

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

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<b>IN RE:</b>  <b>INTERSTATE POWER AND LIGHT COMPANY</b>	<b>DOCKET NO. RPU-2021-_____</b>
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**APPLICATION FOR ADVANCE RATEMAKING PRINCIPLES,  
WAIVER OF REORGANIZATION REQUIREMENTS, AND LIMITED WAIVER OF  
ENERGY ADJUSTMENT CLAUSE REQUIREMENTS**

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Interstate Power and Light Company (IPL), for its Application for Approval of Advance Ratemaking Principles for the Addition of Solar Generation and Energy Storage Resources, Request for Waiver of Reorganization Requirements, and Request for Limited Waiver of Energy Adjustment Clause Requirements, pursuant to Iowa Code section 476.53, 199 IAC Chapter 41, Iowa Code section 476.77(4), and 199 IAC 1.3 (Application), states as follows:

## **I. INTRODUCTION**

IPL is proposing Advance Ratemaking Principles, included as Attachment A to this Application, that would allow IPL to benefit its customers and the state of Iowa with a unique opportunity to add 475 MW of solar generation and battery energy storage to IPL's generating portfolio in 2023 and 2024. These renewable resource additions will help meet the capacity needs of IPL's customers and support the reliability of IPL's generating fleet, all while boosting economic development, continuing IPL's transition to cleaner sources of energy and capacity, and further solidifying Iowa's status as a national leader in renewable energy.

IPL's need for 475 MW of solar and energy storage is demonstrated primarily by IPL's Iowa Clean Energy Blueprint, a resource planning evaluation consistent with the settlement between IPL, the Office of Consumer Advocate, and intervenors in IPL's last electric rate case proceeding in Docket No. RPU-2019-0001. The Iowa Clean Energy Blueprint demonstrates the potential for customers to avoid significant costs through a combination of coal generation retirement, continued energy efficiency, and the addition of utility-scale and distributed solar generation and energy storage. *In re Interstate Power and Light Co.*, "Alliant Energy's Iowa Clean Energy Blueprint: 2020 Resource Planning" (Iowa Clean Energy Blueprint), at 1, Docket No. RPU-2019-0001 (Nov. 20, 2020). The

Iowa Clean Energy Blueprint identifies the need for 400 MW of nameplate capacity, which can be most cost-effectively met with additions of solar generation to IPL's fleet. Supplemental analysis performed since the Iowa Clean Energy Blueprint was completed shows that the addition of 75 MW of energy storage, paired with a portion of the 400 MW of solar generation, would also be cost-effective and would support the reliability of IPL's fleet.

This unique opportunity arises, in part, from the recent retirement of the Duane Arnold Energy Center (DAEC), a nuclear generating facility owned by an affiliate of NextEra Energy Resources, LLC (NextEra), a global leader in the renewable energy market. DAEC was damaged during the August 10, 2020 derecho storm, and as a result, NextEra suspended operations early in anticipation of its pre-existing plans to retire the facility at the end of 2020. At that time, NextEra was already in the process of developing one solar project at that location, but now NextEra intends to re-purpose the interconnection capacity available from the shutdown of DAEC to construct additional solar generation and battery energy storage at that point of interconnection. These projects are targeted to achieve commercial operation in 2023 and 2024, which will require significant financial commitments toward construction in 2022.

IPL has executed agreements with NextEra for IPL's acquisition of two solar projects and a utility-scale battery energy storage system (BESS) project at DAEC. Specifically, IPL is proposing to acquire: 1) a 50 MW solar development known as Duane Arnold Solar I, which has an existing generator interconnection agreement (GIA); and 2) a 150 MW solar development co-located with a 75 MW BESS for a total of 225 MW of nameplate capacity, known as Duane Arnold Solar II, which would replace a portion of the interconnection capacity now available at the DAEC facility (Duane Arnold Solar I and

Duane Arnold Solar II, each a Project and, collectively, the Duane Arnold Solar Projects). The Duane Arnold Solar Projects total 275 MW of nameplate capacity.

In addition to the Duane Arnold Solar Projects, IPL intends to develop or acquire additional solar projects to help meet the capacity and energy needs of its customers. IPL is active in the solar development market in Iowa and is in the process of developing solar and battery energy storage projects, having established several interconnection queue positions for potential projects with the Midcontinent Independent System Operator (MISO). Accordingly, IPL is targeting an additional 200 MW (nameplate) of solar projects to complete IPL’s planned 475 MW investment in solar and energy storage (the Duane Arnold Solar Projects together with additional solar projects are hereinafter referred to collectively as the Projects).

**Table 1. IPL’s Planned Addition of Solar and Storage Projects**

<b>Project</b>	<b>Type</b>	<b>Size</b>	<b>Interconnection</b>	<b>COD</b>
Duane Arnold Solar I	Solar	50 MW <sub>AC</sub>	Existing GIA	Q4 2023
Duane Arnold Solar II	Solar	150 MW <sub>AC</sub>	Generator Replacement Capacity	Q4 2024
	Battery	75 MW <sub>AC</sub> / 4-hr duration		
Developer(s) (TBD)	Solar	200 MW <sub>AC</sub>	TBD	Q4 2024
<b>Total</b>		<b>475 MW<sub>AC</sub></b>		

*IPL’s Collaboration with NextEra.* Based on its due diligence and experience, IPL has determined that NextEra is a logical partner to assist with a portion of IPL’s planned addition of solar and storage projects to its generating portfolio. NextEra is a proven and experienced developer of renewable energy resources in Iowa and globally, and IPL and NextEra have had a long history of collaborating to provide carbon-free sources of energy

and capacity to IPL's customers. A NextEra affiliate, NextEra Duane Arnold (NEDA) currently owns DAEC. The retirement of DAEC and the resulting excess transmission capacity available to the Duane Arnold Solar Projects provides another opportunity for collaboration that will add low-cost renewables to IPL's portfolio by re-purposing the existing interconnection rights at DAEC. Further, the existing DAEC facility is an ideal location in IPL's service territory for additional renewable generation given its access to transmission and load in the Cedar Rapids area. And, as IPL collaborates with NextEra, IPL continues its work with other developers to identify solar projects for the balance of IPL's planned resource additions, targeting projects with low transmission costs and an advanced development status.

Procedural Schedule. The success of the Projects depend, in part, on the Iowa Utilities Board's (Board) timely resolution of IPL's Application as well as NextEra's request for a siting certificate under Iowa Code Chapter 476A in Docket No. GCU-2021-0002 and Docket No. GCU-2021-0003 (the GCU Proceedings). To maintain the value of the Projects for IPL's customers and to help ensure that the Projects are able to achieve commercial operation in 2023 and 2024, IPL proposes a procedural schedule, attached as Attachment B to this Application, that achieves a resolution and order from the Board on or before September 1, 2022. NextEra has requested a resolution of the closely-related GCU Proceedings on approximately this same timeframe, and thus it would be efficient for the Board to resolve both proceedings concurrently.

The Board's issuance of an order on the proposed Procedural Schedule in Attachment B, coupled with its timely resolution of the GCU Proceedings, will provide IPL and NextEra with certainty regarding this substantial investment in renewable generation for IPL's customers, facilitating NextEra's development and construction of the Projects

and IPL's acquisition of those Projects from NextEra. A timely resolution will also facilitate IPL's efforts to cost-effectively construct projects comprising the balance of IPL's planned solar additions. Thus, IPL, the Board, and stakeholders should act quickly and deliberately to realize the benefits of IPL's planned solar and storage additions and move Iowa toward a cleaner energy future.

*Benefits for IPL's Customers.* IPL's planned additions of solar and storage, including the acquisition of the Duane Arnold Solar Projects, offer three key benefits for IPL's customers.

First, IPL will add 475 MW of nameplate capacity in the form of solar generation and energy storage. IPL's collaborative resource planning analysis, reflected in the Iowa Clean Energy Blueprint, determined that 400 MW of solar is needed to reliably serve IPL's customers and replace IPL's retiring coal capacity. These renewable energy facilities will be online in 2023 and 2024, shortly after IPL's retirement of the Lansing Generating Station, and will have no fuel costs and low operation and maintenance costs compared to fossil generation. And, IPL's proposal to include a 75 MW utility-scale BESS will offer additional capacity and enhance the reliability benefits and output of a portion of the solar generation. Importantly, the utility-scale BESS is consistent with Iowa's goals for the increased deployment of energy storage and will bring the benefits of this proven and fast emerging technology to the state's economy and IPL's customers. (See Synapse Energy Economics, Inc., *Energy Storage in Iowa: Market Analysis and Potential Economic Impact*, at 13-14, 36, 38-40 (Dec. 15, 2020); see also Iowa Energy Office, *Energy Storage Action Plan* (May 2019)).

Second, similar to other electric utilities in recent years, IPL intends to reduce the overall capital cost of these new renewable resource additions by leveraging tax equity

investment to efficiently monetize federal tax incentives, namely, accelerated tax depreciation and the federal investment tax credit (ITC). IPL intends to ensure that the Projects will qualify for the 26 percent ITC by commencing construction of the projects prior to the end of 2022 through the ITC “safe harbor.”<sup>1</sup> Similar to other electric utilities and energy developers, IPL currently lacks the ability to immediately realize these tax benefits, but large taxpaying corporations like banks and insurance companies can take full and immediate advantage of accelerated depreciation and the ITC in exchange for a substantial investment in the Projects. Acquiring and developing the Projects through tax equity financing on the terms described in this Application is expected to save customers approximately \$187 million in nominal dollars (approximately \$49 million on a present value revenue requirement basis), relative to a situation in which IPL acquired the projects without tax equity financing. For these reasons, tax equity financing is currently the best means for IPL to cost-effectively transition its generation fleet to cleaner energy sources and optimize the value of the Projects for its customers.

