

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. RFU-2009-0001 RFU-2009-0002 WRU-2009-0018-0150 WRU-2009-0019-0150 (RPU-2009-0002 SPU-07-11)
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**ORDER GRANTING WAIVER, DENYING 2009 ALTERNATIVE REFUND  
PLAN, DENYING POST-2009 ALTERNATIVE REFUND PLAN  
WITHOUT PREJUDICE, AND CONSOLIDATING DOCKETS**

(Issued June 23, 2009)

**INTRODUCTION**

In Docket No. SPU-07-11, which involved the sale of Interstate Power and Light Company's (IPL) transmission system to ITC Midwest LLC (ITC Midwest), part of the rationale for the Board's decision to allow the sale to go forward was IPL's commitment to use some of the proceeds from the sale to refund to IPL customers \$13,040,000 (Iowa ratepayers' share is about \$11.5 million, the rest goes to IPL's customers in Minnesota) in each of the first eight years after ITC Midwest transmission charges are included in IPL's rates. The refunds were to mitigate the rate impacts of the transaction on IPL's customers. See Interstate Power and Light Company and ITC Midwest LLC, "Order Terminating Docket and Recommending Delineation of Transmission and Local Distribution Facilities," Docket No. SPU-07-11 (9/20/2007). Now, IPL proposes to change the proposal approved in Docket No.

SPU-07-11 by accelerating the refunds to mitigate the impacts of temporary and final rates in its pending rate case, Docket No. RPU-2009-0002.

On May 8, 2009, IPL filed with the Board two proposed refund plans. The first (Docket No. RFU-2009-0001) contains two alternative proposals. The first would refund \$11.5 million as ordered by the Board in Docket No. SPU-07-11. The alternative proposal, which is IPL's preferred outcome, would double the 2009 level of refunds resulting from the transmission sale proceeds from the authorized level of \$11.5 million to \$23 million. IPL said this would mitigate the impacts of IPL's temporary rates in Docket No. RPU-2009-0002, which are in effect. The Consumer Advocate Division of the Department of Justice (Consumer Advocate) and the Large Energy Group (LEG) filed comments on IPL's various proposals. Consumer Advocate objected to the change in refund method and urged the Board to adhere to the \$11.5 million refund adopted in Docket No. SPU-07-11. LEG supported IPL's alternative proposal.

IPL's second proposed refund, Docket No. RFU-2009-0002, would accelerate the 2010 refund from the original authorized amount of \$11.5 million to approximately \$58.4 million. This proposed amount roughly equates to the total ITC Midwest true-up for transmission charges for 2010. While IPL asks for approval of both refund plans now, IPL acknowledges in its filing that the 2010 refund plan could be addressed in the rate case proceeding. Both Consumer Advocate and LEG agreed that IPL's second refund proposal should be consolidated with the rate case.

Regardless of whether the Board approves IPL's alternative refund plans or adheres to the refund plan set in Docket No. SPU-07-11, IPL asked for a waiver of 199 IAC 20.9(2)2 in order to use the energy adjustment clause (EAC) as a refunding mechanism for the transmission sale proceeds. Consumer Advocate and LEG do not object to using the EAC as the refund mechanism. The waiver will be granted, because the EAC allows the refund amount to be credited to customers quickly with the least administrative expense. The standards for waiver in 199 IAC 1.3 are satisfied.

### **2009 REFUND/IPL's ALTERNATIVE PROPOSAL**

In the Board's September 20, 2008, order in Docket No. SPU-07-11, the Board stated that IPL customers would receive a direct refund of \$13,040,000 in each of the first eight years after ITC Midwest transmission charges are included in IPL's rates, with Iowa's share being approximately \$11.5 million.

Based on information supplied by IPL in its workpapers, the proper refund this year, if the Board's methodology in Docket No. SPU-07-11 is followed, would be \$11,515,420.<sup>1</sup> IPL proposes to refund the proceeds through the EAC rather than through bill credits or direct payments and proposes to implement the refund in the first month after Board approval, with the refund running through the approximately nine months of interim rate period in Docket No. RPU-2009-0002. If the transmission

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<sup>1</sup> Based on current data, Iowa would receive 88.3 percent of the refund and Minnesota the remaining 11.7 percent.

sale's refund method is not modified for either the 2009 period or the post-2009 period, the refund would remain in effect for eight years, with the amount changing slightly year to year based on the current year's percentage of IPL's customers and load in Iowa versus Minnesota.

IPL's 2009 alternative proposal would double the amount of the original refund obligation from \$11.5 million to \$23 million. IPL said an accelerated refund would reduce the interim rate obligation on customers and respond to the economic pressures being experienced by IPL customers. The effect of this accelerated refund would reduce the overall interim rate increase by approximately 35.6 percent. IPL said the refund would be made over the interim rate period.

