STATE OF IOWA

BEFORE THE IOWA UTILITIES BOARD

IN RE: **INTERSTATE POWER AND LIGHT COMPANY**	**DOCKET NO. RPU-2023-0002**

DIRECT TESTIMONY
OF
NEIL E. MICHEK

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I. INTRODUCTION AND PURPOSE

Q. Please state your name, current position, and business address.

A. My name is Neil E. Michek. I am employed by Alliant Energy Corporate Services, Inc. (AECS), a service company subsidiary of Alliant Energy Corporation (Alliant Energy). My job title is Manager, Financial Planning. In this position, most of my time is spent working for Alliant Energy's wholly-owned utility subsidiaries, Interstate Power and Light Company (IPL or the Company) and Wisconsin Power and Light Company (WPL). My business address is 4902 North Biltmore Avenue, Madison Wisconsin, 53718. In this rate review, I am testifying on behalf of IPL.

Q. Please state your educational background.

A. I graduated from the University of Wisconsin – Platteville in 1990 with a Bachelor of Science degree in Accounting and Business Administration.

Q. Please describe your work experience in the utility industry.

A. I have worked in the utility industry focusing on utility budgeting, financial analysis, accounting, auditing, and regulatory policy for over 30 years. I have worked for AECS or WPL since 2001. In my current role, I manage a team that supports WPL and IPL in state and federal regulatory proceedings. Prior to my current position, I held several positions including Lead Analyst II – Financial Planning and Analysis, Senior Financial Consultant – GENCO, and Manager – Regulatory Affairs. I was employed by the Public Service Commission of Wisconsin (Commission or PSCW) as a Public Utility Auditor from 1990 until beginning my employment at AECS and WPL.

Q. Have you testified in previous cases before the Iowa Utilities Board (Board) or other regulatory commissions?

A. Yes. I have testified or provided written testimony before the Board in IPL's most recent retail electric and natural gas rate review, a docket for advance ratemaking principles for proposed solar and battery energy storage systems (BESS), and a docket related to accounting and rate recovery of IPL's buyout of a power purchase agreement between IPL and NextEra Duane Arnold, LLC in connection with the Duane Arnold Energy Center (DAEC), a nuclear generating facility that ceased operations in August, 2020. I have also testified before the PSCW in numerous proceedings, including rate reviews, fuel cost plan proceedings, construction dockets, and merger proceedings. I have also filed testimony before the Federal Energy Regulatory Commission (FERC) and prepared or oversaw the preparation of other FERC tariff filings.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to develop, summarize and support the revenue requirements and the resultant revenue deficiencies that result in IPL's request to increase retail electric rates in two phases, as well as IPL's request to increase natural gas rates.

Q. Please summarize the retail revenue changes that IPL proposes for its electric and natural gas utility operations?

A. The proposed retail electric and natural gas revenue changes are based upon a 12-month forecasted future test year (FTY) that encompasses October 1, 2024, though September 30, 2025. IPL proposes to increase retail electric rates using a phased-in approach that results in a net revenue increase of approximately $160 million effective October 1, 2024, which is the beginning of the FTY. This amount is net of the projected revenue totaling approximately $178 million that would have been recovered via the existing Renewable Energy Rider (RER). As discussed in more detail later in my testimony, IPL is proposing to eliminate the RER. As part of Phase II, IPL proposes to increase revenue by an additional approximately $124 million effective October 1, 2025, which is the end of the FTY. The phase-in of this retail electric rate change is discussed in more detail later in this testimony and is largely based upon discrete adjustments that were implemented in order to mitigate the rate impacts for customers, accelerate utilization of non-recurring credits during the FTY, and matching recovery of costs with benefits to occur during and after the FTY.

IPL proposes to increase natural gas rates by approximately $14 million effective October 1, 2024. IPL does not propose to phase-in the natural gas rate change. The proposed revenue changes are discussed in more detail throughout the remainder of this testimony and related exhibits.

II. EXHIBITS

Q. Are you sponsoring any exhibits in this filing?

A. Yes. I am sponsoring the following exhibits:

- IPL Michek Direct Confidential Exhibit 1 (E&G): Summary of proposed revenue changes and estimated year-over-year total revenue. This exhibit consists of three schedules and associated workpapers:

  - o Schedule A: Summarizes IPL's proposed total retail electric sales revenue for the FTY, the Phase I rate increase, and the Phase II rate increase and the combined overall impact of both phases of the proposed rate increases.
  - o Schedule B: Summarizes IPL's retail electric sales revenue for the period 2016 through projected 2026 including the impacts of the proposed rate changes.
  - o Schedule C: Summarizes IPL's natural gas utility sales revenue for the same period, 2016 through projected 2026 including the impacts of the proposed rate changes.

- IPL Michek Direct Exhibit 2 (E): Retail electric utility revenue requirement calculations changes required for Phase I. This exhibit follows the Board's required revenue requirement template[1] and consists of seven schedules and associated workpapers.
  - o Schedule A provides the calculation of the revenue deficiency for the electric utility. Note that the revenue deficiency calculated in this schedule reflects the discontinuation of the RER.
  - o Schedule B provides the summary calculation of the weighted average cost of capital (WACC) for IPL electric utility operations.

[1] Pursuant to 199 IAC 26.4(5)(f)

    - Schedule C provides a summary and detailed listing of adjustments to IPL's electric utility proposed operating income statement.
    - Schedule D provides a summary and detailed listing of adjustments to IPL electric utility Net Investment Rate Base (NIRB).
    - Schedule E provides calculations of IPL's electric utility cash working capital requirements.
    - Schedule F provides the calculations of interest synchronization.
    - Schedule G provides the income tax rates utilized in determining the FTY revenue requirements.
- IPL Michek Direct Exhibit 3 (G): Natural gas revenue requirement calculations and revenue change required. This exhibit follows the Board's required revenue requirement template[2] and is structured the same as IPL Michek Direct Exhibit 2 (E). This consists of seven schedules and associated workpapers.
    - Schedule A provides the calculation of the revenue deficiency for the natural gas utility.
    - Schedule B provides the summary calculation of the WACC for IPL natural gas utility operations.

[2] Pursuant to 199 IAC 26.4(5)(f)

  - Schedule C provides a summary and detailed listing of adjustments to IPL's natural gas utility proposed operating income statement.
  - Schedule D provides a summary and detailed listing of adjustments to IPL natural gas utility NIRB.
  - Schedule E provides calculations of IPL's natural gas utility cash working capital requirements.
  - Schedule F provides the calculations of interest synchronization.
  - Schedule G provides the income tax rates utilized in determining the FTY revenue requirements
- IPL Michek Direct Confidential Exhibit 4 (E&G): Capital structure. This exhibit consists of twelve schedules:
  - Schedule A provides the average electric utility capital structure and WACC information for 2023 – 2025, including the FTY.
  - Schedule B provides the average natural gas utility capital structure and WACC information for 2023 – 2025, including the FTY.
  - Schedule C provides the annual average common equity capitalization information for 2023 – 2025, including the FTY.
  - Schedule D provides monthly common equity capitalization information for 2023 – 2025, including the FTY, and including

the calculations of the 13-month averages provided in Schedule C.

- Schedule E provides the calculation of the blended authorized return on equity (ROE) for the electric utility based upon approved or assumed approved advance ratemaking projects and their associated authorized ROE, and IPL's proposed ROE for all other electric utility NIRB.
- Schedule F provides the monthly projections of common equity activity including projected Net Income (inclusive of the proposed rate changes), projected common stock dividends, and projected equity capital contributions into IPL.
- Schedule G provides the average long-term debt estimates for 2023 – 2025, including the FTY, as well as the annual summary of projected costs of debt for the associated period and the calculation of the average cost of long-term debt.
- Schedule H provides the actual and projected monthly details of long-term debt activity by debt issuance, as well as the calculations of the 13-month average balances information reported in Schedule G.
- Schedule I provides the monthly calculations of costs of long-term debt and the annual totals reported in Schedule G.
- Schedule J provides the projected Income Statement for 2022 – 2025.

- Schedule K provides the projected monthly balance sheet for year-end 2022 through year-end 2025.
- Schedule L provides the projected monthly statement of cash flows for 2022 through 2025.

• IPL Michek Direct Exhibit 5 (E&G): Operating revenue. This exhibit consists of eleven schedules and associated workpapers.

- Schedule A summarizes IPL's electric utility operating revenue for the periods 2021 – 2025, including the FTY.
- Schedule B summarizes IPL's natural gas utility operating revenue for the periods 2021 – 2025, including the FTY.
- Schedule C provides more detailed information about IPL's electric utility retail sales revenue for the periods 2021 – 2025, including the FTY, and including breakout information regarding revenue associated with the Energy Adjustment Clause (EAC), the Regional Transmission Service (RTS) rider, the RER, the Energy Efficiency/Demand Response Cost Recovery (EECR/DRCR) riders[3], the Tax Benefit Rider (TBR), Demand kW revenue, Fixed Charges, and Energy Revenue.
- Schedule D provides more detailed information about IPL's natural gas utility sales revenue for the periods 2021 – 2025, including the FTY, and including breakout information

[3] Interruptible credits are reflected in the base revenue forecast as presented in Schedule C.

regarding revenue associated with Purchased Gas Adjustment (PGA), EECR, TBR, Fixed Charges and Energy revenue.