Third, the Duane Arnold Solar Projects are expected to have only modest transmission costs. Specifically, Duane Arnold Solar I already has a GIA that indicates the Project will require relatively low interconnection costs and no transmission network upgrades, making this Project unique among renewable energy developments in Iowa. Duane Arnold Solar II (which includes the BESS) will re-purpose existing interconnection capacity at the retiring DAEC facility with minimal interconnection costs and network upgrades, reducing interconnection cost uncertainty for that Project and highlighting the transmission cost benefits associated with the Duane Arnold Solar Projects. Combined

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<sup>1</sup> CONSOLIDATED APPROPRIATIONS ACT, 2021, PL 116-260, at 2439, December 27, 2020, 134 Stat 1182; Beginning of Construction for the Investment Tax Credit under Section 48, 2018-28 I.R.B. 196 at 3 (2018), <https://www.irs.gov/pub/irs-drop/n-18-59.pdf>.



with IPL's innovative proposal to leverage tax equity financing, re-purposing the interconnection capacity at DAEC will allow IPL to diversify its generation fleet with utility-scale solar generation and energy storage, avoid transmission costs typically associated with new energy projects in Iowa, and support the local community and Iowa as a whole with added economic development.

IPL's Clean Energy Vision. IPL's proposal for up to 475 MW of solar and storage projects is a continuation of IPL's clean energy vision, which is consistent with Iowa's forward-looking energy and environmental policies. Iowa's expressly stated policy is to "encourage the development of alternate energy production facilities ... in order to conserve our finite and expensive energy resources and to provide for their most efficient use." Iowa Code § 476.41. Likewise, Iowa's goal is "to encourage the development of renewable electric power generation." *Id.* § 476.53A. And, Iowa's Energy Storage Action Plan recommends that Iowa policymakers support the energy storage industry, stating that "[p]olicymakers should feel encouraged to advance supportive storage specific policy proposals to further attract and grow the industry to Iowa." (Energy Storage Action Plan at 14) The Projects, combined with IPL's additions of 1,300 MW of utility-owned wind and over 500 MW of renewable power purchase agreements, are expected to bring IPL's total renewable energy portfolio to nearly 50 percent of IPL's total nameplate capacity beginning in 2025, and are an important part of Alliant Energy's goal to achieve net-zero carbon emissions by 2050.

Stakeholder Outreach. During the Iowa Clean Energy Blueprint stakeholder process throughout 2020, IPL conducted outreach with interested stakeholders on IPL's resource needs. In addition, IPL met with stakeholders in advance of filing this Application to discuss the general scope and timing of the Projects and provide a general overview

of IPL's proposed Advance Ratemaking Principles and Procedural Schedule, with the goal of facilitating the Board's and the parties' timely and efficient review of IPL's Application.

## **II. REQUIREMENTS FOR RATEMAKING ELIGIBILITY**

IPL satisfies the statutory requirements for eligibility for advance ratemaking principles. First, IPL is proposing to construct "alternate energy production" (AEP) facilities within the meaning of Iowa Code sections 476.53(3)(a)(1) and 476.42(1)(a)(1), which includes solar generating facilities and, as explained below, energy storage co-located with solar facilities. Second, in accordance with Iowa Code section 476.53(3)(c)(1), IPL has in effect a Board-approved Energy Efficiency Plan as required by Iowa Code sections 476.6(13) and (15). Third, as demonstrated by the Iowa Clean Energy Blueprint and in the direct testimony of IPL witness Brent R. Kitchen, IPL has considered other sources for long-term electric supply and demonstrated that the Projects are reasonable when compared to other feasible alternative sources of supply. Finally, this Application satisfies the requirements of the Board's recently adopted rules governing advance ratemaking proceedings at Iowa Administrative Code Chapter 41. IPL's compliance with these requirements is discussed further below, as well as in the testimony and supporting exhibits of IPL witnesses Mayuri N. Farlinger (Director of Operations), Ben Lipari (Resource Development), Brent R. Kitchen (Resource Planning), Michael L. Gresens (Tax Equity), Neil E. Michek (Financial Analysis), and Bente Villadsen (The Brattle Group, ROE).

### **A. The Projects are Eligible for Advance Ratemaking Treatment as Alternate Energy Production Facilities.**

The Projects are among the types of generating facilities eligible for advance ratemaking principles. Iowa Code section 476.53(3)(a) provides that the Board shall

“specify in advance, by order issued after a contested case proceeding, the ratemaking principles that will apply when the costs of the electric power generating facility or alternate energy production facility are included in regulated electric rates whenever a rate-regulated public utility ...: (1) (a) Files an application pursuant to section 476A.3 to construct in Iowa... an alternate energy production facility...”<sup>2</sup> An alternate energy production (AEP) facility is defined to include solar facilities. Iowa Code § 476.42(1)(a)(1). In addition, the Board’s rules at Chapter 41 specifically permit advance ratemaking for energy storage facilities located at the site of an AEP facility. In its final rulemaking, the Board stated:

Iowa Code § 476.53(3)(a) provides a discrete list of the types of electric generating facilities which are eligible for ARPs, including AEP facilities. AEP facilities are defined at Iowa Code § 476.42. They include several specific types of electric generating facilities, as well as “land, systems, buildings, or improvements that are located at the project site and are necessary or convenient to the construction, completion, or operation of the facility.” Energy storage systems located at the site of an AEP facility meet this definition because they are located at the project site and are convenient to the operation of the facility.

*In re Rulemaking for Ratemaking Principles Proceeding [199 IAC Chapter 41], “Order Adopting Rules,”* at 3, Docket No. RMU-2019-0041 (Sep. 3, 2020).

**B. IPL is Implementing its Board-Approved Energy Efficiency Plan.**

IPL has in effect a Board-approved Energy Efficiency Plan as required by Iowa Code section 476.6(13) and (15). IPL’s current five-year Energy Efficiency Plan (2019-2023) was initially approved by the Board on March 26, 2019. The Board has accepted IPL’s compliance filings, including the annual reports that IPL files on plan performance each year, since the Board’s approval of the Energy Efficiency Plan. IPL’s Energy Efficiency Plan includes 13 energy efficiency programs, two demand response programs

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<sup>2</sup> With respect to the Duane Arnold Solar Projects, NextEra has filed an application pursuant to Iowa Code section 476A.3. NextEra initiated the GCU Proceedings on November 2, 2021.

and a demand response pilot, and five other funding, outreach, education, and training initiatives. Based on IPL's 2020 Annual Report, IPL achieved electric savings of over 108 million kilowatt-hours, representing 0.78 percent of 2020 annual electric sales. IPL achieved peak demand reductions of 19.5 MW from energy efficiency and over 31 MW from ongoing load management programs, for a total peak impact of over 50 MW from all program participants. IPL continues to implement its approved Energy Efficiency Plan.

**C. IPL's Analysis of Alternatives for Long-Term Electric Supply Shows that the Projects are a Reasonable Resource Addition to IPL's Generating Fleet.**

IPL has conducted a thorough analysis of alternative sources of long-term electric supply to its customers as part of the Iowa Clean Energy Blueprint. Filed with the Board on November 20, 2020 following a year-long stakeholder process involving Board staff, the Officer of Consumer Advocate, and intervenors in IPL's last electric rate case proceeding, the Iowa Clean Energy Blueprint is a collaborative resource planning effort that informs IPL's plan to meet its customers' needs for affordable, reliable, and environmentally sustainable energy. The Iowa Clean Energy Blueprint process and results are described in more detail in the direct testimony of Mr. Kitchen.

The Iowa Clean Energy Blueprint analysis supports, among other conclusions, the acquisition of up to 400 MW of solar capacity, which will replace retiring coal capacity and take advantage of the federal ITC providing long term benefits to IPL's customers. (Iowa Clean Energy Blueprint at 1) Supplemental analysis performed since the Iowa Clean Energy Blueprint was filed demonstrates that the addition of 75 MW of energy storage, paired with 400 MW of solar generation that qualifies for the 26 percent ITC, would support the reliability of IPL's generating fleet.

### III. APPLICATION REQUIREMENTS FOR ADVANCE RATEMAKING PRINCIPLES

#### A. Project Information

##### 1. Nameplate Capacity, Project Development, and Transmission

The Projects consist of: 1) the 50 MW Duane Arnold Solar I Project; 2) the 150 MW solar development and 75 MW BESS, known as Duane Arnold Solar II Project; and 3) one or more other solar projects developed or acquired by IPL comprising approximately 200 MW, for a total nameplate capacity of 475 MW.

Both the Duane Arnold Solar I and II Projects will be located in the vicinity of the existing DAEC facility near the City of Palo and north of the City of Cedar Rapids, in Linn County, Iowa. Duane Arnold Solar I is situated on land currently owned by a NextEra affiliate, such that the majority of land rights for that Project have been secured. Site maps showing the location of the Projects attached as Exhibits 1 and 2 to the direct testimony of Mr. Lipari. Duane Arnold Solar I has an executed GIA with a point of interconnection at the Duane Arnold 345 kV substation. NextEra is currently in the process of obtaining state and local permits for Duane Arnold Solar I in accordance with the terms of a purchase and sale agreement between IPL and NextEra.

