STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES DIVISION
BEFORE THE UTILITIES BOARD

IN RE: **INTERSTATE POWER AND LIGHT COMPANY**	**DOCKET NO. RPU-2009-0002**

REPLY BRIEF

OF

LARGE ENERGY GROUP

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I. INTRODUCTION

On November 2, 2009, the Large Energy Group ("***LEG***") filed its initial brief in this docket. Initial briefs were also filed by the following parties: Interstate Power and Light Company ("***IPL***"); the Office of Consumer Advocate ("***OCA***"); the Iowa Consumers Coalition ("***ICC***"); and Ag Processing Inc ("***AGP***").

In this reply brief, the LEG will respond to some of the arguments set forth in the initial briefs of IPL, the OCA, and the ICC relating to the issues the LEG addressed in its initial brief.[1] Some of those arguments were anticipated and addressed in the LEG's initial brief, and for that reason this reply brief will not seek to rebut each and every opposing argument. The LEG's failure to respond to a specific argument in a brief should not be construed as agreement or acquiescence. *See 199 IAC 7.7(12)"c".*

The body of this brief has five sections. The first addresses IPL's proposed automatic adjustment mechanism for the recovery of transmission costs; the second, the customer refunds to which IPL committed in Docket No. SPU-07-11; the third, the allocation of IPL's revenue requirement to customer classes; the fourth, IPL's proposal to accelerate the depreciation of its existing Iowa electric meters; and the fifth and final section, the appropriate rate treatment of 2008 true-up transmission costs charged to IPL by ITC Midwest ("***ITCM***") in 2010.

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[1] The LEG concurs with the arguments made in the initial brief of AGP, which is a member of the LEG as well as a separate intervenor in this docket.

II. ARGUMENT

A. IPL's proposed automatic adjustment mechanism for the recovery of transmission costs should be rejected.

In support of its proposed automatic adjustment mechanism for the recovery of costs associated with transmission service provided to IPL by ITCM,[2] IPL argues that the mechanism is similar to the cost recovery methodology used for energy efficiency costs.[3] *IPL Br. 109.* Cross-examination of IPL witness Madsen at the hearing, however, revealed a major difference between the Transmission Rider and the EECR. The proposed Transmission Rider is missing an important feature of the EECR; namely, the ability of the Iowa Utilities Board ("***Board***") to review the reasonableness and prudence of the costs to be recovered by the utility and disallow recovery of past and future costs that exceed what the Board determines to be reasonable and prudent costs. *Iowa Code § 476.6(16)"g"; Tr. 271.* Mr. Madsen agreed that inclusion of this feature in the Transmission Rider would provide a powerful incentive for IPL to manage its transmission costs, but was unwilling to agree to do so. *Tr. 271-273.* During the hearing IPL witnesses Madsen and Hampsher described a Board review process applicable to the Transmission Rider that falls woefully short of the kind of scrutiny the Board can and does give to the EECR. *Tr. 273, 552-553.* LEG witness Latham also expressed concern about the ability of the Board staff to give costs flowed through the Transmission Rider the same degree of close scrutiny commonly given to costs recovered in rates set in a rate case context. *Tr. 1459, 1461-1463,*

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2 For brevity's sake, this automatic adjustment mechanism will be referred to in this brief as the "***Transmission Rider***." This phrase was also used by IPL to refer to its proposed automatic adjustment mechanism. *IPL Br. 109, n. 52.*

3 Again for the sake of brevity, the cost recovery methodology used for energy efficiency costs will be referred to n this brief as the "***EECR***."

IPL also contends that the Transmission Rider will "help minimize" the number of rate cases that are needed and thereby avoid the "administrative burden that affects all interested parties." *IPL Br. 109.* But, according to the President of IPL, Thomas L. Aller, IPL will be filing another rate case in March 2010, close on the heels of this rate case, even if the Board approves IPL's proposed Transmission Rider. *Tr. 132-133.* As discussed in section II.D. below, we can reasonably anticipate that there will be yet another rate case filed in 2012, or perhaps in 2011, for the purpose of reflecting in IPL's rates a cost-based allocation of IPL's revenue requirement to rate classes. In addition, Mr. Aller was unwilling to make any rate-freeze commitments tied to the approval of the Transmission Rider:

> Q. Are you willing to make any commitment on, say, a rate freeze, or at least a specific period of time during which you will defer filing a new rate case if the Board would approve the automatic adjustment mechanism?
>
> A. Sitting here right now, I'm not.

