

STATE OF MINNESOTA  
OFFICE OF ADMINISTRATIVE HEARINGS  
FOR THE  
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of the Proposed Increase in  
Electric Rates of Interstate Power and Light  
Company

**FINDINGS OF FACT,  
CONCLUSIONS, AND  
RECOMMENDED ORDER**

The above-entitled matter came on for evidentiary hearing before Administrative Law Judge Richard C. Luis on December 12, 2005. The hearing was held in the Large Hearing Room of the Public Utilities Commission, in St. Paul, Minnesota. A public hearing was held by videoconference between the Office of Administrative Hearings in Minneapolis and the Skylight Room of Riverland Community College in Allbert Lea on October 18, 2005. The record remained open for posthearing briefs and replies. The hearing record in this matter closed with the receipt of the reply briefs on December 30, 2005.

Jennifer Moore, Attorney at Law, 200 First Street Southeast, Cedar Rapids, Iowa 52401, appeared for Interstate Power and Light Company (Interstate, IPL, or the Company).

Karen Hammel, Assistant Attorney General, Bremer Tower, Suite 1400, 445 Minnesota Street, St. Paul, Minnesota 55101, appeared for the Minnesota Department of Commerce (Department).

Ron Giteck, Assistant Attorney General, 900 Bremer Tower, 445 Minnesota Street, St. Paul, MN 55101, appeared for the Business Utilities Division of the Office of Attorney General (OAG).

Robert Harding, Lillian Brion, and Louis Sickmann, Rate Analysts, 121 Seventh Place East, Suite 350, St. Paul, Minnesota, appeared on behalf of the Staff of the Minnesota Public Utilities Commission (Commission).

**NOTICE**

Notice is hereby given that, pursuant to Minn. Stat. § 14.61, and the Rules of Practice of the Minnesota Public Utilities Commission ("Commission") and the Office of Administrative Hearings, exceptions to this Report, if any, by any party adversely affected must be filed according to the schedule which the Commission will announce. Exceptions must be specific and stated and numbered separately. Proposed Findings of Fact, Conclusions and Order should be included, and copies thereof shall be served

upon all parties. Oral argument before a majority of the Commission will be permitted to all parties adversely affected by the Administrative Law Judge's recommendation who request such argument. Such request must accompany the filed exceptions or reply (if any), and an original and 15 copies of each document should be filed with the Commission.

The Commission will make the final determination of the matter after the expiration of the period for filing exceptions as set forth above, or after oral argument, if such is requested and had in the matter.

Further notice is hereby given that the Commission may, at its own discretion, accept or reject the Administrative Law Judge's recommendation and that said recommendation has no legal effect unless expressly adopted by the Commission as its final order.

### **STATEMENT OF ISSUES**

IPL and the Department, either through investigation and responsive testimony, or through a Settlement, a copy of which is in the record that accompanies this Report, have resolved all the issues between them. The OAG raised the following issues:

- Does the residential customer charge in the settlement account for noncost factors?
- Is the residential customer charge agreed to in the Settlement contrary to public policy?
- Is the analysis of the increase in the residential customer charge based on a flawed analysis of low volume customers and would that increase result in rate shock to residential customers?
- Does the inclusion of TRANSLink start-up costs violate rate making principles and must those costs be excluded from the settlement?

IPL and the Department have requested that Findings of Fact be made with respect to the issues addressed in the Settlement Agreement, in addition to the issues raised by OAG. Those findings are included in this Report, together with the findings on the disputed issues.

Based upon all the proceedings herein, the Administrative Law Judge makes the following:

### **FINDINGS OF FACT**

#### **Jurisdictional-Procedural Background**

1. On May 16, 2005, IPL filed a Petition with the Commission, under Minn. Stat. § 216B.16, for an increase in electric rates of \$4,768,696 (an approximately 7.1

percent increase over current rates).<sup>1</sup> IPL also filed a Petition for Interim Rates pending the resolution of the requested rate increase.<sup>2</sup>

2. On July 8, 2005, the Commission issued an Order accepting the filing and suspending the proposed rate increase until the Commission has determined the reasonableness of the proposed rates or the expiration of the ten-month statutory period (whichever comes first) under Minn. Stat. § 216B.16(2) (2004).

3. On July 8, 2005, the Commission issued a Notice and Order for Hearing, directing that a contested case hearing be convened to determine the reasonableness of the rate changes proposed by IPL. The Commission also approved the interim rate request, permitting IPL to charge an additional annualized \$3,385,186 in rates. IPL is collecting interim rates subject to refund if the interim rates are in excess of the final rates determined by the Commission.

4. On July 25, 2005, a prehearing conference was held before Administrative Law Judge Richard C. Luis in St. Paul, Minnesota. Petitions to Intervene were filed by and granted to the Department, and Office of Attorney General (OAG).

### **Summary of Public Comments**

5. Members of the public were given the opportunity to testify regarding the proposed increase. A public hearing was held by videoconference on October 18, 2005. Judge Luis presided over that meeting from the Office of Administrative Hearings in Minneapolis. Representatives of IPL and the Department were present in Minneapolis. The public and representatives of IPL participated from the Skylight Room of Riverland Community College in Allbert Lea. A total of three members of the public attended.

6. Tom Aller, President of Interstate, described the costs that the Company has borne, particularly with respect to developing “black start” capacity and the commissioning of the Emery Generating Station in May, 2004 near Mason City, Iowa. Mr. Aller identified system upgrades totaling approximately 48 million dollars made across southern Minnesota since 2003. These upgrades were cited by Mr. Aller as helping IPL maintain a significantly higher reliability rating for the provision of electric service than the national average.<sup>3</sup>

7. Dale Lusti, Public Utility Financial Analyst for the Department, explained the role of the Department in assessing IPL’s proposed rate increase. Particularly, Mr. Lusti noted the Company’s proposed expenses, investments, cost of equity, sales, and rates as areas of inquiry by the Department. The Department’s initial review was described as reducing the Company’s requested revenue increase by 4.6 million

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<sup>1</sup> IPL Ex. 1, Vol. I.

<sup>2</sup> IPL Ex. 1, Vol. II.

