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August 8, 2014

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. SPU-2005-0015 (RPU-2014-0001) (TF-2014-0003)
Response to Board Request for Additional Information
Application and Affidavit for Confidentiality

Dear Secretary Conrad:

Enclosed please find Interstate Power and Light Company's (IPL) response to the Board's Order Requiring Additional Information, issued July 28, 2014, in the above-referenced dockets. IPL's response consists of the Affidavit of Amy G. Wheatley, as filed today on EFS.

Also enclosed is a copy of IPL's Application for Confidential Treatment and Affidavit in Support of Request for Confidentiality.

Very truly yours,

/s/ Sheree Strom Carson
Sheree Strom Carson

SSC/kjf
Enclosures

FILED WITH
Executive Secretary
August 08, 2014
IOWA UTILITIES BOARD

STATE OF IOWA

BEFORE THE IOWA UTILITIES BOARD

IN RE: **INTERSTATE POWER AND LIGHT COMPANY**	**DOCKET NO. SPU-2005-0015 (RPU-2014-0001, TF-2014-0033)**

AFFIDAVIT OF
AMY G. WHEATLEY

STATE OF IOWA)
) ss.
COUNTY OF LINN)

I, Amy G. Wheatley, being first duly sworn on oath, depose and state that I am Manager-Financial Planning of Interstate Power and Light Company (IPL). In this capacity I am responsible for financial planning activities and preparing revenue requirement detail for IPL rate cases.

In the foregoing employment capacity, I am personally knowledgeable of the IPL responses to Request Nos. 1 through 4 for additional information in the Order of the Iowa Utilities Board (Board) dated July 28, 2014, in the above-referenced dockets. I have caused the responses contained herein, to be prepared; I am familiar with the contents thereof; and this Affidavit, including the attachments, are true and correct to the best of my knowledge and belief as of the date of this Affidavit.

Introduction

In responding to the Board's requests for additional information, it is important to review the context in which the Settlement Agreement was negotiated. IPL, the Office of the Consumer Advocate, the Iowa Consumers Coalition and the Large Energy Group, negotiated the Settlement Agreement, including the customer credits, to resolve the issue of potential over-recovery of the Duane Arnold Energy Center (DAEC) Power Purchase Agreement (PPA) costs and to establish a multi-year base rate plan that would avoid the need to file a rate case. These negotiations began several months before the Settlement Agreement was filed with the Board, as was anticipated in the DAEC PPA docket.[1] The Settlement Agreement and the customer credits contained therein were not based on a predetermined revenue requirement for the three-year future period because there was no rate case filing for which a revenue requirement had been established. However, the parties assessed the reasonableness of the Settlement Agreement and the customer credits based on expected changes in costs and the timing of future capital investments over the three-year period.

In an effort to respond to the Board's current and prior requests for additional information, IPL has attempted to provide some revenue requirement-type information that can serve as a bookend to assist the Board in evaluating

[1] *See, e.g., In re Interstate Power and Light Company and FPL Energy Duane Arnold LLC,* Docket Nos. SPU-2005-0015, TF-2012-0577, Order pp. 20, 24, 29 (IUB, Jan. 31, 2013) (noting IPL's commitment to work with other parties to resolve potential over-recovery issues prior to February 2014).

the reasonableness of the Settlement Agreement. While this information may be helpful, there are important considerations and limitations to the use of this information.

First and foremost, it is important to keep in mind that the revenue requirement-type information provided to the Board in this response and in prior responses is not what the Settlement Agreement was based on. One cannot go to a revenue requirement spreadsheet and find the justification for a specific level of credit for a specific year. Rather, the credits contained in the settlement were negotiated considering the totality of the entire set of settlement parameters and directional cost information. This is not to say that the credits agreed upon cannot be substantiated. For example, the difference in credit levels from year to year, as was the subject of the Board's question one, can be shown to be reasonable based on simple and known changes in capital cost additions.

Moreover, the differences between IPL's revenue requirement estimates and the agreed settlement amounts are comparing apples and oranges to some degree. IPL's proposed revenue requirement for test year 2013 (2014 rate levels) would have included the <u>*annualized*</u> impacts of a number of capital additions, including the environmental controls and performance upgrades at the Ottumwa Generating Station ("OGS"). The OGS investments alone total approximately $250 million and are expected to be in service in November 2014. The total annual revenue requirement for such an investment is approximately $35 million. However, the impact of this on IPL's *financial results for the calendar year 2014* is much less, given that the investment is not expected to be placed into service until November 2014. As shown below, the timing of this investment has been reflected in the settlement credits.

This same challenge is seen throughout the analysis, as there will always be inherent differences between annualized "revenue requirements" and actual calendar year financial impacts for investments, based on the timing of those investments. This will be explained in more detail below.

