

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE:	
INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. RPU-2021-0003

RESPONSE TO ADDITIONAL INFORMATION

The Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, submits this Response to the “Additional Information” Interstate Power and Light Company (IPL) filed April 1, 2022 in response to the Utilities Board’s (Board) March 11, 2022 “Order Requesting Additional Information”. OCA data requests referred to in this Response are provided in the accompanying Attachment A.

Item 13(c)

Item 13(c) of the Board’s order noted that IPL has calculated a net levelized customer cost of the proposed projects of \$50.15 per MWh, after taking into account certain customer benefits. The Board then required IPL to provide “the economic amounts of any additional benefits not included in the model to the best extent possible, which should include the benefits discussed on pages 13 and 18 of Michek’s direct testimony and the benefits discussed on page 11 of Kitchen’s direct testimony.”

The portions of Michek’s testimony the Board referenced assert that the economic analysis did not consider benefits related to: 1) capacity value; 2) avoided tax credit carryforward costs; and 3) anticipated energy market revenue related to energy arbitrage enabled by use of the Battery Energy Storage System (BESS). The referenced portion of Kitchen’s testimony asserts that IPL considered using a power purchase agreement (PPA) instead of

acquiring the projects, but rejected that option in light of certain long-term benefits that ownership provides. The Board's order was clearly asking IPL to attempt to quantify these benefits that Michek and Kitchen assert exist.

IPL's response did not attempt to quantify these benefits. IPL merely repeated the explanation it provided on pages 16-17 of Michek's direct testimony for why the economic evaluation did not include benefits related to capacity, tax credit carryforwards, and energy arbitrage. IPL's response was completely silent regarding the benefits asserted by Kitchen related to owning the projects compared to entering into a PPA. Below, OCA will address IPL's response regarding tax credit carryforward benefits and BESS energy arbitrage benefits, as well as IPL's lack of a response regarding the benefits of ownership compared to a PPA.

Tax credit carryforward benefits

IPL's response did not attempt to quantify the benefit of avoiding tax credit carryforward costs, as requested by the Board. Instead, IPL addressed the asserted benefit as follows:

The economic evaluation results summarized previously exclude the valuation of avoiding carrying costs on credit carryforward balances as an indirect benefit of the Projects. However, while indirect, it is nonetheless a material consideration and reason that IPL has proposed the tax equity ownership structure for the Projects as discussed previously and in the testimony of Mr. Gresens.

In OCA Data Request No. 69, OCA asked IPL to provide a comparison of the tax equity financing (TEF) ownership structure versus the traditional ownership structure under a scenario in which tax credit carryforwards would earn a return of five percent. IPL responded to the data request as follows:

IPL objects to the premise of this question as factually flawed and not capable of reasonable ascertainment. In its calculation of the net present value revenue requirement for the Projects, IPL has not included a carrying cost on credit carryforwards related to the ITC earned on these projects since IPL is not able to provide the credit to customers until it receives a refund from the Internal Revenue Service. Thus, due to the matching principle in which IPL may not

provide ITCs to customers until received, and only ratably thereafter (unlike PTCs which are effectively credited to customers as earned), IPL has not reflected the deferred tax asset related to ITC credit carryforwards in Net Investment in Rate Base.

OCA understands IPL's response to the data request to mean that IPL would not seek to earn a return on the unutilized tax credit carryforwards that would result under a traditional ownership structure because IPL is unable to immediately provide to customers Investment Tax Credits arising from solar generation as it would for Production Tax Credits arising from wind generation. It is therefore not clear to OCA why IPL asserts that avoiding carrying costs on credit carryforward balances is an indirect benefit of the projects and a "material consideration and reason that IPL has proposed the tax equity ownership structure" for the projects. The Board should require IPL to clarify whether there is actually a benefit of avoiding carrying costs on unutilized tax credit carryforwards. If there is such a benefit, then IPL should attempt to quantify it, as requested in the Board's order.

This issue is especially important to understand in light of the fact that IPL is not proposing that its requested advance ratemaking principles be *conditioned upon* IPL using TEF. Instead, IPL has merely committed that *if* the projects are financed using TEF, the terms of the TEF deal will fall within certain specified ranges. IPL's response to OCA Data Request No. 85 makes clear that IPL is seeking the Board's approval of the requested principles without regard to the ownership structure that IPL ultimately employs. It is therefore important that the Board understands the full costs of the projects under a traditional ownership structure, including whether or not IPL would seek to earn a return on unutilized tax credit carryforwards.

BESS energy arbitrage benefits

IPL's response did not attempt to quantify the benefits of anticipated energy market revenue related to energy arbitrage enabled by use of the BESS, as requested by the Board.