Tr. 134. Finally, it should be noted that in its initial brief the LEG demonstrated that the expectation that IPL will file a rate case while the Transmission Tracker is in effect removes another potential benefit that the Transmission Rider could have provided to customers. *LEG Br. 6-10.* Customers would be faced with the yearly increase in rates from the Transmission Rider and the additional expenses from the next rate case.

In the portion of its initial brief that discusses and applies the criteria applicable to an automatic adjustment mechanism, IPL claims that one such criterion is that the costs to be recovered by means of the mechanism must be "beyond direct control of management" and argues that the costs to be recovered through the Transmission Rider satisfy this criterion. *IPL Br. 115, 116.* As the LEG already demonstrated in its initial brief, however, there is ample evidence in the record for the conclusion that IPL has a significant degree of control over the amount of the transmission costs and thus fails to satisfy this criterion. *LEG Br. 6-10.*

IPL goes on to argue that the costs to be recovered through the Transmission Rider satisfy the criterion requiring that the costs be subject to sudden and important changes in level. *IPL Br. 115, 116-117.* But nowhere in this argument is there any showing made that the costs are subject to <u>sudden</u> changes in level. This deficiency of proof is also evident in the case presented by the OCA. Under cross-examination, OCA witness Fuhrman testified as follows:

> Q. Now, when I look at those criteria that were identified in the Board's rules applicable to the [energy adjustment clause], they include not only the fact that it is a significant fluctuation, but the fluctuation be sudden. You haven't said anything about sudden here. Do you believe that these fluctuations you've identified here are sudden?
>
> A. To the extent that ITC, for example, would impose rates that are 50 percent higher than the previous level of rates, that would be a sudden increase and a significant increase.
>
> Q. Well, they know about those rates in, what, September of the preceding year? Isn't that when ITC files its attachment –
>
> A. They post their rates, yes.
>
> Q. They post them. And then there is a period during which they can contest those rates, as they did this last time, is that correct?
>
> A. That is correct.
>
> Q. Is it your belief that that advance notice still – that even given that advance notice, these fluctuations are sudden?

> A. Well, probably not as sudden as if they were implemented without knowledge, but certainly they are enacted relatively quickly with somewhat limited capability to do much about them.

Tr. 975-976.

IPL claims that its total transmission costs from ITCM in 2010 are expected to amount to roughly 15 percent of IPL's overall revenue requirement. *IPL Br. 117.* The LEG begs to differ. LEG witness Latham testified that IPL witness Hampsher's Exhibit CAH-1, Schedules A and B-9, show that 2008 transmission charges allocated (94.11%) to Iowa electric utility customers amounted to about $86 million out of total operating revenues of $1,224 million, or about seven percent, which could increase to 10 percent in 2009. *Tr. 1374.* A 10 percent increase in such costs would therefore mean a change of about 1 percent of total revenues. *Tr. 1374.*

IPL's claim that its total transmission costs from ITCM in 2010 are expected to amount to roughly 15 percent of IPL's overall revenue requirement assumes that the 2010 transmission costs included in the revenue requirement will be about $200 million. *IPL Br. 117.* Elsewhere in its initial brief IPL states that it expects its total transmission costs from ITCM in 2011 to amount to $170 million, which is significantly below the $200 million estimate for 2010. *IPL Br. 113.* Using IPL's 2011 estimate of $170 million for transmission costs decreases the 15 percent ratio calculated by IPL. Also, one would reasonably expect IPL's overall revenue requirement used in IPL's 15 percent calculation to increase, which would lower the percentage even more. Moreover, IPL is not proposing to include all of the claimed $200 million of transmission costs in its revenue requirement. The $200 million amount includes all of the 2008 true-up cost IPL will be charged by ITCM in 2010, and IPL proposes either to amortize over a four-year period the 2008 true-up costs IPL will be charged by ITCM in 2010 or to offset them with the refunds to which IPL committed in Docket No. SPU-07-11. In sum, IPL is inflating the 2010 revenue requirement impact of the transmission charges from ITCM in 2010.