Finally, it bears noting that the revenue requirement information provided by IPL does not reflect all the revenue requirement impacts that typically are included if a rate case were actually filed. IPL has not attempted to include all such adjustments or impacts that would be appropriate in the context of a rate case. If the Settlement Agreement had not been reached (or if the Settlement Agreement is not approved), such additional adjustments and impacts would be included in the revenue requirements supporting the rate case filings.

In this case, the parties reached a unanimous settlement on a group of parameters – not just the level of credits -- that provide the following benefits:

- reasonable rates for customers;
- credits on 2014 customer bills sooner than would have occurred in the context of a rate case[2];
- rate certainty for customers (and for IPL);
- opportunity for IPL to earn its authorized rate of return;
- avoidance of the uncertainty and expense of litigating a rate case; and
- customer protections from unexpected over earning for IPL[3].

[2] IPL implemented credits on May 1 in good faith and consistent with the settlement.

[3] Any party may file a show cause pleading should IPL earnings exceed 11% return on equity in its Iowa electric jurisdiction for any specific calendar year from 2014 through 2016.

The parties to the Settlement Agreement negotiated the settlement terms in a spirit of compromise, in order to avoid the burden, expense, delays and uncertainties of further litigation with respect to the settled issues. The parties agreed that the Settlement Agreement would not become effective unless and until the Board enters an order approving the Settlement Agreement, in its entirety without condition or modification[4]. Thus, any changes to the terms of the negotiated settlement would unravel the Settlement Agreement, with parties returning to their litigated position, including the potential filing of a rate case and a reexamination of the customer credits that have been paid to customers on an interim basis. Consistent with the Settlement Agreement, and in light of the additional information that has been provided, IPL respectfully requests the Board promptly approve the Settlement Agreement, without modification or condition.

IPL responses to the Board's specific questions are shown below.

Request No. 1

"With respect to the variance associated with the two different depreciation models, explain which of the two IPL relies upon to provide justification for the credit reductions in the amount of $45 million in 2015 and an additional $15 million in 2016. If both were used to support the reduction in credits amounts, explain the basis for using inconsistent numbers and also provide the revenue requirement difference and associated revenue credit difference that would result from using the same depreciation model in both the cost of service calculations and the rate base."

[4] Settlement Agreement, Articles II, IV

IPL Response

Neither of the depreciation models was used to justify the credit reductions for 2015 and 2016. Customer credits for the three-year base rate freeze period were negotiated by the parties to the agreement, based on expected changes in costs and the timing of related investments. The credits taper from $70 million in 2014 to $10 million in 2016 because the company plans on significant capital additions to rate base over this period. Estimated major capital projects and maintenance capital expenditures through 2015 were provided as Attachment 2 (AGW-2) to the company's May 29, 2014 response to the IUB's request for additional information. Per Attachment 2, [redacted] million of capital will be deployed through 2014 to ensure that IPL can provide safe, reliable and environmentally responsible service to its customers. Included in the [redacted] million of planned capital spend are projects not expected to be placed in service until later in 2014. Of significant note are the [redacted] million of OGS projects with November 2014 in service dates. Likewise for 2015, there are capital projects that are not expected to be in service for the entire year. The credits provided in the settlement reflect the timing of these significant capital investments.

The table below shows how the amount and timing of those investments can be used to explain the decreasing levels of credits in 2015 and 2016. For example, while the estimated [redacted] million OGS Scrubber and Baghouse project (in service November 2014) has an annual Iowa revenue requirement impact of about [redacted] million [redacted] million multiplied by an Iowa allocation of 94%[5] multiplied

[5] Based on the typical Iowa percentage of the System Coincident Peak allocator, which is used for allocating generation investments.

by a 15% fixed charge rate[6]), the impact on the credit for 2015 (compared to 2014) is less than that, reflecting the fact that the investment will be in service for two months in 2014. Therefore, the OGS impact on the 2015 credit is a credit reduction of [redacted] million [redacted] million multiplied by 10 months divided by 12 months equals [redacted] million), because two months of the financial impact are already reflected in the 2014 credit. The other investments in the 2014 through 2016 timeframe follow a similar pattern. Table 1 demonstrates how the reduction in credit levels in 2015 and 2016 is justified, based on expected levels of capital deployment, and the timing of those investments.

Table 1: Projected Revenue Requirement changes impacting credit levels from 2014 to 2016

2014 Credit	**$70M**
[redacted]	
2015 Credit	**$25M**
[redacted]	
2016 Credit	**$10M**

Please note that the purpose of providing the forecasted test year revenue requirement information in response to Board requests was to support the reasonableness of the customer credits that were agreed upon by the parties. IPL assessed the proposed customer credits against the company's financial forecast

[6] Estimated revenue requirement composite rate based on IPL's pre-tax cost of capital and general depreciation rate.

during settlement discussions to determine whether the company could agree to the amount of the customer credits in each of the calendar years 2014 through 2016, while still providing safe, reliable, cost effective and environmentally responsible service to customers, as well as affording IPL a reasonable opportunity to earn its authorized rate of return.