<sup>3</sup> Public Comment Tr. at 6-9.

dollars, but also that additional information was expected from the Company what would support a figure closer to IPL's requested increase.<sup>4</sup>

8. Robert Harding, Rates Analyst for the Commission, explained the Commission's role in evaluating the Company's rate request and the process by which that evaluation and ultimate decision is made. Mr. Harding strongly encouraged the members of the public in attendance to provide information to assist the Commission in making its decision.<sup>5</sup>

9. Victoria Simonson, City Manager of the City of Albert Lea, described the expected impact of the proposed 22 percent increase in the municipal rate for electricity on the operation of Albert Lea's lift station and wastewater treatment plant. With a population of approximately 18,000, Albert Lea would experience an increase of almost a quarter million dollars annually in its electricity costs. While recognizing that the Company has not had an increase in this rate for almost eight years, Ms. Simonson suggested that increasing the rate incrementally over relatively short periods of time would aid Albert Lea in handling the increased cost.<sup>6</sup>

10. Linda Baird, a resident of Albert Lea, expressed concern over the proposed increases, both to residential rates and to the indirect impact of increases in water and sewer costs likely to be passed on to the City's residents. Ms. Baird suggested that the size of the proposed increase would result in higher inflationary pressures on households and urged the Commission to approve a lower rate increase than the increase proposed by the Company.<sup>7</sup>

11. John Bisek, manager of a grain facility in Glenville, testified that IPL's continued capital investments in electricity production and its distribution network are very important to maintain the dependability of electricity for local businesses. Mr. Bisek described the improvements to his business achieved through the Company's conservation programs with respect to grain handling and grain drying, which are dependent on electricity. The need to maintain a dependable electricity supply, in Mr. Bisek's opinion, justified the increase in rates proposed by the Company.<sup>8</sup>

12. Only one written comment was received from an affected ratepayer. The customer described the impact of cost increases on senior citizens and urged that salary cuts come before rate increases.

### **Description of the Company**

13. IPL was formed as a result of a 1988 merger, where Interstate Power Company ("IPC"), IES Utilities Inc. ("IES") and Wisconsin Power and Light Company ("WPL") became wholly-owned utility operating subsidiaries of the newly formed

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<sup>4</sup> Public Comment Tr. at 14.

<sup>5</sup> Public Comment Tr. at 14.

<sup>6</sup> Public Comment Tr. at 16-19.

<sup>7</sup> Public Comment Tr. at 20-21

<sup>8</sup> Public Comment Tr. at 22-24.

Interstate Energy Corporation. In 2002, IPC and IES were merged to form Interstate Power and Light (“IPL” or the Company). IPL and WPL are wholly-owned subsidiaries of Alliant Energy, previously known as Interstate Energy Corporation. Alliant Energy’s headquarters are located in Madison, Wisconsin. IPL distributes natural gas and generates, transmits and distributes electricity in Minnesota, Iowa and Illinois. The Company serves approximately 40,000 electric customers in Minnesota. IPL’s Minnesota electric service territory encompasses approximately 11,100 square miles, including 2,368 miles of electric transmission lines and 2,185 miles of electric distribution lines. IPL operates 271 substations in Minnesota. The Company’s electric energy portfolio for its Minnesota customers includes base load plants (fueled by either coal, natural gas or nuclear power), combustion turbines, diesel generators, renewable energy, and purchased power.<sup>9</sup> The Company’s last rate increase in Minnesota was for an overall rate increase of \$593,000.00 (approximately 0.93%), granted by the Commission in 2004.<sup>10</sup>

## EXPENSE ADJUSTMENT ISSUES

### TRANSLink Expenses

14. The Federal Energy Regulatory Commission (FERC) established in its **Order 888** that the electric transmission system be administered by an independent entity.<sup>11</sup> This requirement insures comparable access to transmission facilities by all users. IPL currently meets this Federal requirement through its membership in the Midwest Independent Transmission System Operator, Inc. (MISO). TRANSLink was proposed to be an independent transmission company (ITC) member of MISO.

15. IPL expressed concern over a number of unresolved issues in the existing transmission segment of its business. IPL expressed concern over adequate transmission outlets for new wind energy resources, the need for new transmission investment, and elimination of operating seams. These issues are currently addressed through IPOs participation with MISO.<sup>12</sup>

16. TRANSLink Transmission Company, LLC (TRANSLink) was proposed as a separate entity to own and manage electric transmission facilities. TRANSLink’s proposed status as an independent transmission company (ITC) member of MISO was designed to meet IPL’s obligations under **Order 888**. Several Midwest utilities, in addition to IPL, were to participate. The project was intended to result in more efficient and lower cost electric transportation. In contrast to MISO, IPL asserts that TRANSLink would have provided open, nondiscriminatory access to transmission facilities at non-

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<sup>9</sup> IPL Exhibit 2, Mulford Direct, at 3.

<sup>10</sup> ***In the Matter of a Petition by Interstate Power and Light Company for Authority to Increase Electric Rates in Minnesota***, PUC Docket No. E-001/GR-03-767 (Findings of Fact, Conclusions of Law, and Order; Order Modifying Settlement issued April 5, 2004)(“**IPL 2004 Order**”).

<sup>11</sup> ***Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities***, 75 FERC 61,080 (Order No. 888 issued April 24, 1996)(**Order 888**).

<sup>12</sup> IPL Ex. 14, Collins Direct, at 4.

pancaked rates.<sup>13</sup> Due to perceptions that the project would not be approved by regulatory authorities, the project was withdrawn.<sup>14</sup>

17. In its initial filing, IPL proposed to recover \$156,475, amortized over a over a five-year period in Minnesota-related startup expenses for TRANSLink.<sup>15</sup> In the settlement arrived at between the Department and IPL, the TRANSLink expenditure recovery was reduced from the proposed \$31,000.00 annual recovery to \$15,648.00.<sup>16</sup>

18. The OAG objected to the inclusion of any TRANSLink expenditures in rates. Since the project never came to fruition, the OAG asserts that the ratepayers are being charged for something that does not exist. The OAG asserts that TRANSLink was never used to provide any service to IPL's ratepayers and therefore the project could not constitute furnishing electricity service to ratepayers. Additionally, the OAG maintains that:

- The TRANSLink costs were incurred between 2001 and 2003, and are therefore outside the test year.
- IPL did not request recovery of these costs in its prior rate proceeding.
- There has been no Commission determination that these expenses were prudently incurred.
- TRANSLink, having never been started, was not used or useful in service to the public, as required under U.S. Supreme Court precedent.<sup>17</sup>

19. Citing the FERC rules for the Uniform System of Accounting, the OAG maintains the TRANSLink project falls under prohibition for including expenses for abandoned construction projects.<sup>18</sup> Approval of such expenses, the OAG maintains, would result in a "very bad precedent" putting ratepayers at risk of paying for imprudent, abandoned utility enterprises.<sup>19</sup>

20. IPL disputed the OAG's position, noting that there is nothing in the record to support a conclusion that the TRANSLink start-up expenses are imprudent. IPL contrasts the capital investment disallowed in the cited matters, to the cost expenses

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<sup>13</sup> "Non-pancaked rates" means that additional transmission charges are not assessed as power moves through different control areas.

<sup>14</sup> IPL Ex. 14, Collins Direct, at 2; ***In the Matter of the Petition of Interstate Power and Light Company for Approval -of the Transfer of Functional Control of Transmission Facilities to TRANSLink Transmission Company LLC and for Related Relief – Request to Approve Notice of Withdrawal and Close Docket***, PUC Docket No. E-001, PT-6205/PA-02-2219 (Notice of Withdrawal Approved, Docket Closed January 08, 2004).

