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February 11, 2015

Dr. Daniel P. Wolf, Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

RE: Interstate Power and Light Company
Docket No. E999/AA-13-599
Additional Reply Comments

Dear Dr. Wolf:

Enclosed for eFiling with the Minnesota Public Utilities Commission (Commission), please accept Interstate Power and Light Company's (IPL) Additional Reply Comments in the above-referenced dockets.

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 the attached service list.

Very truly yours,

/s/ Michael S. Greiveldinger
Michael S. Greiveldinger
Managing Attorney

MSG/tab
Enclosures

cc: Service List

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

**Beverly Jones Heydinger
Nancy Lange
Dan Lipschultz
John Tuma
Betsy Wergin**

**Chair
Commissioner
Commissioner
Commissioner
Commissioner**

IN THE MATTER OF INTERSTATE POWER AND LIGHT COMPANY'S ELECTRIC ANNUAL ADJUSTMENT CHARGE	DOCKET NO. E999/AA-13-599
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**INTERSTATE POWER AND LIGHT COMPANY'S
ADDITIONAL REPLY COMMENTS**

COMES NOW, Interstate Power and Light Company (IPL or Company), and respectfully submits to the Minnesota Public Utilities Commission (Commission) its Additional Reply Comments to the Minnesota Department of Commerce, Division of Energy Resources (Department) December 31, 2014 Response Comments to Reply Comments filed by IPL on November 10, 2014 in the Department's Review of the 2012-2013 Annual Automatic Adjustment Reports for rate-regulated electric utilities in Minnesota (FY13 AAA), filed on September 16, 2014, in the above-referenced docket. IPL also submits its Reply Comments to the December 30, 2014 Comments of the Office of Attorney General – Residential Utilities and Antitrust Division (OAG) in response to the Commission's Notice of Additional Comment Period for matters regarding the annual review of electric utility fuel costs and recovery in the above referenced docket.

I. INTRODUCTION

The Department filed Comments on September 16, 2014, recommending the Commission request that IPL provide Reply Comments on a number of issues related to the FY113 AAA. On November 10, 2014 IPL filed its Reply Comments. On December 31, 2014, the Department filed its Response Comments to IPL's November 10, 2014 Reply Comments and made recommendations for the Recovery of Replacement Power Costs. On December 30, 2014, the OAG filed comments in response to the Commission's Notice of Additional Comment Period for matters regarding the annual review of electric utility fuel costs and recovery in the above referenced docket. IPL provides the following Reply Comments:

II. IPL REPLY COMMENTS

Department Recommendations

- 1) **Utilities seeking to recover replacement power costs due to a forced outage must provide:**
 - a. **Information showing the causes of forced outages;**
 - b. **Efforts the utility took to prevent the forced outage;**
 - c. **Efforts the utility took to minimize the length of the forced outage;**
 - d. **Efforts the utility took to protect ratepayers from having to pay for the costs of the forced outage;**
 - e. **Efforts the utility took to recover replacement power costs from potential sources; and**
 - f. **The amount by which the replacement power costs exceed the power costs the utility would otherwise have charged ratepayers.**

IPL currently provides the information in 1a, 1b, 1c, and 1f in the monthly Fuel Cost Adjustment filings and the Annual Automatic Adjustment filing and will continue to do so. IPL strives to protect the ratepayer from unnecessary costs in every outage decision. To describe the efforts taken on behalf of the ratepayer

for specific outages will require additional documentation, but can be provided going forward, if required.

2) IOU's must develop a searchable database applicable to non-nuclear facilities that shares the attributes of the SEE-IN program and provides for a systematic gathering, review, and analysis of operating experience at (Minnesota) IOUs-owned non-nuclear facilities.

IPL does not own a nuclear generation facility and is not familiar with the current SEE-IN program. The Company is not capable of independently developing a comparable database that can be searched and shared with other utilities. However, if such a database were to be made available through a broader effort among Minnesota IOUs, then IPL would contribute information to the extent required and without risking confidentiality.

Additionally, as IPL noted in its November 10, 2014, Reply Comments, IPL is currently an active member of several user groups that focus on improving the reliability of key plant equipment, such as turbines, generators and boilers. Through these forums, IPL is able to share best practices on topics such as boiler reliability, turbine and generator reliability and maintenance, and predictive and preventive maintenance strategies.

3) Utilities should adopt Xcel's program, identified in more detail in Attachment D of its November 10 comments, to hold contractors more accountable for replacement power costs, to the extent those practices are not already in place.

