

The Commission met on **Thursday, June 16, 2011**, with Chair Anderson and Commissioners Boyd, O'Brien, Reha, and Wergin present.

The following matters were taken up by the Commission:

ENERGY AGENDA

IP-6858-WS-11-195

In the Matter of the Site Permit Application of Shell Rock Wind Farm, LLC for a Large Wind Energy Conversion System in Freeborn County

Commissioner Wergin moved to take the following actions:

1. Make a preliminary determination that a draft site permit may be issued.
2. Approve the proposed attached draft site permit for distribution and public comment.
3. Authorize EFP staff to implement the public participation process outlined in Minnesota Rule 7854.0900.

The motion passed 5-0.

E-001/GR-10-276

In the Matter of the Application of Interstate Power and Light Company for Authority to Increase Rates for Electric Service in Minnesota

Initial Motion – Commissioner Wergin moved to take the actions set forth below:

1. **ALJ's Report** – Adopt the ALJ's Report and recommendation with modification to one or more of the following issues.
2. **Class Cost of Service Study** -- Use the Company's proposed CCOSS values as a starting point in this docket but make no decision regarding the appropriate classification and allocation of production plant costs in this proceeding.
3. **Allocation of Energy-Related Costs** – Adopt Interstate's proposal to allocate energy related production costs on the basis of kWh sales in this case.
4. **Consolidation of Customer Classes** – Approve IPL's proposal to consolidate the Stored-Heat Space Heating and Controlled Water Heating classes in to the Residential class and the Municipal Pumping Single-Phase Farm and Three-Phase Farm Classes into the General Service class.

5. **Future Filings** –

- a) Adopt the Department’s recommendation and require Interstate, in its next rate case, to classify each of the Distribution Plant accounts, FERC 364-368, on the basis of a minimum system study.
- b) Adopt the Department’s recommendation to encourage Interstate to develop and use an E8760 allocator for CCOSS and FCA purposes. Require the Company to provide the analysis supporting the reasonableness of its decision if it does not use the E8760 allocator for CCOSS and FCA purposes.
- c) Adopt the Department’s recommendation and require that for IPL’s next rate case, the Commission require IPL to use the Equivalent-Peaker method to classify and allocate Production Plant costs.

6. **Class Revenue Apportionment** – Adopt the DOC proposal for revenue apportionment (as recommended by the ALJ), including the DOC’s proposal for apportioning revenue if the approved revenue requirement is less than that requested by the Company.

7. **General Service Charges** -- Approve the Company’s proposed General Service customer charges.

8. **Residential Charges** -- Approve the Department’s proposed \$8.50 residential basic customer charge and \$11.85 residential time of use charge.

9. **Large Light and Power Rate Design** – Approve IPL’s proposed \$250 monthly charge for Large Power customers, as well as IPL’s proposed adjustments to volumetric energy rates, as recommended by the ALJ.

10. **Interruptible Service** – Approve IPL’s Interruptible Service Tariff, including the changes contained in the Agreement between IPL and MCC (Exhibit #60, Settlement Point 11), as recommended by the ALJ.

11. **LPL Time-of-Use Service** – Approve IPL’s LPL Time-of-Use Tariff, including the changes contained in the Agreement between IPL and MCC (Exhibit #60, Settlement Point 12), as recommended by the ALJ.

12. **Coincident Peak Billing** – Approve IPL’s proposal for coincident peak billing/aggregation, including the proposed evaluation described in the Agreement between IPL and MCC (Exhibit #60, Settlement Point 10), as recommended by the ALJ.

13. **Lighting Tariff** – Approve IPL’s proposed changes to its Lighting Tariffs, as recommended by the ALJ.

14. **Miscellaneous Issues** – Adopt the settlement of the “Miscellaneous Issues” contained in the Agreement between MCC and IPL (Exhibit #60, Settlement Points 1-8), as recommended by the ALJ.