<sup>15</sup> IPL Ex. 14, Collins Direct, at 14; IPL Ex. 3, Hampsher Direct, at 75.

<sup>16</sup> Joint Ex. 27, Offer of Settlement, at 12.

<sup>17</sup> ***Duquesne Light Company v. Barasch***, 488 U.S. 299, 302 (1988).

<sup>18</sup> OAG Brief, at 14-15 (citing *In Re Northern States Power Company*, Docket No. E-002/GR-80-316, 42 PUR 4<sup>th</sup> 339, 358 (April 30, 1981).

<sup>19</sup> OAG Brief, at 15.

incurred for TRANSLink.<sup>20</sup> The treatment as allowable expenses is consistent with a prior Commission Order.<sup>21</sup> IPL also noted that the Minnesota Supreme Court overturned a Commission Order disallowing cost recovery on an abandoned project.<sup>22</sup> In that decision, the Minnesota Supreme Court stated:

In general, regulators have allowed recovery of investment and cancellation costs of abandoned projects through rates. Utilities have usually been allowed recovery of annual amortization expense from the ratepayers as a component of total cost of service. [citation omitted]<sup>23</sup>

21. The Department noted that the initial proposal was to recover 100% of the TRANSLink start-up costs. The Department's initial position was to oppose all recovery of these costs, since the project had been terminated and the request for Commission approval withdrawn.<sup>24</sup> The Department agreed, in the course of negotiating the settlement of this matter, to recovery of one-half of the proposed amount. The Department included a condition in the settlement that this agreement does not constitute a determination that the cost would be allowed on the merits.<sup>25</sup>

22. As discussed in foregoing Findings, the costs of abandoned projects may be expensed. The Department and IPL arrived at a negotiated agreement that included financial concessions by both parties. The treatment of the TRANSLink startup costs are an appropriate part of the settlement and the partial allowance of those costs is in the public interest.

## RATE DESIGN ISSUES

### Residential Basic Charge

23. IPL's residential customers have price differentiated choices between a demand/energy or an energy-only rate. There is also a choice between a time of use (TOU) rate or non-TOU rate. The existing customer charge for the energy rate is \$4.92. The customer charge for the energy TOU rate is \$8.91. Another customer rate is the demand rate. The customer charge for the demand rate is \$14.12.<sup>26</sup>

24. Based on its class cost of service study (CCOSS, discussed more fully below), IPL calculated that the average cost-based residential customer charge would be \$15.22. IPL proposed an increase in the customer charge to \$8.35 for energy-only non-TOU customers. For TOU customers, the proposed increase results in a monthly charge of \$11.70. IPL proposed no change to the demand rate customer charge, since

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<sup>20</sup> IPL Reply Brief, at 12-14.

<sup>21</sup> *Minnesota Power & Light*, Docket No. E-015/GR-786-408, (Order issued December 18, 1976).

<sup>22</sup> *Northern States Power Company v. MPUC*, 344 N.W.2d 374 (Minn. 1984), *cert. den.* 476 U.S. 1256 (1984).

<sup>23</sup> *Northern States Power Company v. MPUC*, 344 N.W.2d at FIND PAGE NO.

<sup>24</sup> DOC Ex. 22, Campbell Direct, at 5-11.

<sup>25</sup> Joint Ex. 27, Settlement Agreement, at 12.

<sup>26</sup> IPL Ex. 7, Maher Direct, at 6.

there was little difference between existing charge and the cost-based expense identified by the CCOSS.<sup>27</sup>

25. The Department generally agreed with the Company's proposal to increase the residential monthly charge. As a general matter, the Department agreed that customer charges should be priced near the cost of providing service to prevent subsidies between customer classes.<sup>28</sup> The Department strongly recommended that the Commission promote the goals of fairness between customer classes and accuracy in price information by approving cost-based rates.

26. In the Settlement Agreement, the Department and IPL proposed that the residential monthly charge be set at \$8.35. They agreed that, should the Commission reject the \$8.35 charge, the appropriate residential monthly charge would be \$6.50.

27. The OAG objected to the proposed increase, noting that the increase amounted to a 69.7% increase from the existing residential monthly charge.<sup>29</sup> The importance of noncost factors was stressed by the OAG in carrying out the Commission's rate setting function.<sup>30</sup> IPL's proposed monthly charge was described by the OAG as IPL seeking to "receive more of its fixed costs without fear of underrecovery."<sup>31</sup> The OAG maintained that the residential monthly charge should be set at no higher than \$6.50.<sup>32</sup>

28. The Department maintained that a higher monthly residential charge worked to the benefit of low income customers who use more than 1,000 kWh per month. The Department arrived at this conclusion by noting the reduction of intra-class subsidy that results from a higher monthly charge. Additionally, no portion of the overall increase in rates is assigned to the residential class.

29. The OAG disputed the Department's conclusion regarding intra-class subsidies, noting that the Department had relied on Low Income Heat and Energy Assistance Program (LIHEAP) data, and the Department did not control for any policies in that program that would skew the data toward low income customers with higher electric bills. The OAG also pointed out that recent Commission decisions have applied a rate shock analysis that disallowed a requested increase that was smaller on a percentage basis than IPL's requested monthly rate charge increase.<sup>33</sup>

30. The Department did not affirmatively demonstrate that intraclass subsidies were appropriately addressed using the LIHEAP data. Such a demonstration would

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<sup>27</sup> IPL Ex. 7, Maher Direct, at 7.

<sup>28</sup> DOC Ex. 24, Peirce Direct, at 10.

<sup>29</sup> OAG Brief, at 2.

<sup>30</sup> OAG Brief, at 2 (citing Minn. Stat. §§ 216B.03 and 216B.16; *Hibbing Taconite Co. v. Minnesota Public Service Com'n*, 302 N.W.2d 5 (Minn. 1980); *St. Paul Area Chamber of Commerce v. Minnesota Public Service Commission*, 251 N.W.2d 350 (Minn. 1977); and *Permian Basin Area Rate Cases*, 390 U.S. 747 (1968)).

<sup>31</sup> OAG Brief, at 5.

<sup>32</sup> OAG Brief, at 2.

<sup>33</sup> Hearing Tr., at 36-41.

compare actual costs incurred by differently situated customers under the proposed rates.<sup>34</sup> No such analysis was offered in this matter.

31. In the **CenterPoint** matter, the residential monthly charge was agreed upon between the utility and the Department to be set at \$8.00, and that level was recommended by the ALJ for approval by the Commission.<sup>35</sup> The Commission thoroughly analyzed the issue and found that the increase was excessive, based on rate shock, the impact on low income customers, and potential customer confusion.<sup>36</sup> The Commission found the increase from the existing monthly charge of \$5.00 to \$6.50 to be appropriate, and ordered the settlement to be modified accordingly.<sup>37</sup>

32. Based on the record in this matter, the agreement to increase the residential monthly charge from \$4.92 to \$6.50 results in just and reasonable rates that do not result in rate shock for the affected customer class. Adoption of this settlement term would be in the public interest.