- Schedule E summarizes and reconciles RER revenue and revenue requirements for the periods 2023 – 2024. The 2024 amounts shown in Schedule E represent the full year amounts.
- Schedule F summarizes and reconciles EAC revenue and revenue requirements for the periods 2023 – 2025, including the FTY.
- Schedule G summarizes and reconciles RTS revenue and revenue requirements for the periods 2023 – 2025, including the FTY.
- Schedule H summarizes and reconciles PGA revenue and revenue requirements for the periods 2023 – 2025, including the FTY.
- Schedule I summarizes and reconciles EECR and DRCR revenue and revenue requirements for the periods 2023 – 2025, including the FTY.
- Schedule J summarizes other operating revenue for the periods 2021 – 2025 and the FTY.
- Schedule K summarizes IPL wholesale demand revenue requirements calculations and calculations of wholesale revenue for the periods 2023 – 2025, including the FTY.

- IPL Michek Direct Confidential Exhibit 6 (E&G): Operating expenses. This exhibit consists of eight schedules and associated workpapers.
  - Schedule A provides a summary of IPL's electric utility Operations and Maintenance (O&M) expenses for the periods 2020 – 2025, including the FTY.
  - Schedule B provides a summary of IPL's natural gas utility O&M expenses for the periods 2020 – 2025, including the FTY.
  - Schedule C provides a summary of IPL's electric utility other operating expenses for the period 2020 – 2025, including the FTY, and including Depreciation and Amortization expense, Regulatory Amortizations expense, Taxes other than Income Taxes, and Income Taxes.
  - Schedule D provides a summary of IPL's natural gas utility other operating expenses for the period 2020 – 2025, including the FTY, and including Depreciation and Amortization expense, Regulatory Amortizations expenses, Taxes other than Income Taxes, and Income Taxes.
  - Schedule E provides additional detail related to EAC costs for the periods 2020 – 2025, including the FTY.
  - Schedule F provides additional detail related to RTS costs for the periods 2020 – 2025, including the FTY.
  - Schedule G provides additional detail related to EECR/DRCR expenses for the periods 2020 – 2025, including the FTY.

  - Schedule H provides additional detail related to Regulatory Amortization expenses for the periods 2020 – 2025, including the FTY.

- IPL Michek Direct Confidential Exhibit 7 (E&G): Net investment rate base. This exhibit consists of twelve schedules and associated workpapers.
  - Schedule A summarizes electric utility NIRB for the periods 2020 – 2025, including the FTY.
  - Schedule B summarizes natural gas utility NIRB for the periods 2020 – 2025, including the FTY.
  - Schedule C provides monthly utility plant in service balances and activity by functional plant category for the period year-end 2019 through year-end 2025, thereby encompassing the FTY.
  - Schedule D provides monthly accumulated reserves for depreciation balances and activity by functional plant category for the period year-end 2019 through year-end 2025, thereby encompassing the FTY.
  - Schedule E provides the monthly depreciation expense by functional plant category for the forecasted periods of July 2023 through December 2025, thereby encompassing the FTY.
  - Schedule F provides monthly forecasted Construction Work in Progress (CWIP) activity by functional plant category from

July 2023 through December 2025, thereby encompassing the FTY.

- Schedule G provides monthly forecasted construction expenditures by functional plant category and by project for July 2023 through December 2025.
- Schedule H provides monthly forecasted plant additions by functional plant category and by project for July 2023 through December 2025.
- Schedule I provides average NIRB for assets subject to Advance Ratemaking for the periods 2020 – 2025, including the FTY.
- Schedule J provides monthly information regarding regulatory asset balances included in NIRB for the periods year-end 2019 – 2025, thereby encompassing the FTY.
- Schedule K provides information regarding the electric utility cash working capital calculations.
- Schedule L provides information regarding the natural gas utility cash working capital calculations.

- IPL Michek Direct Confidential Exhibit 8 (E&G): Income tax. This exhibit consists of eight schedules and associated workpapers.
    - Schedule A summarizes IPL income tax expenses for the periods 2020 – 2025 and the FTY.
    - Schedule B provides summary calculations of income tax expenses for the period 2023 – 2025 and the FTY.

  - Schedule C provides effective tax rate calculations for the periods 2023 – 2025 and the FTY.
  - Schedule D provides additional detail regarding tax credits and adjustments for the periods 2023 – 2025 and the FTY.
  - Schedule E provides details of annual Schedule M tax deductions for the periods 2023 – 2025 and the FTY.
  - Schedule F summarizes Accumulated Deferred Income Taxes (ADIT) activity for the periods 2023 – 2025 and the FTY.
  - Schedule G provides the ADIT proration calculations.
- IPL Michek Direct Exhibit 9 (E): Calculation of Phase II rate increase. This exhibit follows the Board's required revenue requirement template[4] and is structured the same as IPL Michek Direct Exhibit 2 (E). This consists of seven schedules and associated workpapers.
  - Schedule A provides the calculation of the Phase II revenue deficiency for the electric utility.
  - Schedule B provides the summary calculation of the WACC for IPL electric utility operations.
  - Schedule C provides a summary and detailed listing of adjustments to IPL's electric utility proposed operating income statement.

[4] Pursuant to 199 IAC 26.4(5)(f)

- Schedule D provides a summary and detailed listing of adjustments to IPL electric utility NIRB.
- Schedule E provides calculations of IPL's electric utility cash working capital requirements.
- Schedule F provides the calculations of interest synchronization.
- Schedule G provides the income tax rates utilized in determining the revenue requirements.

- IPL Michek Direct Exhibit 10 (E): FERC accounting and formula rate treatment of IPL's Lansing Generating Station (Lansing) regulatory asset. This exhibit consists of two FERC orders related to the accounting for and recovery of the remaining net book value of Lansing. The proposed cost recovery of the remaining net book value of Lansing is discussed later in this testimony.
- IPL Michek Direct Exhibit 11 (E): IPL depreciation study. This exhibit is a copy of the depreciation study completed by Gannett Fleming Valuation and Rate Consultants, LLC. The depreciation study supports IPL's proposed changes in depreciation rates effective with Phase II of the proposed rate increase for electric and common utility assets.
- IPL Michek Direct Exhibit 12 (E&G): Proposed rate case expenses and amortization. This provides the information required by 199 IAC 26.7 for recoverable rate case expenses.

III. OVERVIEW OF REVENUE CHANGES

Q. What overall retail electric revenue change is IPL proposing?

A. With customer affordability top of mind, IPL is requesting a phased-in change in its retail electric revenue requirements, which I will explain in greater detail in the following sections of my testimony. The revenue requirements are based on a FTY from October 1, 2024, through September 30, 2025. IPL is requesting a net retail electric revenue change of approximately $160 million, or 9.2 percent, beginning October 1, 2024 (Phase I rate increase), with the remaining electric revenue change of approximately $124 million, or 6.5 percent, to be effective October 1, 2025 (Phase II rate increase). Thus, the total electric retail revenue change is forecast at approximately $284 million, or 16 percent, across the two phases. (IPL Michek Direct Exhibit 1 (E&G), Schedule A)

Q. Please summarize the drivers of the changes to overall retail electric revenue for the net Phase I rate increase?

A. The following table summarizes the drivers of the net Phase I proposed increase in retail electric revenue. The following table is intended only as an indicative summary of changes in revenue requirements since IPL's last rate proceeding. Details of revenue requirement calculations for the test year are provided in the filed exhibits.

Description	$Millions	Percent of Total
Rate Base – 400 MW Solar	$78.7	49%
Other Rate Base (Primarily Electric Distribution)	$80.7	50%
Capital Structure and ROE	$15.1	9%
Incentive Compensation (50% Recovery)	$8.7	5%
Lost SMEC Margin	$4.7	3%
Deferred Derecho Costs and Benefits	$3.6	2%
O&M	($15.1)	(9%)
State Income Tax Rate	($12.8)	(8%)
Other	($3.0)	(2%)
Total	$160.6	100%

Table may not foot due to rounding.

Q. Please discuss are the major drivers of the changes to overall retail electric revenue for the net Phase I rate increase?

A. As discussed in greater detail in the following sections of my testimony, the major drivers include:

- Impact of projects placed in-service since the last test year, partially offset by continued rate base reductions from prior assets related to depreciation and tax impacts. The actual and planned major capital investments since IPL's last rate review including the 400-Megawatt (MW) capacity of solar generation assets (Duane Arnold Solar (DAS)

I, DAS II, Creston, and Wever) proposed in Docket No. RPU-2021-0003 (Solar Projects), as well as IPL's continued investments in its electric distribution system since the last rate review, including the capital investments resulting from the damage incurred as a result of the August 10, 2020 derecho (Derecho). Other notable actual and projected capital investments include IPL's investment in a fiber-optic network and capital investments currently being undertaken at IPL's major wind facilities due to unanticipated necessary component replacement and repairs. My testimony, as well as that of other IPL witnesses, will expand upon each of these major investment categories.

