

**STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD**

**IN RE:
INTERSTATE POWER AND LIGHT
COMPANY**

DOCKET NO. RPU-2019-0001

**REBUTTAL TESTIMONY
OF
JAMES B. MARTIN-SCHRAMM**

1 **Q. Please state your name and business address.**

2 A. My name is James B. Martin-Schramm and my business address is 700 College
3 Drive, Decorah, Iowa.

4 **Q. Are you the same James B. Martin-Schramm that filed Direct Testimony in**
5 **this proceeding?**

6 A. Yes.

7 **Q. What is the purpose of your Rebuttal Testimony?**

8 A. Focusing on topics I addressed in my Direct Testimony, I will respond to the
9 direct testimony of several intervenor witnesses regarding:

- 10 • Whether IPL's rate application filings adequately address serious customer
11 affordability issues associated with their proposed rate increase;
- 12 • Whether IPL is demonstrating management inefficiency;
- 13 • Whether IPL performance pay should be included in the final revenue
14 requirement;
- 15 • Whether IPL customers are receiving the full value of recently installed
16 AMI meters;

- 1 • Whether PTC carryforwards should be included in the revenue
- 2 requirement;
- 3 • Whether Construction Work in Progress (“*CWIP*”) should be included in
- 4 the revenue requirement.

5 I will also comment briefly about a couple matters in intervenor witness direct
6 testimony that I did not address in my own Direct Testimony and are not
7 addressed by other witnesses on behalf of DAG. These include:

- 8 • Whether the Board should approve IPL’s proposed changes to the Energy
- 9 Efficiency Cost Recovery Rider (“*EECR*”);
- 10 • Whether the Board should approve IPL’s proposed Individualized
- 11 Customer Rate (“*ICR*”);
- 12 • Whether the Board should require IPL to phase out most or all of their
- 13 existing coal facilities.

14 **Q. Do you agree with OCA witness Sheila Parker that IPL’s rate application**
15 **filings inadequately address serious customer affordability issues associated**
16 **with their proposed rate increase?**

17 A. Yes. Ms. Parker provides substantial evidence of these affordability issues for all
18 customer classes and demonstrates that IPL fails to anticipate and address them in
19 their application filings. For example:

- 20 • There have been nearly 5,500 customer comments filed in the docket
- 21 and robust participation in the customer comment meetings.
- 22 Customers have stated their concerns that they cannot afford a rate
- 23 increase of this magnitude. (Parker Direct, 3)
- 24 • Review of the budget billing amounts shows the number of customers
- 25 with budget bills in the range of \$300 to \$799 was highest in 2019, and
- 26 notably in 2019 nine customers had electric budget bills of \$700 to
- 27 \$799 per month. (Parker Direct, 17)

- 1
- 2 • The total number of customers with payment agreements in March of
- 3 each year grew from 1,416 customers in 2016 *to nearly 76,000 in 2019*
- 4 (emphasis added). Some customers had a monthly payment agreement
- 5 amount of more than \$1,000. This demonstrates that IPL's customers
- 6 have had difficulty in paying their monthly bills, and the difficulty to
- 7 pay will become even greater if IPL implements a 24.45% base rate
- 8 increase. (Parker Direct, 17)
- 9
- 10 • IPL had high levels of residential past due accounts over the past three
- 11 years, as reported to the Board. The metrics indicate IPL's customers
- 12 are experiencing difficulty paying their utility bills, and many
- 13 customers simply cannot afford a base rate increase of 24.45%. (Parker
- 14 Direct, 18-19)
- 15
- 16 • Alliant Energy's Midwest Region residential customer satisfaction
- 17 rank is 13th (of 16) in 2019, which is a decline from a rank of 3rd (of
- 18 16) in 2015. (Parker Direct, 32)
- 19
- 20 • Alliant Energy's Midwest Region business customer satisfaction rank
- 21 has fallen to last place (13th of 13) in 2018 from 9th (of 13) in 2015.
- 22 (Parker Direct, 32)
- 23