### **Non-Peak Declining Block Rate Differentials.**

33. IPL's rates currently contain a non-peak/winter declining block rate for residential and single-phase farm service. That means that during non-peak periods, high usage customers pay less, per kWh used, than do low-usage customers, so long as the high-usage customers exceed a certain minimum usage (1,000 kWh per month) that makes up the first block. In the first block, all customers pay the same per kWh rate. But if a user goes into the second block, then the rate in the second block declines. In IPL's last rate case, the Department proposed reducing the rate difference between blocks or eliminating the block rate structure in the next rate proceeding (which is this matter). The Commission decided to "move toward elimination of declining block rates, which it finds [in] conflict with encouraging energy conservation, an important state policy goal."<sup>38</sup>

34. In this matter, IPL proposed to reduce the difference between the upper block rate and the lower block rate. The existing differential between the blocks was identified as 3.088 cents (7.719 per kWh compared to 4.631 per kWh).<sup>39</sup>

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<sup>34</sup> See *In the Matter of the Petition of CenterPoint Energy Minnegasco, a Division of CenterPoint Resources Corp., for Authority to Increase Its Natural Gas Rates in Minnesota*, PUC Docket No. G008/GR-04-901, OAH Docket No. 7-2500-16151-2, Findings 101-109 (ALJ Recommendation issued March 25, 2005) ("**CenterPoint ALJ Recommendation**").

<sup>35</sup> *CenterPoint ALJ Recommendation*, Finding 107.

<sup>36</sup> *In the Matter of the Petition of CenterPoint Energy Minnegasco, a Division of CenterPoint Resources Corp., for Authority to Increase Its Natural Gas Rates in Minnesota*, PUC Docket No. G008/GR-04-901, at 7-9 (Order Accepting and Modifying Settlement and Requiring Compliance Filing issued June 8, 2005) ("**CenterPoint Order**").

<sup>37</sup> *CenterPoint Order*, at 9.

<sup>38</sup> *IPL 2004 Order*, at 30.

<sup>39</sup> IPL Ex. 9, Maher Rebuttal, at 4.

35. IPL provided evidence of a positive correlation between customer energy usage and load factor.<sup>40</sup> The Department disputed the importance of load factor due to the MISO “Day 2” energy market.<sup>41</sup>

36. In settlement of this matter, IPL proposed to reduce the difference between the upper block rate and the lower block rate. The Company proposes to reduce the differential to 2.889 cents. To arrive at this reduction, IPL compared the price ratio of the first block to the second block, arriving at a ratio of 1.67. The company compared the marginal load factor relationship of the two blocks to arrive at a ratio of 1.605. The lower ratio (1.605) is the basis for the agreement to reduce the block rate differential to 2.889 cents.<sup>42</sup> IPL also agreed to review the cost relationship in its next rate case.

37. The Commission has made clear that declining block rates are in conflict with the policy of energy conservation. IPL should consider creation of a phase-out plan to eliminate block rates over a modest period of years. Based on the record in this matter, the agreement to reduce the block rate differential to 2.889 cents results in just and reasonable rates that do not result in rate shock for those customers who are currently receiving electricity in the second block.<sup>43</sup> Adoption of the settlement term would be in the public interest.

#### **Phase-in of Municipal Rate Increase.**

38. At the public hearing in this matter, the City of Albert Lea expressed concerns over the potential for a municipal rate class increase of 22% for the lift stations and wastewater treatment plant.<sup>44</sup> As finally agreed to in the settlement of this matter, the proposed Municipal rate class experiences an increase of 10.13%.<sup>45</sup> At the evidentiary hearing, the Department noted that IPL has committed to follow up with the City regarding the impact of price increases on the cost of municipal services. The Department noted that the proposed revenue apportionment is less than what the City had said would be reasonable.<sup>46</sup>

39. The impact of the proposed revenue allocation to the Municipal rate class does not appear to result in rate shock or impose an otherwise excessive burden on the City of Albert Lea or the Municipal rate class in general. The Commission has the discretion to impose a phase-in period for the Municipal rate class if, in its judgment, the Commission concludes that the proposed 10.13% increase should take effect over a relatively short period of time.

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<sup>40</sup> DOC Ex. 24, Peirce Direct, at 17.

<sup>41</sup> *Id.*

<sup>42</sup> IPL Ex. 9, Maher Rebuttal, at 4

<sup>43</sup> Set out in IPL Ex. 29, Supplemental Schedule A.

<sup>44</sup> Public Comment Tr. at 16-19.

<sup>45</sup> Joint Ex. 27, at 22.

<sup>46</sup> Hearing Tr., at 51-52.

## STIPULATED OR UNCONTESTED MATTERS

### I. FINANCIAL ISSUES

#### A. Settled Issues.

40. The Department and IPL reached agreement on the Company's rate design proposals and revenue estimates. These were set out in the parties' Offer of Settlement. The issues discussed above are those disputed by another party, or identified as a matter of concern by Commission staff. The following Findings address those matters that were not contested.

#### B. Rate Case Expenses.

41. IPL incurred \$510,699.00 in out-of-pocket costs in bringing this rate proceeding. IPL proposed to recover \$248,721 as expenses for this proceeding. That amount is consistent with the Commission's prior order in docket number E-001/GR-03-767, which limits IPL to no more than \$250,000 in this rate matter. IPL proposed using a five year recovery over which to amortize the out-of-pocket costs incurred. IPL also proposed to recover an additional \$285,199.00 for unrecovered expenses from the prior rate case, docket number E-001/GR-03-767. The total that IPL seeks to recover amounts to \$159,180.00 per year over the five year amortization period.<sup>47</sup>

42. The Department agreed with the Company's proposed recovery of current rate expenses. The Department examined the average time between rate cases for IPL from 1976 through this matter. The average was 4.1 years from 1976 and 4.8 years since 1981.<sup>48</sup> Based on this history, the Department agreed with the use of a five year amortization period.<sup>49</sup> The Department opposed allowing prior year rate case expenses as allowable expenses in this rate matter.

43. IPL and the Department agreed that no prior year rate expenses would be included in the company's expenses. The parties agreed that the Company's allowable current rate case expenses (\$510,699.00) would be amortized over a four-year period. This results in an annual expense of \$127,675.00 to be recovered through rates.<sup>50</sup> The agreement to allow all the current rate case expenses is outside of the Commission's order in the prior IPL rate matter, but does result in just and reasonable rates that further the interest of settling this matter. Adoption of this settlement term would be in the public interest.

#### C. Elimination of Rate Schedules.

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<sup>47</sup> IPL Ex. 3, Hampsher Direct, at 66-67.

<sup>48</sup> DOC Ex. 20, Lusti Direct, at 8.

<sup>49</sup> *Id.*

<sup>50</sup> Joint Ex. 27, at 8.