IPL's response simply stated it excluded these benefits from the economic analysis "due primarily to the relatively small impact on the economic analysis and to be conservative." Based on this response, it appears to OCA that energy arbitrage is likely not a meaningful benefit of the BESS.

Benefits of acquisition compared to a PPA

IPL's response was silent regarding the assertion, at page 11 of Kitchen's direct testimony, that acquiring the projects presents certain benefits compared to entering into a PPA. The Board specifically asked IPL to attempt to quantify those benefits. OCA also attempted to obtain information from IPL regarding its decision to acquire the projects instead of using PPAs. In OCA Data Request No. 6, OCA asked if IPL considered using a PPA to meet its needs. IPL responded that it did consider using a PPA, "but that option was rejected in light of the benefits of long-term ownership of projects for IPL's customers, as explained in detail on page 11 of the Direct Testimony of IPL witness Brent R. Kitchen." In OCA Data Request No. 60, OCA asked IPL for copies of all documents in IPL's possession that support its decision to reject the PPA option. IPL responded that it "relied on the rationale stated in the Direct Testimony of IPL witness Brent R. Kitchen without accumulation of such documents as requested by the OCA."

It appears to OCA that any consideration IPL might have given to using a PPA to meet its needs was done in a conceptual sense, rather than asking for proposals from developers and concretely comparing the resulting costs and benefits of a PPA to the costs and benefits of ownership. OCA witness Munoz discusses, at pages 27-35 of his direct testimony, how IPL's decision to own the projects instead of meeting its needs through a PPA places additional risk on customers.

Item 14

Item 14 of the Board's order required IPL to explain: 1) how IPL would ensure that no less than 75 percent of input into the BESS would come from solar energy in order to qualify for the Investment Tax Credit; and 2) whether controlling the input to the BESS for tax credit purposes would lead to any uneconomic dispatch that is not captured in the economic analysis. IPL's response addressed the first element of the Board's question, but not the second. The Board should require IPL to address whether controlling the input to the BESS for tax credit purposes would lead to any uneconomic dispatch that is not captured in the economic analysis.

Items 18 and 19

Item 18 of the Board's order asked IPL to explain the basis for the assumed "Capacity Agreement" price included in Michek Direct Exhibit 1, 2, 3. In response, IPL stated that the assumed capacity agreement price used in the exhibit represents half of the Cost of New Entry (CONE). IPL explained that it considers CONE to be a reasonable proxy of the avoided cost of long-term capacity resources, and that it used half of CONE as the assumed capacity agreement price in order to be conservative.

Item 19 asked IPL to explain whether the assumed capacity prices and energy market prices used in the exhibit "are based on or indicative of current forward transactable prices." If the assumed prices are not indicative of current forward transactable prices, the Board asked IPL to explain why such prices were not used. In response, IPL stated that it "considers the projections as representative of *potential long-term* transactable market prices." (Emphasis added.)

It is not clear to OCA what the Board means by "current forward transactable prices." However, it is clear that the capacity agreement price assumed in the exhibit does not represent

current capacity prices. For the Board's reference, OCA provides IPL's response to OCA Data Request No. 64, in which IPL explains why it did not use current capacity prices in the economic analysis.

Item 21

Item 21 of the Board's order required IPL to explain how difficult it would be to enter into a PPA containing similar commercial characteristics as the proposed projects, and to include a total and per MWh Net Levelized Customer cost comparison between the proposed projects and a potential PPA with similar commercial characteristics. In its response, IPL stated, "due to the current risk in the market, developers are not willing to provide similar commercial characteristics and are including clauses to recover unexpected costs driven by the supply chain and policy issues." IPL did not provide the requested cost comparison.

It is not clear what IPL considers to be "similar commercial characteristics" as the project. It seems to OCA that "similar commercial characteristics" would refer to a PPA that offers similar capacity and energy benefits as IPL's proposed projects and that can begin delivering those benefits on a similar timeline. It is also not clear what information forms the basis for IPL's conclusion that developers are not willing to provide such PPAs. IPL's response merely states that its conclusion is "based on input from Power Advocate." IPL has not supplemented its response to OCA Data Request No. 60, in which IPL stated it has no documents that support its decision to reject the option of using a PPA. IPL's responses to OCA's data requests, and to the Board's order, lead OCA to conclude that IPL did not seriously investigate this option. A utility that had meaningfully considered using a PPA to meet its needs should be able to provide the Board with a rough comparison of the costs of using a PPA compared to the costs of ownership. OCA reiterates the argument made by OCA witness Bents, at pages 8-9 of

his direct testimony, that IPL should conduct an RFP for the 200 MW project, including proposals for PPAs.

