STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	**Chair**
David C. Boyd	**Commissioner**
Nancy Lange	**Commissioner**
J. Dennis O'Brien	**Commissioner**
Betsy Wergin	**Commissioner**

IN THE MATTER OF 2011-2012 ANNUAL AUTOMATIC ADJUSTMENT REPORTS	**DOCKET NO. E999/AA-12-757**

INTERSTATE POWER AND LIGHT COMPANY'S REPLY COMMENTS

COMES NOW, Interstate Power and Light Company (IPL), and hereby submits its reply comments to the Minnesota Department of Commerce, Division of Energy Resources' (Department), *Review of the 2011-2012 Annual Automatic Adjustment Reports* in the above-referenced docket.

I. INTRODUCTION

On September 4, 2012, IPL filed its electric annual automatic adjustment report for the twelve month reporting period ending June 30, 2012.

On June 5, 2013, the Department filed its report summarizing the Department's review of the 2011-2012 automatic adjustment filings submitted by the rate-regulated electric utilities in Minnesota. The Department recommended to the Minnesota Public Utilities Commission (Commission) the following:

- Accept IPL's Midcontinent Independent System Operator Inc. (MISO) Day 2 and Ancillary Services Market reporting in Docket No. E999/AA-12-757.

- Require utilities to provide in the initial filing of all future electric AAA reports the Minnesota jurisdictional Schedule 10 costs together with the allocation factor used to support for why the allocator is reasonable.
- Require utilities to provide information to support increases in MISO Schedule 10 costs of five percent or higher over the prior year's costs, including an explanation of benefits received by customers for these added costs.
- Provide in reply comments updated information on generation operations & maintenance (O&M) costs being recovered in the most recent rate cases, and the utilities' actual 2012 generation O&M costs.
- Rather than allowing utilities to recover all changes in energy costs on a month-to-month basis, recovery of energy costs should be fixed in a rate case, with no adjustment between rate cases, at the utilities average energy costs ($/kWh) over the previous three years before a rate case is filed. While the Department says that it is open to other reasonable proposals, the Department's recommendation would essentially do away with the Fuel Cost Adjustment (FCA) as currently in effect in the Minnesota jurisdiction.

IPL provides the following reply comments:

II. IPL REPLY COMMENTS

A. <u>MISO Costs</u>

IPL agrees with the Department's recommendations to the Commission to accept IPL's MISO Day 2 and ASM reporting in Docket No. E999/AA-12-757. IPL also agrees with the Department's recommendation to provide information to support increases in MISO Schedule 10 costs of five percent or higher over the prior year's costs, including an explanation of benefits received by customers for these added costs. IPL provided this information in its initial filing on September 4, 2012, in this docket and will continue to provide the information in future Annual Automatic Adjustment Reports.

B. Generation O&M Costs

IPL is also providing its actual 2012 generation O&M costs in Attachment A to these reply comments. IPL does note that the O&M costs from the test year 2009 rate case are the costs from IPL's most recent rate case.

C. FCA Mechanism

The Department's FCA proposal, as described on page 2 of these reply comments, for all intents and purposes eliminates the monthly FCA as implemented in today's regulatory environment. The Department believes its proposal would give investor-owned utilities clear incentives between rate cases to minimize their total cost of doing business.

IPL believes the FCA mechanism continues to be a valid mechanism for reflecting the costs of fuel and purchased power on a dollar-for-dollar basis. As IPL stated in the *Investigation Into the Appropriateness of Continuing to Permit Electric Energy Cost Adjustments* (Docket No. E999/CI-03-802), the purpose and rationale behind the FCA is based in the general understanding that fuel and purchased power costs have unique attributes which necessitate recovery of cost changes between general rate cases. Fuel and purchased power costs are subject to wide price fluctuations due to weather, production, and other supply and demand factors which are generally out of the control of individual utilities. The monthly FCA more closely matches current market prices of energy with customer usage to send better pricing signals. Fuel and purchased power costs also make up a large portion of a utility's expenses and lack of full recovery would pose an extreme hardship on a utility.

IPL notes that as a result of being able to recover price fluctuations in fuel or purchased power, the FCA reduces the need to file frequent general rate case filings to recover or reconcile volatile fuel and purchased power costs. The FCA eliminates the time, resources, and regulatory lag of frequent general rate cases that burden both the utilities, and the regulatory agencies.

Moreover, an important issue affecting utility credit ratings is the regulatory mechanism for recovery of fuel and purchased power costs and its impact on the level of utility business risk. As noted by such credit rating agencies as Moody's, the ability to recover prudently incurred costs in a timely manner is perhaps the single most important credit consideration for regulated utilities as the lack of timely recovery of such costs has caused financial stress for utilities on several occasions. The FCA's function as a mechanism to allow timely cost recovery helps the utility match revenue with costs. This in turn helps keep the utility's business risk low, a factor which contributes to a good credit rating.

The current FCA has served Minnesota utilities and ratepayers well. The monthly FCA has captured the price signals of a volatile and ever-changing marketplace while allowing a utility to recover of one of its major operating expenses. IPL supports the current FCA approach and believes that any changes would be a detriment to

Minnesota utilities and ratepayers alike. However, IPL also is available to participate in future discussions related to these issues.

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

DATED this 20th day of September 2013.

Respectfully submitted,

INTERSTATE POWER AND LIGHT COMPANY

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Interstate Power and Light Company
Maintenance Expenses

Line No.	Description of Account	FERC Accounts	(a) Last Rate Case (TY09)	(b) 2010	(c) 2011	(c) 2012
1	Maintenance of Steam Power	510-514 [(1)]	$ 2,232,215	$ 1,583,166	$ 1,885,346	$ 1,641,604
2	Maintenance of Hydro Power	541-545	-	-	-	-
3	Maintenance of Other Power	551-554 [(2)]	671,123	696,116	803,959	859,117
4	PFA for Emery Maintenance					
			2,903,338	2,279,281	2,689,305	2,500,721
5	Maintenance of Nuclear Power	528-532	-	-	-	-
6	Per DAEC Sale Filing		876,007	893,929	904,603	904,651
7			$ 3,779,345	$ 3,173,210	$ 3,593,908	$ 3,405,372

Source:
Lines 1-3: From Departmental Earnings Reports.
Line 4: From E-001/GR-05-748. Volume V, Book 1 of 4, Workpaper B-2(1)(a), line 24.
Line 5: From Departmental Earnings Reports.
Line 6: From Iowa DAEC Sale filing, Docket No. SPU-05-15, Exhibit___(CAH-1), Schedule A-2.

Footnotes:
(1) Accounts 510-514 in column (a) include adjustments for OOP Items from Docket No. E001/GR-10-276, Exhibit__(CAH-1), Schedule C-1(11).
(2) Accounts 551-554 in column (a) includes an adjustment for WWE Maintenance expense from Docket No. E001/GR-10-276, Exhibit__(CAH-1), Schedule C-1(16).