44. IPL proposed to eliminate frozen TOU rates for municipal pumping and farm customers, since there are no customers using any of these rates.<sup>51</sup> A number of street lighting tariff rates would be consolidated in a single tariff rate. The Company also proposed limiting the availability of the controlled water heating rate to the existing 1,700 customers receiving the rate at their existing locations. This change was based on a desire to establish rates by cost, rather than use of the electricity.<sup>52</sup>

45. The Department did not object to the elimination of the frozen TOU rates.<sup>53</sup> IPL agreed to examine the revenue impact of frozen and alternative TOU rates and reflect that impact in the next rate proceeding.<sup>54</sup> The agreement to eliminate unused rate schedules, consolidate street lighting, and freeze the water heating rate results in clearer rate schedules. Adoption of this settlement term would be in the public interest.

#### **D. Excess Facilities Pricing Changes.**

46. Some customers require installation of meters, distribution facilities, or transmission facilities in order to receive service beyond those facilities that IPL installs without additional charge. For such customers, IPL imposes an excess facilities charge. IPL proposed to standardize the charge to 1.6 percent of total investment in excess facilities and include this charge in the Company's rate schedule.

47. The Department questioned the need for replacing the existing charges of 1.47% for meters, 1.79% for distribution facilities, and 1.42% for transmission facilities.<sup>55</sup> The parties agreed that, since these percentages were not far apart, having one excess facilities charge will simplify rates and cause customers less confusion, consistent with the overall goal that rates be understandable and easy to administer. IPL and the Department agreed that the excess facilities charge should be set at 1.6%.<sup>56</sup>

#### **E. Test Year Accumulated Depreciation.**

48. IPL's existing 2004 depreciation expense was established by Commission Order.<sup>57</sup> IPL proposed a *pro forma* depreciation adjustment for the integrated digital enhanced network (iDEN) project to be added to the unadjusted 2004 depreciation expense.<sup>58</sup> The Department pointed out that IPL filed a five-year depreciation study in another Commission docket requesting an effective date for the new depreciation rates of January 1, 2006.<sup>59</sup> Based on its calculation of decreases to the net depreciation

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<sup>51</sup> IPL Ex. 7, Maher Direct, at 16-17.

<sup>52</sup> IPL Ex. 7, Maher Direct, at 18.

<sup>53</sup> DOC Ex. 24, Peirce Direct, at 19.

<sup>54</sup> Joint Ex. 27, at 26.

<sup>55</sup> DOC Ex. 24, Peirce Direct, at 21.

<sup>56</sup> Joint Ex. 27, Offer of Settlement, at 26-27.

<sup>57</sup> ***In the Matter of Alliant Energy - Interstate Power and Light Company's Certification of Depreciation Rates for 2004***, PUC Docket No. E,G001/D-04-501 (Order Certifying Depreciation Rates and Methods issued July 09, 2004).

<sup>58</sup> IPL Ex. 13, Kouba Direct, at 7; IPL Ex. 3, Hampsher Direct, at 31 and 67.

<sup>59</sup> DOC Ex. 20, Lusti Direct, at 23-24.

expense, the Department asserted that this constituted a known and measurable change and proposed an adjustment to reflect the new depreciation rates.

49. The Department and IPL agreed that an adjustment to test year depreciation rates would be made to reflect the proposed new depreciation rates, including iDEN depreciation. As part of this agreement, IPL has agreed to request an effective date of January 1, 2005 in the separate depreciation docket.<sup>60</sup> The agreed upon changes result in a decrease in IPL's depreciation expense for IPL's Minnesota jurisdiction of \$1,095,104.00.<sup>61</sup> The agreed-upon treatment of depreciation expenses results in just and reasonable rates. Adoption of this settlement term would be in the public interest.

#### **F. Time of Use Increment.**

50. IPL's existing TOU charges are higher than non-TOU customer charges for several customer classes. IPL opposed to standardize the rate differential between the TOU and non-TOU customer charges at \$3.35. IPL noted that this is the standard rate differential in its Iowa jurisdiction.<sup>62</sup> The Department objected to this proposal as movement away from cost-based rates.<sup>63</sup> The Department proposed an alternative customer charge differential of \$3.48.

51. IPL and the Department concluded that the difference between their two positions would not result in a significant impact on customers on an annual basis. Adopting a single rate across jurisdictions would standardize the Company's rates and reduce customer confusion. IPL and the Department agreed that the standardized rate differential would be \$3.35.<sup>64</sup> The agreed-upon charge results in just and reasonable rates. Adoption of this settlement term would be in the public interest.

#### **G. Large General Service Customer Charge.**

52. IPL's Large General Service (LGS) customers are billed on a demand rate resulting in an average minimum bill of \$492.00. The typical bill for an LGS customer is \$5,668.00. The current customer charge for LGS customers is \$59.00. IPL calculated the cost of service for LGS customers as \$257.25. IPL proposed initially to fold the customer charge into the demand charge.<sup>65</sup>

53. The Department objected to the elimination of the LGS customer charge as contrary to the principle of recovering the cost of service from the customers creating

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<sup>60</sup> *In the Matter of Alliant Energy - Interstate Power and Light Company's Petition for an Extension of Time to File its 2005 Annual Depreciation Review*, PUC Docket No. E,G-001/D-05-295.

<sup>61</sup> Joint Ex. 27, Offer of Settlement, at 15.

<sup>62</sup> IPL Ex. 7, Maher Direct, at 6-10.

<sup>63</sup> DOC Ex. 24, Peirce Direct, at 22-23.

<sup>64</sup> Joint Ex. 27, Offer of Settlement, at 28.

<sup>65</sup> IPL Ex. 7, Maher Direct, at 8.

that cost.<sup>66</sup> The Department maintained that interclass subsidies would result from the elimination of the LGS customer charge.<sup>67</sup>

54. IPL and the Department agreed that the LGS customer charge would be increased from \$59.07 to \$125.13. The increase in the charge is not expected to result in rate shock since the size of the customer charge is modest compared to the average bill for customers in this class.<sup>68</sup> The agreement to increase the LGS customer charge from \$59.07 to \$125.13 results in just and reasonable rates that do not result in rate shock for the affected customer class. Adoption of this settlement term would be in the public interest.

#### **H. Test Year Uncollectible Expenses.**

55. IPL proposed that the expense for uncollectible bills be calculated using an average over a five-year period. To obtain the five-year average, IPL used the actual net write-offs in FERC Account 904 from 2000 to 2004. These figures included write-offs for the premerger companies IES and IPC.<sup>69</sup> The Department proposed using a three-year period for averaging uncollectible expenses. The Department supported its proposal by noting that the year 2001 write-off figure was exceptionally high and appeared to skew the results of the study. The Department's proposal reduces the test year uncollectible expense by \$35,524.00.<sup>70</sup> IPL and the Department agreed that the three-year period for averaging uncollectible expenses was appropriate. This adjustment decreases IPL's allowable uncollectible expenses by \$35,524.00.<sup>71</sup> The agreement to use the three-year period for averaging uncollectible expenses results in just and reasonable rates. Adoption of this settlement term would be in the public interest.