- Proposed changes to IPL's capital structure and costs of capital. In this rate review, IPL proposes one common capital structure for both retail electric and natural gas services. IPL's investments that are subject to advance ratemaking ROE rates are reflected consistent with the applicable advance ratemaking principles. IPL's planned investments in the 400 MW of solar generating capacity are assumed to earn an ROE of 10.75 percent consistent with the proposed settlement agreement between IPL and the Office of Consumer Advocate (OCA), and subsequently joined by other parties. IPL proposes a ROE of 10.0 percent for "all-other" electric rate base that is not subject to advance ratemaking principles. IPL's projected average costs of long-term debt are also updated to reflect actual and projected changes in long-term debt balances. Interest rates on recent and projected long-term debt issuances have increased since IPL's last rate review. Since IPL's last rate review, IPL also retired its remaining Preferred Stock.

- As noted above, and discussed later in more detail, IPL proposes to eliminate the RER with this rate review. As a result, the proposed rates provided by other IPL witnesses are designed as if the RER did not exist in the FTY and thereby replacing that cost recovery via the RER with revised base rates and EAC factors. That said, customers are currently paying for costs of the wind generating facilities approved in Docket Nos. RPU-2016-0005 (New Wind I) and RPU-2017-0002 (New Wind II) (combined New Wind I & II) via the RER.

Q. Please summarize the drivers of the changes to overall retail electric revenue for the Phase II rate increase?

A. The following table provides the same information provided in IPL-Michek Direct Exhibit 9 and summarizes the drivers of the Phase II proposed increase in retail electric revenue.

Description	$Millions	Percent of Total
Depreciation Rates	$41.0	33%
SMEC Margin	$23.5	19%
SMEC Tax Benefit Expiration	$20.6	17%
EDIT – Federal	$18.5	15%
EDIT – State	$7.0	6%
Annualized Solar	$13.1	11%
Total	$123.7	100%

Totals may not foot due to rounding.

Q. What are the major drivers of the changes to overall retail electric revenue for the Phase II rate change?

A. As discussed in greater detail in the following sections of my testimony, the major drivers include:

- Implementation of updated depreciation rates effective October 1, 2025.
- Impact of the expiration of the wholesale electric contract for Southern Minnesota Electric Cooperative (SMEC), including the expiration of tax benefits that result from the contract expiration that are utilized to mitigate the impact of the Phase I rate change for the FTY.
- Utilization and true-up of Excess Deferred Income Taxes (EDIT) to accelerate benefits and mitigate the impact of the Phase I rate change for customers for the FTY.

- Adjustments to reflect an annualized impact of the Solar Projects placed in-service during the FTY.

Q. What overall natural gas revenue change is IPL proposing?

A. IPL is requesting a single rate change for its natural gas utility operations, which I will explain in greater detail in the following sections of my testimony. The revenue requirement is based on a FTY from October 1, 2024, through September 30, 2025. IPL is requesting a natural gas retail revenue change of approximately $14 million or 5.1 percent beginning October 1, 2024.

Q. Please summarize the drivers of the changes to overall natural gas revenue increase?

A. The following table summarizes the drivers of the proposed increase in natural gas utility revenue.

Description	$Millions	Percent of Total
Rate Base Investments	$11.3	81%
Capital Structure and ROE	$1.8	13%
Incentive Compensation	$1.5	11%
Other	$0.1	1%
State Income Tax Rate	($0.7)	(5%)
Total	$14.0	100%

Totals may not foot due to rounding

Q. What are the major drivers of the changes to overall natural gas revenue for the rate increase?

A. As discussed in greater detail in the following sections of my testimony, the major drivers include:

- The primary driver is increased net investment rate base applicable to the natural gas utility operations since IPL's last rate review, including the natural gas utility's allocation of common plant.
- Proposed changes to IPL's capital structure and costs of capital. In this rate review, IPL proposes one common capital structure for both retail electric and natural gas service. IPL proposes a ROE of 10.0 percent for natural gas rate base. IPL's projected average costs of long-term debt are also updated to reflect actual and projected changes in long-term debt balances. Interest rates on recent and projected long-term debt issuances have increased since IPL's last rate review. Since IPL's last rate review IPL also retired its remaining Preferred Stock.

IV. RATE REVIEW STRUCTURE

Q. Why is IPL proposing a combined rate request covering both retail electric and natural gas customers?

A. IPL is proposing a combined retail electric and natural gas rate review because current rates for both the retail electric and natural gas utilities are insufficient to recover the respective revenue requirements. In addition, a combined electric and natural gas case is consistent with the legal structure of IPL's utility and its operations; the utility is operated as one combined entity. Combining the rate requests in one docket provides for greater administrative efficiencies for the Board, the OCA, other intervenors, and IPL. IPL's last rate review was bifurcated into two dockets, one each for electric and natural gas. This resulted in numerous filings needing to be effectively replicated in each docket, such as duplicative data requests and discovery requests.[5] There are a number of topics that are common across both the electric or natural gas utility operations, including review of corporate costs and the appropriate allocation to either IPL's electric or natural gas utility (including the ability to reflect policy choices on allocations immediately), financing costs, and other background information. Reflecting such items into one docket will save parties the need to provide similar testimony in multiple dockets, promote consistency in how these costs are allocated in final rates, and save time and effort for the Board in reviewing such similar information.

Q. Do the Board's rules allow for a combined electric and natural gas utility case?

A. Yes. The Board's rules at 199 Iowa Administrative Code (IAC) 26.4(5), which were promulgated in 2021, specifically authorize an application to be based on "one test year for each type of service, or one test year for a combined application for two types of service." For a combined application, the applicant must "include separate financial schedules for each type of service and shall specifically identify in testimony, exhibits, and workpapers the type of service being addressed." IPL has presented its application in the manner required by the Board's rules to allow identification of the information pertaining to the electric and gas service IPL provides.

[5] *See In Re: Interstate Power and Light Company*, Order Requiring Additional Information, Docket Nos. RPU-2019-0001 and RPU-2019-0002 (July 10, 2019)

Q. What is the test year being utilized for this combined retail electric and natural gas rate request?

A. IPL is utilizing a 12-month FTY period starting October 1, 2024 and ending September 30, 2025.

Q. Why did IPL select the 12-month period used for its electric and natural gas FTY?

A. IPL expects several major projects to be placed in-service in late 2024, notably the Solar Projects, along with the Franklin County Wind repower project. The 12-month test year period helps align the customer benefits provided by these projects and recovery in rates.

Q. Why is IPL proposing a phased-in process for its proposed rate changes?

A. With customer affordability top of mind, IPL is proposing a phased-in rate change process accomplished in two phases with Phase I effective October 1, 2024, and Phase II effective October 1, 2025. However, this proposal effectively spreads out the annual impacts of the proposed revenue increases over several years (i.e., 2024, 2025 and 2026). In addition, the two-phase approach provides the opportunity to recognize known discrete changes in revenue requirement that occur during the FTY. In addition, rather than file multiple rate reviews to address revenue deficiencies, or in turn experience meaningful regulatory lag in achieving regulatory recovery of these items, IPL believes the two-phase rate increase combined with the non-calendar test-year will effectively allow IPL to manage through these phased changes in revenue requirements.

IPL proposes to utilize certain tax benefits in the Phase I rate increase to moderate the rate change. Those tax benefits being returned to customers in the Phase I rate change include the return of available federal unprotected EDIT, available Iowa EDIT related to changes in State of Iowa income tax rates, and recognition of one-time reallocation of accumulated deferred income taxes (ADIT) resulting from the expiration of a power supply agreement with SMEC. The Phase II rate change reflects the expiration of these tax benefits that were returned to customers in the Phase I rate change.

The Phase I rate change includes the benefits of a wholesale power supply agreement with SMEC. However, that power supply agreement expires at the end of July 2025. The Phase II rate change recognizes the expiration of that wholesale power supply agreement occurring during the FTY and IPL proposes to increase revenue at the end of the FTY for this discrete known impact.

IPL hired an independent consultant to perform a depreciation study evaluating IPL's depreciation rates. To moderate the overall electric utility cost impacts for customers in Phase I, IPL proposes to implement the electric utility and common plant depreciation rates on October 1, 2025, in conjunction with the proposed Phase II rate change.

In addition, IPL proposes to annualize the impact of the Solar Projects that are expected to be placed in service during the FTY as a component of the Phase II rate change. The Phase I revenue change only includes a partial year level of revenue requirement for these projects. This annualization of revenue requirement is appropriate given that customers will be receiving the full benefits of the projects in rates during and beyond the FTY.

Q. What is the impact of each of the categories of revenue requirements reflected in the proposed Phase II rate change?

A. I have summarized the impacts of the individual components of the proposed Phase II rate change in IPL Michek Direct Exhibit 9 (E), Schedule A.

Q. How would IPL's request in this rate review need to change if the proposed two-phase rate change was not implemented?

A. IPL's retail electric revenue requirement in a single phase rate change request would increase materially to include: (1) the impacts of the proposed new depreciation rates; (2) amortization of the tax benefits identified in IPL Michek Direct Exhibit 2 (E) over multiple years to coincide with the next possible IPL rate review under current Board rules; and (3) a proposal to defer the SMEC revenue benefits during the FTY and amortize that benefit back to customers over multiple years to coincide with the next possible IPL rate review proceeding.