24 I agree with Ms. Parker's conclusion that "IPL's rate application filings do not
25 specifically address these serious affordability issues." (Parker Direct, 8) The data
26 above was secured through data requests and independent research by OCA. The
27 only substantive attempt to address these matters is found in IPL's proposed Fixed
28 Amount Bill Pilot program. I agree with OCA witness Ashley M. Taylor that this
29 program "does not provide customers with an appropriate or efficient price
30 signal" and that "IPL already offers a consistent monthly billing option called
31 Budget Billing." (Taylor Direct, 3) I also agree with Ms. Parker that IPL's
32 repeated statements during the public hearings and via mailers that the rate
33 increase will not be as high as projected in their original notice to customers is
34 based on tenuous assumptions about reductions in other components of customer

1 bills. ITC witness Zachary Paquette addresses IPL's claims that transmission
2 costs will likely decline in his direct testimony at page 8.

3 I further agree with Ms. Parker that:

4 IPL's customers simply cannot afford and should not be required
5 to pay for extravagant, excessive, or unsupported costs in rates.
6 The Board should fully accept OCA witnesses' recommendations
7 to exclude excessive/unjustified costs from rates. If the Board does
8 not accept OCA's recommendations for reasonable costs, rates set
9 will not be just and reasonable. Rates that are not just and
10 reasonable will negatively impact affordability and those rates will
11 continue into the future. Excluding excessive and unjustified costs
12 is imperative... (Parker Direct, 25)

13 **Q. Do you agree with OCA witness Parker that IPL is demonstrating**
14 **management inefficiency?**

15 A. Yes. As noted above, Ms. Parker provides convincing evidence that "IPL has
16 demonstrated poor management efficiency in relation to its customers' needs for
17 adequate utility service at just and reasonable rates." (Parker Direct, 34) She also
18 highlights concerns raised by other OCA witnesses about IPL's decision-making
19 regarding AMI investment (Kruger); inadequate benefit-cost analysis for Grid
20 Modernization (Norwood and Bents); inadequate tax planning for production tax
21 credits (Schultz); and a lack of EGEAS analysis to support early retirement for
22 M.L. Kapp (Bents). For these reasons, Ms. Parker recommends that "until IPL
23 makes real progress on the foregoing management efficiency concerns, the Board
24 should set IPL's return on equity at or near the lowest level in the range of
25 reasonable return on equity." (Parker Direct, 39)

26 I would like to point out that Iowa Code Section § 476.52, which is focused on
27 utility management efficiency, does not limit the Board to setting "IPL's return
28 on equity at or near the lowest level in the range of reasonable return on equity."

1 Rather, § 476.52 says “the board may reduce the level of profit or adjust the
2 revenue requirement for the utility *to the extent the board believes appropriate to*
3 *provide incentives to the utility to correct its inefficient operation. . .*” (emphasis
4 added). In my view, it is not reasonable to provide a return on equity at even the
5 lowest level in the range to a utility that is demonstrating management
6 inefficiency and is failing to provide adequate utility service at just and
7 reasonable rates. As I said at the conclusion of my Direct Testimony: “This is an
8 opportunity for the Board to redress a structural injustice between IOU-customer
9 rates in Iowa while also putting IPL on notice that its performance in the past
10 does not meet the high standards of the Board.” (Martin-Schramm Direct, 25)

11 **Q. Do you agree with OCA witness Blake that the Board should not allow IPL**
12 **to recover short-term or long-term performance pay costs?**

13 A. Yes. Mr. Kruger points out that Alliant’s own 2019 Notice of Annual Meeting
14 and Proxy Statement indicates that long-term performance pay is contingent
15 almost, if not entirely upon the financial performance of the company.” (Kruger
16 Direct, 34) Given the customer affordability and management inefficiency issues
17 noted above, I agree with Mr. Kruger that “IPL’s executives, directors, and non-
18 bargaining employees’ performance does not rise to an extraordinary level that
19 would justify having IPL’s customers pay compensation beyond normal salaries
20 and wages, including benefits, through rates.” (Kruger Direct, 53) As I note in
21 my Direct Testimony, IPL *shareholders* should reward company employees for
22 extraordinary service, not IPL *ratepayers*, who have every right to expect utility
23 service that is reasonably priced. (Martin-Schramm Direct, 16) The Board has

1 rejected IPL's requests to recover performance pay in the past and it should do so
2 again in this rate case.