#### **I. Duane Arnold Energy Center and Transmission Asset Sales.**

56. IPL has a 70% ownership interest in the Duane Arnold Energy Center (DAEC), a nuclear power plant located near Cedar Rapids, Iowa. Consistent with a trend toward specialization in the industry, IPL has explored selling the DAEC to a company operating a number of nuclear power plants.<sup>72</sup> IPL has also explored selling some transmission assets. The Department expressed concerns about the impact of these potential sales. The Department proposed that IPL provide adjustments to rates reflecting the effect on capital and operational expenses arising from the sale of the DAEC or transmission assets occurring prior to or within a reasonable time after the final rate from this proceeding takes effect.<sup>73</sup> IPL indicated that it would sell the DAEC as part of a purchased power agreement (PPA). The PPA would be designed to

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<sup>66</sup> DOC Ex. 24, Peirce Direct, at 22-23.

<sup>67</sup> DOC Ex. 24, Peirce Direct, at 24.

<sup>68</sup> Joint Ex. 27, Offer of Settlement, at 30-31.

<sup>69</sup> IPL Ex. 3, Hampsher Direct, at 71.

<sup>70</sup> DOC Ex. 20, Lusti Direct, at 13.

<sup>71</sup> Joint Ex. 27, Offer of Settlement, at 9.

<sup>72</sup> IPL Ex. 17, Lacy Direct, at 13.

<sup>73</sup> DOC Ex. 22, Campbell Direct, at 19-20.

coincide with the current license life of the nuclear power plant. IPL did not expect that any sale of the DAEC would result in any impact on this rate proceeding.<sup>74</sup>

57. The parties agreed that, should the DAEC sale be approved, the Commission may remove the DAEC from the rate base, but that the PPA capacity costs will be included in the revenue requirement.<sup>75</sup> If the transmission assets are sold within a reasonable time after the Commission's order in this proceeding, the Commission may consider removing those assets from the rate base, with the resulting change in rates offset by the expenses incurred by IPL in reasonable transmission costs.<sup>76</sup> The agreement appropriately addresses the contingencies regarding potential asset sales. The adjustments, should they be necessary, result in just and reasonable rates. Adoption of this settlement term would be in the public interest.

#### **J. Conservation Improvement Program.**

58. IPL conducts a conservation improvement program (CIP) to manage demand side costs. The program is reviewed and approved by the Department and funded through a conservation cost recovery charge (CCRC) added to base rates.<sup>77</sup> The total collected in the test year was \$2,216,609.00.<sup>78</sup> The Department recommended that the Commission accept IPL's CIP as meeting the requirements of Minnesota statutes section 216B.16, subd. 6b, for cost recovery purposes. Both the Department and IPL maintained that the current CCRC of \$0.00289 per kWh was appropriate.<sup>79</sup> Retention of the current CCRC results in just and reasonable rates. Adoption of this settlement term would be in the public interest.

#### **K. Variable Pay Program.**

59. IPL maintained that its base salaries are below the content of total cash flow over comparable positions found in the market for utility industry positions. Those base salaries, in the company's opinion, are not competitive against the total cash (salary plus variable pay) market rate. The combined base salary and variable pay rates are asserted to offer a competitive level of pay for IPL employees. While competitive, the sample identified in the company's filing for base actual variable pay is below the market average of base variable pay by 2%.<sup>80</sup>

60. Alliant Energy offers three variable pay plans (VPPs). The employee ICP covers nonbargaining unit, nonexempt, exempt, and some management level employees. The management ICP covers mid and upper level management. The bargaining unit ICP covers all bargaining unit employees. The Company described its VPPs as tied to specific performance goals. These goals include individual and group

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<sup>74</sup> IPL Ex. 17, Lacy Direct, at 13.

<sup>75</sup> Joint Ex. 27, Offer of Settlement, at 18.

<sup>76</sup> Joint Ex. 27, Offer of Settlement, at 18-19.

<sup>77</sup> DOC Ex. 26, Davis Direct, at 1.

<sup>78</sup> Joint Ex. 28, at 1.

<sup>79</sup> DOC Ex. 26, Davis Direct, at 1; IPL Ex. 8, Maher Rebuttal, at 2.

<sup>80</sup> IPL Ex. 18, Day Direct, at 9.

objectives, workgroup objectives, and corporate objectives. IPL maintained that VPPs were important to attract and retain talented employees.<sup>81</sup>

61. In its filing IPL sought to recover 100% of the actual 2004 incentive payments subject to a cap of 25% of individuals' base salaries.<sup>82</sup> The Department maintained that the cap should be set at 15% of individuals' base salaries. This level is consistent with the Commission's Order after Reconsideration in the Northern States Power Company docket.<sup>83</sup> The Department's recommendation decreases the test-year VPP expenses by \$561,975.00. As an alternative, the Department proposed averaging the incentive compensation paid in 2002, 2003, 2004 and the projected year 2005. This proposal would decrease the test year VPP expenses by \$315,581.00.<sup>84</sup>

62. The parties agreed to the four-year alternate adjustment of \$315,581.00 for VPP expenses.<sup>85</sup> The agreement to reduce the test year VPP expenses results in just and reasonable rates. Adoption of this settlement term would be in the public interest.

#### **L. Post Test Year Layoffs.**

63. Shortly after the Company filed its proposed rate increase with the Commission, Alliant Energy (IPL's parent company) issued a press release announcing that 200 corporate operations and support positions would be eliminated. Based on the nature of these positions the Department estimated the anticipated cost savings that IPL could expect from the reduction of salary expenses. IPL indicated that adjustments would be necessary to the test year O&M labor expense to reflect these cost savings. The Company also identified additional adjustments to the test year O&M labor expense reflecting variable pay plan or incentive compensation adjustments. Based on this information, the Department proposed the reduction of IPL's test-year O&M expense by \$503,696.00.<sup>86</sup>

64. The parties agreed to the reduction of IPL's test-year O&M expense by \$503,696.00.<sup>87</sup> The agreement to reduce the test year O&M expense results in just and reasonable rates. Adoption of this settlement term would be in the public interest.

## **II. CLASS COST OF SERVICE STUDY (CCOSS)**

65. IPL proposed to apportion revenue across customer classes following the results of the Company's CCOSS. For this rate proceeding, IPL used the individual customer classes approved by the Commission in the Company's last rate case, Docket No. E-001/GR-03-767.<sup>88</sup> As reflected in the discussion above, the CCOSS indicated

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<sup>81</sup> IPL Ex. 18, Day Direct, at 10-17.

<sup>82</sup> IPL Ex. 18, Day Direct, at 22.