Q. Has the Board approved a phased-in, multi-step rate increase previously?

A. Yes. In Docket No. RPU-2013-0004, the Board approved a three-step retail electric rate increase for MidAmerican Energy Company (MidAmerican). In that docket, the third step of the rate phase-in was conditioned on the completion of an environmental improvement at the Ottumwa Generating

Station (OGS) that was to be completed outside of the test year and allowed MidAmerican to avoid an additional rate review shortly after the completion of the first rate review. In reaching its Final Decision, the Board stated that:

> Iowa Code § 476.33(4) requires the Board to consider changes that occur within 12 months of the filing of the case. The statute does not prohibit consideration of changes beyond that date (or compel the Board to accept all changes within 12 months of filing). The OGS improvements are clearly beyond the 12-month period. Inclusion of these costs in the revenue requirement avoids an all but certain rate proceeding in 2014 (if the costs were disallowed) and preserves the three-year phase-in, both of which have significant benefits to customers.[6]

The Iowa State Commerce Commission (Commerce Commission), a predecessor to the Board, also approved a phase-in for Union Electric Company in Docket No. RPU-85-9. The Commerce Commission found that a phase-in of rates was fair and appropriate to reduce rate shock.[7] In a subsequent order the Commerce Commission clarified the implementation of future phase-in increases did not require a contested case.[8] "Rather, each year's [phase-in] filing shall be subject to an accounting review to ensure compliance with [the Commerce Commission's] order."[9] The Commerce Commission's order was subsequently reviewed by the Iowa Supreme Court which found "the [Commerce Commission] had jurisdiction to approve a rate increase phased-in over a period of years."[10]

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[6] *In Re: MidAmerican Energy Company*, Order Approving Settlement, With Modifications, and Requiring Additional Information, Docket No. RPU-2013-0004, p. 13 (March 17, 2014).
[7] *See In Re: Union Electric Company*, Decision and Order, Docket No. RPU-85-9, p. 29 (February 10, 1986).
[8] *In Re: Union Electric Company*, Order Granting Applications for Rehearing in Part, Denying Applications for Rehearing in Part, and Clarifying Decision and Order, Docket No. RPU-85-9, p. 6 (March 19, 1986).
[9] *Id.*
[10] *Office of Consumer Advocate, Consumer Advocate Div., etc. v. Utilities Bd., Utilities Div., Dep't of Commerce*, 452 N.W. 2d 588, 594 (Iowa 1990).

Q. Does the same basis specified by the Board in RPU-2013-0004 apply in this case, which uses a FTY?

A. Yes, IPL's two-phase rate change in this rate review is founded upon the same principles of recognizing that a phased-in approach provides significant benefits to customers, while recognizing the temporary and non-recurring nature of certain credits utilized to mitigate customer impacts in Phase I, as well as recognizing the full revenue requirements of the Solar Projects. This matches recovery of costs with benefits that will automatically credit fuel expenses recovered via IPL's EAC beyond the FTY.

Q. What revenue requirement items are incorporated into the RER?

A. The RER was implemented in IPL's last electric rate review to help provide better matching of in-service additions to the related benefits (matching principle) that were possible in a test year. This rider incorporates a return on net investment rate base of the wind and transmission assets, depreciation expense on those assets, a return on the deferred tax asset related to production tax credit (PTC) carryforwards, property tax expense and income tax flowthrough expense (or benefits). Each of these items would otherwise be incorporated into base rates, partially or wholly offset by the net benefit of production tax credits generated by wind facilities, which would otherwise be incorporated within the EAC.[11] Wind energy revenue from the Midcontinent Independent System Operator, Inc. (MISO) related to the wind facilities is not a component of the RER, with those

[11] *In Re: Rule Making for Electric Service Rules [199 IAC Chapter 20]*, Order Adopting Amendments to 199 Iowa Administrative Code Chapter 20, Docket No. RMU-2019-0020 (October 11, 2021). In particular adopted 199 IAC 20.9(2)(c)(10).

benefits (excluding accredited capacity benefits, which serves as an offset to load requirements) already incorporated into the EAC.

Q. What is IPL proposing regarding the RER in this rate review?

A. IPL is proposing to incorporate the revenue requirements associated with the RER into its traditional recovery mechanisms as noted above, that being either base rates or the EAC. Article XII of the Non-Unanimous Settlement Agreement in Docket No. RPU-2019-0001, as approved by the Board in its January 8, 2020 Final Decision and Order, had a limited term for the RER, with the parties agreeing that "the Parties will have the ability to advocate for a new renewable energy rider, base rate treatment, or any other recovery mechanism to address the costs and benefits of the assets that will flow through the RER as agreed in this Settlement Agreement."[12] If approved for its new major asset additions, IPL believes the phased-in rate increase will provide a similar matching principle benefit for the Solar Projects as was achieved with the original RER for New Wind I & II.

Q. What changes in revenue requirement does IPL propose as it relates to the Regional Transmission Service (RTS) rider?

A. IPL is proposing the inclusion into the RTS of all costs that are related to transmission incurred or charged to IPL consistent with a tariff or agreement that is subject to the jurisdiction of FERC through retail rates. This includes all MISO and non-MISO transmission charges. Currently, certain limited charges within Account 565 are incorporated into base rates, which most

[12] *In Re: Interstate Power and Light Company*, Non-Unanimous Partial Settlement Agreement and Joint Motion for Approval of Settlement; Article XII, B (p. 16), Docket No. RPU-2019-0001 (October 3, 2019).

notably includes Blackstart expenses and separate legacy transmission agreements. In addition, IPL proposes to incorporate credits related to Blackstart revenue into the RTS. Further discussion of this proposal is incorporated into the testimony of IPL witness Adrianne L. Iano.

V. FORECASTING OVERVIEW

Q. Please describe the development of the FTY revenue requirements.

A. Developing the FTY revenue requirements begins with IPL's normal annual and multi-year budgeting efforts and includes analysis and forecasts that derive forecasted financial statements. This effort includes the development of the following:

- Electric and natural gas sales forecasts. These forecasts are supported by IPL witness Andrew J. Mendyk and summarized in IPL Michek Direct Exhibit 5 (E&G) and Minimum Filing Requirement 1.
- Forecasts of other operating revenues summarized and supported in IPL Michek Direct Exhibit 5 (E&G).
- Electric and natural gas utility O&M expense forecasts. IPL witness Zachary D. Fields provides additional testimony explaining the development of O&M expense forecasts. Supporting information for the O&M expense forecasts may be found in IPL Michek Direct Confidential Exhibit 6 (E&G).
- Forecasts of costs subject to automatic adjustment mechanisms, such as the EAC, RTS, and EECR are separately forecast. Summaries of these costs and reconciliations of rider related

costs and revenue are provided in IPL Michek Direct Confidential Exhibit 6 (E&G). Generally speaking, these costs and revenues do not impact the calculation of the revenue deficiency, although they do reflect revenue requirement shifts between recovery mechanisms as items such as the Solar Projects cause increases in base rates but partial offsets in automatic adjustment mechanisms due to inclusion of PTCs and energy benefits.

- Forecasts of regulatory asset and liability balances and proposed amortizations. IPL's forecasted regulatory asset and liability balances that are included in rate base are supported by IPL Michek Direct Confidential Exhibit 6 (E&G), IPL Michek Direct Confidential Exhibit 7 (E&G), and IPL Michek Direct Confidential Exhibit 8 (E&G).
- Forecasts of projected utility plant in service, depreciation expense, and accumulated depreciation. Utility plant in service forecasts are developed at the functional plant category and project level. For plant categories that will result in large numbers of individual projects, such as electric overhead and electric underground distribution, the construction budgets are developed at a higher functional level. IPL's forecasting software then calculates AFUDC and book depreciation. Supporting information for IPL's plant related forecasts is found in IPL Michek Direct Confidential Exhibit 7 (E&G).

- Forecast of other net investment rate base components and balance sheet information are either discretely forecasted, trended or utilize the last actual balance as the forecast. The forecasts of these items may be found in IPL Michek Direct Confidential Exhibit 7(E&G) and/or IPL Michek Direct Confidential Exhibit 4 (E&G).
- Based upon the project cash needs to fund investments in capital projects, IPL then develops its financing forecast of long-term debt and common equity. IPL's forecasted financing and capital structure is found in IPL Michek Direct Confidential Exhibit 4 (E&G).
- Income tax impacts are forecasted based upon all of the above-mentioned information. IPL witness Justin T. Gorman's testimony provides more insight into the tax-related assumptions impacting the test year revenue requirement and the Phase II rate change. IPL Michek Direct Confidential Exhibit 8 (E&G) provides additional supporting information related to income taxes.

Q. How are IPL's forecasts then consolidated into financial statement forecasts, and has that process changed since IPL's last rate review?

A. IPL's (and Alliant Energy) financial forecasts are developed in the same software system utilized by IPL for its last rate review. That is a software system developed by Utilities International, Inc. (UI) called UI Planner (UIP) and customized by UI consultants alongside Alliant Energy employees. IPL continues to move away from the use of Microsoft Excel© as the primary tool for financial forecasting with forecast information directly input by applicable financial analysts or uploaded from other forecasting systems to this UIP software system. While such a system minimizes the relatively user-friendly Excel©-based information, it also automates the forecasts to a much larger extent and eliminates the manual hand-offs and reentry of information inherent when using Excel©. Since IPL's last rate review, IPL implemented upgrades to UIP and also designed and implemented a regulatory module component for both IPL and its affiliate, WPL. IPL Michek Direct Exhibits 2 through 8, except for certain supporting workpapers, are an output of the new regulatory module. As stated previously, IPL Michek Direct Exhibits 2 and 3 are designed to comply with the Board-required revenue requirement calculation template, including live-excel formulas.