While the revenue requirement calculations submitted in response to question number 1 to the IUB's request for additional information dated April 9, 2014, tend to produce directionally consistent results, they were not the basis for the negotiated customer credits. The purpose of providing the projected revenue requirements was to substantiate the reasonableness of the customer credits, but not to provide a mathematical calculation to reconcile the negotiated numbers. The customer credits were negotiated with the intervening parties, along with the other terms of the settlement, and were not mathematically-derived.

Since neither of the depreciation models referenced in the question were directly used to calculate or support the credit levels, the quantification of those changes is not informative.

Request No. 2

"With respect to forecasted retirement adjustments, confirm that IPL made identical adjustments to both forecasted gross plant and forecasted accumulated depreciation."

IPL Response

Yes. IPL's financial forecast was the basis for the forecasted utility plant in service and accumulated depreciation (AD). The forecast treats the retirements consistent with the Federal Energy Regulatory Commission (FERC) Uniform

System of Accounts, FERC account 108, Instruction B. Identical adjustments were made to both the forecasted gross plant and forecasted AD.

As discussed in my Affidavit dated May 29, 2014 at page 3, "When plant is retired, the remaining plant balance is removed from Utility Plant in Service (UPIS) and the un-depreciated balance is charged to AD. This treatment is pursuant to the FERC's Uniform System of Accounts (USOA) regarding retirement of electric utility plant. This accounting treatment does not reduce IPL's rate base as a result of the retirement, rather it simply shifts the un-depreciated balance from gross UPIS to AD. This reduction to AD for retirements is an offset to the normal depreciation expense that is booked to AD."

Request No. 3

"With respect to IPL's response to Question No. 2 provided on April 9, 2014, explain why IPL did not consider the impact of projected plant retirements on the forecasted revenues from fuel riders or the costs of power purchases. Quantify the projected results."

IPL Response

IPL notes that it views a rate case to be a review of base rates. Fuel costs are handled through a separate regulatory recovery mechanism and therefore are excluded from the direct base rate case analysis. The settlement is consistent with this as it relates only to base rates (and associated customer credits). Other mechanisms, such as the fuel clause and the transmission rider are maintained in their current form under the settlement.

Please note that the "plant retirements" referenced in Attachment 1 (AGW-2) page 2 reflect a variety of plant categories, including generic "plant" retirements (distribution infrastructure, transportation, software, etc.) as well as generating plant retirements. However, the generating plant retirements are not expected to significantly impact dispatch during the settlement period. For example, the most significant generating plant retirements are Sutherland Units Nos. 1 and 3 (Sutherland), which are not scheduled to be retired until the end of 2016. Therefore, there are no significant plant retirements that would materially affect fuel costs during the period reflected in the settlement.

Please note that the energy produced at Sutherland in all of 2013 was 78,000 MWh. This represented 0.4% of the total MWh needed to serve customers, based on FERC Form 1 information. Since Sutherland is expected to be in service for most of 2016, (and any cost impact would be based on the incremental cost of Sutherland and the "replacement" unit) the impact of these retirements on fuel costs over this period would be minuscule. Further, the impact of such changes would be insignificant compared to other factors impacting fuel costs, like the market price for natural gas.

Request No. 4

"In its response to Question No. 5 provided on May 29, 2014, IPL indicates that the projected revenue requirement associated with lines 2 through 5 alone is nearly enough to offset the purchase capacity costs. Provide the impact of each of the line items 2 through 5 on IPL's projected return on equity."

IPL Response

IPL's previous response reflects the projected revenue requirement impacts of all of the changes to rate base for environmental projects, generation performance upgrade projects, other capital expenditures above depreciation, and changes in Accumulated Deferred Income Taxes since IPL's 2010 rate case. IPL also stated that the revenue requirement associated with these rate base items alone nearly offsets the purchased power capacity costs currently embedded in base rates.

Table 2 below shows the projected annual return on equity (ROE) impact for each of the line items as requested, starting with the “positive” impact that would result if base rates remain unchanged when the new DAEC contract goes into effect. The positive impacts of incorporating the new DAEC contract are substantially offset by the ROE associated with the previously discussed capital projects. The revenue requirement information shown for the specific line items in Table 2 can be found in IPL’s response to request number 1 provided on April 9, 2014.

Table 2: Projected ROE Impacts Using 2014 Capital Structure

Projected Items And Annual Revenue Requirement Impact	**Projected ROE Impact**
Duane Arnold Capacity ($135M) [redacted]	[redacted]

As discussed in the company's May 29 response to the Board's request for additional information, the forecasted ROE for calendar year 2014 is below the currently authorized return on equity.

/s/ Amy G. Wheatley
Amy G. Wheatley

Subscribed and sworn to before me,
a Notary Public in and for said County
and State, this 8th day of August, 2014.

/s/ Kathleen J. Faine
Kathleen J. Faine
Notary Public
My commission expires on February 20, 2015