monthly credits demand charge offsets.

- a. Provide alternative calculations of the proposed TBR for years 1, 2, and 3 in which the tax benefits are spread across the total throughput of all sales and transportation customers on a uniform cent-per Therm basis.
- b. In addition, provide a revised version of Exhibit AHL-1, Schedule D, which shows the results of these alternative calculations by customer class.

Response No. 9

The alternative calculation of TBR benefits requested in “a” above is provided in Attachment IUB-9, (in Excel format) which is essentially a revised version of Exhibit AHL-1, Schedule D. This revised schedule provides the requested calculation on a throughput basis for all system sales and transportation customers on a uniform cent-per Therm basis.

Question No. 10

On pages 18-19 of her direct testimony, Witness Lenzen explains that the TBR tax benefits are being flowed back to customers over a three-year schedule based on the estimated tax benefits and estimated timeframes for completion of the IRS audits for each tax benefit category that will determine the final benefit amounts, and that:

Based on the timing of *expected* IRS resolution for each category, IPL has proposed a crediting schedule for customers that will allow it to adjust credits moving forward once tax treatments are sustained. *This approach minimizes the risk that IPL will “over-credit” customers and then need to claw back those credits*, as described by Mr. Vognsen. (Lenzen direct testimony, p. 19, lines 2-6, emphasis added).

In addition, Witness Janecek on pages 9-10 of her direct testimony states she cannot predict the final IRS results with 100 percent certainty and that she cannot guarantee the targeted benefits used by Witnesses Lenzen and Vognsen will be sustained by the IRS audit.

Since the targeted benefits that IPL has used in the TBR cannot be guaranteed at this time, can the TBR be modified to eliminate all risk of over-crediting customers and no need for "claw back" of the over-credits?

Response No. 10

No. Although IPL cannot guaranty at this time that 100% of \$36 million will be credited back to customers, IPL has determined this amount to be reasonable expectation. The time series in the application of the tax benefits to customers from the different tax categories helps to minimize the risk associated with over refunding, but does not eliminate all risk. In the first year of the TBR, IPL is using \$4 million of the tax benefits from the flood project. This category has been sustained through IRS audit. In addition, in the first year the remaining balance of the TBR is funded from tax benefits from mixed services. The status of mixed services has also been resolved, but the balance in the category may be impacted by the outcome of the repair expenditures. The outcome of the repair category is expected to have resolution in the first quarter of 2013 (See Witness Janecek Direct Testimony page 6, Table 2). Assuming final rates are implemented in late fourth quarter 2012, only several months of TBR benefits will have been credited to customers prior to the outcome of the IRS guidance on the repair expenditure category. Therefore, assuming a worst case scenario that the entire repair expenditure category is disallowed, IPL could adjust the TBR in the first quarter of 2013 to reflect the removal of the repair category and adjust any impact to the mixed services category without having to recover any of the credits already paid. IPL can take reasonable steps during the refund process to minimize the potential exposure to any over crediting possibility (See Vognsen Direct Testimony page 21, lines 14-16). In

addition, while not evident in the testimony, these numbers do have a reserve for uncertain positions on repairs reflected in the total.

Question No. 11

File a weather normalization calculation using the methodology that IPL uses in its purchased gas adjustment filings.

Response No. 11

Attachment IUB-11 (in Excel format) updates IPL's 2011 annual Purchased Gas Adjustment (PGA) weather normalization with the test year sales volumes, heating degree days normals and weather stations pursuant to 199 IAC 19.10(1), (See Mr. Sullivan's testimony, page 6, for discussion of HDD normals and weather stations, and page 13 regarding past regulatory principles). IPL's weather normalization in this filing is a more rigorous and detailed calculation as compared to the annual PGA weather normalization. A more rigorous calculation and regression analysis is appropriate because resulting rates from a rate case are not reconciled (as are those revenues associated with purchased gas) and may be in effect for multiple years.

WHEREFORE, IPL respectfully requests that the Board accept the following information as IPL's response to the Board's July 30th Order requiring responses. Representatives of IPL are available to meet with the Board or the Board's Staff to answer questions or to provide additional information as needed.

Dated this 15th day of August, 2012.

Respectfully submitted,

Interstate Power and Light Company

By: /s/ Kent M. Ragsdale
Kent M. Ragsdale
Managing Attorney - Regulatory
Alliant Energy Corporate Services, Inc.
200 First Street SE
P.O. Box 351
Cedar Rapids, IA 52406-0351
319.786.7765 - telephone
319.786.4533 - fax
kentragdale@alliantenergy.com