Q. What is the ramification of the use of an integrated software system as it pertains to supporting workpapers and calculations relative to Excel©-based forecasts?

A. One ramification is that there are significantly fewer supporting workpaper files as the forecasts are directly entered or loaded into the system from other systems. In preparing the supporting exhibits and supporting workpapers in this rate review, IPL has strived to document or source the basis of forecast information that appear in the Excel© output files appropriately and completely. To the extent the Board or intervening parties desire additional information or explanations for the basis of the forecasts, IPL will strive to provide that additional information. However, at some point the answer may simply be that the numbers are IPL's forecast based upon the responsible financial analysts' expertise and knowledge, or based upon a trend or other logic calculations built into UIP. The same would have been true prior to implementing and using the UIP system, just without the extent of Excel©-based workpapers.

As stated previously, the other ramification is that while the exhibits and workpapers may have been exported from UIP in Excel© format for filing and discovery, the Excel© output files are not all integrally linked. The forecasts are integrally tied together in the UIP software system, thereby minimizing the opportunity for errors due to manual hand off of data between Excel© spreadsheets and also allowing for more efficient updates to the forecasts.

Q. Has IPL taken any additional actions to ensure completeness, and accuracy of the software system supporting its rate filing?

A. Yes, in addition to utilizing the UIP team of consultants to develop and test the system, IPL's finance team conducted several rounds of system testing including members of the following departments:

- Tax and Property Accounting
- Regulatory Finance
- Financial Planning and Analysis
- Business and Financial Planning
- Treasury

In addition, IPL's internal audit team performed a qualitative and limited quantitative testing regarding the process and data flows between the various components of UIP.

Q. Has IPL's sister utility WPL utilized the regulatory module in UIP for a rate review? If so, how has the PSCW review of the system and the forecast progressed, and did the PSCW or intervenor review identify any problems with results of using the UIP regulatory module system?

A. Yes, WPL's currently ongoing rate review was filed based upon using the regulatory module in UIP. While there are differences in the WPL calculations and rate review structure, primarily due to regulatory process differences (e.g., the PSCW doesn't utilize rider mechanisms other than an equivalent to the PGA), the underlying financial forecasting processes are the same. PSCW staff and intervenors did not identify any issues with the use of the UIP regulatory module system. The PSCW has also benefited from other utilities in Wisconsin (e.g., the subsidiaries of WEC Energy Group) having already utilized the UIP regulatory module in preparing and filing their rate cases prior to WPL doing so.

VI. PHASE I RETAIL ELECTRIC REVENUE REQUIREMENT DRIVERS

Q. What are the major investments made by IPL since the last rate review that it is now seeking to include in base rates?

A. IPL's anticipated major investments include:

- Solar: DAS I, DAS II, Creston, and Wever Solar – IPL expects to invest approximately $726 million related to this 400 MW of solar generating assets. IPL expects: DAS I solar to be placed in service in April 2024, Creston solar to be placed into service in November 2024 and DAS II and Wever solar to be placed in service in

December 2024. Further details of these investments are incorporated into the Direct Testimony of IPL witness Ben Lipari.

- Wind Repower: IPL expects to invest approximately $109 million related to a repowering of 99 MW of wind energy generation at its Franklin County Wind Farm (FCW), which IPL expects to be placed in service by September 30, 2024. Repowering FCW will lead to 10 years of PTCs from the facility, which benefits (net of any transferability costs) will be incorporated into the EAC. Further details of this investment are incorporated into the testimony of Mr. Lipari. IPL witness Justin Gorman's testimony also discusses the tax implications of the FCW repowering project.
- Electric Distribution Investments – IPL has continued to invest to improve the reliability and performance of its distribution system, whose importance was accentuated by the results of the Derecho that led to significant outages and wide-ranging customer impacts across large portions of Iowa. IPL's net investment in electric distribution assets, excluding investments in its fiber communications network mentioned below, has increased by approximately $440 million since the last rate review. Of this amount, approximately $115 million of the new distribution plant investments are related to capital replacements resulting from the Derecho. Further details of these electric distribution investments are discussed in the testimony of IPL witness John S. Boston. In addition, IPL witness Michael R. Bremel provides testimony regarding IPL's efforts regarding grid integration

projects, innovative technology pilots, distribution energy resource integration, and IPL's continued investment in high bandwidth fiber infrastructure.

Q. Did IPL identify costs related to grid modernization in the proposed revenue requirement and CCOSS as requested by the Board in Docket No. RPU-2019-0001?

A. Yes. The following table shows the estimated revenue requirement related to the grid modernization projects included as part of the revenue requirement.

Description	$ Millions
Line Sensors	$0.8
Pilot Projects	$2.3
Fiber	$14.8
Advance Distribution Management System (ADMS)	$13.2
Total	$31.2

Above amounts do not reflect flow-through tax benefits or impacts of accumulated deferred income taxes.

Q. Did IPL also propose allocations for each grid modernization cost category and quantify the associated benefits for each customer class?

A. As described in IPL witness Lucas Bressan's testimony, grid modernization investments provide system-wide benefits of improved reliability. The CCOSS model allocates grid modernization cost similar to other investments within related FERC accounts.

Q. Is IPL proposing any other capital spend that impacts the FTY that you would like to identify?

A. Yes. IPL is performing necessary repairs and replacements on its New Wind I & II facilities. This work includes replacing or improving certain components of the wind turbines that have been unexpectedly experiencing failure or have increased risk of failure.

Q. Is IPL working with the turbine manufacturer on reimbursement for these replacement components?

A. IPL is in active negotiations seeking parts replacement or monetary compensation from the manufacturer. If these negotiations result in specific cash payments to IPL, the dollars received (net of outside counsel costs) will be used to offset or partially offset the costs of these capital additions. However, the negotiations could potentially result in other forms of compensation such as credits against future costs, extended warranty, or other such value.

Q. Can you summarize other material factors that impact the revenue requirements in this proceeding relative to the revenue requirements established in IPL's last rate proceeding?

A. Other material factors impacting revenue requirements include sales forecasts, O&M expenses, changes in regulatory asset and liability recoveries, changes in IPL's proposed capital structure and ROE, as well as the impact of the projected changes in State of Iowa income tax rates.

Q. What is the impact of the incentive compensation forecast on revenue requirements?

A. IPL proposes to incorporate 50 percent of incentive compensation allocated to the IPL utility, which are estimated to result in an approximate $9 million increase in the retail electric revenue requirement. Further details in support of recovery of incentive compensation are incorporated into the testimony of IPL witness Amanda J. Yocum. IPL Michek Direct Exhibit 2, Schedule C, Page 2 reflects an adjustment to reduce projected incentive compensation to the 50 percent recovery level.

Q. Please summarize proposed recovery of regulatory assets and liabilities in IPL's retail electric revenue requirements.

A. IPL has certain regulatory assets where the asset balance has not been fully recovered from customers and IPL is seeking incorporation of such amounts into revenue requirements. IPL is requesting recovery for the first-time regulatory assets associated with its investment in the now-retired Lansing, deferred costs associated with the recovery from the Derecho, and recovery of accumulated Asset Retirement Obligation (ARO) costs incurred and not recovered since IPL's last rate review. IPL also proposes to recover rate case expenses related to this rate review amortized over four years.

In addition, IPL seeks continued recovery of regulatory assets that either have been previously approved or fit directly with past precedent, namely for DAEC purchased power agreement (PPA) buyout costs (subject to EAC recovery), Sutherland Generating Station, M.L. Kapp Generating Station, retired electric meters, tax items, rate case expenses and certain other items. Details of proposed regulatory amortizations are provided in IPL Michek Direct Confidential Exhibit 7 (E&G), Sch. H. Details of proposed regulatory assets included in NIRB are summarized in IPL Michek Direct Confidential Exhibit 8 (E&G), Sch. H.

Q. What is the justification for incorporating a regulatory asset associated with Lansing into IPL's revenue requirement?

A. Lansing has served IPL customers reliably for decades, including investments in environmental controls equipment that were necessary to maintain sufficient capacity to serve customers in the years following those investments. Lansing was not able to operate using coal beyond December 2022 absent substantial investments to meet the United States Environmental Protection Agency's (EPA) effluent limitation guidelines, which IPL analyzed would not have been in the best interests of customers. Further, it would not be able to convert the generating facility to operate using natural gas absent substantial natural gas pipeline investments. IPL witness Metin Celebi, a Principal of The Brattle Group, provides an independent expert opinion regarding the reasonableness of IPL continuing to fully recover, as a regulatory asset, the remaining net book value of Lansing.

The Lansing investments have not been fully recovered from customers as prior rate review decisions assumed a longer depreciable life for Lansing, which allowed previous customer revenue requirements to remain lower than they otherwise would have been had IPL incorporated higher depreciation rates to minimize the risk of full recovery. IPL's proposed recovery of the regulatory asset balance associated with Lansing is consistent with the cost recovery approved for the previously retired Sutherland Generating Station and the previously retired M.L. Kapp Generating station. IPL's proposed recovery of the regulatory asset balance is also consistent with FERC's accepted treatment of Lansing (see IPL Michek Direct Exhibit 10), other retired generating assets[13], and FERC precedent.

