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April 30, 2007

Dr. Burl Haar, Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

RE: Interstate Power and Light Company
Docket No. E999/CI-03-802
IPL's Reply Comments

Dear Dr. Haar:

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

Copies of this filing have been served on the Minnesota Department of Commerce by eFiling and the Office of Attorney General - Residential Utilities Division. A Summary Filing has been served on all parties of the attached service list.

Very truly yours,

/s/ Jennifer S. Moore

Jennifer S. Moore
Regulatory Attorney

JSM/kgk
Enclosures

cc: Service List

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

**LeRoy Koppendraye
Marshall Johnson
Thomas Pugh
Phyllis Reha**

**Chair
Commissioner
Commissioner
Commissioner**

IN RE:	
INTERSTATE POWER AND LIGHT ELECTRIC ENERGY COST ADJUSTMENT	DOCKET NO. E999/CI-03-802 INITIAL COMMENTS

INTERSTATE POWER AND LIGHT COMPANY'S INITIAL COMMENTS

Comes Now, Interstate Power and Light Company (IPL), and hereby submits its Initial Comments to the Minnesota Public Utilities Commission (Commission) pursuant to the Commission's Notice for Comment on March 30, 2007, in the above referenced docket.

I. INTRODUCTION

On March 30, 2007, the Commission issued a Notice for Comments in the above referenced docket. The Commission opened an investigation into whether the fuel clause adjustment (FCA) continues to be a useful regulatory tool on June 4, 2003. The Commission then solicited comments on the purpose, structure and rationale of the current FCA on December 19, 2003. In response to the Commission's December 19, 2003, comment period, IPL filed its initial comments and analyses in this docket on February 17, 2004.

The Commission's March 30, 2007, Notice for Comments is intended to provide the parties an opportunity to update the record through comments on whether

the investigation into the usefulness of the FCA should be continued, and if so, what issues should be pursued.

II. IPL Supports the Current Minnesota FCA Mechanism

IPL appreciates the opportunity to update its comments in this matter. IPL also reiterates that it stands by the initial comments it filed on February 17, 2004, and IPL continues to support the FCA as a mechanism that permits electric utilities to automatically adjust their rates to pass through changes in the cost of fuel or purchased power. IPL believes that the FCA continues to 1) allow utilities to address fuel price volatility without filing frequent, expensive rate cases; 2) address costs that are presumed to be beyond the utility's control; and 3) reduce a utility's business risk, thereby improving the utility's credit ratings and ultimately lowering rates. Since IPL's initial comments were filed, the volatility of fuel and purchased power costs have increased dramatically, and IPL believes that the volatility of fuel prices supports the need for an FCA mechanism more than ever.

A. IPL Updated Record – Fuel Price Volatility

IPL would like to take the opportunity to update the record regarding IPL's FCA. In its initial comments concerning the Current Operation of the FCA, IPL provided an attachment from the Minnesota Department of Commerce's (Department) review of Minnesota utilities Annual Automatic Adjustment (AAA) reports. This attachment (Table E-2) detailed the utilities historical percent over and under recovery of fuel costs for the periods 1992-93 through 2001-2. IPL is providing the most recent Table E-2 (Attachment A) from the Department's review of the 2005-6 AAA reports in Docket No. E,G999/AA-06-1208. This table demonstrates the increased volatility in

the percent over/under recovery of fuel costs in the last few years. Of great concern to IPL is the company's trend of consistent under-recovery of fuel costs.

While IPL still supports the current FCA mechanism, the trend of consistent under recovery of fuel costs indicates that an annual true-up or reconciliation factor may be necessary for not only IPL but also the other Minnesota utilities without this factor. IPL notes that Otter Tail Power recently instituted an FCA true-up in Docket No. E017/M-03-30.