Finally, it should be noted that if transmission costs of this order of magnitude can be deemed an important factor in determining the total cost to serve, the same conclusion can be drawn with respect to IPL's distribution costs. *Tr. 1374.* Transmission costs are far from unique in this respect. *Tr. 1374.*

IPL concludes its argument with the claim that Board approval of the Transmission Rider "will not remove IPL's incentive to be vigilant about managing" its transmission costs. *IPL Br. 119.* According to IPL, its "primary incentive will continue to be to deliver safe and reliable service to its customers at reasonable rates." *IPL Br. 119.* This does not make any sense. IPL has confused a legal obligation with an incentive. In some tautological sense, of course, IPL has an "incentive" to perform its legal obligations. This does not mean, however, that regulatory policy should not put into place, where possible, incentives in addition to the bare minimum represented by the legal obligations IPL shares with every other Iowa public utility. In its initial brief, the OCA makes the following observation: "It seems apparent that Interstate has been satisfied with simply passing on the higher fuel costs to customers through its automatic fuel adjustment clause rather than looking for ways to reduce costs that customers are forced to bear as MidAmerican has done."[4] *OCA Br. 26.* The same could – and should – be said about IPL's proposed Transmission Rider. If the Transmission Rider is approved and if IPL's record with respect to its automatic fuel adjustment clause ("***EAC***") is any guide to the future, there is no reason to believe that IPL will do anything more than

[4] LEG witness Latham shares this same point of view. *Tr. 1459-1460.*

simply pass on higher transmission costs through the Transmission Rider rather than look for ways to reduce costs that customers are forced to bear.[5] Rejection of the Transmission Rider will provide IPL with an incentive to do more to manage its transmission costs. *Tr. 1458-1460.* If, as the OCA contends, IPL's legal obligation "to deliver safe and reliable service to its customers at reasonable rates" is not a sufficient incentive for IPL to effectively manage the fuel costs it passes through the EAC, there is no reason to believe it will be a sufficient incentive for IPL to effectively manage the transmission costs is proposes to pass through the Transmission Rider.

The conclusion of IPL's argument relating to the Transmission Rider also reinforces a point the LEG made in its initial brief. *IPL Br. 120.* According to IPL's brief, "[l]ack of an automatic adjustment clause may put IPL in a position where it can never fully recover its costs, if ITC-M's rates continue to increase," because "there is a lag between the change in ITC-M transmission rates and IPL's ability to recover those increases in rates." *IPL Br. 120.* The LEG's initial brief showed that the Transmission Rider would allow IPL to increase rates for electric service and generate increased revenue outside of a rate case without any risk of non-recovery, and thus fails to pass muster under the standards recently established by the Board in Docket No. RPU-08-3. *LEG Br. 9; see also Tr. 182-184.* LEG also demonstrated in its initial brief that even if the Transmission Rider were deemed to satisfy all of the criteria required for an automatic adjustment mechanism, it would nonetheless be unreasonable because it does

[5] Needless to say, this observation by the OCA is difficult to reconcile with the OCA's support for the Transmission Rider.

not include an adjustment on the return on equity for the reduced risk that it provides.[6] *LEG Br. 9-10.*

Although the OCA's initial brief supports approval of the Transmission Rider, it admits that the OCA "shares some of [the] concerns raised by the LEG."[7] *OCA Br. 12.* The brief also suggests what appears to be a new condition on the Transmission Rider; namely, that the Transmission Rider be in place "until transmission rates become more stable." *OCA Br. 12.* This new condition does not allay the LEG's concerns about the Transmission Rider. The LEG believes, among other things, that it may be very difficult to discontinue an automatic adjustment mechanism after it has been implemented. A better approach from the LEG's perspective is to defer approval and implementation of any automatic adjustment mechanism for the recovery of transmission costs until sufficient time has elapsed to determine that those costs are not likely to stabilize. Dr. Latham testified that he expects IPL's transmission costs to stabilize in the near-term future. *Tr. 1457-1458, 1460.* Even IPL witness Madsen recognizes that its transmission costs are "particularly volatile now as we're going through the transition period." *Tr.*

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[6] IPL witness Hanley took the position in his direct testimony that "there are significant reasons why there is no reduction in risk attributable to having [IPL's proposed automatic adjustment clause] in place." *Tr. 1479.* However, in an unguarded moment during questioning by Chairperson Berntsen at the hearing, Mr. Hanley reversed course:

> Q. One more question on the small size adjustment. You stated that all else – everything else being equal, companies that are smaller are more risky, according to the rating agencies. If you're looking at those small companies, does a small company with no transmission assets become less risky than the other companies?
>
> A. No. And <u>certainly if they don't get a rider to recover the transmission costs for which they have no control at all, they could be even more risky</u>.

Tr. 1652-1653 (emphasis added).