Duane Arnold Solar II is currently under development by NextEra and is in the process of securing land rights and local permits. Including the 75 MW BESS, this Project is part of NextEra's efforts to develop "replacement generation" subject to the terms of the MISO Open Access Transmission, Energy and Operating Reserve Markets tariff, which permits the replacement of aged or uneconomic generating resources with new equipment and technology at the same point of interconnection using a streamlined interconnection process (the MISO Generator Replacement Procedure). *In Re Midcontinent Indep. Sys. Operator, Inc.*, 167 FERC ¶ 61146 (May 15, 2019); MISO, *FERC*

*Electric Tariff: Attachment X Generator Interconnection Procedures (GIP)*, Sections 3.7.1 & 3.7.5 (Oct. 31, 2021). A key benefit of the MISO Generator Replacement Procedure is the expedited interconnection and transmission study process and the ability to leverage existing interconnection rights. This process is a key part of the reason that Duane Arnold Solar II is expected to have low transmission and interconnection costs for IPL's customers.

As explained in the direct testimony of Mr. Lipari, by adhering to the GIA for Duane Arnold Solar I and the MISO Generator Replacement Procedures applicable to Duane Arnold Solar II, the interconnection of the Duane Arnold Solar Projects will not degrade the adequacy, reliability, or operating flexibility of the transmission system from a regional or local perspective. See 199 IAC 41.3(1)(h).

In addition to the Duane Arnold Solar Projects, IPL is also advancing the development of its own portfolio of solar generation facilities in Iowa, as further described in the direct testimony of Mr. Lipari. And, IPL is actively engaged with solar developers to identify potential acquisitions with advanced development status, low transmission costs, and in-service dates in 2023 and 2024. IPL will diligently pursue those projects, whether its own or those to be acquired from third party developers, that will benefit customers and that are consistent with the advance ratemaking principles proposed by IPL and ordered by the Board in this proceeding.

## *2. Ownership, Transaction Structure, and Financial Commitments*

The Duane Arnold Solar Projects are currently held in their own single-purpose, limited liability project companies: Duane Arnold Solar, LLC and Duane Arnold Solar II, LLC (each, a ProjectCo). Duane Arnold Solar, LLC owns all of the Duane Arnold Solar I assets, and Duane Arnold Solar II, LLC owns all of the Duane Arnold Solar II assets,

which includes the BESS assets. Duane Arnold Solar, LLC and Duane Arnold Solar II, LLC are currently owned by NextEra. IPL continues to perform due diligence on opportunities for the development and acquisition for the balance of the Projects.

a) IPL's Acquisition of Duane Arnold Solar I (50 MW)

IPL and NextEra have executed a purchase and sale agreement (Purchase and Sale Agreement) for the membership interests in Duane Arnold Solar I, LLC. Under the terms of the Purchase and Sale Agreement, the assets to be transferred with Duane Arnold Solar, LLC will include land rights sufficient to site the Project, a fully executed GIA, and all required permits, studies, and reports necessary to authorize construction and operation of the Project. The assets will also include an Engineering, Procurement, and Construction (EPC) agreement and an Operation and Maintenance (O&M) Agreement, each negotiated between IPL and NextEra as part of the transaction for this Project. Shortly after closing, IPL will dissolve the ProjectCo, assume all of the liabilities and assets of the ProjectCo, and cause the NextEra-affiliated EPC contractor to construct the Project.

b) IPL's Acquisition of Duane Arnold Solar II (150 MW solar; 75 MW BESS)

IPL and NextEra have negotiated a build-transfer agreement in which IPL will acquire, upon commercial operation of Duane Arnold Solar II, all of the outstanding membership interests in and assets of Duane Arnold Solar II, LLC from NextEra (the Build-Transfer Agreement). Upon the closing, IPL will acquire a fully operating 150 MW utility-scale solar project and 75 MW BESS, as well as all land rights, permits, interconnection rights, and all other contracts, studies, and reports necessary to operate

Duane Arnold Solar II.<sup>3</sup> NextEra will be responsible for completing all project development activities and for designing, engineering, procuring equipment supply, and constructing the Project in accordance with an EPC Agreement, negotiated between IPL and NextEra concurrently with the build-transfer agreement. After achieving commercial operation, a NextEra affiliate will be responsible for operating and maintaining the Project under the O&M agreement for the Projects.

c) Additional Solar Projects (200 MW)

For the balance of IPL's planned addition of solar generating facilities, IPL intends to use transaction structures that will maximize benefits customers. For example, for IPL's self-developed projects, IPL intends to develop and acquire projects assets (e.g., land rights, interconnection rights, reports and studies) and contribute those assets to a single purpose project entity and wholly-owned subsidiary of IPL. For any projects to be acquired from third party developers, IPL will either acquire the development assets from those developers or acquire 100 percent of the membership interests in one or more single purpose project entities holding the relevant development assets.

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<sup>3</sup> IPL and NextEra are using a build-transfer transaction structure, in part, because the MISO Generator Replacement Procedure prohibits an interconnection request for a generator replacement "until twelve (12) months have elapsed from: (1) the date of any assignment of the Generator Interconnection Agreement applicable to the Existing Generating Facility, or (2) the date of sale or other transfer of such Existing Generating Facility." MISO, *FERC Electric Tariff: Attachment X Generator Interconnection Procedures (GIP)*, Section 3.7.1 (Oct. 31, 2021), available at [https://docs.misoenergy.org/legalcontent/Attachment\\_X\\_-\\_Generator\\_Interconnection\\_Procedures\\_%28GIP%29.pdf](https://docs.misoenergy.org/legalcontent/Attachment_X_-_Generator_Interconnection_Procedures_%28GIP%29.pdf). Such prohibition extends through commercial operation of the replacement generating facility. *Id.* at Section 3.7.5. As a result, NextEra has applied for the replacement generator interconnection positions for Duane Arnold Solar II, and IPL will acquire a majority ownership interest in Duane Arnold Solar II, LLC after that project achieves commercial operation. Further, because Duane Arnold Solar I is not a generator replacement project under the MISO Generator Replacement Procedure, there is no need for a build-transfer transaction structure in which IPL acquires the project at commercial operation. Instead, IPL is permitted to acquire the Project at closing on the purchase and sale agreement, prior to the Project's construction.



d) Tax Equity Partnerships

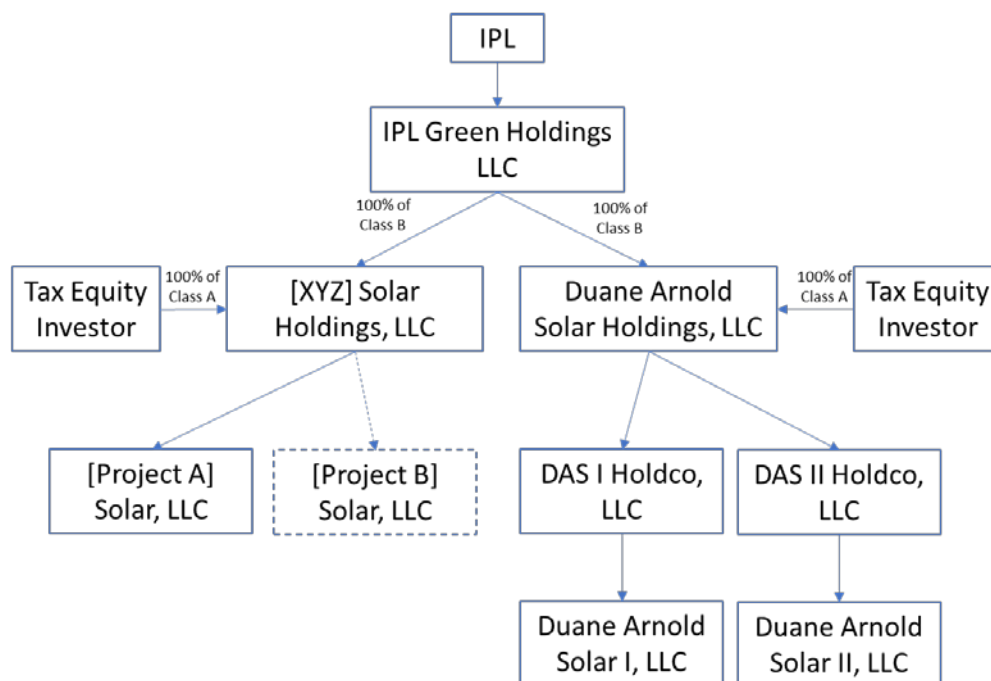
IPL intends to pursue two tax equity partnerships with one or more tax equity investors that will contribute funds to reduce the capital cost of constructing the Projects for IPL's customers. In exchange, the tax equity investor will receive the federal ITC. That partnership will be governed by a limited liability company agreement (LLC Agreement) that will allocate cash distributions, tax incentives, and various other project attributes, and that will create other rights and responsibilities between IPL and the tax equity investor. IPL and the tax equity investor will also enter into an Equity Capital Contribution Agreement (ECCA), which will obligate each partner to contribute capital to purchase membership interests in the tax equity partnership, with the tax equity investor contributing an expected 25-35 percent of the capital necessary for the Project. The tax equity investor will be a passive owner, without any control over the day-to-day operations of the Project. At the present time, IPL intends that Duane Arnold Solar I and II will be held by a single tax equity partnership, which is expected to reduce transaction costs. The balance of the Projects are expected to be held by another tax equity partnership.