15. **Conservation Improvement Program** – Accept IPL’s 2010-2012 electric and gas CIP, as approved by the Director of the DOC in Docket No. E,G001/CIP-09-636, as satisfying the filing requirement for conservation improvement plans and rate case filings specified in Minn. Stat. §216B.16, subd. 1.
- a) Accept IPL’s proposal not to true-up the Company’s electric CIP tracker account in the present rate case.
 - b) Adopt a carrying charge for IPL’s electric CIP tracker account that is equal to the overall rate of return approved for the Company in the present rate case, with the timing of implementing this revised level of carrying charges in the electric tracker to coincide with the implementation of final rates in 2011 in this proceeding, and with the revised level to appear in the Company’s 2011 electric CIP tracker account filing, which is to be submitted by April 1, 2012 in a separate miscellaneous docket.
 - c) Approve an increase in IPL’s administrative and general expenses of \$86,094 and revenues of \$39,498 for the CIP adjustment.
 - d) Accept IPL’s proposed volumetric method of allocating CIP expenses (i.e., divide the Commission-approved test-year CIP expenses by the Commission approved test-year kWh sales) and make no change to the CIP cost allocation method in this case.
 - e) Approve the DOC’s recommended CCRC of \$0.00269 per kWh, which is calculated by dividing the DOC recommended level of test-year CIP expenses of \$2,299,102 by the DOC’s recommended level of test-year sales of 854,684,761 kWh.
 - f) If the Commission adopts a level of test-year sales that is different from the level recommended by the DOC, increase or decrease CIP expenses consistent with the formula proposed by the DOC.
 - g) Deny IPL’s alternative proposal to recover all CIP costs through the CCRA.
 - h) Approve as correct IPL’s CCRC and CCRA during January through October 2010, but require IPL, in future annual CIP tracker account filings, to correct the Company’s method of reporting revenues so that the monthly revenues from the CCRC and CCRA reported by the accounting department match the monthly revenues from the CCRC and CCRA reported in the CIP tracker account.
16. **Correction to ALJ’s Report** – Adopt the DOC’s correction to ALJ Finding 308, the fourth bulleted item, as follows: Increase IPL’s administrative and general expenses ~~and revenues by \$44,032~~ \$86,094 and revenues by \$39,498 for the CIP adjustment.
17. **Cash Working Capital** – Find lead/lag methodology acceptable, as recommended by the ALJ. Direct IPL to recalculate the cash working capital component at the end of this proceeding to reflect the Commission’s final determination of financial issues.

18. **Interest Synchronization** – Direct IPL to update the interest synchronization adjustment, at the end of this proceeding, to reflect the Commission’s final decisions, as recommended by the ALJ.
19. **Cost Recovery of Hydroelectric Facilities** – Allow IPL to recover the “replacement” purchased power costs in its ESCA Rider, effective July 1, 2010, by allowing IPL to discontinue the associated credits to its ESCA Rider, as recommended by the ALJ/DOC.
20. **Workforce Reductions** – Reduce test year expenses by \$75,775, as recommended by ALJ/DOC. [\$12,732 for the 2009 workforce reduction adjustment, plus \$63,043 for the 2010 workforce reduction adjustment, equals a total \$75,775 adjustment to test year expenses.]
21. **Accounts Receivable Sales Program** –
 - a) Remove ARSP expenses of \$11,386 from test year expenses, as recommended by the ALJ.
 - b) Approve the modified affiliated-interest agreements relating to the ARSP requested in Docket No. E,G001/AI-10-413 (Docket 10-413), and include language in the order that IPL may not recover any costs of the ARSP from Minnesota ratepayers unless and until IPL is able to show explicit quantifiable net benefits for Minnesota customers.
22. **Rate Case Expense** –
 - a) Adopt the ALJ’s recommendation. Allow \$236,097 of rate case expense to be included in test year expenses (\$944,386 divided by 4 years equals \$236,097).
 - b) Direct the Company to defer the amount collected in rates for rate case expense after the end of the adopted rate case expense amortization period for consideration in the Company’s next rate case.
23. **Duane Arnold Energy Center** – Adopt the ALJ’s Findings.
24. **Asset Retirement Obligations** –
 - a) Approve use of the Negative Salvage Value method to account for decommissioning (ARO) costs, as recommended by the ALJ.
 - b) Clarify that IPL is *not* allowed to increase rate base by \$192,840.
25. **Bad Debt Expense** – Allow the \$418,517 in test year bad debt expense, agreed upon by IPL and DOC, as recommended by the ALJ.
26. **Long-term Incentive Compensation** – Require IPL to supply, in its next Minnesota general rate case filing, a detailed description and quantification of all incentive compensation costs included in its next Minnesota general rate case revenue requirement.