[7] In support of the quoted language, the OCA brief cites the testimony of OCA witness Fuhrman during cross-examination by the LEG's counsel. *Tr. 968-972.*

296. It makes good sense to wait until this transition period ends to take the probably irreversible step of implementing the "deviation from traditional ratemaking" an automatic adjustment mechanism such as the Transmission Rider represents. *See LEG Br. 8, 10.* At the very least, any decision on the Transmission Rider should be deferred to the rate case IPL will file in March 2010. *Tr. 132, 1460.* The OCA should not object too strenuously to this cautious handling of the matter in light of the fact that OCA witness Fuhrman recommended a similar go-slow approach with respect to one aspect of the 2008 true-up issue:

> Q, In his proposal to place the true-up unrecovered balance in rate base, Mr. Hampsher accepted your recommendation to fix the 2010 overrecovery issue. Is it still your position that the unrecovered balance should not be placed into rate base, and this issue should be determined in the next rate case?
>
> A. That would be my preferred approach, yes.
>
> Q. Could you explain why it's appropriate to defer the decision until the next rate case?
>
> A. Well, we will – at that time the company will have recovered at least some of those costs, and we can calculate at that time what has been recovered, what is unrecovered, what has been incurred, what has not been incurred depending upon the timing of interim rates, and so forth, and make a determination of not only whether it is appropriate as a matter of whether it should be included in rate base, but what's the right amount.

Tr. 988-989.

B. The customer refunds to which IPL committed in Docket No. SPU-07-11 should be accelerated.

This issue is of paramount importance to the members of the LEG. As LEG witness Latham expressed it during questioning by Board Member Hanson at the hearing:

> . . . [I]f there's any issue in which the industrials and the city and the hospitals in our group are aligned, it is, you know, this is a tough time. We would much rather see those dollars today. Our cost of money is a lot

> more than 4 percent.[8] Some of us are having financial difficulties, and we would rather have the dollars today so we can, you know, have a greater assurance of staying in business. That's another part of it, not that that would be the only issue, but that is a very significant point. Why wait eight years, you know, when our cost of money may be triple that 4 percent?

Tr. 1456.

For these and other compelling reasons, the LEG joins IPL in recommending that the customer refunds to which IPL committed in Docket No. SPU-07-11 be accelerated. *LEG Br. 11-13; IPL Br. 4, 33, 108; Tr. 134-135, 238-240, 274-277, 1361, 1379-1380, 1389, 1390.* The LEG has proposed that the refunds be made over a period of not more than two years, and IPL does not object to the LEG proposal. *LEG Br. 13; Tr. 276-277, 1380, 1390.* Also, as discussed in section II.E. below, the LEG is willing to accept IPL's proposal to offset ITCM's 2008 true-up costs charged to IPL in 2010 with a portion of the transmission sale regulatory liability account provided that the balance of the customer refunds remaining after the offset is taken is flowed through to customers through the EAC over a twelve-month period commencing at the conclusion of this docket.

Only the OCA raises any objection to the acceleration of the customer refunds to which IPL committed in Docket No. SPU-07-11.[9] *OCA Br. 10.* The OCA admits that this approach "is appealing on its face," but cites testimony by OCA witness Fuhrman for the position that accelerating refunds would be "unwise" because it would mean that customers in later years will not receive the benefit of the eight-year refund contemplated in Docket No. SPU-07-11. *OCA Br. 10, citing Tr. 987-989.* Mr. Fuhrman's cited testimony, however, is much more equivocal:

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[8] The discount rate inherent in the eight-year refund schedule contemplated in Docket No. SPU-07-11 is four percent. *Tr. 1380, 1390, 1455.*

[9] The ICC does not address this issue in either its initial brief or its testimony.

> Q. I just have a couple of questions on the 2008 true-up issue for transmission costs. If recovery of the 2008 true-up were approved, the two options presented to the Board are to either amortize a one-time cost over four years, or in the alternative, take a benefit intended for multiple years – that is, the ATA regulatory liability account – to offset a one-time event. In your opinion, which is better justified by the Board precedent and customer impact?
>
> A. I think this is an issue where there may not be a great deal of precedent to answer the one question. In terms of ratepayer impact, I think if you look strictly at a present value basis, the customers might be preferring to get their money out early. Some of them do based on the evidence that's been presented in this case. The position that I've taken is that the decision in the SPU-07-11 case contemplated that there would be a stream of refunds to offset costs to customers over the eight-year period, and that's the recommended approach that I have advocated.

Tr. 987-988 (emphasis added). The OCA nowhere explains, however, why the "benefit" of receiving refunds over an eight-year period outweighs the benefits of receiving them sooner, particularly in light of Mr. Fuhrman's candid acknowledgement that on a present-value basis customers might prefer to "get their money out early."