Once the tax equity investor's after-tax internal rate of return achieves the target yield specified in the LLC Agreement (likely seven or eight years after the commercial operation date (COD)), the percent allocation of the partnership's tax and cash attributes will "flip", meaning that the tax equity investor's percent allocations of both taxable income and cash distributions would be reduced to approximately five percent. The partnership flip will trigger an option for IPL to purchase the tax equity investor's remaining ownership stake in the tax equity partnership at a fair market value methodology to be provided in the LLC Agreement. IPL expects that it will exercise this purchase option at that time to gain 100 percent ownership of the Projects. As a final step, IPL expects that it will dissolve

its holding company affiliate and will acquire all of the assets and assume all of the liabilities of these entities.

The general transaction structure for the Projects is graphically depicted in Figure 1 below.

**Figure 1: Tax Equity Partnership Structure for the Projects**



The tax equity partnership structure has several benefits for IPL’s customers. First, the use of tax equity, and IPL’s right to buy out the tax equity investors, enables the customer benefits of long-term ownership of the Projects at reduced cost compared to traditional utility ownership. These long-term benefits include an option to repower the Projects when equipment reaches the end of its useful life by taking advantage of the existing GIA for each Project, as well as the substation, roads, land rights, and siting studies, all of which will have already been fully paid for as part of the transactions. Relatedly, with long-term utility ownership, IPL will be able to continue operating the Projects, offering low-cost capacity and energy after the Projects have been fully

depreciated. In addition, by owning the Projects (as opposed to acquiring power purchase agreements), IPL will have the ability to take advantage of future technological developments and cost reductions expected during the life of the Project. And, IPL will have acquired the already low-cost interconnection rights for each Project that will allow IPL to augment the generation and output from the facilities for the benefit of customers.

Second, tax equity investment allows IPL to efficiently monetize the ITC to bring down the capital cost of the Projects for its customers. Federal law currently provides substantial tax incentives—including the ITC and accelerated depreciation—for solar electric generating property. Indeed, IPL has repeatedly taken advantage of congressional extensions of the availability of bonus depreciation, which reduces a company's tax liability below what it would otherwise be under a "typical" tax depreciation schedule. This strategy has directly benefitted IPL's customers through lower rate base. However, these large tax deductions have created a net operating loss (NOL) position. Current federal tax rules limit IPL's ability to use its earned federal tax credits, thus creating tax credit carryforwards. And, federal income tax normalization rules applicable to public utilities mean that, even where IPL is able to use the tax credits, IPL can only share ITC benefits with customers at a ratable reduction of recoverable tax expense over the 30-year life of the solar generation facilities when using traditional utility ratemaking.

The use of tax equity investment directly resolves these issues, allowing IPL to more efficiently monetize the ITC for customers in two ways: 1) by accelerating the timing of when the value of the tax credits can be realized; and 2) by creating partnership allocations of those benefits that are not subject to federal tax normalization rules

otherwise applicable to public utilities.<sup>4</sup> Unlike IPL and other electric utilities, large taxpaying corporations, as tax equity investors, can more efficiently take advantage of accelerated depreciation and the ITC, and in exchange, provide a large portion of the capital needed for a renewable project. Here, acquiring and developing the Projects through tax equity financing on the terms described in this Application is expected to save customers approximately \$187 million in nominal dollars (approximately \$49 million, on a NPVRR basis), relative to a situation in which IPL acquired the Projects under traditional utility ownership.

Although IPL has not yet selected a tax equity investor to participate in financing the Projects, the direct testimony of Mr. Gresens identifies the anticipated range of material commercial terms, in an indicative term sheet included with his testimony and attached to IPL's proposed Advance Ratemaking Principles, on which IPL would expect to transact with any such investor (the Indicative Term Sheet for Tax Equity). IPL is working with several potential partners that are significant investors in tax equity partnerships to gauge market interest in the Projects and identify reasonable terms for a

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<sup>4</sup> Regulated utilities in California, Missouri, and Indiana, as well as Alliant's sister utility in Wisconsin, Wisconsin Power and Light Company, have successfully obtained regulatory approval to finance new renewable energy projects with tax equity investors. See *Application of Wisconsin Power and Light Company for a Certificate of Authority for Acquisition, Construction, Installation, and Operation of Six Solar Electric Generation Facilities in Wisconsin*, Docket No. 6680-CE-182, *Final Decision* (June 24, 2021) (PSC REF#: 414199); See *Verified Joint Petition of Northern Indiana Public Service Company LLC ("NIPSCO") and Indiana Crossroads Wind Generation LLC (the "Joint Venture") for Approval*, Cause No. 45310, Order of the Commission (Ind. Utility Regulatory Utilities Comm'n, Feb. 19, 2020), available at <https://iurc.portal.in.gov/docketed-case-details/?id=fc7d8c21-9df5-e911-a989-001dd800ba25> ; *Verified Joint Petition of Northern Indiana Public Service Company LLC ("NIPSCO") and Rosewater Wind Generation LLC (the "Joint Venture") for Approval*, Cause No. 45194, Order of the Commission (Ind. Utility Regulatory Comm'n, Aug. 7, 2019), available at <https://iurc.portal.in.gov/docketed-case-details/?id=94e9d4bf-5126-e911-814c-1458d04e2938> ; *In Re Empire District Electric Co.*, File No. EA-2019-0010, Report and Order, (Mo. Pub. Service Comm'n, June 19, 2019), available at [https://www.efis.psc.mo.gov/mpsc/commoncomponents/view\\_itemno\\_details.asp?caseno=EA-2019-0010&attach\\_id=2019018837](https://www.efis.psc.mo.gov/mpsc/commoncomponents/view_itemno_details.asp?caseno=EA-2019-0010&attach_id=2019018837); *In Re Application of Liberty Utilities (CalPeco Electric)*, Docket No. 16-12-009, Decision Adopting All-Party Settlement (Cal. Pub. Utilities Comm'n, Dec. 19, 2017), available at <http://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=202084352>; *In Re Application of Liberty Utilities (CalPeco Electric)*, Docket 15-04-016, Decision Approving Settlement Agreement Subject to Conditions (Cal. Pub. Utilities Comm'n, Jan. 22, 2016), available at <http://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=157874237>.

tax equity partnership based on current market conditions. IPL will ensure that any agreements that it ultimately executes with a tax equity investor are materially consistent with these terms and will provide customers with the benefits represented in this Application.

### *3. Construction of the Projects*

NextEra will be responsible for constructing each of the Duane Arnold Solar Projects under the EPC Agreements, which were negotiated at arms' length between IPL and NextEra. The EPC Agreements provide remedies for IPL, including liquidated damages and termination rights, in the event that NextEra is delayed in constructing the Projects or otherwise breaches the agreement. For the balance of the Projects, IPL will select a construction contracting methodology that is beneficial for customers, including through contracting separately through a balance of plant contractor or through an EPC contractor. Those contracts will likewise contain market standard remedies and protections for IPL to ensure that Projects are constructed on time and within budget.

IPL intends to mitigate its cancellation cost exposure through its request for an efficient procedural schedule in this proceeding, and has already mitigated cost risks by negotiating the majority of payment milestones with NextEra that would be due after the Board issues a decision in this proceeding. Nevertheless, the timely resolution of this proceeding is critical to ensuring that IPL can avoid or mitigate cancellation costs associated with commitments for the supply and construction of the Projects during 2022, 2023, and 2024. If IPL cancels development or construction of any portion of the Projects after the Board has awarded advance ratemaking principles, IPL proposes to recover any cancellation costs through the Cancellation Cost Recovery Ratemaking Principle (No. 4), provided IPL satisfies its burden of establishing good cause for cancelling construction

efforts and the prudence of any construction costs incurred and not otherwise reimbursed. This ratemaking principle strikes a balance between IPL's need to mitigate construction risks and the need to protect customers from imprudently incurred costs.

#### *4. Operation of the Projects*

After IPL acquires the Projects, IPL will become the owner, in partnership with the tax equity investor, and operator of each of the Projects. With respect to the Duane Arnold Solar Projects, in accordance with the O&M Agreement negotiated with the Build-Transfer Agreement and Purchase and Sale Agreement, a NextEra affiliate will perform operation and maintenance of the Duane Arnold Solar Projects after their respective commercial operation dates. The O&M Agreement contains an availability guarantee and sets forth liquidated damages and termination remedies for IPL in the event that NextEra fails to meet availability requirements. For the balance of the Projects, IPL intends to survey the market for qualified operation and maintenance services and engage service providers that offer the most competitive pricing and demonstrated ability to maximize the performance of the generating facility.