Regarding IPL's assertion that developers are including clauses in PPAs to recover unexpected costs, OCA notes that IPL has provided no guarantee that it will not similarly seek to recover such unexpected costs related to its acquisition of the projects. Approving IPL's proposed cost cap would not prohibit IPL from seeking recovery of costs above the cap, provided IPL can demonstrate that incurring the additional costs was prudent. It must also be noted that a PPA that contained a clause allowing for recovery of unexpected construction costs related to supply chain issues would still provide a significant hedge against risk related to future energy market prices. Under IPL's proposal to acquire the projects, that risk is borne entirely by customers. OCA witness Munoz discusses the issue of price uncertainty and the resulting risk to customers at pages 24-27 of his direct testimony.

WHEREFORE, OCA submits this Response to IPL's April 1, 2022 Additional Information and requests that the Utilities Board require IPL to supplement its filing as the Utilities Board deems appropriate.

Respectfully submitted,

Jennifer C. Easler
Consumer Advocate

/s/ John Crotty

John Crotty
Attorney

1375 East Court Avenue
Des Moines, Iowa 50319-0063
Telephone: (515) 725-7200
E-mail: IowaOCA@oca.iowa.gov

OFFICE OF CONSUMER ADVOCATE

**Response of
Interstate Power and Light Company
to
OFFICE OF CONSUMER ADVOCATE
Data Request No. 6**

Confidential/Trade Secret

Docket Number: RPU-2021-0003
Date of Request: December 16, 2021
Response Due: December 27, 2021
Information Requested By: John Crotty
Date Responded: December 27, 2021
Author: Ben Lipari
Author's Title: Dir Resource Development
Author's Telephone No.: (608) 458-4478
REFERENCE: Lipari Direct Testimony, p. 11

Data Request No. 6

Did IPL consider using a power purchase agreement (PPA) to meet its needs, whether with NextEra or with another power provider, instead of purchasing the assets, as proposed? If yes, provide any documents IPL relied upon during its consideration of a PPA and any documents that reflect IPL's reasoning for not using a PPA. If no, explain why IPL did not consider using a PPA.

Response:

Yes, IPL considered a PPA, but that option was rejected in light of the benefits of long-term ownership of projects for IPL's customers, as explained in detail on page 11 of the Direct Testimony of IPL witness Brent R. Kitchen.

**Response of
Interstate Power and Light Company
to
OFFICE OF CONSUMER ADVOCATE
Data Request No. 60**

Confidential/Trade Secret

Docket Number: RPU-2021-0003
Date of Request: January 28, 2022
Response Due: February 4, 2022
Information Requested By: John Crotty
Date Responded: February 4, 2022
Author: Brent Kitchen
Author's Title: Mgr. Resource Planning
Author's Telephone No.: 563.585.5139
Subject: Solar Project Cost Comparisons
Reference: Kitchen Direct Testimony, p. 11; Response to OCA Data Request No. 6.

Data Request No. 60

In response to OCA Data Request No. 6, IPL stated:

“Yes, IPL considered a PPA, but that option was rejected in light of the benefits of long-term ownership of projects for IPL’s customers, as explained in detail on page 11 of the Direct Testimony of IPL witness Brent R. Kitchen.”

Provide copies of all documents in IPL’s possession that support the decision to reject a PPA, as stated in response to OCA Data Request No. 6, and in IPL’s Witness Brent Kitchen’s Direct Testimony. As part of your response, OCA requests that these documents include, but are not limited to, information pertaining to purchase prices, levelized rate, assumed discount rate if any, terms, capacity factors, name plate of facilities, and disposition of benefits including ITCs, PTCs, RECs, etc.

Response:

IPL relied on the rationale stated in the Direct Testimony of IPL witness Brent R. Kitchen without accumulation of such documents as requested by the OCA.

**Response of
Interstate Power and Light Company
to
OFFICE OF CONSUMER ADVOCATE
Data Request No. 64**

Confidential/Trade Secret

Docket Number: RPU-2021-0003
Date of Request: January 28, 2022
Response Due: February 4, 2022
Information Requested By: John Crotty
Date Responded: February 4, 2022
Author: Brent Kitchen
Michael Gresens
Andrew Cardon (as to objection)
Author's Title: Mgr. Resource Planning
Strategic Financial Manager
Managing Corporate Counsel
Author's Telephone No.: 563.585.5139
608.458.3463
Subject: Levelized Customer Costs (Benefits)
Reference: Michek Direct Exhibit 1, 2, 3 Conf

Data Request No. 64

- A. Explain why IPL did not use MISO's 2021/2022 Planning Resource Auction (PRA) Results of \$5/MW-day and/or the IMM Conduct Threshold of \$23.92/MW-day for Zone 3 in IPL's Michek Direct Exhibit 1, 2, 3 Conf, "3H Inputs" tab, at line 87.
- B. Please Provide two alternative versions of the exhibit, with cell references intact:
- 1) Using the IMM Conduct Threshold shown in MISO's 2021/2022 Planning Resource Auction (PRA) Results for line 87 on the "3H Inputs" tab;
 - 2) and using the Auction Clearing Price shown in MISO's 2021/2022 Planning Resource Auction (PRA) Results for line 87 on the "3H Inputs" tab.