27. **Sixth Street Station Cost Recovery** – Adopt the Findings of the ALJ.
28. **Capital Structure** – Use the Company’s proposed capital structure comprised of 47.737% common equity, 43.858% long-term debt, 6.265% preferred stock, and 2.140% short-term debt.
29. **Cost of Debt** – Adopt Interstate Power’s proposed a cost of long-term debt of 5.997% and a cost of short-term debt of 0.34% as supported by the Department and the ALJ.
30. **Preferred Stock** – Adopt Interstate Power’s proposed cost of preferred stock of 8.41%, as supported by the Department and the ALJ.
31. **Travel, Entertainment, and Related Employee Expenses** – Adopt ALJ findings 326 through 355, with the following modifications/clarification: find that it is more probable than not that the amount of any additional problems identified by the OAG regarding food, beverage, and other employee expenses, but not including corporate aircraft, does not exceed the \$25,000, and further reduce travel and entertainment expenses by IPL’s proposed \$25,000 (that is, in addition to the \$4,044 of undocumented Travel and Lodging Expense, \$4,103 Expense of Food, Beverage, and Other Expenses, and corporate aircraft expenses addressed elsewhere).
32. **General Housekeeping and Compliance Issues** –
- a) Adopt Interstate Power’s proposed cost of preferred stock of 8.41% as supported by the Department and the ALJ.
 - b) State that the final order in this docket shall contain summary financial schedules including: a calculation of IPL’s authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of the total allowed revenues. Direct parties to work with Commission staff to prepare such schedules for inclusion in the Order, should modifications be necessary to reflect the Commission’s final decision.
 - c) Require IPL to make the following compliance filings within 30 days of the date of the final order in this docket:
 - a. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:
 - i. Breakdown of Total Operating Revenues by type;
 - ii. Schedules showing all billing determinants for the retail sales (and sale for resale) of electricity. These schedules shall include but not be limited to:
 - 1. Total revenue by customer class;
 - 2. Total number of customers, the customer charge and total customer charge revenue by customer class; and

3. For each customer class, the total number of energy and demand related billing units, the per unit energy and demand cost of energy, and the total energy and demand related sales revenues.

iii. Revised tariff sheets incorporating authorized rate design decisions;

iv. Proposed customer notices explaining the final rates, the monthly basic service charge, and any and all changes to rate design/billing

b. A revised base cost of energy, supporting schedules, and revised fuel adjustment tariffs to be in effect on the date final rates are implemented.

c. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.

d. Direct IPL to file a computation of the CCRC based upon the decisions made herein for inclusion in the final Order. Direct IPL to file a schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective

e. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest calculated at the average prime rate, to affected customers.

d) Authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on IPL's proposed customer notice.

The motion passed 5-0.

33. Declining Block Rates – Commissioner O'Brien moved to take the following actions:

a) Approve IPL's current declining block rate structure; and

b) Require the Company to provide a compliance filing in this docket within 180 days that sets forth a plan to eliminate its declining block rate structure; and

c) Require the Company to file, in its next rate case, a plan to phase out its declining block rate structure.

The motion passed 5-0.

34. Conservation Improvement Program – Commissioner Wergin moved to take the following actions:

a) Reject MCC recommendation and make no change to ALJ Finding 442.

b) Adopt IPL's recommendation for modifications to ALJ Finding 443.

- c) Adopt the following changes to ALJ Finding 444:

The ALJ recommends that the Commission approve IPL’s allocation of energy related production costs on the basis of kWh sales in this case, and accept the resolution proposed by IPL and MCC. The Company agrees to evaluate an E8760 allocator for use in its CCOSS in its next rate case and in its FCA mechanism as soon as the allocator is developed.

- d) Adopt the following changes to ALJ Conclusion 40:

Because of the time, data, and analysis involved in developing an E8760 allocator, it is reasonable for IPL to allocate energy related production costs on the basis of kWh sales in this rate case. However, IPL should evaluate an E8760 allocator for use in its CCOSS in its next rate case and in its FCA mechanism as soon as the allocator is developed.

The motion passed 5-0.

- 35. **Sales Forecast** – Commissioner O’Brien moved to find that the Department’s recommended forecast of 854,684,761 kWh is reasonable and adopt it for setting rates in this proceeding, as follows, and to find that IPL’s 2010 O&M proposed cost increase of \$380,465 has not been demonstrated to be actual or likely 2010 test year costs.

DOC Alternative Test Year Forecast	
Total WN kWh Sales	854,684,761
Total WN Revenue Impact	\$1,435,828
WN ECA & RCA Revenue Impact	\$567,136
Net of CCRC Impact	\$829,193.98

The motion passed 5-0.

- 36. **Cost Allocations** – Commissioner Boyd moved to take the following actions:

- a) Adopt DOC recommendation to require IPL to revise its Cost Allocation Manual to add the methodology the Company uses to determine the allocation of BOD compensation and expense; and
- b) Modify the ALJ’s recommendation in finding 384 to accept IPL’s use of its own general allocator for the sole purpose of determining the revenue requirement in this rate case, Docket No. E001/GR-10-276; and
- c) Modify the ALJ’s recommendation in finding 386 to accept IPL’s allocation of test-year expenses to its non-regulated activities, except as specifically challenged elsewhere, for the purpose of developing the revenue requirement for this rate case, Docket No. E001/GR-10-276.

The motion passed 5-0.

37. **Variable Pay, Long-Term Incentive Compensation** – Commissioner Wergin moved to take the following actions:

- a) Approve IPL’s proposed test year VPP expense (\$324,216), together with IPL’s refund plan, as recommended by the ALJ; and
- b) Accept the ALJ’s conclusion that it is the responsibility of Alliant shareholders to pay for IPL’s Equity Incentive Plan, and that IPL should not recover that from ratepayers as a test-year expense; and
- c) Adopt the OAG recommendation to reduce test year expense by \$80,338.