IPL also intends to enter into several additional agreements related to the tax equity partnership and operation of each of the Projects. These agreements include asset management agreements with the Project entities to provide accounting, legal, management, tax and other overhead services to those ProjectCo's. These agreements also include revenue agreements with each project entity related to the revenue attributes for each of the Projects, including for the sale of energy, capacity, and environmental attributes. In particular, each ProjectCo will sell the energy produced by the respective Project directly to the MISO market and will receive the revenue for such sales (as IPL would if it was the sole owner of the projects). IPL intends to receive the value of the

revenue under a Contract for Differences through the cash distributions to IPL from the partnership, the allocation of which will be addressed in the LLC Agreement.<sup>5</sup>

**B. IPL's Proposed Recovery of its Investments in the Projects and Request for Creation of a Regulatory Asset**

To ensure that customers receive the benefits of IPL's acquisition of the Projects, IPL requests, in accordance with its proposed Tax Equity Ratemaking Principle (No. 7), that the Board approve the creation of a regulatory asset for IPL's net investment in the Projects, including IPL's investment in each tax equity partnership. In a future contested case proceeding, IPL intends to request to include in rate base, either through base rates or the Renewable Energy Rider, its net investment in each tax equity partnership for the Projects by recording those investments in FERC Account 182.3 (Other Regulatory Assets) and recovering those costs in accordance with the Cost Cap Ratemaking Principle (No. 3).

The creation of a regulatory asset consisting of IPL's investment in the Projects is appropriate here. IPL's goal in using tax equity to help finance the Projects is to reduce the revenue requirements associated with the Projects for customers compared to traditional utility ownership. The Projects will not be considered "plant in service" for regulatory accounting purposes until IPL buys out the tax equity investor's interest in the tax equity partnership. Thus, it would be appropriate to provide IPL and its customers with

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<sup>5</sup> A Contract for Differences is a financial instrument that is often used in energy markets to hedge price exposure when a party is not physically transacting in the underlying commodity (in this case, the energy from the Projects). Under the Contract for Differences, IPL would pay to or receive from each project entity the difference between the hedge price and a market price (e.g., MISO Minnesota hub day-ahead prices) for the expected energy production from each of the Projects. That is, IPL would pay the project entity the hedge price, the project entity would pay IPL the market price, and there would be monthly settlements between the two parties, based on the differences between the two prices and the amount of generation covered by the agreement. Ultimately, the net effect of the Contract for Differences on IPL customers is expected to be minimal as payments to (or from) IPL will be mostly offset by a decrease (or increase) in cash distributions from the tax equity partnership to IPL, with the difference lengthening (or shortening) the time it takes the tax equity investor to reach its target yield.

a regulatory mechanism, such as the one presented here, to account for the costs and benefits of its investment in the Projects, including through agreements with the tax equity investor and with each Project entity. The creation of a regulatory asset consistent with the terms in this Application provides that mechanism, promoting transparency for the Board and stakeholders while providing IPL with regulatory certainty as to the recovery of its investment in the Projects.

### **C. Economic Evaluation: Capacity Factor, Cost, and Depreciable Life**

IPL has developed informed estimates and employed conservative assumptions in assessing the Projects' economic benefits for its customers. As shown in the testimony of Mr. Lipari, as well as that of Mr. Kitchen and Mr. Michek, these informed estimates and assumptions, aligned with the advance ratemaking principles proposed by IPL, demonstrate that the Projects are a reasonable resource addition that would meet the energy and capacity needs of IPL's customers.

Capacity Factor and Capacity Accreditation. IPL's estimate of the annual average capacity factor, as well as an anticipated degradation factor for the solar generation facilities, across all solar Projects is contained in the direct testimony of Mr. Lipari. IPL expects an initial MISO accredited capacity of 50 percent for solar. The BESS to be co-located at Duane Arnold Solar II will have an initial accredited capacity of 100 percent, declining consistent with industry expectations over time.

Depreciable Life. Consistent with IPL's proposed Depreciable Life Ratemaking Principle (No. 2), IPL intends to seek recovery of the amortization of its investment in the Projects over the useful life of the Projects. The depreciable life for the solar projects as a whole is expected to be 30 years, and for the BESS, 20 years. As reflected in the proposed Depreciable Life Ratemaking Principle, IPL would be permitted to revise each



depreciable life above, in addition to recovery of costs of removal, in the event an independent depreciation expert provides support for a different useful life and a change in depreciable life is approved by the Board in a contested rate case proceeding.

Cost. Based on IPL's arms' length negotiations with NextEra and IPL's informed estimates of solar and storage project costs in the industry, IPL proposes an overall cost cap of \$1,575/kW for the Projects, which includes the BESS, as set forth in the Cost Cap Ratemaking Principle (No. 3). As explained in more detail by Mr. Lipari, this cost cap includes acquisition of the development rights, equipment supply, construction costs, allowance for funds used during construction (AFUDC) and other financing carrying costs, engineering, project substation, transmission interconnection facilities and network upgrades, owner's costs, and contingency. Importantly, IPL will recover only those costs actually incurred by IPL, which will not include those costs financed by one or more tax equity investors.

#### **D. Non-Cost Factors**

The Projects are expected to benefit IPL's customers, as well as all Iowans, through added economic development, reduced emissions, and further diversification of IPL's generating portfolio with new technology and enhanced system reliability.

Economic Development Benefits. NextEra represents in the GCU Proceedings that the Duane Arnold Solar Projects will provide a significant economic boost to Iowans. These benefits show the economic value of adding solar and storage in the state of Iowa.

Environmental Impacts. The Projects will generate no emissions or effluent discharges, will produce no solid waste, and will not impose upon IPL any significant or ongoing air, water, or solid waste compliance costs. In addition, the emissions-free energy from the Projects will further augment IPL's renewable generation portfolio, which will

reduce overall emissions and provide IPL with flexibility in meeting air quality requirements across its entire fleet. Finally, IPL intends to work closely with NextEra and other third party developers, as applicable, to minimize the environmental impacts of the construction and operation of the Projects, including by ensuring that each developer causes each of the Projects to obtain any required water quality permits to reduce erosion and runoff during construction, secure local permits for traffic and road for transport of equipment and supplies to and from the sites, and to design each of the Projects in accordance with guidance from state and federal wildlife conservation agencies and prudent industry practices. Each developer (including IPL for projects that it is developing) will also be responsible for obtaining and complying with all necessary environmental and land use permits needed for the Projects to minimize any impacts associated with construction of the facilities.

*Decommissioning.* As the owner of the Projects after the closing on each transaction, IPL will be responsible for decommissioning each Project at the end of its useful life using industry best practices. IPL will follow, at a minimum, state and local decommissioning requirements applicable to the Projects, including Linn County, Iowa requirements,<sup>6</sup> which may include recycling of solar components, restoring the surface grade and soil profile of the site to pre-construction condition, removal of all structures including graveled areas and access roads (subject to negotiation and agreement with the landowner), re-vegetation of restored soil areas with crops, native seed mixes, native tree species, and plant species suitable to the area, and a method for ensuring funds will be available for decommissioning activities.

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<sup>6</sup> See Linn County Ord. 107-117(h)(7).

Fuel Diversity, System Reliability, and Security. The Projects will enhance IPL's fuel diversity and are a continuation of IPL's transition of its fleet to cleaner, cost-effective sources of capacity and energy. The Projects will also reduce IPL's need to rely on non-owned, green-house gas emitting, and more costly sources of capacity and energy available in the market. Combined with the Lansing retirement, energy efficiency, demand response measures, and the addition of distributed-scale solar and storage, the Projects will play a central role in an integrated resource plan that offers the potential for customers to avoid significant costs.

#### **E. IPL's Testimony**

IPL offers testimony and schedules of the following witnesses in support of its Application:

- **Mayuri N. Farlinger, Director of Operations, Iowa**, provides an overview of the Projects and how they will benefit IPL's customers by providing cost-effective energy and capacity. Ms. Farlinger summarizes IPL's Board-approved Energy Efficiency Plan and IPL's analysis of alternatives for long-term electric supply, demonstrating that the Projects' eligibility for ratemaking principles under Iowa Code section 476.53.
- **Ben Lipari, Director, Resource Development**, describes the Projects, their nameplate capacity, their expected capacity factors and accredited capacity, and their development and transmission interconnection status. Mr. Lipari also describes the plans and contracting methodology for the construction, operation and maintenance of the Projects. Mr. Lipari supports the Depreciable Life Ratemaking Principle (No. 2), Cost Cap Ratemaking Principle (No. 3), and Environmental Attributes Ratemaking Principle (No. 6).

- **Michael L. Gresens, Strategic Financial Manager**, provides a general overview of IPL's tax strategy, the federal ITC, and how IPL's use of tax equity financing as a source of capital for the Projects can efficiently monetize the federal ITC and reduce the customer cost of the Projects compared to traditional utility ownership. Mr. Gresens also provides the Indicative Term Sheet for Tax Equity, which provides the commercial terms on which IPL would transact with any tax equity investor, and provides an overview of the agreements necessary to operate the projects during the tax equity partnership. Mr. Gresens supports Tax Equity Ratemaking Principle (No. 7).
- **Neil E. Michek, Manager, Financial Planning**, calculates the NPVRR for the Projects and concludes that financing the Projects with tax equity will benefit customers compared to the cost of traditional utility ownership. Mr. Michek describes IPL's request to treat its investment in the Projects and the tax equity partnership as a regulatory asset to be recovered in rate base. Mr. Michek's testimony supports the following proposed ratemaking principles: Cancellation Cost Recovery (No. 4), Treatment of AFUDC and Carrying Costs on Investment During Construction (No. 5), and Matching Principle; Jurisdictional Allocations (No. 8).
- **Brent R. Kitchen, Manager, Resource Planning**, describes IPL's analysis of alternatives for long-term supply and provides an overview of the evaluation and results presented in the Iowa Clean Energy Blueprint along with supplemental analysis performed since the Iowa Clean Energy Blueprint was submitted to the Board. Mr. Kitchen demonstrates that the Projects are a reasonable resource

addition that help meet the needs of IPL's customers for cost-effective energy and capacity and support the reliability of IPL's generating fleet.