In its February, 2004, initial comments concerning the Relevance of the FCA to the Current Regulatory Environment, IPL provided a table which demonstrated what the yearly over/under recovery of fuel and purchased power costs would have been without an FCA for the years 1997 - 2002. This table also showed the effects this over/under recovery would have had upon IPL's net income. IPL is updating this table for the years 2003 – 2006:

Interstate Power and Light Company

(Over)/Under Recovery of Minnesota Fuel Costs Compared to Base Fuel in Rates

Year	1997	1998	1999	2000	2001	2002
MN Base Fuel Costs	\$11,835,882	\$11,967,061	\$12,666,354	\$13,080,269	\$13,160,146	\$13,513,392
MN Fuel Costs	\$10,581,356	\$11,024,941	\$10,844,261	\$11,212,288	\$14,758,591	\$15,603,946
Over/(Under) Recovery	\$1,254,526	\$942,119	\$1,822,093	\$1,867,981	\$(1,598,445)	\$(2,090,554)
Taxes @ 41%	\$514,356	\$386,269	\$747,058	\$765,872	\$(655,363)	\$(857,127)
Net Income Effect	\$740,170	\$555,850	\$1,075,035	\$1,102,109	\$(943,083)	\$(1,233,427)

Year	2003	2004	2005	2006
MN Base Fuel Costs	\$13,170,130	\$13,043,293	\$13,490,081	\$14,109,277
MN Fuel Costs	\$16,372,573	\$13,750,809	\$17,822,565	\$20,298,997
Over/(Under) Recovery	\$(3,202,443)	\$(707,516)	\$(4,332,484)	\$(6,189,720)
Taxes @ 41%	\$(1,313,002)	\$(290,082)	\$(1,776,318)	\$(2,537,785)
Net Income Effect	\$(1,889,441)	\$(417,434)	\$(2,556,165)	\$(3,651,935)

This table demonstrates how volatile fuel costs, without an FCA mechanism, affect the Company's net income and would most likely have resulted in additional rate cases. For the period 1997 – 2006, Minnesota fuel costs have increased from 10,581,356 to \$20,298,997; over a 90 percent increase. During that same time period, the fuel costs have swung from an almost \$2 million over recovery to a greater than \$6 million under recovery.

WHEREFORE, Interstate Power and Light Company believes the FCA is a valid mechanism to capture the price signals of a volatile and ever-changing marketplace and to minimize financial exposure to costs beyond its control. IPL respectfully requests the Commission find that the FCA is an appropriate tool in the current regulatory environment.

DATED this 30th day of April 2007.

Respectfully submitted,

INTERSTATE POWER AND LIGHT
COMPANY

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STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye
Marshall Johnson
Thomas Pugh
Phyllis Reha

Chair
Commissioner
Commissioner
Commissioner

IN RE:

INTERSTATE POWER AND LIGHT
COMPANY'S ELECTRIC ENERGY COST
ADJUSTMENT

DOCKET NO. E001/CI-03-802

AFFIDAVIT OF SERVICE

STATE OF IOWA)
) ss.
COUNTY OF LINN)

Jamie Robertson, being first duly sworn on oath, deposes and states that on the 30th day of April, Interstate Power and Light Company's Reply Comments, were provided via e-filing, overnight delivery, or by United States first class mail to the following service list:

 /s/ Jamie Robertson
Jamie Robertson

Subscribed and Sworn to Before Me
this 30th day of April, 2007.

 /s/ Lori R. Alliss
Lori R. Alliss
Notary Public
My Commission Expires on 11-8-2009

Docket No. E001/CI-03-802

Service List

1 of 1

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Minnesota Department of Commerce
Review of the 2005 - 2006
Annual Automatic Adjustment Reports

Submitted to the
Minnesota Public Utilities Commission

Docket No. E,G999/AA-06-1208
April 16, 2007

TABLE E2 Percent Over-Recovery/(Under-Recovery) FYE97 through FYE06											
UTILITY	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	10-Yr. AVG.
Dakota	0.66%	0.12%	1.41%	2.47%	0.04%	(3.27%)	1.85%	(3.81%)	(4.04)%	0.35%	(0.42%)
IPL	(0.18%)	1.67%	(2.17%)	(1.68%)	(6.66%)	(0.16%)	(2.45%)	(2.57%)	(2.85%)	(3.64%)	(2.07%)
MP	(1.63%)	(4.98%)	1.20%	(0.84%)	(4.64%)	1.38%	(0.56%)	(7.21%)	5.99%	(5.42%)	(1.67%)
OTP	0.63%	3.62%	(0.25%)	2.90%	(4.19%)	(0.77%)	(4.26%)	0.44%	(7.76%)	0.58%	(0.91%)
Xcel	(1.93%)	(1.51%)	(2.54%)	(1.32%)	-	-	-	-	-	-	-