Response:

- A. IPL did not use the historical clearing price and the IMM Conduct Threshold price for the value for long-term capacity due to the residual and short-term nature of MISO's annual capacity auction.
- B. IPL objects to this data request as vague and ambiguous as to which variables in the economic evaluation would need to be adjusted in order to respond to this request. To the extent that the different capacity valuations were utilized in the economic evaluation, a range of other alternative terms, provisions and agreements would need to be adjusted. Providing an analysis of just one of these variables without adjusting a range of other variables would not produce reasonable results. In addition, providing an analysis of just one or two of these variables without adjusting a range of other variables would be not practical.

Subject to and notwithstanding the above objection, IPL responds as follows:

IPL believes that the IMM Conduct Threshold and PRA reflect short-term capacity prices are not reflective of the market for long-term capacity contracts. Assuming lower capacity prices means that IPL and the tax equity investor would result in lower cash distributions and taxable income from the partnership. To meet its targeted return and be willing to invest in the partnership, the tax equity investor would then require some combination of a lower up-front capital contribution and a higher percentage allocation of cash distributions, and possibly greater protections within the tax equity agreement. The capacity cost savings from assuming a lower capacity price would generally be offset by the resulting higher cost of service from the change in tax equity capital contribution and cash allocation percentages. In short, such assumptions would not have a material impact on the project economics.

**Response of
Interstate Power and Light Company
to
OFFICE OF CONSUMER ADVOCATE
Data Request No. 69**

Confidential/Trade Secret

Docket Number: RPU-2021-0003
Date of Request: February 4, 2022
Response Due: February 11, 2022
Information Requested By: John Crotty
Date Responded: February 11, 2022
Author: Neil Michek / Michael Gresens / Andrew D. Cardon (as to objection)
Author's Title: Mgr. Financial Planning / Strategic Finance Manager / Managing Corporate Counsel
Author's Telephone No.: 608.458.7618 / 608.458.3463 / 319.786.4236
Subject: Model Scenario Analysis
Reference: Michek Direct Exhibit 1

Data Request No. 69

Please provide the model and accompanying analysis comparing traditional ownership vs. Tax Equity Partnership given a scenario where tax credit carryforwards earn a 5% return on equity, the same return credit carryforwards earn for PTCs on IPL's New Wind I and New Wind II projects.

Response:

IPL objects to the premise of this question as factually flawed and not capable of reasonable ascertainment. In its calculation of the net present value revenue requirement for the Projects, IPL has not included a carrying cost on credit carryforwards related to the ITC earned on these projects since IPL is not able to provide the credit to customers until it receives a refund from the Internal Revenue Service. Thus, due to the matching principle in which IPL may not provide ITCs to customers until received, and only ratably thereafter (unlike PTCs which are effectively credited to customers as earned), IPL has not reflected the deferred tax asset related to ITC credit carryforwards in Net Investment in Rate Base.

**Response of
Interstate Power and Light Company
to
OFFICE OF CONSUMER ADVOCATE
Data Request No. 85**

Confidential/Trade Secret

Docket Number:	RPU-2021-0003
Date of Request:	February 23, 2022
Response Due:	March 2, 2022
Information Requested By:	John Crotty
Date Responded:	March 2, 2022
Author:	Michael Gresens
Author's Title:	Strategic Financial Mgr.
Author's Telephone No.:	608.458.3463
Subject:	Proposed Principle No. 7
Reference:	Application

Data Request No. 85

Proposed principle number 7 (Tax Equity) begins with the phrase “If IPL finances the Projects through one or more tax equity partnerships...” (Emphasis added.) Is it IPL’s intention that proposed principles 1-6 and 8 would apply whether IPL secures tax equity financing for the projects or not?

Response:

Yes, if IPL elected to proceed with the Projects without the use of tax equity financing, IPL intends that the remaining ratemaking principles, not including Advance Ratemaking Principle No. 7, would still apply to the Projects, subject to a minor adjustment to Advance Ratemaking Principle No. 8 to reflect that there would be no “net cash distributions”, but rather energy market revenue, in the absence of a tax equity partnership. Accordingly, IPL proposes to meet and confer with OCA and stakeholders to clarify Advance Ratemaking Principle No. 8 in the event that IPL does not proceed with tax equity financing for the Projects.