The benefits of accelerating the refunds were identified in some detail in the LEG's initial brief. The economy has undergone a dramatic change for the worse since Docket No. SPU-07-11 was concluded in September 2007. Customers are experiencing significant economic duress at the current time, and are desirous of getting refunds sooner rather than later in partial mitigation of the enormous rate increase proposed by IPL in this rate case. *LEG Br. 12-13.* As alluded to by Mr. Fuhrman, acceleration of the refunds has the advantage of actually increasing the value to customers of the benefit received. *LEG Br. 13.* An accelerated rate refund schedule does a much better job of avoiding erratic rate changes and minimizing administrative burden than does the eight-year refund schedule contemplated in Docket No. SPU-07-11. *LEG Br. 12.*

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

Only AGP agrees with the LEG's position that IPL's revenue requirement should be allocated to customer classes in this docket on a class cost-of-service ("***CCOS***") basis rather than on a uniform, across-the-board basis. None of the parties opposing the LEG's position, however, addresses or even mentions the ratemaking standards established by the Board's rules and discussed at length in the LEG's initial brief. *LEG Br. 13-16.* As demonstrated in the LEG's initial brief, only the LEG's proposal to use an appropriately modified version of IPL's CCOS study[10] as the basis for allocating IPL's revenue requirement to customer classes comports with those ratemaking standards. *LEG Br. 16-18.* The allocation supported by IPL, the OCA, and the ICC does not reasonably reflect the costs of providing electric service to each class, and thus is inherently inequitable and creates cross-subsidies among classes. *LEG Br. 18.*

It has already been six years – from the 2003 implementation of the rates approved in Docket No. RPU-02-3[11] to the present – since IPL's rates have reflected a cost-based allocation of IPL's revenue requirement. *Tr. 808-809.* IPL does not plan to reflect a cost-based allocation of its revenue requirement in the rate case it will file in March 2010 because rate equalization will not have been accomplished until later in 2010 and possibly even later than that. *Tr. 132, 290-291.* When asked whether IPL plans to file a rate case in 2011, IPL witness Madsen answered, "At this point I hope not." *Tr.*

[10] As pointed out in the LEG's initial brief, IPL's CCOS study is the only CCOS service study in the record. *LEG Br. 16, n. 11; Tr. 793, 1276, 1279.* Although OCA witness Wilson testified at length about the CCOS study methodology he prefers, he admitted during cross-examination that the OCA is not recommending that any changes or adjustments to IPL's CCOS study be made at this time. *Tr. 1279, 1282.*

[11] The order approving compliance rates in Docket No. RPU-02-3 was issued on May 28, 2003.

292. Assuming, then, that IPL does proceed to file a rate case in 2012 and that rate equalization has been completed prior to the filing of that rate case, the earliest time at which IPL's rates will reflect a cost-based allocation of IPL's revenue requirement will be four years from now, in 2013. This means that for a period of ten years – from 2003 to 2013 – IPL's rates will not have been based on CCOS. This represents a full decade of inherently inequitable and inefficient rates and unsupportable cross-class subsidies. *See LEG Br. 13-18.*

IPL and the OCA offer the same rationale for rejecting a cost-based allocation of IPL's revenue requirement to customer classes; namely, the fact that the Board decided in Docket No. RPU-05-3 to use a uniform across-the-board allocation rather than a cost-based allocation because the rate-equalization process initiated by the Board's decision in Docket No. RPU-04-1 was incomplete. *IPL Br. 123; OCA Br. 109-110.* Circumstances have materially changed, however, from those that were before the Board in Docket No. RPU-05-3. At the time of that decision, it was assumed that the rate equalization process would be complete in four more years, at which time CCOS revenue realignments would be addressed. "Final Decision and Order," *In re Interstate Power and Light Company*, Docket No. RPU-05-3, at 4, 6, 10-11 (IUB Apr. 28, 2006). However, as demonstrated above, at the earliest it will be four more years in the future (2013) before IPL's rates will be based on CCOS. This significant change in circumstances warrants a different decision on class allocation methodology from the one the Board reached in Docket No. RPU-05-3.

