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December 19, 2013

Dr. Burl W. Haar
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147

RE: Interstate Power and Light Company
Docket No. E,G999/CI-11-852
Comments

Dear Dr. Haar:

Enclosed for eFiling with the Minnesota Public Utilities Commission, (Commission), please find Interstate Power and Light Company's Minnesota Comments in the above-referenced docket.

Copies of this filing have been served on the Minnesota Department of Commerce, Division of Energy Resources, the Minnesota Office of Attorney General – Residential and Small Business Utilities Division, and to all parties on the attached service list.

Very truly yours,

/s/ Paula N. Johnson
Paula N. Johnson
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PNJ/tao
Enclosure

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STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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**Chair
Commissioner
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**IN THE MATTER OF UTILITY
RENEWABLE ENERGY COST IMPACT
REPORTS REQUIRED BY MINNESOTA
STATUTES SECTION 216B.1691
SUBD.2E**

DOCKET NO. E,G999/CI-11-852

**COMMENTS OF
INTERSTATE POWER AND LIGHT COMPANY**

COMES NOW, Interstate Power and Light Company (IPL or "Company"), and hereby submits its Comments in response to the Minnesota Public Utilities Commission's (Commission) *Notice of Comment Period on Cost Impact Reports* (Notice) issued on November 6, 2013, in the above-referenced docket.

I. INTRODUCTION AND BACKGROUND

In 2011, legislation was signed into law requiring electric utilities subject to Minn. Stat. § 216B.1691 RENEWABLE ENERGY OBJECTIVES to file reports with the Commission estimating the "rate impact of activities...necessary to comply with this section." In 2013, an additional legislative amendment was added directing the Commission, in consultation with the Department of Commerce, to "determine a uniform reporting system to ensure that individual

utility reports are consistent and comparable, and shall, by order, require each electric utility subject to this section to use that reporting system.” Updates to reports must be filed in resource plans specific to each electric utility under section § 216B.2422.

On November 6, 2013, the Commission issued its Notice requiring the utilities file their cost impact reports by December 20, 2014.

II. COMMENTS

Attached to the Commission’s notice were certain Commission staff (Staff) recommendations and questions regarding the format and timing of the required cost impact reports. Specifically, Attachment II to the Notice included a proposed format and questions A – H, coordinating with the rows included in the table formats. IPL offers the following comments on the Staff’s questions A-H in reference to Table 1 of the Notice.

A) Staff proposes a start date of 2005 out through 15 years from each utility’s next filed IRP. Does this provide a reasonable and useful format to capture a starting point (benchmark) as well as forecast of cost impacts to comply with the statute?

Yes, the proposed table in Attachment II provides a reasonable high-level format.

It is important to note that the forecast of cost impacts in future years would be based on the results of the IRP modeling or other projections which assume the Commission approves the revenue requirements.

B) Should REO expenditures be included in the renewable energy rate impact analysis, why or why not? Are all REO eligible projects online and operating, or, are some in development? Staff assumes that this row eventually ‘phases out’ without any additional cost apart from those already incurred. Is that a correct assumption?

IPL is open to either including or excluding the Minn. Stat. § 216B.1691, Subd. 2, REO resource additions; however, IPL notes that these are committed resources at this point and cannot be undone. IPL suggests that the intention of the added 2011 rate impact language is to address future-looking resource additions needed for Minn. Stat. § 216B.1691, Subd. 2a, RES compliance.

IPL’s REO and RES projects to date are online and operating.

Staff questions whether the values in row B will eventually “phase out without any additional cost apart from those already incurred.” IPL agrees that REO costs are different from future RES projects because existing REO/RES projects are committed, whereas future RES compliance will require new investment to satisfy increasing requirements and load growth.

C) The statute lists required reporting cost activities to include (without limitation) renewable energy purchases, generation facility acquisition and construction, and transmission improvements. Staff assumes these categories, often referred to as RES in total to include utility-owned generation, power purchases agreements, market purchases and renewable energy credits (REC). Should expenditures for RES be

calculated separately from those for REO and eventual SES? Why or why not?

Yes, IPL would expect any RES expenditures would be the same as those reflected in either IPL's Renewable Energy Rider (Rider RER), or Energy Supply Cost Adjustment (ESCA Rider). Qualifying utility-owned generation would be calculated separately from the REO since the generation was built to comply with the RES. Power Purchase Agreement (PPA) costs, although recovered through the ESCA, could be separately identified as entered into for RES compliance. RECs are recovered through the RER Rider and these expenses are also incurred to satisfy the RES, not the REO.