The motion passed 4-1. Chair Anderson voted no.

38. **Fuel Inventory** – Commissioner Wergin moved to approve IPL’s revised proposed fuel inventory amount of \$2,181,551, as recommended by the ALJ.

The motion passed 5-0.

39. **Retired Generating Plants and Depreciation** – Commissioner Reha moved to disallow cost recovery for all costs related to Out of Service Plant (both rate base and O&M) as recommended by the DOC and ALJ.

The motion passed 5-0.

40. **Sutherland Generation Station Unit 4 Costs** – Commissioner Boyd moved to approve the Minnesota Jurisdictional SGS4 cost of ~~\$334,237~~ \$1,671,185 to be amortized over a 25 year period or ~~\$13,369~~ \$66,847 annually for 25 years.

The motion passed 3-2. Chair Anderson and Commissioner Reha voted no.

41. **Lansing Generating Plant Emission Control Equipment** – Commissioner Reha moved to approve inclusion of \$189.8 million in rate base and the associated expense as proposed by the Company.

The motion passed 5-0.

42. **Return on Equity and Cost of Capital** – Commissioner Wergin moved to adopt the following capital structure and cost of capital recommendations of Interstate Power, the Department, and the ALJ in finding 85:

<u>Component</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	47.737%	10.50%	5.012%
Long-Term Debt	43.858%	5.997%	2.630%
Preferred Stock	6.265%	8.410%	0.527%
<u>Short-Term Debt</u>	<u>2.140%</u>	0.340%	<u>0.007%</u>
Total	100.0%		8.176%

The motion failed 2-3. Chair Anderson, Commissioner O'Brien, and Commissioner Reha voted no.

Commissioner Reha moved to set the cost of equity at 10.35%.

The motion passed 3-2. Chair Anderson and Commissioner O'Brien voted no.

43. Travel, Entertainment, and Related Employee Expenses – Chair Anderson moved to take the following actions:

- a) find that Minnesota Statutes § 216B.16, subd. 17 does not change the standard that an expense must be deemed reasonable and necessary for the provision of utility service in order to be allowable, and:
- b) reject the last sentence of ALJ Finding 350; and
- c) Reject the last sentence of ALJ Finding 353.

The motion passed 5-0.

Commissioner Boyd moved to also, as recommended by the OAG, add the following sentence to finding 354, "The Commission directs IPL to remove the entire \$102,492 in corporate aircraft costs."

The motion passed 5-0.

44. Whispering Willow Wind Farm – Commissioner Wergin moved to not recover WWE costs in base rates in this rate case. Allow the costs of WWE at a temporary level of \$51 per MWh to be recovered through a renewable energy rider, effective with implementation of final rates in this rate case. The appropriate level of cost recovery for WWE is re-referred to Docket E-001/M-10-312 for further record development. All amounts collected through the rider are subject to true-up to reflect the Commission's final decision on the appropriate level of cost recovery in that proceeding.

The motion passed 5-0.

Commissioner Wergin moved to direct the Company to include in its rate case compliance filing a proposed tariff sheet describing the operation of the rider.

The motion passed 5-0.

45. Transmission Costs – Commissioner Boyd moved to find that the Commission has authority to adjudicate the issue of IPL's compliance with its commitments, agreements, and conditions in the Commission's February 2008 Order in 07-540 and to make necessary adjustments to enforce those commitments, agreements, and conditions.

The motion passed 5-0.

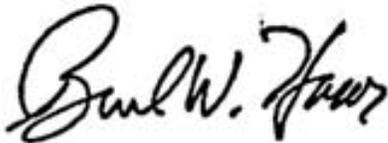
Commissioner Boyd moved to take the following actions:

- a) Find that IPL did not fully comply with its commitments in the 07-540 docket with respect to the effect of the sale on its retail customers and off-set the transmission expense originally requested by IPL for O&M and A&G costs by crediting an additional \$1,557,244 of IPL's gain on sale to ratepayers.
- b) Allow recovery of 2008 true-up costs in base rates over five years, off-set by a credit from IPL's gain on sale equal to the increased O&M and A&G costs. Require IPL to make a compliance filing including detailed supporting schedules in 30 days to reflect this decision.
- c) Direct IPL to make a compliance filing detailing the level of the initial gain on sale and the amount remaining, and proposing procedures for moving forward when the gain on sale amount is depleted.

The motion passed 5-0.

46. **Overall Rate Increase and Rate Shock** – Commissioner Reha moved to make no findings on this issue; Commissioner Reha withdrew her motion.

There being no further business, the meeting was adjourned.



Burl W. Haar, Executive Secretary