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May 15, 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 e-Filing 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 e-Filing and the Office of Attorney General - Residential Utilities Division.

Very truly yours,

/s/ Jennifer S. Moore

Jennifer S. Moore
Regulatory Attorney

JSM/jlr
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: IN THE MATTER OF THE COMMISSION'S INVESTIGATION INTO THE APPROPRIATENESS OF CONTINUING TO PERMIT ELECTRIC COST ADJUSTMENTS	DOCKET NO. E999/CI-03-802
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**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 Public Utilities Commission (Commission) pursuant to the Commission's Notice for Comment on March 30, 2007, in the above- referenced docket.

A. Background

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 and on March 30, 2007. In response to the Commission's March 30, 2007, comment period, IPL filed its initial comments along with the Department of Commerce (Department), the Office of the Attorney General – Residential and Small Business Utilities Division (RUD), Otter Tail

Power Company (Otter Tail), Northern States Power Company (Xcel Energy), Dakota Electric, and Minnesota Power on April 30, 2007.

In general IPL agrees with most of the parties' positions that the FCA should be continued. IPL also agrees with Minnesota Power that if the Commission deems it necessary to continue the investigation in this proceeding, the Commission should disregard the stale information previously obtained and that the proceeding focus on remaining major FCA elements with narrower FCA issues handled in issue or utility-specific proceedings.

While IPL agrees with the Department that there is merit in continuing the FCA, IPL would like to make some clarifying comments regarding the Department's comments on plant outages. (See Department Comments at pages 6-7). IPL also respectfully disagrees with the RUD's position that the FCA has been expanded for items unrelated to the cost of fuel, and that the Commission should either terminate the FCA or restrict its use. IPL will address these issues in further detail below.

B. Department Comments Regarding Outages

In discussing plant outages, the Department references an outage of a large base-load facility that was planned at the beginning of February 2007 (during a peak winter load month). (See *id.*). The Department used this outage as an example where utilities, specifically IPL in this case, have a burden of proving that the rates charged to ratepayers - in its fuel clause adjustment or base rates – are reasonable. IPL does not dispute the Commission's authority to modify an automatic adjustment provision for an individual utility. IPL regrets that

the Department used the example of a planned outage at the Duane Arnold Energy Center (DAEC) nuclear plant, which IPL no longer owns, to question the reasonableness of fuel costs incurred due to the timing of a planned outage.

IPL also notes there is no basis to the Department's conclusion that the utility has not shown adequate concern for the rate impact on customer rates during a time when locational marginal prices (LMPs) were significantly high to replace power from a base-load plant. IPL is committed to seeking ways to mitigate or optimize the inevitable fuel cost impact that will result when energy from low-cost base-load resources must be replaced for maintenance outage needs in order to keep IPL's overall costs as low as possible over time, while still meeting customer reliability expectations. For example, IPL is actively managing coal transport costs by locking in half of its coal transport needs at favorable prices until 2014; managing its SO₂ allowances; updating generation facilities; diversifying its generation portfolio to include wind and an additional 250 megawatts of new coal-fired generation; and reducing the volatility of gas and purchased power prices through its financial and physical hedging program, just to name a few.

In its comments, the Department specifically questions the reasonableness of fuel costs IPL incurred due to a planned outage at the DAEC. In its reply comments dated March 5, 2007, in Docket No. E001/PA-05-1272, IPL informed the Commission that the plant was not on a 24-month refueling cycle as indicated by the Department, but rather was on a 22-month refueling cycle. The shut down of the DAEC in February 2007 was consistent with filed testimony and

the forecasted outage schedule which the new owner is following. IPL's reply comments further explained how the DAEC refueling cycle is planned and the limits on the plants operating cycle. Moreover, IPL explained that the Department did not place the planned DAEC outage in context with the Midwest Independent Transmission System Operation's (Midwest ISO) Conservation System Operation and other events from February 2, 2007 to February 9, 2007. IPL understands the Department's concerns about the price impact of planned and unplanned outages, but does not believe that the planned outage at the DAEC is a good example to use concerning inappropriate outage planning.

The Department incorrectly assumes that high LMPs automatically result in a negative impact to customers. IPL believes the Department's argument oversimplifies the facts surrounding the DAEC outage, and that this oversimplification neglects other factors that should be considered when evaluating the reasonableness of replacement purchase power costs during planned outages.

As a basis for suggesting outage benchmarking, the Department incorrectly points to high LMP prices resulting from an outage as the sole factor in the increase of fuel prices incurred by customers. However, this is not necessarily the case. For example, if the utility has bilateral contracts or replacement energy provisions in place, these contracts will offset or mitigate the impact of higher LMPs. Additionally, the utility generation resources committed by the Midwest ISO are also earning more revenue at these higher LMPs which offset or mitigate the LMP impact. Consequently, high LMP prices that result

from a planned outage may be mitigated or offset by replacement energy contracts and other utility owned generation resources.

IPL also does not believe the options for benchmarks proposed by the Department are reasonable, and in fact actually become punitive to utilities regardless of how well outages are managed. However, IPL agrees with the Department that outages at large base-load plants are a significant driver of fuel costs, and IPL is willing to work with the Department and other regional stakeholders in this process to seek ways to improve the coordination of these events.

C. RUD Comments

IPL respectfully disagrees with the RUD's position that the FCA has been expanded for items unrelated to the cost of fuel, and that the Commission should either terminate the FCA or restrict its use.

The current use of the FCA in Minnesota is appropriate, fair and reasonable. IPL takes issue with the RUD's premise that the FCA shifts risk to customers. In making its assertion, the RUD ignores the fact that the FCA allows a mechanism to review the prudence of fuel costs. Consequently, customers are only asked to pay for the reasonable and prudent fuel costs associated with providing electric service. Moreover, the RUD overlooks the fact that the use of the FCA improves the utility's credit ratings and ultimately lowers rates to customers because the business risk is reduced since there is no regulatory lag in recovering prudent and reasonable costs.

IPL believes that the FCA currently applied in Minnesota is an appropriate regulatory tool that balances the need for a utility to recover its costs with ratepayers' interest in just and reasonable rates. IPL agrees with the RUD that the risks and rewards of the FCA should be balanced between the utility and customers. The RUD, however, has not made a showing that the FCA as currently applied in Minnesota unfairly shifts risks to customers.

D. Conclusion

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. IPL believes that the volatility of fuel prices supports the need for an FCA mechanism more than ever.

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 15th day of May 2007.

Respectfully submitted,

INTERSTATE POWER AND LIGHT
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STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye
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IN RE:

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COMMISSION'S INVESTIGATION INTO
THE APPROPRIATENESS OF
CONTINUING TO PERMIT ELECTRIC
COST ADJUSTMENTS

DOCKET NO. E999/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 15th day of May, 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 15th day of May, 2007.

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

Docket No. E999/CI-03-802

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