- **Bente Villadsen, Principal, The Brattle Group**, supports IPL's proposed ratemaking principle on Return on Equity (No. 1).

#### **IV. ADVANCE RATEMAKING PRINCIPLES**

The foregoing information, along with supporting testimony and schedules, shows that the Duane Arnold Solar Projects are reasonable compared to other alternatives for long-term electric supply and that the Duane Arnold Solar Projects meet the conditions for advanced ratemaking principles under Iowa Code section 476.53. As such, IPL requests that the Board approve the Advance Ratemaking Principles in Attachment A.

#### **V. REQUEST FOR WAIVER OF REORGANIZATION REQUIREMENTS**

In addition to its request for Advance Ratemaking Principles, IPL is requesting a prospective waiver of reorganization requirements in accordance with Iowa Code section 476.77(4) and 199 IAC 1.3. Absent a waiver, IPL's acquisition and construction of the Projects using a tax equity partnership would likely trigger one or more separate, future reorganization proceedings under Iowa Code section 476.77, which could delay and thus jeopardize the tax equity transactions and the viability of the Projects as a whole.

##### **A. Introduction**

The need for this waiver arises from the timing of IPL's acquisition and financing of the Projects using tax equity investment. IPL is unable to file a reorganization proceeding now because, as is customary for renewable energy projects at this stage of development, the tax equity partner for the Projects has not yet been selected and the tax equity partnership is not yet formed. Thus, any reorganization proceeding would have to be filed later in the second half of 2022 or early 2023, when the tax equity transactions

are expected to be nearly complete. However, reorganization proceedings at that time could delay finalizing those tax equity agreements, delay completion of construction, and risk the viability of the Projects as a whole. Further, such additional, duplicative reorganization dockets are neither necessary nor in the public interest because the substance of each of the tax equity transactions is currently before the Board *in this proceeding*. Specifically, IPL is committing in this proceeding to: 1) adhere to the commercial terms in the Indicative Term Sheet for Tax Equity set forth in the direct testimony of Mr. Gresens; and 2) comply with affiliated interest notice and filing requirements in 199 IAC 31.3(1) and (4), as explained below.

Thus, granting a waiver from reorganization requirements in this proceeding will allow IPL to efficiently acquire the Projects using tax equity financing, without the risk of disruption or delay caused by duplicative reorganization dockets in the midst of development and construction of the Projects. For these reasons, and as described further below, the Board's second review of the tax equity partnership terms in later reorganization dockets (after having already reviewed those terms in this proceeding) is neither necessary nor in the public interest. Accordingly, the Board should grant a waiver from reorganization requirements requested here.

**B. Overview of Reorganization Requirements under Iowa Code Section 476.77 and 199 IAC Chapter 32.**

Under Iowa law, the acquisition, sale, lease, or any other disposition, including by merger or consolidation, of the whole or any substantial part of a public utility's assets may constitute a "reorganization" that requires Board approval. Iowa Code § 476.76; 199 IAC 32.1(1). The Board's rules provide that, "[u]nless an application pursuant to Iowa Code section 476.77 and this chapter has been filed or a waiver obtained pursuant to [199 IAC 1.3], no public utility shall *acquire or lease assets*, directly or indirectly, with a

value in excess of 3 percent of a utility's Iowa jurisdictional utility revenue during the immediately preceding calendar year or \$5 million, whichever is greater" and further that "no public utility shall *sell or otherwise dispose of assets*, directly or indirectly, with a value in excess of 3 percent of the utility's Iowa jurisdictional utility revenue during the immediately preceding calendar year or \$5 million, whichever is greater." 199 IAC 32.2(1), (2) (emphasis added).

In its review of a proposal for reorganization, the Board may consider: (a) whether the Board will have reasonable access to books, records, documents, or other information relating to the public utility or any of its affiliates; (b) whether the public utility's ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure, is impaired; (c) whether the ability of the public utility to provide safe, reasonable, and adequate service is impaired; (d) whether ratepayers are detrimentally affected; (e) and whether the public interest is detrimentally affected. Iowa Code § 476.77(3).

The Board may waive the requirements of Iowa Code section 476.77(1) through (3) if "the [b]oard finds that board review is not necessary in the public interest." *Id.* at § 476.77(4); see also 199 IAC 32.8 ("Any public utility or applicant may file an application for waiver of the provisions of this chapter. The application shall include a detailed statement of why review of a proposed reorganization is not necessary or in the public interest."); *Id.* at 32.2(1) (allowing for waiver of reorganization requirements applicable to the acquisition of assets pursuant to 199 IAC 1.3).

In addition, under 199 IAC 1.3, the Board may grant a waiver from a rule adopted by the Board, in whole or in part, if the Board finds, based on clear and convincing evidence, that: 1) the application of the rule would pose an undue hardship on the person

for whom the waiver is requested; 2) the waiver would not prejudice the substantial legal rights of any person; 3) the provisions of the rule subject to the waiver request are not specifically mandated by statute or another provision of law; and 4) substantially equal protection of public health, safety, and welfare will be afforded by a means other than that prescribed in the rule for which waiver is requested. 199 IAC 1.3(b)(1)-(4).

**C. Application of Waiver Criteria under 199 IAC 1.3(b)(1)-(4).**

- 1. Application of reorganization requirements would result in an undue burden on IPL by delaying the tax equity transactions and risking the viability of the Projects.*

Without a waiver granted by the Board, IPL would be subject to duplicative and successive reorganization dockets that could delay the tax equity transactions, the timeline for construction of the Projects, and compliance with regulatory requirements, including the local permits and each GIA for the Projects. A detailed list of the specific agreements that IPL understands would likely be subject to reorganization requirements, and for which IPL seeks a waiver, is included as Attachment C to this Application.

For example, IPL will need to secure tax equity financing prior to mechanical completion of each Project. In order to secure a tax equity investor's commitment to invest in a Project, IPL will need, in the case of Duane Arnold Solar I and other Projects, to transfer the applicable ProjectCo to the tax equity partnership, granting the tax equity investor an interest in the tax equity partnership in exchange for the tax equity investor's capital contribution. Absent a waiver, each Project transfer would trigger a reorganization proceeding. In the case of Duane Arnold Solar II, IPL will acquire an interest in the tax equity partnership with IPL's acquisition of that Project from NextEra after the Project achieves COD, again, on terms in the Indicative Term Sheet for Tax Equity. This transfer to IPL would likewise trigger another reorganization proceeding. Each of these



reorganization proceedings would consume valuable time, delaying the transactions with the tax equity investor and the tax equity investment and jeopardizing the customer benefits of this financing strategy. In addition, without a waiver IPL would also be subject to separate additional proceedings when IPL acquires the remaining membership interests from each tax equity partner under IPL's buy-out options.

Each of these reorganization proceedings will address the same transactions as are presented and described in *this* proceeding and would occur on the same terms that IPL has presented and committed to here. Separate, additional, later proceedings for the Board to review the same tax equity terms again will consume valuable time that could delay the transactions with tax equity investors, delay the capital contributions by the tax equity investors, risk the timely construction and commercial operation of the Projects, and threaten the viability of the Projects as a whole. Equally important, the delay created by each reorganization docket could risk the financial benefits to customers of using tax equity financing for the Projects. Given these risks, such duplicative proceedings are neither necessary nor in the public interest, especially if the Board approves the Advance Ratemaking Principles proposed in IPL's Application, including the Indicative Term Sheet for Tax Equity.

2. *Granting the waiver request will not prejudice the substantial legal rights of any person.*

IPL's customers would not be harmed by the Board's decision to consolidate its review of tax equity terms in this proceeding, rather than conduct subsequent reviews in future reorganization dockets. To preserve the benefits enabled by tax equity financing, IPL is committed to transacting with tax equity investors based on the commercial terms set forth in the Indicative Term Sheet for Tax Equity. In doing so, IPL is providing transparency to the Board and customers regarding the core terms and parameters of

any tax equity agreement and the relative costs and benefits of that agreement for IPL's customers.

In addition, IPL will comply with all affiliated interest filing requirements under 199 IAC Chapter 31 applicable to the agreements that will be necessary to implement the transaction structure for the Projects. These requirements include:

- Notice to the Board. If a new affiliate is created, an existing affiliate is dissolved or merged, or if a contract (or other similar transaction) between a utility and an affiliate is created or terminated, IPL will notify the Board within writing within 30 days. 199 IAC 31.3(4).
- Maintain Separate Records. IPL, its affiliates with an interest in each ProjectCo, and each ProjectCo itself, will maintain separate records and make those records available for Board inspection. The affiliates will maintain records that include (but are not limited to) ledgers, balance sheets, income statements, journal entries, contracts, methods used to allocate revenues, expenses, and investments, and source and supporting documents for all transactions. 199 IAC 31.2(2).
- Contract Filing with the Board. On or before June 30 of each year, IPL will file an executive summary of each new or revised contract, arrangement, or other similar transaction between it and its affiliates, as well as verified copies of such contracts, arrangements, or transactions. 199 IAC 31.3(1).