<sup>83</sup> Docket No. E-002/GR-92-1185 (issued January 14, 1994).

<sup>84</sup> DOC Ex. 20, Lusti Direct, at 19-20.

<sup>85</sup> Joint Ex. 27, Offer of Settlement, at 13-14.

<sup>86</sup> DOC Ex. 20, Lusti Direct, at 14.

<sup>87</sup> Joint Ex. 27, Offer of Settlement, at 9 and Schedule 5.

<sup>88</sup> IPL Ex. 7, Maher Direct, at 4.

that the cost of providing service to the residential customer class averaged \$15.22 per month.

66. The Department generally agreed with IPL's approach in using the CCOSS. The Department proposed setting limits on particular classes (water heating and stored heating) and retaining the existing revenue requirement for single-phase farm customers.<sup>89</sup> IPL agreed with the Department's suggestions and adjusted the revenue apportionment accordingly.<sup>90</sup>

67. The Department supports adoption of IPL's CCOSS. For future rate matters, the Department recommended that the Commission require the breakdown of classification of the total revenue requirements by the relevant FERC account rate base component. The Department also recommended that the Commission require that the Company provide a justification of its CCOSS classification methods in its next rate case.<sup>91</sup> The agreement to adopt the Company's CCOSS is supported by the record in this matter. Directing the Company to address any particular aspect of its CCOSS in the next rate proceeding is within the Commission's discretion.

### **III. REVENUE REQUIREMENT ISSUES.**

#### **A. Test year interest synchronization.**

68. IPL calculates its interest expense deduction for test year income tax purposes by multiplying its rate base by the weighted cost of debt, which is 2.735%. The Department agreed with this method, but noted that whenever an adjustment is made to the company's test-year rate base or operating income statement, an adjustment must be made to the increased interest synchronization adjustment.<sup>92</sup> Due to an expected \$75 million equity infusion not being made in 2005, the Department indicated that the test year cost of debt increases to 2.822%.<sup>93</sup>

69. In settlement of this issue, the Department and IPL agreed that federal taxes should be decreased by \$46,113 and state taxes decreased by \$14,315. These adjustments are required due to the impact of the interest synchronization to a number of test year adjustments.<sup>94</sup> The agreement to adjust the tax amounts due to interest synchronization results in just and reasonable rates. Adoption of this settlement term would be in the public interest

#### **B. Cash Working Capital Requirement.**

70. The Company's cash working capital (CWC) requirement needed to be adjusted based on all the other expense adjustments in the settlement. The Department and IPL agreed that a rate base adjustment to the CWC account of

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<sup>89</sup> DOC Ex. 24, Peirce Direct, at 5-6.

<sup>90</sup> Joint Ex. 27, Offer of Settlement, Schedule 15, Revenue Apportionment.

<sup>91</sup> DOC Ex. 25, Ouanes Direct, at 8.

<sup>92</sup> DOC Ex. 20, Lusti Direct, at 24.

<sup>93</sup> Joint Ex. 27, Offer of Settlement, at 16, Settlement Schedule A, at 13.

<sup>94</sup> Joint Ex. 27, Offer of Settlement, at 16.

(\$72,851) would be appropriate to reflect the other changes in the settlement.<sup>95</sup> The agreement to adjust the CWC requirement results in just and reasonable rates. Adoption of this settlement term would be in the public interest.

### **C. Forecasting.**

71. Due to the impact of temperature on heating and cooling needs, forecasting is important to determine the amounts of electricity likely to be sold in future years. IPL used a 65 degree day base for both heating and cooling degree days (HDD and CDD). Over the period of 1971 through 2000, an ordinary least squares regression was used to develop the weather-sensitive coefficients for weather normalization of estimated electric sales. IPL used judgment and statistical analysis to determine annual adjustments to kWhs by rate code. Only two years of monthly sales were available for each rate/revenue code combination. IPL committed to improving its models in future rate matters by having more data available for its estimates.

72. IPL applied a weather normalization adjustment which increased forecast revenues by \$1,842,642.00 and increased forecast expenses by \$404,403.00. The downward adjustment to revenues and expenses for the loss of a large resale customer amounted to \$534,459.00 in revenue production and \$227,100.00 expense reduction.<sup>96</sup>

73. The Department disagreed with IPL's regression normalized data and suggested different weather-normalized sales volumes be used in place of the Company's proposed volumes. The Department also suggested adjustments to the customer bill numbers for known and measurable changes in the Large Power customer class. The Department recommended that IPL's estimated cost of fuel be increased by \$206,150 and operating revenue be increased by approximately \$645,202.<sup>97</sup> The Department also expressed concern that the Company's sample size was too small and its billed sales data was inconsistent with the test year used (January 2004 through December 2004).<sup>98</sup>

74. The Department estimated a total weather-normalized sales volume of 30,761,239 kWh. This estimate is a net increase of 6,869,296 kWh over the company's estimate of 23,891,943 kWh.<sup>99</sup>

75. The Department also noted that IPL's downward adjustment (reflecting the loss of a large resale customer) did not take into account new customers in the large customer class. The Department pointed out that two customers were added in IPL's rate class 540 in 2004. Since insufficient data exists on these two customers for the entire test-year, the Department took the monthly average for each customer and extrapolated the results over the entire year. This calculation results in an increase in sales volumes by 5,109,250 kWh. This increase in sales volume results in an increase

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<sup>95</sup> Joint Ex. 27, Offer of Settlement, at 16-17.

<sup>96</sup> IPL Ex. 7, Maher Direct, at 16.

<sup>97</sup> DOC Ex. 23, Ham Direct, at 3.

<sup>98</sup> DOC Ex. 23, Ham Direct, at 5.

<sup>99</sup> DOC Ex. 23, Ham Direct, at 7.

in revenues of \$196,000.00 and an increase in fuel costs of \$89,360.00. The net revenues for IPL increase by \$106,640.00.<sup>100</sup>

76. IPL agreed that the sales to two new customers in the large customer class should be included in the revenue calculation. The Company disagreed with the annualized estimate used by the Department. IPL proposed using actual sales data for one customer through August, 2005. For the other customer, the Company noted that it was an existing customer that merely changed its rate class. IPL noted that an annual adjustment had been made to reflect the change.<sup>101</sup>

77. The Department and IPL agreed to use IPL's revised data for the two customers at issue. The result is a decrease to the Department's net adjustment of \$79,611. Test year revenue for IPL increases by \$67,780.00 and test year fuel cost increases by \$40,752.00.<sup>102</sup> The agreement between the Department and IPL to use revised forecasting data results in just and reasonable rates. Approval of this settlement term would be in the public interest.