IPL and the ICC also argue – primarily on the basis of an essentially unexplained and unjustified preference for deferring to a future rate case the litigation of the issues associated with changing allocations based on a CCOS study – that allocation of IPL's revenue requirement to customer classes should not be undertaken until such time as the rate-equalization process is completed.[12] *IPL Br. 122-123; ICC Br. 63.* IPL contends that it is "premature" to litigate CCOS issues because IPL has not proposed final rates that are based on the study. *IPL Br. 123.* This contention is belied by one of IPL's own witnesses, who testified as follows:

> Q. Well, at what point do you anticipate that you would be – given that kind of rough timetable you sketched out, at what point do you anticipate that you would be filing a class cost-of-service study and asking the Board to implement the results of those studies in rate allocation and rate design?
>
> A. Two parts to my answer: First of all, <u>I would expect us to propose no change to rates based on a class cost-of-service study in our next case</u>, but it certainly –
>
> Q. Excuse me. That's your 2010 case?
>
> A. Yes.
>
> Q. All right.
>
> A. <u>That certainly doesn't prevent other parties from making that proposal to adjust rates based on a class cost-of-service study, nor does it prevent the Board from making those types of adjustments</u>. So I'm not precluding somebody else from doing that. I'm indicating what I expect we will do as <u>I believe that's consistent with the Board's prior order</u>.

Tr. 291-292 (emphasis added). The ICC flatly asserts that it would be "too speculative, unreliable, and inherently unfair" to use IPL's CCOS study, but fails to provide any explanation or support for the assertion. *ICC Br. 63.* The ICC then alleges that it would be "more prudent" to wait for the completion of the rate-equalization process before

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[12] Although the OCA's initial brief does not explicitly include this argument, OCA witness Fuhrman offered testimony to the same effect. *Tr. 849-850.*

"taking on the likely-contentions issues associated with changing allocations based on a new [CCOS] study." *ICC Br. 63.* The allocation issues are as likely to be contentious in a future rate case as they are now, and the ICC has neither provided any real justification for waiting nor explained why it would be any less prudent to address those issues now rather than in a future rate case. Although the ICC does go on to claim that this case "presents sufficiently complex and disputed issues without having to address [CCOS]," the ICC has given us no reason to believe that the next rate case will not present issues of at least the same degree of complexity and contentiousness.

According to ICC witness Brubaker, an additional reason for the ICC's endorsement of a uniform across-the-board allocation of IPL's revenue requirement is uncertainty about whether Large General Service customers will transfer to the Bulk Power class and about what load profiles transferring customers would express following the transfer. *Tr. 1300-1301.* This position, however, is inconsistent with Mr. Brubaker's subsequent testimony:

> Q. At the bottom of page 11 of his testimony, Mr. Vognsen focuses on short-term changes. Is it appropriate to maintain an existing rate design solely on the basis of short-term impacts?
>
> A. No. Rates should be designed appropriately to reflect cost of service. Cost of service is based on fundamental cost-causation principles and deciding whether or not to adopt a particular rate design methodology should not hinge upon short-term impacts. What is more important is that the long-term consequences be allowed to occur. Under Mr. Vognsen's short-term focus, it would be difficult ever to make any changes in rate design.

Tr. 1322. Contrary to his own counsel, Mr. Brubaker's argues that the short-term impacts of transfers from one rate class to another[13] and of changes in customer load profiles[14] are indeed a basis for maintaining an existing rate design. Mr. Brubaker has done what he condemns Mr. Vognsen for doing: hinging the decision about whether or not to adopt a particular rate design methodology on short-term impacts. As noted by Mr. Brubaker himself, this would make it "difficult ever to make any changes in rate design."

D. IPL's proposal to accelerate the depreciation of its existing Iowa electric meters should be rejected.

IPL's initial brief argues that its proposal to reduce the depreciable life of its existing Iowa electric meters from 23 years to 10 years is "consistent with" a recommendation by the National Association of Regulatory Utility Commissioners ("NARUC") that state commissions should "provide depreciation lives for AMI that take into account the speed and nature of change in metering technology," and claims that a decision by the Public Service Commission of Wisconsin to establish a "15-year asset life for AMI metering" is "consistent with" this NARUC recommendation. *IPL Br. 72.* This argument and claim are based on the testimony of IPL witness Madsen. *Tr. 241-242.* What IPL has conveniently overlooked is that its proposal relates to the depreciable life of existing non-AMI meters, not depreciation lives for AMI as specified in the NARUC resolution or the assets lives of AMI metering as referred to in the Wisconsin commission decision.