3 **Q. Do you agree with OCA witnesses Bents and Kruger that IPL customers are**
4 **not receiving the full value and benefits of recently installed AMI meters?**

5 A. Yes. OCA witnesses Blake J. Kruger and Scott C. Bents note that IPL's AMI
6 meters have many the capacity to provide additional customer benefits but IPL is
7 not investing the requisite resources to provide them. In fact, Mr. Bents refers to
8 IPL's response to the DAG Data Request No. 6¹, which states in relevant part that
9 "IPL has not conducted any type of an analysis on the type and cost of additional
10 resources" required to "provide granular usage information to customers, enabling
11 their enhanced understanding of usage patterns, and resulting in a better ability to
12 manage their energy usage." I agree with Mr. Bents that "Customers should not
13 be required to pay for the extra functionality of AMI (versus AMR) until the extra
14 functions are evaluated and deployed through appropriate programs for the benefit
15 of IPL's customers." (Bents Direct, 13)

16 On the basis of this shared finding, Mr. Kruger "proposes the removal of
17 approximately \$48 million of rate base related to IPL's investment in AMI. This
18 disallowance on IPL's AMI investment is appropriate at least until IPL can
19 demonstrate its investment in AMI is fully used and useful and providing the full
20 benefits to customers." (Kruger Direct, 2) I am inclined to agree with Mr. Kruger
21 but note the significant gap between IPL's rhetoric and reality in my Direct
22 Testimony regarding the benefit of AMI meters to customers. For this reason, I

¹ Filed with my Direct Testimony as Martin-Schramm Direct Exhibit 8.

1 stand by my suggestion that the Board not include any revenue requirement for
2 AMI meters in this rate case.

3 In addition, I urge the Board also to give careful consideration to the claims by
4 Lipman witnesses Timothy D. Schoechle and Frederick Swartz that the customer
5 costs related to IPL's AMI installations actually outweigh the customer benefits.

6 **Q. Do you think IPL's PTC carryforwards should be included in the revenue**
7 **requirement?**

8 A. No. IBEC witnesses Maurice Brubaker and Greg R. Meyer provide excellent
9 historical background to this key issue. Mr. Brubaker "strongly recommend[s]
10 that IPL's proposal to earn a full rate of return on the PTC carryforwards be
11 rejected." (Brubaker Direct, 12) Mr. Brubaker continues:

12 One possibility is to allow IPL to earn the cost of debt on the
13 carrying charges. This would provide some compensation for the
14 carrying cost but would not reward IPL stockholders for failure to
15 anticipate and recognize, and disclose and quantify in the two
16 certification cases, the adverse impact of the PTC carrying charges
17 on project economics.... Note that even with this lower level of
18 return on PTC carryforwards, the cumulative of the projects is
19 barely breakeven. (Brubaker Direct, 12)

20
21 OCA witnesses Blake Kruger and Helmuth W. Schultz also address this matter.

22 Mr. Kruger points out:

23 The issue of deferring PTCs for ratemaking purposes only became
24 apparent to OCA during the analysis of IPL's 2017-rate case in
25 Docket No. RPU-2017-0001. OCA based its review of New Wind
26 I upon the presupposition that IPL ratepayers would realize the full
27 value of PTCs and not finance the cost of them through rate base. .
28 . . (Kruger Direct, 89)

29
30 Mr. Schultz concludes:

31
32 The Company should not earn a profit on the unused PTCs from its
33 own tax planning and wind facility financing decisions. At a

1 maximum, the carrying charges on the PTC balance should be no
2 more than the cost of debt authorized in this proceeding. Since the
3 Company is not able to utilize the credits due to its own poor tax
4 planning decisions and NOL situation, they should not earn a profit
5 on the PTCs. (Schultz Direct, 26)
6

7 I agree that the Board should limit any inclusion of IPL's PTC carryforwards in
8 the revenue requirement to the cost of debt, but I would prefer the Board deny any
9 rate of return to IPL due to its lack of transparency and poor tax planning.