IPL seeks strong project controls within its contracts, including seeking to place the contractor in a position to meet or exceed outage schedules. IPL seeks these terms to place risk on the contractor for schedule and scope compliance. IPL seeks such terms so as to limit the Company's and, in turn, its customers' risk for extended outages. These rigorous project control provisions

accompanied by liquidated damage provisions place the contractor in a position to meet or exceed their schedule and scope obligation. While there is a potential cost increase for this, it mitigates the risk for the owner in lieu of consequential damages for schedule and scope adherence.

4) Xcel and other utilities should add language to the “Supplier Warranties” section of the contracts as discussed above to indicate that contractors may be liable for a limited amount of replacement power costs.

It is IPL’s experience that construction contractors do not typically agree to include replacement power costs as a remedy for a project of any size. However, for large capital construction contracts, such as the installation of a selective catalytic reduction technology at a generating unit, IPL seeks to transfer the risk of achieving a schedule milestone to a contractor. If the contractor fails to achieve that milestone then a liquidated damage is assessed against the contractor for each day of delay up to a cap, which is often a percentage of the overall contract price.

Additionally, mandating specific language in a contract regarding liability for replacement cost could dissuade reputable contractors from bidding on the project, and could ultimately lead to higher construction costs.

OAG Recommendations

1. Given that Xcel Energy and Minnesota Power obtained Business Interruption Insurance (BII) for some generation facilities, there must exist some cost threshold or breakeven point for BII that depends on variables. More simply said, there is a price at which BII becomes affordable given characteristics of a generation facility. Each utility should discuss this threshold and the variables considered to influence this threshold. The response should include quantification of the threshold and variables whenever possible.

a. This response should include discussion of quotes from insurance companies, and an estimate of an “affordable” BII premium for a generation facility that uses cost-benefit principles, among other things.

b. This response should include discussion of all underwriting criteria that are used by the insurance brokers that were contacted by each utility.

c. This response should include an explanation as why additional brokers were not contacted if the primary insurance broker for the utility did not offer BII, or it was deemed too expensive.

IPL does not have specific analysis of premium and price to insure IPL's risk for generation interruptions. Based on utility benchmarking data, IPL makes a general inquiry with its broker and does not provide specific underwriting criterion. Generating mixes, risk profiles and financial structures differ throughout utility peers. Availability of BII or Replacement Power/Unplanned Outage insurance can vary by fuel type (for example, IPL understands that nuclear coverage is more readily available), loss history and the particular turbine generators to be covered. The property insurance broker has market knowledge as to the availability of coverage, including limits, terms, retentions and price based on our profile. After a general inquiry with insurers, the broker is able to determine that the markets appetite for this risk has not developed to a point where coverage with meaningful limits, retentions and price available and specific inquiry relative to our risk would not be fruitful.

2. If a utility finds that BII is still too expensive once a more comprehensive analysis has been completed, it should discuss the characteristics that are causing the premiums and deductibles to be too high and how it plans to better insulate ratepayers from these risks without BII.

Please see IPL's response to OAG No. 3 below.

3. The utilities should discuss the possibility of using other risk management instruments to control for price increases in the event of an outage. For example, what are the opportunities for the utilities to use call-put option collars, forward contracts, or other techniques and instruments to control for replacement power costs?

The Midcontinent Independent System Operator, Inc. (MISO) provides its members the flexibility to rely on the market for short-term and longer-term energy needs. In the case of a short-term (less than one month) forced outage, a utility is able to continue purchasing its load from MISO and simply loses any financial hedge value that may have been provided by the generator suffering the outage, while having the ability to procure short-term energy purchases in the bilateral market to attempt to replace the hedge. For outages expected to last more than one month, utilities can enter into limited duration bilateral power purchase agreements that provide hedging benefit into the future.

Due to the size, stability and nature of the MISO energy market, the loss of any individual generator would likely have only a minimal impact on the energy price for the market overall, including the pricing for forward purchases at the major trading hubs. However, there could still be local congestion-driven cost impacts that result from outages that result in financial impact, but for which no marketing company would be willing to become exposed.

Historically, IPL's hedging activities typically included the use of financial and derivative instruments to increase price stability. IPL had previously

requested variances to the fuel clause adjustment (FCA) rules, as financial hedging was not specifically covered by the FCA rules, but has since expressed its intent to discontinue future requests for a variance. Should sufficient interest be expressed, IPL would participate in a future rulemaking addressing the ability of Minnesota electric public utilities to recover the costs of financial hedging through the FCA rules.

III. CONCLUSION

WHEREFORE, IPL respectfully requests the Commission give IPL's additional reply comments due consideration.

DATED this 11th day of February, 2015.

Respectfully submitted,

Interstate Power and Light Company

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