The affiliated interest agreements subject to these requirements include, for example, IPL's acquisition of membership interests in each ProjectCo, the tax equity partnership LLC Agreement with each tax equity investor, the revenue agreements between IPL and each ProjectCo, and any asset management services agreement between Alliant Energy Corporate Services to provide the full range of accounting and management services to those project entities. A more detailed list of the types of affiliated interest agreements likely to be subject to notice requirements is provided in Attachment C. IPL will file all required notices of such agreements and will file such agreements with the Board in accordance with the requirements of 199 IAC Chapter 31. Thus, customers will not be prejudiced by a waiver of reorganization requirements here.

*3. Reorganization requirements are permitted to be waived by statute.*

A reorganization proceeding is not specifically mandated by statute. Iowa Code section 476.77(4) expressly permits the Board to waive the requirements of Iowa's reorganization statute "if the board finds that board review is not necessary in the public interest." Iowa Code § 476.77(4).

Here, the Board should find that the Board's second, substantive review of tax equity terms in subsequent reorganization dockets is neither necessary nor in the public interest. Tax equity financing reduces the amount of capital investment IPL will include in rate base for the Projects by optimizing the value of federal tax incentives, namely accelerated tax depreciation and the ITC. The range of commercial terms that are material to ensuring these benefits are realized are explained further in the direct testimony of Mr. Gresens and are set forth in the Indicative Term Sheet for Tax Equity attached to IPL's proposed Advance Ratemaking Principles. IPL is committed to selecting a tax equity investor that will transact within those terms. Based on IPL's commitments in the Application and supporting testimony, and IPL's commitment to comply with all affiliated interest filing requirements, it is appropriate for the Board to waive reorganization requirements as neither necessary nor in the public interest.

*4. Substantially equal protection of public health, safety, and welfare will be afforded by a means other than that prescribed by rule for which the waiver is requested.*

IPL's compliance with Advance Ratemaking Principles as ordered by the Board in this proceeding and IPL's compliance with affiliated interest filing requirements will provide substantially equal protection of public health, safety and welfare as compared to separate, repetitive reorganization proceedings for the transactions necessary to implement the Projects. Such separate, later reorganization proceedings could potentially

delay tax equity investment in the Projects, delay IPL's acquisition of the Projects, and risk the viability of the Projects and potentially cause IPL to forgo the benefits of these Projects for its customers and Iowa as a whole.

## **VI. REQUEST FOR LIMITED WAIVER OF ENERGY ADJUSTMENT CLAUSE REQUIREMENTS**

Pursuant to 199 IAC 1.3, IPL requests a limited waiver of energy adjustment clause (EAC) requirements under 199 IAC 20.9, including 199 IAC 20.9(2), and IPL's Rider EAC that otherwise apply to the revenues from the sale of energy generated by the Projects prior to the date on which the costs of the Projects are included in customer rates.

This waiver is necessary to give effect to Advance Ratemaking Principle No. 8 (Matching Principle; Jurisdictional Allocations), which requires that, until the Projects are being recovered in customer rates (either in base rates or in the Renewable Energy Rider), each month 100 percent of the Iowa retail share of net cash distribution benefits from the Projects will be excluded from the EAC. This ratemaking principle and waiver request are intended to align with the matching principle which, consistent with generally accepted accounting principles and as explained in the direct testimony of Mr. Michek, is necessary to ensure that Project costs and benefits align.

Under 199 IAC 1.3, the Board may grant a waiver from the requirements of an administrative rule where: 1) application of the rule would impose an undue hardship; 2) granting the waiver request will not prejudice the substantial legal rights of any person; 3) the rule is permitted to be waived by statute; and 4) substantially equal protection of public health, safety, and welfare will be afforded by a means other than that prescribed by rule for which the waiver is requested. IPL's request satisfies the criteria set forth in 199 IAC 1.3.

First, strict application of 199 IAC 20.9 would impose an undue burden on IPL by requiring that all revenue from the sale of energy by the Projects immediately flow directly to customers through the EAC before the costs of the Projects are recovered in rates. This would mean that customers are receiving all of the benefits of the Projects before IPL is able to recover the cost of the Projects. As a result, and to align with the matching principle, the Board should permit IPL, under Advance Ratemaking Principle No. 8, to retain all net cash distributions and other benefits of the Projects until such time as the cost of the Projects are being recovered in IPL's rates.

Second, granting the waiver request would not prejudice the substantial legal rights of any person. The waiver request and Advance Ratemaking Principle No. 8 simply implements the matching principle and maintains the status quo until the cost of the Projects are being recovered in IPL's rates.

Third, the EAC is not required by statute, and, as a result, the Board may waive the requirements of the EAC as they apply to the Projects until such time as the costs of the Projects are being recovered in rates.

Fourth, substantially equal protection of public health, safety, and welfare will be afforded by a means other than strict application of 199 IAC 20.9. Indeed, this proceeding ensures that stakeholders and intervenors will have the opportunity to review the economic evaluation of the Projects, IPL's proposed accounting treatment for the Projects, and IPL's proposal for the treatment of costs and benefits of the Projects prior to the time the cost of the Projects are being recovered in rates.

Based on the foregoing, IPL respectfully requests that the Board grant IPL's request for a limited waiver of 199 IAC 20.9 and IPL's EAC tariff for the time period from

the date the first of the Projects achieves commercial operation until the date on which IPL is permitted to recover the cost of the Projects in rates.

## **VII. CONCLUSION**

Based on all of the foregoing, IPL respectfully requests that:

1. The Board find that the proposed Advance Ratemaking Principles in Attachment A to this Application are reasonable and consistent with the intent of Iowa Code section 476.53, with the understanding and on the condition that the material commercial terms governing the tax equity agreements will comply with the Advance Ratemaking Principles ordered by the Board and will fall within the range of terms described in the Indicative Term Sheet for Tax Equity.

2. The Board authorize the creation of a regulatory asset for IPL's net investment in the Projects, including IPL's investment in each tax equity partnership, to be recorded in FERC Account 182.3 (Other Regulatory Assets) and recovered in accordance with the Cost Cap Ratemaking Principle (No. 3).

3. The Board waive the requirement for reorganization proceedings under Iowa Code section 476.77(4) and 199 IAC 32.8 in connection with the tax equity transactions for the Projects as neither necessary nor in the public interest, in light of IPL's commitment to adhere to the Indicative Term Sheet for Tax Equity in its acquisition of the Projects, the proposed Advance Ratemaking Principles, and related affiliated interest requirements.

4. The Board grant IPL's request for a limited waiver of the requirements at 199 IAC 20.9, related to IPL's EAC, from the date that the first of the Projects achieves commercial operation until IPL is permitted to recover the cost of the Projects in customer rates.

**WHEREFORE**, for the foregoing reasons, IPL respectfully requests that the Board approve IPL's Application for Advance Ratemaking Principles, Waiver of Reorganization Requirements, and Limited Waiver of Energy Adjustment Clause Requirements.

Dated: November 2, 2021.

Respectfully submitted,

INTERSTATE POWER AND LIGHT COMPANY

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**Attachment A**

**Advance Ratemaking Principles**

	<b>Rate Making Principle</b>	<b>Description</b>
1	Cost of Equity (Bente Villadsen)	The allowed rate of return on common equity capital on the portion of the actual Project costs incurred by IPL under Ratemaking Principle No. 3 (Cost Cap) that are included in Iowa electric rate base, shall be 11.40 percent.
2	Depreciable Life (Ben Lipari)	<p>Solar: The depreciable life of the Projects, with the exception of the Battery Energy Storage System (BESS) equipment, for ratemaking purposes shall be 30 years.</p> <p>BESS: The depreciable life of the BESS for ratemaking purposes shall be 20 years.</p> <p>IPL shall be permitted to revise each depreciable life above, in addition to recovery of costs of removal, in the event an independent depreciation expert provides support for a different useful life and a change in depreciable life is approved by the Board in a contested rate case proceeding.</p>
3	Cost Cap (Ben Lipari)	IPL shall be permitted to include in rates the actual costs of the Projects of up to \$1,575/kW on a cumulative basis for the Projects, inclusive of Allowance for Funds Used During Construction (AFUDC), other deferred carrying costs, all transaction costs, and all costs of transmission network upgrades, upgrades required as a result of Midcontinent Independent System Operator studies, generator tie lines, transmission interconnection and any other appurtenant facilities associated with the foregoing, whether owned by IPL or any other entity, without the need to establish prudence or reasonableness. In the event that actual costs are lower than the projected costs, rates shall recover only actual costs. In the event actual costs exceed the cost cap, IPL shall be required to establish the prudence and reasonableness of any excess before it can be included in rates. The Cost Cap shall include all amounts contributed by a tax equity investor through a tax equity partnership, provided, IPL shall only be permitted to recover from customers those actual costs of the Projects incurred by IPL.
4	Cancellation Cost Recovery (Neil E. Michek)	If IPL cancels construction of any aspect of the Projects for good cause, IPL's prudently incurred and unreimbursed costs shall be deferred until IPL's next electric rate case and amortized over a period not exceeding ten years from the date on which the amortization expense is included in rates.
5	Treatment of AFUDC and Carrying Costs on	IPL shall accrue AFUDC on all construction costs of the Projects recorded to Construction Work in Progress.