10 **Q. Do you think CWIP should be included in IPL's revenue requirement?**

11 A. No. Several intervenor witnesses agree.

12 Walmart witness Steve W. Chriss writes:

13 Walmart opposes the inclusion of CWIP in rate base and
14 recommends that the Board reject the Company's proposal. If the
15 Board does approve the inclusion of CWIP in rate base, Walmart
16 recommends that the Board recognize that including CWIP in rate
17 base favors the Company and its investors by shifting risk onto
18 customers and reducing uncertainty of cost recovery. This reduced
19 investor risk should be reflected in the Board's consideration of
20 ROE in this case. (Chriss Direct, 5)

21 IBEC witness Greg R. Meyer writes:

22 IBEC is opposed to the inclusion of CWIP in rate base for
23 calculating IPL's final cost of service for several reasons. First,
24 CWIP by its very nature suggests that ratepayers would be required
25 to pay a full rate of return on investment that is not providing any
26 service to those current customers. CWIP is not a used and useful
27 investment which should be included in rate base. Second, CWIP
28 should not be recognized in a future test year. By including CWIP
29 in rate base for a future test year, the regulator is essentially
30 lengthening the forecasted test year to an even longer period. If one
31 assumes that the CWIP balance would eventually become plant-in-
32 service, including CWIP in a future test year essentially moves the
33 forecasted test year out to recognize plant-in-service at some later
34 future date. The forecasted test year in this case is the 12 months
35 ending December 31, 2020. IPL does not need to expand the test
36 year beyond that period of time. Third, while CWIP has been
37 recognized in historical test years to address the concern of
38 regulatory lag, when dealing with a forecasted test year regulatory

lag is already minimized or some would argue totally eliminated. Therefore, including CWIP in rate base is not necessary to address regulatory lag.” (Meyer Direct, 11-12)

OCA Witness, Marcos Munoz, writes:

I oppose IPL’s CWIP in rate base adjustment . . . as it violates the used and useful principle, contradicts Iowa’s and most states’ ratemaking practices, exacerbates the risk transferability from IPL to its customers when used in the context of a future test period, and provides no additional benefits to customers. (Munoz Direct, 6)

Finally, by IPL’s own admission in its response to OCA Data Request No. 62, filed with this Rebuttal Testimony as Martin-Schramm Rebuttal Exhibit 1, the company is not aware of any rate-regulated utility in Iowa that has been permitted by the Board to include CWIP in rate base.

For all of these reasons the Board should deny IPL’s request to include CWIP in the revenue requirements for this rate case.

Q. Do you think the Board should approve IPL’s proposed changes to the EECR?

A. No. ELPC/IEC witness, Karl A. Rabago explains how IPL’s revision of the EECR and RTS tariffs is at best unclear and, at worst, deceptive. (*See* Rabago Direct, 49-63) IPL proposes to apply the EECR charge *both* to delivered kWh and to an assumed level of self-generated kWh that the customer uses on site. Personally, I find the latter ludicrous. Why not do the same for those who invest in energy efficiency? Rabago concludes:

The Company’s proposed changes in the EECR Rider, and in the RTS Rider—discussed later in this testimony, constitute one of the most outrageous violations of sound cost-of-service rate making that I have seen in nearly 30 years working in the industry. The Company’s statutory argument is ridiculous and unsupported by a

plain reading of law. The method of calculating the proposed charge bears absolutely no relationship to costs experienced by the Company. The proposed charge is discriminatory, unjust, bad rate making, and bad policy, as well.” (Rabago Direct, 53)