During cross-examination at the hearing, Mr. Madsen testified that he presumed that the 15-year asset life established by the Wisconsin commission was for new meters

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13 Mr. Brubaker admitted that as a general proposition it is not uncommon for customers to change rate class between rate cases. *Tr. 1331.*

14 Mr. Brubaker also appeared to agree that it is not uncommon for customers who change rate classes also to change their load profiles. *Tr. 1331.*

rather than existing ones. *Tr. 232.* When asked why the asset life for new AMI meters have anything at all to do with the remaining lives of IPL's existing non-AMI meters, Mr. Madsen answered, "Arguably, it doesn't," and went on to agree that his testimony about the Wisconsin decision was not offered by him in support of IPL's selection of a 10-year depreciation life for IPL's existing meters. *Tr. 282.* In addition, Mr. Madsen was unable to explain how IPL's selection of a 10-year service life for existing non-AMI meters takes into account the speed and nature of change in metering technology:

> Q. Can you explain to me how your 10-year life selection takes into account the speed and nature of change in metering technology?
>
> A. I guess as I indicated before, this is a judgment call on our part to pick a time frame we thought would be reasonable to give us a chance to deploy the technology and take all the steps necessary. It could happen in three years. It could happen in 10 years. We're just not sure. So we just made sort of a judgment call to say this is a reasonable time frame; and, again, it really wasn't that much more sophisticated than that.

Tr. 281. In sum, neither the NARUC resolution nor the Wisconsin commission decision supports IPL's proposal to accelerate depreciation of IPL's existing non-AMI meters.

IPL also argues that IPL's proposal to accelerate depreciation of existing meters is "consistent with" a new standard established by the Energy Independence and Security Act of 2007. This standard provides as follows:

> OBSOLETE EQUIPMENT- Each State shall consider authorizing any electric utility or other party of the State to deploy a qualified smart grid system to recover in a timely manner the <u>remaining book-value costs</u> of any equipment rendered obsolete by the deployment of the qualified smart grid system, <u>based on the remaining depreciable life of the obsolete equipment</u>. (Emphasis added.)

Under this standard, the remaining book-value costs of existing meters rendered obsolete by deployment of the "smart grid" are to be recovered on the basis of the "remaining depreciable life" of the obsolete meters. Mr. Madsen testified under cross-examination, however, that IPL had not performed a depreciation study in support of IPL's proposal to reduce the depreciable life of its existing Iowa electric meters from 23 years to 10 years. *Tr. 278.* According to Mr. Madsen, the remaining life of every single existing meter is merely assumed to be exactly the same – 10 years. *Tr. 280.* He admitted that IPL had not undertaken any formal depreciation study that takes into account the obsolescence of its existing meters. *Tr. 281.* He ultimately admitted that he had not submitted any evidence from which the Board could determine the remaining depreciable life of the obsolete existing meters. *Tr. 284.* Another IPL witness, Mr. Hampsher, subsequently testified that neither IPL's 2008 depreciation study update nor its 2009 depreciation study update supports a 10-year depreciable life for existing meters, and that both study updates actually support the 23-year depreciable life IPL is now proposing to shorten to 10 years. *Tr. 530-532.* Mr. Hampsher went on to acknowledge that the 10-year life was merely assumed and bears no relation to the remaining life of IPL's existing meters:

> Q. Well, as I understand it, you do the study in order to come up with a depreciation period. You don't take a depreciation period and use it as an input for the study, is that correct?
>
> A. Well, I think this is an exception to that. I mean we're trying to get a special rule in light of AMI, so this is something that would be an exception to the rest of the study that we would do.
>
> Q. So as far as you're concerned, it really doesn't matter what the remaining life on these existing meters is. You just decide it's going to be 10 years for depreciation purposes, is that correct?
>
> A. Well, I personally didn't make that decision, but they told me to do the pro forma like that, and that's the way we've done it.

Tr. 533.

IPL goes on to claim in its initial brief that an "accurate" cost-benefit analysis for installing AMI is not required to support the change in depreciation for existing metering. *IPL Br. 74, citing Tr. 250.* Even if this were true, however, a new depreciation study is indeed required to support the proposed change from the 23-year depreciation period for existing meters that is based on depreciation studies performed in 2008 and 2009, and such a new study is not only absent from the evidentiary record but does not even exist. In addition, this claim is inconsistent with the admission on the preceding page of IPL's initial brief and in IPL witness Madsen's testimony that the other parties' request for cost-benefit information in support of the depreciation proposal is reasonable. *IPL Br. 73.* If it is reasonable for IPL to provide cost-benefit information in support of IPL's depreciation proposal, it should also be reasonable to require that the information provided be "accurate." The inadequacies of the cost-benefit information IPL purported to provide in its rebuttal testimony are identified in the initial briefs of the other parties. *LEG Br. 19-20; OCA Br. 43; ICC Br. 17-18.*