Q. How does IPL propose recovering the Lansing regulatory asset in the electric revenue requirement?

A. The Lansing regulatory asset consists of the remaining net book value of the Lansing Generating Station, the lost value of unburned coal inventory prior to cessation of generation at year-end 2022, the deferred tax asset associated with the retirement of Lansing, as well as the projected costs of removal and ARO costs. IPL proposes to include the Lansing regulatory asset in rate base and to amortize the regulatory asset balance through year-end 2037, which was the assumed end of the book depreciable life of Lansing in IPL's last approved depreciation study. IPL will update the Lansing regulatory asset and amortizations in subsequent rate reviews as actual costs of removal and ARO costs are known.

Q. What is the balance included in the regulatory asset account that IPL proposes to recover in this rate review?

[13] *See In Re: Interstate Power and Light Company*, Final Decision and Order, Docket No. RPU-2010-0001 (January 10, 2011).

A. The total estimated regulatory asset balance as of the start of the FTY is approximately $265 million, including deferred tax implications and accumulated or forecasted ARO costs and costs of removal. IPL Michek Direct Confidential Exhibit 6 (E&G), Schedule H provides additional supporting information regarding the projected regulatory asset balance.

Q. Above you refer to FERC precedent upon recovery of retired assets. Please summarize your understanding of that precedent.

A. My understanding is that FERC, through Opinion 390 and subsequent decisions, has held that recovery of the costs of retired facilities is based upon a three-factor test.

1. First, were the company's decisions to invest in the facility and to retire the facility prudent?
2. Second, has the facility provided service for a substantial period?
3. Third, does the retirement of the facility result in cost savings?

In addition, my understanding that the United States Court of Appeals for the D.C. Circuit has held, in reviewing a decision of FERC, that:

> [A] utility may include "prudent but canceled investments" in its rate base as long as the Commission reasonably balances consumers' interest in fair rates against investors' interest in "maintaining financial integrity and access to capital markets[.][14]

The balancing test weighs in the favor of full recovery of the remaining rate base balances when the investment and retirement decisions are prudent, retirement produces substantial cost savings to rate payers, and the plant has provided years of service to ratepayers prior to retirement.[15] Furthermore, "[d]enying full recovery would likely give investors an incentive

[14] *Town of Norwood v FERC*, 80 F.3d 526, 531 (D.C. Cir. 1995) (quoting *Jersey Cent. Power and Light Co. v. FERC*, 810 F.2d 1168, 1178 (D.C. Cir. 1987)).
[15] *See Yankee Atomic Elec. Co.*, Opinion 390, 67 F.E.R.C. π 61,318, 62, 12-13 (1994).

to operate plants until they recouped all of their investment even though closing the plant would save ratepayers money."[16]

Q. Were IPL's investments in Lansing prudent?

A. Yes, all major capital investments that were made at Lansing and that required specific Board approval to complete were approved by the Board through the Emissions Plan and Budget (EPB) process[17] and approved in subsequent rate reviews in Docket Nos. RPU-2014-0001, RPU-2017-0001, RPU-2018-0004 and RPU-2019-0001. Iowa's EPB law, under which the major capital investments were approved, required IPL to demonstrate, and the Board to find, that the projects were reasonably expected to achieve cost-effective compliance with applicable state environmental requirements and federal ambient air quality standards.[18] In addition, the Board has not disallowed cost recovery of investments in Lansing to my knowledge.

Q. Has the Board previously reviewed information supporting IPL's decision to retire Lansing?

A. Yes. On November 20, 2020, IPL completed and filed with the Board an integrated resource plan, called the Iowa Clean Energy Blueprint (Clean Energy Blueprint), which was a resource-neutral evaluation of IPL's

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[16] *Town of Norwood*, 80 F.3d at 532.

[17] The large projects at Lansing approved through the EPB process include:

- SCR – introduced in the 2006 EPB (EPB-06-150). Included in 2008 (EPB-08-150) and 2010 EPBs (EPB-2010-0150).
- Mercury capture: introduced in 2008 EPB (EPB-08-150). Included in 2010 EPB (EPB-2010-0150).
- Baghouse: introduced in 2008 EPB (EPB-08-150). Included in 2010 EPB (EPB-2010-0150).
- Dry scrubber: introduced in 2010 EPB (EPB-2010-0150). Included in 2012 EPB (EPB-2012-0150) and 2014 EPB (EPB-2014-0150).

[18] *See* Iowa Code § 476.6(19)(c).

generation fleet across various future scenarios and included input from Board staff, the Iowa Department of Justice, OCA and multiple other parties. The Clean Energy Blueprint modeling was performed using Aurora and analyzed and compared the future impacts of multiple resource portfolios, such as continued investment in existing coal-fired generating units, or adding natural gas-fired generating units, wind, solar, and other resource types. The Clean Energy Blueprint, across a range of scenarios, overwhelmingly showed that adding 400 MW of solar, combined with the retirement of Lansing and conversions of a different coal power plant to natural gas, would result in a generation portfolio with the lowest overall average long-term cost to customers. IPL has filed, and the Board has reviewed, the Clean Energy Blueprint in multiple relevant dockets that resulted in approval by the Board to invest in solar generation and retire Lansing.[19]

Q. Has Lansing provided years of safe reliable service to IPL's customers?

A. Yes, it has. Lansing was first commissioned in 1977 and was retired in 2023, thus providing safe, reliable service to IPL's customers for over 45 years.

[19] *See e.g.,* IUB Docket No. RPU-2021-0003, *Order Addressing Reconsideration and Rehearing*, (I.U.B. April 27, 2023) (approving certain of IPL's solar investments where the Blueprint was provided as supporting evidence); and *Order Approving Emissions Plan and Budget Update, Approving Settlement Agreement, and Granting Confidential Treatment*, IUB Docket No. EPB-2020-0150 (I.U.B. Aug. 5, 2021) (approving IPL's 2020 EPB, which included the retirement of Lansing and cancelation of projects originally planned at Lansing prior to the completion of the Blueprint).

Q. Did the Clean Energy Blueprint identify substantial savings to IPL's customers based upon the planned retirement of Lansing and replacement with utility scale solar?

A. Yes, the Clean Energy Blueprint identified the potential for customers to avoid more than $300 million in costs over the planning horizon with the closing of Lansing included in various future scenarios.

Q. Has FERC acted on IPL's request to record the remaining net book value of Lansing and associated costs as a regulatory asset and accepted IPL's proposal to include the regulatory asset recovery in IPL's wholesale formula rates?

A. Yes. IPL Michek Direct Exhibit 10(E) provides copies of FERC decisions authorizing regulatory asset treatment and IPL's proposed recovery of the regulatory asset balance in IPL's FERC jurisdictional wholesale rates.

Q. What is the justification for incorporating recovery of a regulatory asset associated with the Derecho?

A. The Derecho hit central and eastern Iowa with widespread, hurricane-force, straight-line winds of more than 140 mph, causing extensive damage and power outages for customers. At its peak, the Derecho caused more than 256,000 IPL customers in 341 communities to experience a loss of power. The Derecho caused an unprecedented amount of damage to IPL's electric facilities, communication systems, and customer properties. The Board has previously approved deferral of the Derecho net costs for recovery in a future rate review, which IPL is now requesting. The deferred costs include deferred O&M costs, deferred depreciation, deferred return on investment through the start of the FTY, offset in part by deferred tax repairs benefits.

Q. How does IPL propose recovering the Derecho regulatory asset in revenue requirements?

A. IPL does not propose to include the Derecho regulatory asset in net investment rate base because IPL's capital investments in the assets replaced after the Derecho are included in utility plant in service and thereby included in net investment rate base. However, IPL proposes to amortize the deferred regulatory asset over a period of ten years.

Q. Were capital investments and O&M costs incurred by IPL to repair its electric distribution system after the Derecho prudent?

A. Yes. Mr. Boston provides additional explanation and support, and IPL has provided annual reports summarizing the costs incurred in Docket No. ARU-2020-0002.[20]

Q. What is the projected regulatory asset balance related to the Derecho as of the start of the FTY?

A. The estimated regulatory asset balance related to the Derecho is approximately $35 million. IPL Michek Direct Exhibit 6 (E&G) provides additional support for the projected balance and the proposed annual amortization amount.

[20] Most recent report filed on May 1, 2023.

Q. Please summarize material tax assumptions and tax benefits reflected in the Phase I rate change for the electric utility.