ELPC/IEC witness, Kerri Johannsen, adds the following:

These proposed changes to Rider RTS and Rider EECR will negatively impact existing and future distributed generation customers and are inconsistent with Iowa statute and the goals of the net metering pilot tariffs required in Docket No. NOI-2014-0001.
(Johannsen Direct, 16)

The changes proposed by IPL to Rider RTS and Rider EECR constitute unjust and unlawful discrimination based on the customer’s use of renewable energy. Treating customers with renewable generation differently than customers reducing their energy use in some other way is discriminatory and inconsistent with Section 476.21. (Johannsen Direct, 20)

I agree with Johannsen and Rabago that the current EECR and RTS riders should not be changed and that IPL’s related proposals should be rejected by the Board.
I note that DAG witness, David Osterberg, presents several additional arguments opposing the RTS rider in his direct testimony.

Q. Do you think the Board should approve IPL’s proposed ICR?

A. No. I agree with LEG witness Robert J. Latham that IPL’s “ICR proposal should be summarily rejected. IPL has presented no analysis of how this proposal would be beneficial to other customer classes.... ” (Latham Direct, 8-9) To the contrary, Latham explains well how IPL’s proposed ICR rate would be quite discriminatory toward existing customers:

IPL has a significant number of existing industrial customers that are considering shifting their electric usage from IPL at existing sites or to other sites off IPL’s system. However, this proposal only mentions ICR rate usage at IPL’s own economic development site so that site would become more competitive in attracting very large

1 industrial customers. Offering such ICR rates to existing customers
2 is not even suggested in this proposal, even though IPL knows that
3 it is likely to be losing such customers. This proposal has benefits
4 that inure to IPL in the value of the economic development site
5 while the existing customers are left to face IPL's high rates on
6 their own." (Latham Direct, 9)

7
8 OCA witness, Sheila Parker, supports Latham's testimony. She claims: "As of
9 April 12, 2019, there were no confirmed projects at any of IPL's three economic
10 development sites at Cedar Rapids, Ames, or Ottumwa." (Parker Direct, 28) I lift
11 up these excerpts as further evidence to support the claim I made in my Direct
12 Testimony that IPL's high rates for industrial customers has given communities
13 served by MidAmerican a major economic advantage over communities served by
14 IPL. (Martin-Schramm Direct, 7-8)

15 **Q. Do you think the Board should require IPL to phase out most or all of their**
16 **existing coal facilities, which is proposed by Sierra Club witness, Paul**
17 **Chernick, and by ELPC/IEC witness, Uday Varadarajan?**

18 A. Yes, if the Board determines that they are uneconomic to continue operating.
19 That said, I encourage the Board to open a new docket to study the economic
20 impact such plant closures would have on affected communities and to promote
21 economic transition planning. Speaking for Luther College's Center for
22 Sustainable Communities, I know we would welcome the chance to participate in
23 such a docket since IPL's plant in Lansing, Iowa is only 38 miles from our
24 campus. As a board member of I know WED as well as our colleagues in the
25 newly established Allamakee Energy District (covering Allamakee County,
26 including Lansing) would welcome the chance to participate in such a docket.

27 **Q. Does this conclude your Rebuttal Testimony?**

1 A. Yes.

AFFIDAVIT OF JAMES B. MARTIN-SCHRAMM

STATE OF IOWA :
 :
COUNTY OF WINNESHIEK : **SS:**

I, James B. Martin-Schramm, being first duly sworn on oath, depose and state that I am the same James B. Martin-Schramm identified in the foregoing Direct Testimony, that I have caused the Testimony to be prepared and am familiar with the contents thereof, and that the Direct Testimony is true and correct to the best of my knowledge, information and belief as of the date of this Affidavit.

/s/ James B. Martin-Schramm
James B. Martin-Schramm

Subscribed and sworn to before me, a Notary Public in and for said County and State this 15th day of August, 2019.

/s/ Rachel Moser
Notary Public

[Seal]

My commission expires on July 13, 2021.