	<p>Investment During Construction (Neil E. Michek)</p>	<p>IPL shall accrue carrying costs on those amounts in FERC Account 182.3 (Other Regulatory Assets) using the pre-tax weighted average cost of capital.</p> <p>The AFUDC rate and pre-tax weighted average cost of capital shall be calculated based upon IPL's currently authorized Return on Equity.</p>
<p>6</p>	<p>Environmental Attributes (Ben Lipari)</p>	<p>Subject to Ratemaking Principle No. 8 (Matching Principle), the Iowa jurisdictional portion of any revenues from the sale of renewable energy credits and carbon credits generated by the Projects shall be recorded above-the-line by IPL. IPL's customers shall be entitled to the full value of any renewable energy credits, carbon credits, and environmental emission allowances generated except those needed for compliance with applicable regulatory requirements and that are associated with investment included in IPL's Iowa jurisdictional rate base (Environmental Attributes). IPL shall use commercially reasonable efforts to maximize the value of customer Environmental Attributes associated with the Projects.</p>
<p>7</p>	<p>Tax Equity (Michael Gresens)</p>	<p><u>Investment in Projects:</u> If IPL finances the Projects through one or more tax equity partnerships, any such tax equity financing shall be subject to the terms as presented in the Indicative Term Sheet for Tax Equity, attached hereto and incorporated herein. IPL's net investment in (a) the Projects and (b) the tax equity partnership, including those costs incurred prior to commercial operation of each Project and that are not recorded as Construction Work in Progress, shall be included in IPL's Iowa electric rate base and amortized in accordance with the Ratemaking Principle No. 2 (Depreciable Life), with such amortization to be included within the cost of service component of IPL's Iowa electric revenue requirement.</p> <p><u>Cash Distributions:</u> Subject to Ratemaking Principle No. 8 (Matching Principle), cash distributions from the tax equity partnership to IPL, including energy revenue, will be included in the cost of service component of IPL's Iowa electric revenue requirement. Other revenues and costs associated with affiliated interest agreements between IPL and each Project company will also be included within the cost of service component of IPL's Iowa electric revenue requirement.</p> <p><u>Taxes:</u> Subject to Ratemaking Principle No. 8 (Matching Principle; Jurisdictional Allocations), taxable income or tax losses, as applicable, allocated to IPL from the tax equity partnership that create a deferred tax liability or asset, as applicable, shall be reflected in IPL's Iowa electric rate base.</p>

8	Matching Principle; Jurisdictional Allocations	Until the Projects are being recovered in IPL's rates, each month 100% of the Iowa retail share of net cash distributions benefits from the Projects shall be excluded from IPL's Energy Adjustment Clause (EAC), the Renewable Energy Rider, or any other cost recovery mechanism.
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**Attachment A-1: Indicative Term Sheet for Tax Equity Investment**

<b>Term</b>	<b>Sponsor (IPL) Class B Member</b>	<b>Tax Equity Partner(s) Class A Member(s)</b>
<b>Initial Capital Contribution</b>	65-75%	25-35%
<b>Target Yield (After-Tax)</b>	-	6.0-7.0%
<b>Partnership tax allocations<sup>7</sup></b> Year 1-2 Years 3-6 Year 7-Flip Date <sup>8</sup> (Expect Year 8) Flip Date – DRO Cure Date Thereafter	1% 1-33% [TBD]% [TBD]% 90-95%	99% 67-99% [TBD]% [TBD]% 5-10%
<b>Partnership Cash Distribution</b> Year 1-Flip Date (Expect Year 8) Thereafter	60-85% 90-95%	15-40% 5-10%
<b>Purchase Option</b>	After the flip date, option to purchase 100% of Class A member interests for 100% of their fair market value	None
<b>Creditworthiness</b>	Alliant Guaranty of Sponsor obligations	A-/A3 or better

<sup>7</sup> “Year” refers to a tax year, meaning Year 1 for a project going into service in 12/1/2024 would be the period ending 12/31/2024

<sup>8</sup> The ‘Flip Date’ is the date at which the Tax Equity Partner(s) has achieved its expected return

**Attachment B**

**Proposed Procedural Schedule**

<b>OCA &amp; Intervenor Direct Testimony</b>	March 14, 2022
<b>Rebuttal Testimony</b>	April 11, 2022
<b>Joint Statement of Issues</b>	April 18, 2022
<b>Hearing</b>	Week of May 9, 2022
<b>Simultaneous Briefs</b>	June 15, 2022
<b>Final Decision Requested</b>	September 1, 2022

**Attachment C**

**Agreements Subject to Affiliated Interest and Reorganization Requirements**

<b>Agreement</b>	<b>Purpose</b>	<b>Entities</b>	<b>Timing of Transaction</b>	<b>Affiliated Interest Notice Requirements?</b>	<b>Reorganization Requirements?</b>	<b>Seeking Waiver of Reorganization Requirements?</b>
<b>Dissolution of Developer-Owned Project Company(ies)</b>	Dissolve Developer-formed ProjectCo after Closing of PSA	IPL, Developer-formed ProjectCo	Closing of PSA	Yes	No	N/A
<b>Purchase and Sale Agreement(s)</b>	The purpose of this agreement is to transfer the Project assets from IPL to a new IPL-formed ProjectCo (IPL ProjectCo) at or around mechanical completion.	IPL, IPL ProjectCo	Prior to Mechanical Completion	Yes	Yes	Yes
<b>Formation of IPL Holding Company(ies) and LLC Agreement(s)</b>	This LLC agreement creates membership interests in a newly-formed IPL holding company (IPL HoldCo, formed by IPL Green Holdings, LLC) that will, in turn, hold membership interests in a Project Holding Company (Project HoldCo) that will consist of the tax equity partnership (see below).	IPL, IPL HoldCo	Prior to Mechanical Completion	Yes	Yes	Yes

<p><b>LLC Agreement(s) (Tax Equity Partnership - Project Holding Company)</b></p>	<p>This LLC creates membership interests in Project HoldCo, which is the tax equity partnership, and allocates cash distributions, tax incentives, and other project attributes and rights and responsibilities between IPL HoldCo and the tax equity investor.</p>	<p>IPL HoldCo, tax equity investor</p>	<p>Prior to Mechanical Completion</p>	<p>No</p>	<p>Yes</p>	<p>Yes</p>
<p><b>Equity Capital Contribution Agreement(s) (ECCA)</b></p>	<p>The ECCA obligates the tax equity partner to contribute capital in exchange for membership interests in Project HoldCo and allocates Project HoldCo membership interests between the tax equity investor and IPL HoldCo.</p>	<p>IPL HoldCo, tax equity investor</p>	<p>Prior to Mechanical Completion</p>	<p>No</p>	<p>Yes</p>	<p>Yes</p>
<p><b>Agreement and Plan of Merger</b></p>	<p>This Agreement would enable the merger of tax equity partnerships for Duane Arnold Solar I and II such that IPL will hold membership interests in both ProjectCo's in a single tax equity partnership.</p>	<p>IPL, tax equity investor, Developer</p>	<p>At Commercial Operation of Duane Arnold Solar II</p>	<p>No</p>	<p>Yes</p>	<p>Yes</p>
<p><b>Contract for Differences (CfD)</b></p>	<p>The purpose of the CfD is for IPL and the IPL ProjectCo to enter into a market-based hedge for the pricing of the electricity generated from the Project.</p>	<p>IPL, IPL ProjectCo</p>	<p>Prior to Mechanical Completion</p>	<p>Yes</p>	<p>No</p>	<p>N/A</p>
<p><b>Operations and Maintenance (O&amp;M) Agreement</b></p>	<p>The purpose of the O&amp;M agreement is to define the scope of services that will be provided by IPL or a third party to operate and maintain the Projects.</p>	<p>IPL, IPL ProjectCo</p>	<p>Prior to Substantial Completion</p>	<p>Yes, if IPL is the O&amp;M provider</p>	<p>No</p>	<p>N/A</p>

<b>Asset Management Agreement (AMA)</b>	The purpose of the AMA is for IPL (through AECS) to provide certain overhead services to IPL HoldCo, Project HoldCo, and each ProjectCo.	IPL, Project HoldCo, and IPL ProjectCo	Prior to Substantial Completion	Yes	No	N/A
<b>Zonal Resource Credit/Renewable Energy Credit (ZRC/REC) Agreements</b>	In lieu of a PPA or a direct allocation to IPL through the LLC Agreement, the purpose of the ZRC and REC agreements is to allocate to IPL the ZRCs and RECs created by the ProjectCo.	IPL, IPL ProjectCo	Prior to Substantial Completion	Yes	No	N/A
<b>Membership Interest Purchase Agreement</b>	This Agreement would effect IPL's buy-out of the tax equity investor's interest in the tax equity partnership, allowing IPL to dissolve the tax equity partnership, dissolve IPL HoldCo, the Project HoldCo, and the ProjectCo, and transfer the Project assets to IPL as plant-in-service.	IPL HoldCo, tax equity investor	7-8 years after Commercial Operation	No	Yes (likely)	<b>Yes</b>
<b>Asset Purchase Agreement</b>	This Agreement would transfer the Project assets from IPL HoldCo to IPL	IPL, IPL HoldCo	7-8 years after Commercial Operation	Yes	Yes	<b>Yes</b>