A. As explained in Mr. Gorman's testimony, IPL calculated the test year revenue requirements based upon an assumed 7.7 percent State of Iowa income tax rate. The revenue requirements reflect EAC treatment for all PTCs, net of the projected cost of transferability. Material discrete tax treatments/assumptions reflected in the Phase I revenue requirement include: (1) the return or credit of a one-time ADIT measurement adjustment associated with the expiration of a wholesale power supply agreement with SMEC, and (2) the return of available federal deferred protected EDIT as well as state deferred protected EDIT. Additional tax implications associated with the retirement of Lansing have been reflected as a component of the Lansing regulatory asset balance and are proposed to be recovered over the same period as the remainder of the Lansing regulatory asset. IPL's forecasts reflect PTC's eligible for transferability are transferred and reflecting a [redacted] percent discount consistent with IPL's past forecasts of the RER. If IPL obtains contractual support for a different discount level during the course of the rate review, the assumption and associated calculations will be updated accordingly. As stated previously, IPL proposed to utilize these discrete tax benefits in the Phase I rate change and then implement the incremental revenue change associated with their expiration in the Phase II rate change.

Q. What does IPL propose for its capital structure used to finance its net investment rate base?

A. IPL proposes to increase the percentage of common equity incorporated in its capital structure from 51 percent to 52 percent. IPL redeemed its $200 million of cumulative preferred stock in 2021, which causes preferred stock to be zero percent of the capital structure. The remaining 48 percent of the capital structure is comprised of long-term debt securities. In accordance with FERC methodology and Board precedent, short-term debt is not included as part of the capital structure but is assumed to be entirely used to fund construction work in process (CWIP), which is not incorporated into net investment rate base or revenue requirements until it is placed in service.[21] IPL Michek Direct Exhibit 5 (E&G), Schedules A and B summarize IPL's proposed capital structure. Further discussion of the capital structure is addressed in the testimony of IPL witness Dr. Bente Villadsen.

Q. What does IPL propose for its assumed ROE used to finance the common equity component of IPL's proposed capital structure?

A. IPL proposes to utilize a 10.0 percent ROE in establishing revenue requirements for both retail electric and natural gas operations, other than the previously approved ROEs for advance ratemaking projects. IPL's filing assumes that the Board approves the ROE ratemaking principle reflected in the filed settlement in Docket No. RPU-2021-0003 of 10.75 percent for the Solar Projects. IPL Michek Direct Exhibit 5 (E&G), Schedule D provides

[21] *Any remaining CWIP not funded by short-term debt is assumed to be funded with a mix of long-term funding sources representing the capital structure.*

the calculations of the electric utility blended ROE. Further discussion of the ROE is addressed in the testimony of Dr. Villadsen.

Q. Please summarize IPL's assumptions related to increased equity investment reflected in the proposed capital structure.

A. IPL Michek Direct Exhibit 5 (E&G), Schedule E provides the projected changes in equity balances reflected in the proposed capital structure, including projected retained earnings, projected common stock dividend, and projected equity infusions.

Q. Please summarize IPL's assumptions of long-term debt issuances used in determining the weighted average cost of debt.

A. IPL is planning multiple issuances of long-term debt securities between June 2023 and the end of the FTY totaling [redacted] at estimated interest rates of [redacted] percent to [redacted] percent and a net increase in long-term debt of approximately [redacted] Details regarding projected long term debt issuances and costs are provided in IPL Michek Direct Confidential Exhibit 4 (E&G), Schedules F, G and H

Q. Based on the proposed capital structure and financing cost levels noted above, what does IPL calculate as the WACC to be used in establishing revenue requirements?

A. IPL calculates the electric utility WACC to be approximately 7.50 percent for the FTY used in determining revenue requirements. IPL calculates the natural gas utility WACC for the FTY to be approximately 7.43 percent. The different WACCs for the electric utility and the natural gas utility are related to the blended ROE applicable to projects with advanced ratemaking principles.

VII. NATURAL GAS REVENUE REQUIREMENT DRIVERS

Q. What are the major rate base investments that have occurred since the last natural gas rate review that now are necessary for inclusion in revenue requirement calculations?

A. The increase in the natural gas utility rate base is predominantly due to replacements and upgrades of existing natural gas utility distribution system infrastructure and the increase in common plant allocated to IPL gas utility operations. IPL witness John Boston's testimony provides additional details regarding the natural gas distribution construction investment activities. Increased rate base accounts for approximately $11 million of the approximately $14 million proposed increase in natural gas utility revenue.

Q. What is the estimated impact of the proposed recovery of 50 percent of incentive compensation costs?

A. IPL's proposed recovery of incentive compensation costs represents approximately $1.5 million of the proposed rate increase. IPL Michek Direct Exhibit 3 (G), Schedule C, Page 2 shows the adjustment to eliminate 50 percent of incentive compensation.

Q. What is the impact of changes in capital structure and financing costs on natural gas revenue requirements?

A. The proposed changes in ROE and capital structure contribute approximately $0.5 million to the revenue requirement.

VIII. PHASE II ELECTRIC REVENUE REQUIREMENT DRIVERS

Q. What costs are included in proposed Phase II of the retail electric rate change?

A. The proposed Phase II electric rate change consists of four components or drivers:

a. Implementation of updated depreciation rates for electric and common plant.

b. Impacts of the SMEC wholesale contract expiration, including the expiration of associated tax benefits.

c. Impacts of federal and state EDIT utilization that expires during the test year.

d. Incremental full-year impacts of the Solar Projects pending in RPU-2021-0003 relative to the partial year impacts for those projects in the Phase I revenue requirement.

Q. What are the impacts to revenue requirements for IPL's proposed depreciation study?

A. IPL estimates that the proposed depreciation study will create a net impact of approximately $41 million in retail electric revenue requirement. While almost all assets will have a new depreciation and cost of removal (COR) rates, major drivers of the change include:

- Updates to depreciation rates across a range of distribution asset categories, but particularly related to overhead-related distribution assets. IPL has been working to increase system reliability by undergrounding more assets. The damage to the overhead electric distribution system caused by the Derecho provides a strong example of the benefits of undergrounding.

- Acceleration of the depreciable life of of the Prairie Creek Generating Station from 2035 to 2031, which IPL currently expects to fully convert from coal to natural gas after 2025. This will allow the unit to continue to serve as a capacity resource for customers at the site until further evaluation of a replacement resource is completed
- Updated depreciation rates for the Ottumwa Generating Station, whose rates have not been updated since IPL completed several major environmental controls investments at the site.
- Updated depreciation rates reflecting estimated COR for advance ratemaking projects previously being depreciated on a straight-line basis without consideration of COR.

Q. What is the estimated incremental impact of the SMEC wholesale contract expiration?

A. The incremental impact of the SMEC wholesale contract expiration in the Phase II revenue requirement is approximately $44 million. This amount consists of the incremental lost margin revenue totaling approximately $23 million and the expiration of approximately $21 million (approximately $15 million, grossed up to revenue requirement value) of tax benefits utilized in the Phase I revenue requirements. Mr. Gorman discusses these tax benefits in his testimony. The Phase II revenue requirement adjustments are reflected in IPL Michek Direct Exhibit 9 (E), Schedule C, Page 2, Column (3).

Q. What is the estimated impact of federal and stated EDIT utilization that expires during the test year?

A. The incremental revenue requirement impact of expiring federal and state EDIT is approximately $26 million (approximately $18.6 million of tax value grossed-up to revenue requirement value). The Phase II revenue requirement adjustments are reflected in IPL Michek Direct Exhibit 9 (E), Schedule C, Page 2, Columns (4) and (5).

Q. What is the estimated incremental impact the full-year impact of the Solar Projects pending in Docket No. RPU-2023-0003?

A. The incremental impact of the Solar Projects for the Phase II retail electric rate increase is approximately $14 million. The cost-of-service adjustments associated with the Solar Projects are reflected in IPL Michek Direct Exhibit 9 (E), Schedule C, Page 2, column (7). The NIRB adjustments associated with the Solar Projects are reflected in IPL Michek Direct Exhibit 9 (E), Schedule D, Page 2, Column (4).

IX. PHASE II ELECTRIC RATES IMPLEMENTATION

Q. What will trigger implementation of IPL's proposed Phase II rate change?

A. IPL proposes to implement the Phase II rate change one full year (365 days) after the Phase I rate change is effective in rates, which IPL expects would be October 1, 2025.

Q. Does IPL propose to file any additional information prior to implementing the Phase II rate change?

A. IPL proposes to file an updated version of IPL Michek Exhibit 9 (E), 60 days in advance of the Phase II rate change implementation. In that filing, IPL would reflect the final costs of the Solar Projects, up to the approved cost cap. In addition, IPL would identify any other material adjustments to the following components of the Phase II rate change (Federal and State EDIT; SMEC wholesale margin and tax implications) and based upon actual information (up to the maximum impacts reflected in this filing) in that filing. If the updated information and calculations support a lower Phase II rate change, IPL will propose modified rate changes using the class cost of service and rate design allocations approved in this rate review for Phase II. If the updated information and calculations support a higher Phase II rate change than proposed by IPL in this rate review IPL will implement the Phase II rate change approved in this rate review. This process ensures that customer impacts of the Phase II rate change is limited to a maximum of the amount approved in this rate review.

