

**STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD**

IN RE: DOCKET NO. RPU-09-2

**INTERSTATE POWER
AND LIGHT COMPANY**

**INITIAL BRIEF OF AG PROCESSING INC
A COOPERATIVE**

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TABLE OF CONTENTS

	<u>Page</u>
TABLE OF CONTENTS	2
INTRODUCTION	3
STATEMENT OF THE CASE	4
ARGUMENT	5-9
CONCLUSION	10

INTRODUCTION

Ag Processing Inc a cooperative (AGP) processes soybeans in four states, including six locations in Iowa. AGP is the largest cooperative soybean processor in the world. The soybean processing business is very energy intensive. Because the cost of energy has a profound impact on its ability to remain in business, AGP is active in proceedings before the Iowa Utilities Board (Board). In this docket, AGP is a member of the Large Energy Group (LEG) and has also intervened individually. AGP believes it is important that it contribute an individual presence and voice in a proceeding to consider a proposed rate increase of this magnitude.

STATEMENT OF THE CASE

On March 17, 2009, IPL filed an application with the Board proposing to increase IPL's Iowa electric rates on a permanent basis in the amount of approximately \$171 million (16.6 percent) annually. On March 27, 2009, IPL implemented, on a temporary basis and subject to refund, an increase in its Iowa electric rates of approximately \$84 million (7.0 percent) annually. On April 13, 2009, the Board docketed IPL's application for a permanent rate increase for formal investigation in a contested case proceeding identified as Docket No. RPU-2009-0002.

On May 8, 2009, IPL separately filed a request for permission to accelerate customer refunds to which IPL had committed in Docket No. SPU-07-11, which involved the sale of IPL's transmission system to ITC Midwest LLC. In an order issued on June 23, 2009, the Board rejected IPL's request. IPL's refund proposal was consolidated with Docket No. RPU-2009-0002, and is an issue before the Board in this rate case proceeding.

Direct testimony was filed on July 17, 2009; rebuttal testimony was filed on August 7, 2009; and surrebuttal testimony was filed on September 9, 2009. An evidentiary hearing was conducted on October 5-8, 2009.

ARGUMENT

I. IPL'S Rates Discourage Industry From Locating in its Service Territory.

Soybean processing is an energy intensive business. In Iowa, AGP operates one soybean processing plant in IPL's service territory and four plants in MidAmerican Energy Company's service territory. The rate differential between service territories for AGP's plants with similar operating characteristics is significant (Tr. 143.). When questioned, IPL Witness Aller acknowledged the differential in utility rates between the two utilities that serve AGP. (Id.). Although he testified that other costs would likely be considered when a company is considering where to locate its plant, he also acknowledged that an energy rate differential of approximately 67% could be a significant consideration to an energy intensive operation (Tr. 143).

Mr. Aller also testified that it would not be beneficial for IPL or its other customers if a large industrial customer moved from IPL's service territory because of energy costs. In response to a question regarding the effect of losing a large industrial customer, he testified as follows:

A. Without checking on seeing what our costs to provide service to that company is, and upgrades and things that are planned, generally speaking, it would not be a good thing for our company.

Q. . . . would it be beneficial for Interstate's other customers?

A. In that particular class on a cost-of-service basis, the cost would be reallocated and those costs would go marginally up, depending on what the exiting company's bill was in relationship to the division problem.

Q. What about customers in all of Interstate's classes?

A. The revenues would be down. . . .

(Tr. 145-146).

The Office of the Consumer Advocate (OCA) has proposed the Board impose a management efficiency penalty on IPL, based on Iowa Code Section 476.52 (2009). Iowa Code Section 476.52 (2009) states the Board may impose a penalty if, among other things, the utility is performing in a less beneficial manner than other utilities. If the Board determines that rates charged by IPL are a measure of IPL's performance under Iowa Code Section 476.52, then AGP's situation is a clear example of IPL performing in a "less beneficial" manner.

If large industrial customers relocate or choose not to build in IPL's service territory because of the level of rates charged, it is likely all of IPL's customers will suffer the consequences. The Board should consider this when making a decision regarding the imposition of a penalty.

OTHER ISSUES

AGP submits its comments regarding the following issues.

A. IPL's Proposed Automatic Adjustment To Recover Transmission Costs Should Be Rejected.

AGP supports the testimony of LEG witness Latham and ICC witness Brubaker stating the proposed automatic adjustment should be denied.

These costs are not the proper costs to be recovered as an automatic adjustment on ratepayer's statements. Denial of this proposal is consistent with the Board's decision in Docket No. RPU-08-3. In re Black Hills/Iowa Gas Utility Company, LLC d/b/a Black Hills Energy (f/k/a Aquila, Inc. d/b/a Aquila Networks, Docket No. RPU-08-3 (IUB May 7, 2009). In the event the Board does decide to approve an automatic adjustment, the charges per kW demand should be cost-based by voltage delivery level.

B. IPL's accelerated meter depreciation proposal should be rejected.

IPL Witness Hampsher has proposed to accelerate depreciation on electric meters based on the expectation that Advanced Metering Infrastructure (AMI) is imminent. As shown in Mr. Hampsher's Schedule D-14, this would result in a reduction in rate base for the test year of \$1,552,242. However, as reflected in his Schedule B-32, it would result in an increase in the Iowa depreciation expense of

\$3,104,485, for a net increase in rates of 9 about \$2.8 million.

LEG witness Latham has pointed out that the AMI meters are not certain and this depreciation acceleration should be rejected. AGP supports the LEG position on this issue.

C. IPL's revenue requirement should be allocated to customer classes on the basis of a suitable class cost-of service study.

IPL has proposed a class cost-of-service study. (See, Vognsen Direct Testimony at page. 36-40.) LEG Witness Latham supports this approach with three exceptions. AGP supports the LEG position regarding this issue. The first exception has to do with IPL's use of the coincident peak method for allocating transmission costs. Rather, LEG states the transmission cost should be allocated using the AED method. Second, AGP believes the LEG proposal for more clearly allocating generation costs on the basis of the firm loads that cause the demand should be adopted. Third, the fact that lighting customers have usage that occurs in the evening should be recognized.

D. Rate reductions to which IPL committed in SPU-07-11 should be accelerated.

In Docket No, SPU-07-11, IPL committed to rate reductions, or price discounts, associated with its sale of its transmission assets. See, Final Decision and Order, Docket No. SPU-07-11, issued September 7,

2007). The LEG states it disagrees with the timing of these price discounts., as set out in SPU-07011. Because of the current economic pressure, AGP concurs with the LEG position that these rate discounts should be accelerated rather than using the eight-year period -at four percent interest - contemplated in Docket No, SPU-07-11.

E. IPL’s Amortization Proposal for the rate treatment of ITC’s 2008 true-up costs charged to IPL in 2010 should be approved.

IPL has proposed that the amount by which the actual costs of providing network transmission service to IPL during 2008 will be “trued-up” and collected from IPL in 2010 be recovered by IPL from its customers in retail rates over a period of four years. Tr. 371; 407-408.

It is the LEG’s position that customer refunds from the transmission sale regulatory liability account be made as soon as possible, and in no event over a period longer than two years. Tr. 1389. IPL’s “preferred rate treatment” alternative is incompatible with this accelerated refund approach.

AGP supports the LEG’s position on this issue.

CONCLUSION

AGP urges the Board to make a decision regarding Interstate’s proposed rate increase in accordance with the statements in this brief

Respectfully Submitted,

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