#### **D. Capital Structure.**

78. IPL proposed calculating its revenue requirements using a capital structure derived from IPL's 2004 historical year-end figures, using *pro forma* adjustments reflecting an expected infusion of \$75 million in additional capital from IPL's parent company. The capital structure proposed by IPL was:

<u>Component</u>	<u>Percent of Total</u>
Long-Term Debt	40.354%
Short-Term Debt	1.476%
Preferred Stock Equity	7.507%
Common Stock Equity	50.664%
Total	100.00% <sup>103</sup>

79. Due to lower-than-anticipated borrowing levels, the anticipated \$75 million equity infusion did not occur. IPL adjusted its *pro forma* figures accordingly.<sup>104</sup> Incorporating these adjustments, the Department and IPL agreed on the following capital structure:

<u>Component</u>	<u>Percent of Total</u>
Long-Term Debt	41.634%

<sup>100</sup> DOC Ex. 20, Lusti Direct, at 21, DVL-13.

<sup>101</sup> IPL Ex. 8, Maher Rebuttal, at 3.

<sup>102</sup> Joint Ex. 27, Offer of Settlement, at 16.

<sup>103</sup> IPL Ex. 5, Bacalao Direct, at 5.

<sup>104</sup> IPL Ex. 5, Bacalao Direct, at 5.

Short-Term Debt	1.523%
Preferred Stock Equity	7.745%
Common Stock Equity	49.099%
Total	100.00% <sup>105</sup>

80. With the exclusion of the \$75 million (for the equity infusion that did not occur) and inclusion of the proposed 10.39% ROE, the agreed-upon Cost of Capital can be summarized as follows:

#### **Cost of Capital Summary**

<u>Component</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	41.634%	6.696%	2.788%
Short-Term Debt	1.523%	2.240%	0.034%
Preferred Stock Equity	7.745%	8.411%	0.651%
Common Stock Equity	49.099%	10.390%	5.101%
Total			8.575% <sup>106</sup>

81. No objections were received to the proposed capital structure and derivation of the Cost of Capital. The Cost of Capital accurately reflects IPL's cost of capital and allows an appropriate rate of return. The ALJ recommends that the Commission approve the proposed capital structure and the Cost of Capital return set out in the Offer of Settlement.

#### **IV. Summary of Proposed Settlement.**

82. The critical financial areas resolved by the settlement are as follows:

<u>Description</u>	<u>Initial Request</u>	<u>Proposed Settlement</u>
Rate Base	\$134,734,047	\$135,756,300
Rate of Return	9.192%	8.575%
Required Operating Income	\$12,384,753	\$11,641,103
Operating Income	\$9,588,886	\$10,909,605
Operating Deficiency	\$2,795,887	\$731,498

<sup>105</sup> Joint Ex. 27, Offer of Settlement, at 5.

<sup>106</sup> Settlement Schedule A, at 2.

Gross Revenue Conversion Factor	1.705611	1.705611
Gross Revenue Deficiency	\$4,768,696	\$1,247,651 <sup>107</sup>

83. The proposed settlement reflects a reduction of \$3,521,045 in the initially-proposed gross revenue deficiency.

84. The revenue apportionment agreed to between the Department and IPL contains no increases to the residential, Farm Single Phase, or Farm Three Phase rate classes. The General Service (GS) and Large GS rate classes experience increases of 4.59% and 2.65% respectively, for overall revenue increases of \$514,371 and \$525,870 in each class. The Municipal rate class experiences an increase of 10.13% for a revenue increase of \$114,545 and the Lighting class increases by 3.38%. The largest increases are in the Stored Heat and Water Heat rate classes with each increasing by 25.00%. The revenue increases for those two classes are modest, however (\$2,646 and \$54,685 respectively).<sup>108</sup> The agreement between the Department and IPL results in just and reasonable rates. Approval of the settlement by the Commission would be in the public interest.

Based upon the Findings of Fact, the Administrative Law judge makes the following:

### CONCLUSIONS

1. The Minnesota Public Utilities Commission and the Administrative Law Judge have jurisdiction over the subject matter of this proceeding pursuant to Minn. Stat. Ch. 216B and section 14.50.
2. Any of the foregoing Findings which contain material which should be treated as a Conclusion is hereby adopted as a Conclusion.
3. It is appropriate to adopt a test year for this proceeding of January 1, 2004 through December 31, 2004.
4. The Company has demonstrated that, in the context of a settlement, annual recovery of \$15,648.00 for its TRANSLink start-up costs is in the public interest.
5. The Company has demonstrated that the sale of assets, including the Duane Arnold Energy Center, should be addressed through adjustments to the rate base, taking into consideration additional revenue requirements resulting from such.

<sup>107</sup> Joint Ex. 27, Settlement Schedule A, at 1.

<sup>108</sup> Joint Ex. 27, at 22.

6. The Company has not demonstrated that the agreed to increase the residential monthly charge from \$4.92 to \$8.35 results in just and reasonable rates that do not result in rate shock for the affected customer class. The Company has demonstrated that an increase to \$6.50 in that charge results in just and reasonable rates that move the charge for service closer to the costs for providing that service. An increase in the residential monthly charge from \$4.92 to \$6.50 will not result in rate shock or an undue impact on low income customers.

7. The Company has demonstrated that the proposed revenue allocation to the Municipal rate class will not result in rate shock or impose an otherwise excessive burden on that class of customers.

8. The Company has demonstrated that it should be entitled to maintain declining block rates as agreed to in the settlement.

9. The Company has demonstrated that the treatment of depreciation expenses as agreed to in the settlement is appropriate.

10. The Company has demonstrated that it should be allowed to eliminate frozen TOU rates for municipal pumping and farm customers, consolidate street light tariffs and limit the controlled water heating rate to the existing customers receiving the rate at their current locations.

11. The Company has demonstrated that it should be allowed to recover a gross revenue deficiency of \$1,247,651.

12. The record supports the settlement recommendation to adopt an overall rate of return of 8.575%, including a return on equity of 10.39%.

13. The record supports all the uncontested matters, and it is appropriate to adopt them.

Based upon the Findings of Fact and Conclusions, it is the recommendation of the Administrative Law Judge to the Public Utilities Commission that it issue the following:

### **ORDER**

1. IPL is entitled to increase gross annual revenues in accordance with the terms of this Order.

2. Within 30 days of the service date of this Order, the Company shall file with the Commission for its review and approval, and serve on all parties in this proceeding, revised schedules of rates and charges reflecting the revenue requirement for annual periods beginning with the effective date of the new rates, and the rate design decisions contained herein. The Company shall include proposed customer notices explaining the final rates. Parties shall have 14 days to comment.

3. (If the Commission orders an Interim Rate Refund) within 30 days of the service date of this Order, the Company shall file with the Commission for its review and approval, and serve upon all parties in this proceeding, a proposed plan for refunding to all customers, with interest, the revenue collected during the Interim Rate period in excess of the amount authorized herein. Parties shall have 14 days to comment.

Dated this 20<sup>th</sup> day of January, 2006.

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/s/ Richard C. Luis  
RICHARD C. LUIS  
Administrative Law Judge

Reported: Shaddix & Associated (Transcript Prepared, one volume).