Consumer Advocate objected to IPL's alternative proposal and maintains that doubling the refund in 2009 is at odds with the Board's order in Docket No. SPU-07-11. Consumer Advocate acknowledged that IPL's proposal provides some temporary relief in 2009; however, this temporary relief would be made at the expense of future years, specifically 2011-2016. Consumer Advocate argued that the sizable increases in transmission costs are the direct result of IPL choosing to sell its transmission system. In addition, Consumer Advocate noted that the interim rate increase that IPL is attempting to mitigate is an increase that IPL has implemented by its own management decisions.

The LEG said the proposal to double the 2009 refund to \$23 million would provide its members immediate relief from current economic duress, reducing IPL's

interim rate increase by 35.6 percent for the remaining seven months of 2009. The LEG claims that accelerating the refund increases its value to customers because of the relatively low discount rate (4 percent) to calculate the refund amount over the eight-year refund period. The LEG said customers should reasonably be expected to earn a return on accelerated refund amounts higher than 4 percent.

The refund plan adopted by the Board in Docket No. SPU-07-11 was designed to offset for eight years the cost increases that have and will result from the sale of IPL's transmission system to ITC Midwest. While Iowa and the nation are experiencing current economic difficulties and an additional refund amount would benefit customers in the short term, the Board is not persuaded at this time that dollars should be taken from future years' cost mitigation to temporarily reduce the effects of the transmission sale. If these dollars are refunded now, there will be far fewer or no dollars to offset any future increases. The Board will deny IPL's alternative proposal for 2009 and order refunds consistent with the Board's directions in Docket No. SPU-07-11. Any changes to the Docket No. SPU-07-11 refund plan should come only after a full and fair consideration of alternative proposals in a contested case proceeding where there is prefiled testimony subject to cross-examination and parties have an opportunity to engage in discovery.

### **POST-2009 REFUNDS/IPL'S ALTERNATIVE PROPOSAL**

If the refund methodology approved in Docket No. SPU-07-11 is followed, IPL would refund approximately \$11.5 million in each of years two through eight. Under IPL's alternative proposal, IPL would refund in 2010 the entire increase in transmission costs from ITC Midwest, approximately \$58.4 million, through a proposed transmission rider that is part of IPL's rate case proposal in Docket No. RPU-2009-0002. For 2011 and beyond, refunds would be made based on the remaining balance in the regulatory liability account related to the transmission sale. Based on IPL's calculations, there would be approximately \$2.2 million for 2011 and nothing for years 2012-2016.

Consumer Advocate said that IPL's refund proposal for 2010-2016 further deviates from the Board's intent in Docket No. SPU-07-11. If the proposed refunds are made in 2009 and 2010, Consumer Advocate pointed out that almost nothing will remain to offset increases to transmission charges in 2011 and beyond. Consumer Advocate said this is critically important since there is no reason to believe that the annual transmission costs for these years will be less than the \$153 million estimated for 2009 and the \$175 million estimated for 2010.

Consumer Advocate noted that based on IPL's alternative proposal, the total refund would amount to between \$83.6 and \$84.6 million in total, less than the \$92.1 million approved by the Board. Consumer Advocate pointed out that IPL believes that the intricacies of IPL's alternative refund proposal should be examined and

resolved as part of Docket No. RPU-2009-0002 and therefore no decision need be made now on refunds beyond 2009. Consumer Advocate said delaying the decision on post-2009 refunds would allow Consumer Advocate and intervenors the opportunity to more closely examine the proposal and file testimony relating to the proposal. LEG did not take a position on post-2009 refunds, other than to state the issue should be consolidated with the rate case and litigated there.

The Board agrees with IPL, Consumer Advocate, and LEG that the post-2009 refund proposals should be consolidated with IPL's pending rate case, Docket No. RPU-2009-0002, and that no decision on a refund plan should be made at this time. Parties may comment on IPL's proposals in their prefiled testimony. After receiving testimony at hearing, the Board will be in a better position to balance the relative costs and benefits of accelerating the refunds, and may have better information about prospective ITC Midwest transmission increases.

**IT IS THEREFORE ORDERED:**

1. Interstate Power and Light Company's alternative refund proposal for 2009 is denied. Refunds shall be made pursuant to the Board's directives in Docket No. SPU-07-11 until modified by the Board.
2. Interstate Power and Light Company's alternative refund proposal for post-2009 is denied without prejudice and consolidated with IPL's pending rate case proceeding, Docket No. RPU-2009-0002.

3. The request for waiver of 199 IAC 20.9(2)2 is granted, subject to any modification as a result of the Board's final decision in Docket No. RPU-2009-0002.

**UTILITIES BOARD**

/s/ Robert B. Berntsen

/s/ Krista K. Tanner

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

/s/ Darrell Hanson

Dated at Des Moines, Iowa, this 23<sup>rd</sup> day of June, 2009.