X. ACCOUNTING AUTHORIZATIONS REQUESTED

Q. What accounting authorizations are necessary to apply for the Lansing regulatory asset?

A. Consistent with the FERC approved accounting for the retirement of Lansing, IPL seeks Board approval for the accounting of the retired Lansing generation station:

- Transfer the remaining net book value to Account 182.2 Unrecovered Plant and Regulatory Costs. This would occur through multiple steps involving the retirement of the utility plant in service to Account 108 Accumulated Provision for Depreciation of Electric Utility Plant; followed by the remaining net book value in Account 108 to Account 182.2.
- Transfer the net book value of Asset Retirement Costs (ARC) to Account 182.2 Unrecovered Plant and Regulatory Costs; transfer any loss on settlement of ARO as costs are incurred to Account 182.3 Other Regulatory Assets.
- Record any incurred COR expenditures to Account 182.2 Unrecovered Plant and Regulatory Costs.
- Amortize the regulatory asset balance in Account 182.2 Unrecovered Plant and Regulatory costs to Account 407 Amortization of Property Losses and Unrecovered Plant.

Q. What accounting authorizations are necessary to implement the proposed depreciation study?

A. IPL seeks Board approval to implement new electric utility and common plant depreciations effective October 1, 2025, or upon the effective date of the Phase II change in retail electric rates.

Q. What accounting authorizations are necessary for other regulatory asset and liability amortizations?

A. IPL seeks Board approval to implement electric utility regulatory asset and liability amortizations effective October 1, 2024, or upon the effective date of the Phase I change in retail electric rates.

Q. Does IPL request any other accounting authorizations in conjunction with the proposed changes in retail electric and natural gas rates?

A. Yes, IPL proposes to implement deferral accounting treatment of Pension and Other Post Employment Benefit (OPEB) costs. In addition, IPL seeks Board approval or confirmation that the PTC benefits reflected in EAC shall be net of the costs of transferability of the PTCs to third parties.

Q. Why does IPL propose deferral treatment for pension and OPEB expenses?

A. Pension and OPEB expenses vary due to situations beyond IPL's control, including the impacts of changing discount rates and asset market returns, in addition to the potential volatility in recognized Pension and OPEB expenses if material numbers of employees retire resulting in settlement charge accounting. These costs are determined by an independent actuarial consultant consistent with appropriate accounting requirements.

Q. Please explain the proposed deferral accounting process for Pension and OPEB costs.

A. Upon Board approval of the proposed deferral accounting treatment, IPL would recognize Pension and OPEB expenses on its income statement each year equivalent to the annual forecast reflected in the FTY. If actual

Pension and OPEB costs incurred are higher or lower than the amount reflected in revenue requirement, IPL would defer the difference between the actual expense that would otherwise have been recognized and the amount included in rates as either a regulatory asset or liability. In a future rate review, IPL would propose a cost recovery mechanism (i.e., amortization schedule) to either recover the under-recovered costs or return the over recovered costs.

Q. By authorizing the deferral treatment, can customers be assured that they are only paying actual costs associated with the pension and OPEB plans?

A. Yes, similar to automatic adjustment mechanisms, deferral accounting ensures that customers only pay actual costs.

Q. What is the estimate of pension and OPEB costs included in the FTY, and against which actual costs would be measured and deferred?

A. The FTY forecasted electric utility and natural gas utility operating income statements include total pension and OPEB costs totaling approximately $7.3 million and $1.5 million respectively.

XI. ACCOUNTING METHODOLOGY

Q. Are IPL's financial forecasts and revenue requirement schedules for the FTY based upon accounting methodology consistent with IPL's accounting methodology for actual results to the extent reasonably practical?

A. Yes, to the extent reasonably practical, the financial information filed in this rate review for a FTY rate review is consistent with accounting methodologies followed in recording IPL's actual financial results. While forecast information and budgets are developed with less granular detail than a full year of actual financial results, IPL has taken steps to align the forecast information such that it is reasonably comparable with historical actual results.

Q. Are forecasted costs directly budgeted or assigned to IPL, WPL, and the remainder of the non-utility subsidiaries of Alliant Energy Corporation (AEC) to the extent practical?

A. Yes, IPL-specific costs are budgeted or assigned to IPL. WPL-specific costs are budgeted or assigned to WPL. Costs directly applicable to AEC and non-utility subsidiaries are budgeted or assigned directly to those subsidiaries.

Q. How did IPL address cost allocations of forecasted costs between IPL, WPL, and the other subsidiaries of AEC?

A. The financial modeling system utilized to develop the underlying budget information for IPL, WPL, AECS, and the other subsidiaries of AEC utilizes allocation factors to allocate costs of AECS between the subsidiaries in a manner consistent with the AECS Master Service Agreements and the actual allocation factors.

Q. How did IPL address cost allocations of common costs between electric and natural gas service?

A. Costs common to both IPL's electric and natural gas utility operations were allocated utilizing actual allocation factor and methods consistent with IPL's accounting practices.

Q. Has IPL excluded all budgeted below-the-line nonutility costs from the revenue requirement calculations for the FTY?

A. Yes, IPL developed the underlying budget information with specific coding of below-the-line nonutility activities. All below-the-line nonutility activities are excluded from the revenue requirements calculated for the FTY.

Q. Has IPL prepared its financial forecast information consistent with the FERC uniform system of accounts (USOA)?

A. Yes, to the extent reasonably practical, IPL's forecasted financial information is consistent with the USOA.

Q. Does IPL's revenue requirement calculations include any direct or indirect lobbying expenses or advertising expenses not allowed in Iowa Code section 476.18(3)?

A. No. IPL segregates and excludes below-the-line activities from the calculation of revenue requirements, including direct or indirect lobbying expenses and advertising costs that are not allowed in accordance with Iowa Code section 476.18(3).

XII. SUBSEQUENT PROCEEDING

Q. Does IPL propose any change to the subsequent proceeding for this docket because of its proposed two-phase rate implementation?

A. No, IPL anticipates that the subsequent proceeding would occur in accordance with the Board's rules and that IPL would file the requisite information within sixty days after the completion of the FTY.

Q. Is a subsequent proceeding also needed, appropriate or required after the Phase II rates are implemented?

A. No. As described above, the items reflected in the Phase II rate change are distinct matters based on updated actual costs. The overwhelming majority of the cost increases proposed for the Phase II rate change result from IPL's efforts to moderate the customer impact of the overall rate change over a period of time. In addition, these discrete items match costs and revenue and would have very minimal incremental impact on IPL's earned ROE. The limited component of the Phase II rate change with an incremental earnings impact is related to the full-year revenue requirements of the 400 MW Solar Projects subject to RPU-2023-0003. Those projects have been reviewed in Docket No. RPU-2021-0003 and the cost impacts in the Phase II rate change will be based upon the lower of the actual costs of the projects or the approved cost cap(s) for the projects. As stated above, the actual costs of these projects will be filed 60 days before the implementation of Phase II rates.

XIII. ANTICIPATED UPDATES

Q. Does IPL plan to provide any updates to the proposed revenue requirement calculations during the course of this proceeding?

A. Yes, IPL anticipates several updates to the filed revenue requirement calculations and the resultant proposed changes in retail electric and natural gas rates. IPL expects those updates to include the following:

- State of Iowa tax rates to align with the recently announced reduction in Iowa's state income tax rates. IPL's rate filing, and customers notices were completed prior to the announced reduction in the state income tax rate. This update is expected to reduce the revenue requirement and proposed revenue changes filed in this proceeding, all else equal.

- IPL known actual long-term debt issuances and cost rates. IPL's revenue requirement calculations in this proceeding were finalized prior to IPL completing a long-term debt issue. This update is expected to reduce the revenue requirement and proposed revenue changes filed in this proceeding, all else equal.
- As required pursuant to Board rules, an update 120 days after filing to include additional actual financial results. IPL does not anticipate any material change in revenue requirements as a result of this required update.
- The Board's final decision in Docket No. RPU-2021-0003 regarding the Solar Projects. The rate filing will be updated for the impacts of the Board's decision in the advance ratemaking docket.
- The Board's final decision in Docket No. EEP-2022-0150 regarding IPL's 2024-2028 energy efficiency plan, including its electric interruptible program.
- IPL will provide update rate case expense budget information as the case progresses or at the request of the Board.

In addition, IPL may have additional information regarding an application filed by IPL that seeks Department of Energy (DOE) Title 17 Clean Energy Financing Program loans. IPL filed a Part 1 Application with the DOE Loan Program Office in late August 2023. IPL's filing in this proceeding did not reflect any assumed funding under this program. If IPL is ultimately awarded funding and accepts that funding for any or all of the proposed projects covered by that application during the course of this proceeding in a timely manner to adhere to the Board's procedural schedule IPL will update the revenue requirement calculations accordingly.

Q. Does this conclude your direct testimony?

A. Yes.

STATE OF IOWA

BEFORE THE IOWA UTILITIES BOARD

IN RE: **INTERSTATE POWER AND LIGHT COMPANY**	**DOCKET NO. RPU-2023-0002**

AFFIDAVIT OF
NEIL E. MICHEK

STATE OF WISCONSIN)
) ss.
COUNTY OF DANE)

I, Neil E. Michek first duly sworn on oath, depose and state that I am the same Neil E. Michek identified in the Direct Testimony, that I have caused the Direct Testimony, to be prepared and am familiar with the contents thereof; and that the Direct Testimony, are true and correct to the best of my knowledge and belief as of the date of this Affidavit.

/s/ Neil E. Michek
Neil E. Michek

Subscribed and sworn to before me,
a Notary Public in and for said County
and State, this 12th day of October 2023.

/s/ Linda J. Gomez
Linda J. Gomez
Notary Public
My commission expires on February 6, 2026