In its discussion of the Transmission Rider at another point in its brief IPL contends that the rejection of IPL's proposal to accelerate depreciation of existing meters "will diminish the likelihood that automation will lead to cost savings." *IPL Br. 112, n. 54.* Although this contention is not supported by any citation to the evidentiary record, IPL obviously has in mind the following testimony offered by IPL witness Madsen at the hearing:

> Q. So what will happen if we do not – if IPL is not successful in getting AMI – in getting the accelerated depreciation in the 2008 test year?
>
> A. You know, I can't speak for what the company will decide four months from now when this case is over. I would expect a

> possible outcome would be that people internally would believe that suggests the Board doesn't want us to move to AMI, and we might want to tread very carefully before we go down that path; and, yes, we could try and develop a greater record in the next case. That's certainly one option to solve that particular issue.

Tr. 301. The threat implicit in the testimony and brief – namely, that IPL will not deploy AMI if the Board rejects IPL's accelerated depreciation proposal – is hardly credible. The record includes pages and pages of testimony touting the manifold benefits of AMI. *Tr. 248-249, 302, 311-320; Exh. REP-1, Scheds. C, D, E & F.* If approved, IPL's accelerated depreciation proposal will add approximately $2.8 million annually to its revenue requirement for ten years. *Tr. 302-303.* It is difficult to comprehend why IPL would forgo the substantial benefits of AMI deployment for such a relatively insignificant cost to itself. One can only conclude that the "threat" is not a serious one, as borne out by Mr. Madsen's' last words on the issue:

> Q. Are you telling me, then, that for $2.8 million a year, you're willing at this stage to completely forgo all of those now unquantified benefits of AMI?
>
> A. At this stage that would be true, and the reason being is that I think it would raise a lot of doubt as to how this Board viewed going down that path, and if the Board believes we shouldn't be going down that path, that would probably give us pause ourselves about doing it.
>
> Q. So if maybe you got some language in the order that said something like, "Well, we're going to deny this accelerated depreciation for X, Y, and Z reason, but we encourage the company to continue to look at AMI," you would find that sufficient?
>
> A. I can't speak for what we would decide four months from now.

Tr. 303.

E. IPL's preferred alternate proposal to offset ITCM's 2008 true-up costs charged to IPL in 2010 with a portion of the transmission sale regulatory liability account is acceptable to the LEG provided that the balance of the customer refunds remaining after the offset is taken is flowed through to IPL's customers through the EAC over a twelve-month period commencing at the conclusion of this docket.

In its initial brief, the LEG conditionally supported IPL's Amortization Proposal for the rate treatment of ITCM's true-up costs charge to IPL in 2010. *LEG Br. 24.* IPL's initial brief presents the Amortization Proposal along with a "preferred alternative proposal" to offset the true-up costs with a portion of the regulatory liability account that was established to fund the refunds to which IPL committed in Docket No. SPU-07-11. *IPL Br. 32-33.* The LEG initially opposed this alternate proposal because it appeared to be incompatible with the LEG's position that customer refunds from the transmission sale regulatory liability account be made over a period no longer than two years *LEG Br. 25.* Upon further consideration, however, the LEG has decided that it is willing to accept IPL's preferred alternate proposal; *provided*, however, that the balance of the customer refunds remaining after the offset is taken is flowed through to IPL's customers through the EAC over a twelve-month period commencing at the conclusion of this docket.[15] In this way, IPL's preferred alternate proposal can be rendered compatible with the LEG's position with respect to the acceleration of the customer refunds to which IPL committed in Docket No. SPU-07-11.

[15] At the hearing IPL witness Madsen testified that he "would presume [IPL] would refund [the remainder of the refund account] through the energy adjustment clause subsequent to [the offset], say in 2010." *Tr. 276.*

III. CONCLUSION

The LEG reaffirms the conclusions set forth on pages 29-30 of its initial brief with one modification. In its initial brief, the LEG conditionally supported IPL's so-called "Amortization Proposal" for the rate treatment of ITCM's 2008 true-up costs charged to IPL in 2010 and opposed IPL's preferred alternate proposal to offset the true-up costs with a portion of the regulatory liability account that was established to fund the refunds to which IPL committed in Docket No. SPU-07-11. Upon further consideration, the LEG has decided that it is willing to accept IPL's preferred alternate proposal provided that the balance of the customer refunds remaining after the offset is taken is flowed through to IPL's customers through the EAC over a twelve-month period commencing at the conclusion of this docket.

Dated November 9, 2009.

Respectfully submitted,

LARGE ENERGY GROUP

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