D) Are expenditures for REO, RES (SES in the future) separately accounted for and calculated by the utility? Would there be different treatment as to cost inclusion for on-line projects versus those in development or executed contracts for historical REO, RES (eventual SES) projects? Should both levelized and annualized costs be provided in order to show short-term impact on rates vs. expected long-term effects?

IPL's expenditures for REO, RES, and SES are separately identified for and calculated; however, all PPA costs are accounted for under FERC Account 555. Likewise, all REC costs are accounted for under a FERC sub-account, but they can be separately identified based upon vintage as applying to either the RES or the SES. There is no different treatment for online projects versus those in development that have been approved by the Commission. IPL suggests that levelized costs are not an appropriate method to reflect cost impacts to rates, but

are rather a means to analyze different alternatives. Only annualized costs should be used to determine rate impacts in the table for uniform reporting.

E) Would it be more useful, as well as ease the administrative burden, to differentiate renewable energy (RE) expenditures in rows such as “RE Costs – Online”, “RE Costs– In Development”, “RE Net Short” and Total RE Costs” as opposed to rows B – E identified in Table 1; why or why not? What source(s) will the utility use to report renewable energy expenditures, regardless of category? Examples: FERC uniform system of account (FERC Form 1); REO-RES biennial reports; company financial statements. Please be specific and refer to the *general guiding principles* in your response.

IPL suggests using the table as originally presented and would not recommend changing the reporting rows as noted in question set “E.” IPL will use cost information reflected in IPL’s FERC Form 1, PPA agreements, and its annual reconciliation of its RER rider to report renewable energy expenditures.

F) List the best available ‘source’ from which to report and calculate, non-renewable generation revenue requirement. Going forward, what would be the pros and cons of using the utilities latest approved rate case? For historical purposes (2005 baseline) would it be the closest to that year’s approved rate case revenue requirement? In both cases, Staff assumes the utility is capable of distinguishing revenue requirements into the following categories: generation, distribution and transmission.

IPL intends to use the approved revenue requirement from rate cases in 2002, 2005 and 2010.

G) There are many ways one could report, estimate, measure and compare, across utilities, the expected cost to comply with Minn. Stat. § 216B.1691. Please provide your comments, alternatives (if any) on whether the proposed uniform reporting system is reasonable and whether it meets the statute requirements (note strengths and shortcomings as applicable).

While there are many noted alternatives, IPL concurs with the proposed uniform reporting system. IPL also believes it is important to note total revenue requirements rather than just the generation functional costs. For example, transmission and distribution cost may be required to interconnect a renewable source into IPL's electrical system. Those incremental costs also impact customer rates. Separately identifying those transmission and distribution costs would be a difficult task for IPL therefore total revenue requirements should be used.

H) As one alternative, row H offers the 'but for the renewable mandate consideration for comparison purposes. Should 'supply-side' expenditures include solely a 'gas-only' proxy/alternative? Some states use 'cost of new entry' (CONE) for comparison purposes. Some use 'avoided cost' in addition to looking at the utility's 'system average' with relation to the costs of meeting renewable energy mandates. What would be the advantages or disadvantages of including any of these metrics for

comparison purposes? Should a row be included to input both annual peak and off-peak market prices (public sourced)? Please explain why or why not.

Background

If IPL interprets the suggestion correctly, Row H looks both historically and into the future. As such, it may necessitate different analytical approaches.

Avoided Costs vs. Proxy Costs

IRP avoided cost modeling can generate accurate utility specific data at the potential expense of transparency and consistency.

Proxy Costs may be consistent and transparent, but not necessarily accurate for an individual utility. Further, proxy prices may not recognize expansion plan impacts appropriately.

CONE

IPL would not recommend relying on CONE for capacity prices because CONE is typically used to cap maximum capacity auction prices.

Potential Approach

For the sake of providing indicative information that is transparent and consistent, IPL is open to exploring a Proxy Cost methodology for this particular application where:

- Replacement of renewable energy would be priced at historical and projected Locational Marginal Prices (LMPs); and

- Replacement renewable capacity would come from the technology's summer capacity contribution at historical and projected MISO capacity auction prices.

The devil is in the details of course, and it would be necessary to establish appropriate historical and projected LMP's and capacity auction prices (assuming the development of a long term MISO capacity market or an equivalent proxy mutually agreed upon by parties).

III. CONCLUSION

WHEREFORE, IPL respectfully request the Commission give IPL's Comments due consideration.

DATED this 19th day of December, 2013.

Respectfully submitted,

Interstate Power and Light Company

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