A. Yes. Regulators should take into account the price fluctuations typically experienced by utility companies. Such fluctuations may be sizeable, often ranging from 10-15% in a year. A public utility has limited discretion over its capital spending and financing needs, since it must meet customer obligations regardless of economic and capital market conditions. Consequently, a utilty is subject to constraints as to the timing of common stock issuances, including equity contributed through dividend reinvestment programs. A further adjustment to the cost of equity, in addition to the flotation adjustment, is therefore required.

To account for market fluctuation in the area of 10%, I regard a further 10% adjustment to the market yield as being adequate. This equates to 1.07% (10.7% yield multiplied by 10%).

Q. Based on the above, what is the appropriate rate of return on common equity for ratemaking purposes?

A. Reflecting a 15.6% market cost of equity (as determined by a DCF analysis of Iowa-Illinois), a .45% adjustment for flotation, and a 1.07% adjustment for market price fluctuation, the appropriate return on common equity is around 17.12%. Using instead the 15.8% cost of equity for eight comparison companies, but the same flotation and pricing adjustments, produces a result of 17.32%.

Q. How did you check your return recommendation against historical risk return relationships?

A. I relied on a study published by The Financial Analysts Research Fondation in 1982 entitled, "Stocks, Bonds, Bills, and Inflation: The Past and the Future". This study by Roger G. Ibbotson and Rex A. Sinquefield studied inflation and the returns on various securities for a 56 year period ended 1981. The authors found that the mean arithmetic risk premium for common stocks versus treasury bills, that is, the average difference between stock and T-bill returns, was 8.3%. The geometric mean return, which is appropriate for longer term forecasting, was a lesser 5.9%.

As shown in the Wall Street Journal (April 20, 1984 edition), the current annualized yield on 90 day Treasury bills is approximately 10.1%. However, the return on T-bills with a maturity of one year is a higher 11.0%, indicating a market perception of some rise in near term interest rates. This is borne out by an examination of financial futures markets, which indicate that a 90-day T-bill to be delivered about one year from now (March 1985) is priced at an effective yield of 11.1%. In view of this market data, I used the one year T-bill rate of 11% as the appropriate "risk free" rate. Adding to this the historic geometric mean risk premium of 5.9% produces a 16.9% cost of equity for the market as a whole. Adding instead the arithmetic mean risk premium of 8.3% produces a 19.3% market cost of equity.

Q. Have you prepared an exhibit which shows the overall cost of capital for Iowa-Illinois Gas and Electric Company's gas operations?

A. Yes, this is shown on Exhibit No. 19, entitled, "Cost of Capital Calculation".

Q. What does this document show?

A. Exhibit No. 19 shows the Company's capitalization ratios and the earnings requirements for each component of capitalization. The embedded costs of debt and preferred and preference stock were provided by Iowa-Illinois. The cost of capital calculation shows the Company's overall cost of capital is in a range of 12.24%-12.32% reflecting my recommended range of 17.1%-17.3% as an appropriate return on common shareholder equity. A fair and reasonable rate of return for Iowa-Illinois Gas and Electric Company's gas distribution operations should be no less than its cost of capital.

Q. Does this conclude your testimony?

A. Yes.

DOCKET NO. RPU-92-2
(RPU-88-10)

STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: IOWA POWER INC. n/k/a MIDWEST POWER SYSTEMS INC.	DOCKET NO. RPU-92-2 (RPU-88-10)

ORDER APPROVING SETTLEMENT AND GRANTING EXTENSION OF TIME

(Issued October 15, 1992)

On August 17, 1992, Iowa Power Inc. n/k/a Midwest Power Systems Inc. (Iowa Power), the Consumer Advocate Division of the Department of Justice (Consumer Advocate), Deere & Company, Bridgestone/Firestone Inc., and Iowa Electric Light and Power Company filed with the Utilities Board (Board) a "Joint Motion for Approval of Settlement Agreement" and "Settlement Agreement." The proposed settlement stated it resolved all outstanding issues pending in Docket No. RPU-92-2. There are no other parties to this proceeding.

This proceeding was initiated on March 17, 1992, by Iowa Power filing a request for a permanent annual revenue increase in its electric rates of approximately $36.1 million. Iowa Power subsequently amended it request to approximately $43.4 million. Consumer Advocate recommended a $5.4 million revenue decrease. On June 4, 1992, the Board issued an order setting temporary rates. The parties notified the Board on August 4, 1992, of the impending settlement and on August 5, 1992, the Board issued an order holding the procedural schedule established in Docket No. RPU-92-2 in abeyance. A hearing on the proposed settlement was held on September 28, 1992, to provide the parties an opportunity to respond to the Board's inquiries regarding the proposed settlement.

The settlement resolves all issues involving revenue requirement and rate design and allows an increase in electric rates of approximately $19.3 million, or 5 percent. A copy of the settlement agreement is attached and incorporated by reference. The overall weighted cost of capital used to calculate the annual revenue requirement is 10.227 percent. The test period used to determine rates is on the basis of a test year ending December 31, 1991, as adjusted.

This rate case presented several difficult issues, including Cooper nuclear costs, nuclear decommissioning, and Financial Accounting Standard (FAS) No. 106. The hearing on the proposed settlement produced testimony which indicated the parties thoroughly examined the issues and worked to reach a compromise settlement. While the Board may not have reached the same decision on individual issues as reflected in the settlement, the overall terms of the settlement are reasonable and generally consistent with recent Board decisions.

After reviewing the complete record in this proceeding, pursuant to IOWA ADMIN. CODE 199-7.2(11) (1992), the Board finds the terms of the parties' settlement agreement to be reasonable and will approve it. There are no aspects of the settlement agreement which are inconsistent with Iowa law or the rules of the Board and the terms of the settlement agreement are in the public interest.

The Board will also approve Iowa Power's new Security Lighting Service, which is part of the settlement, and will grant Iowa Power an extension of time until January 15, 1995, to complete the phase-out of the Lightwatchman program ordered in Docket No. RPU-88-10. The new Security Lighting Service is to be offered in lieu of the Lightwatchman program.

FINDINGS OF FACT

1. The proposed settlement is reasonable in light of the complete record in this proceeding.

2. The proposed settlement is in the public interest.

CONCLUSIONS OF LAW

1. The Utilities Board has jurisdiction over the parties and subject matter of this proceeding, pursuant to IOWA CODE §§ 476.1 and 476.6 (1991).

2. Pursuant to IOWA ADMIN. CODE 199-7.2(11) (1992), this order constitutes the final decision of the Utilities Board in Docket No. RPU-92-2.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The proposed tariffs filed on March 17, 1992, by Iowa Power Inc. n/k/a Midwest Power Systems Inc., identified as TF-92-74 and TF-92-75, and made subject to investigation as part of this proceeding, are declared to be unjust, unreasonable, and unlawful.

2. The joint motion to approve the unanimous settlement agreement filed by the parties in Docket No. RPU-92-2 on August 17, 1992, is granted,

conditioned upon the filing of compliance tariffs acceptable to the parties and the Board.

3. On or before 45 days from the date of this order, Iowa Power Inc. n/k/a Midwest Power Systems Inc. shall file tariffs for the Board's consideration to implement the terms of the "Settlement Agreement" filed by the parties on August 17, 1992, and attached to this order.

4. Iowa Power Inc.'s n/k/a Midwest Power Systems Inc. new Security Lighting Service is approved, and Iowa Power is granted an extension until January 15, 1995, to complete the phase-out of the Lightwatchman program ordered by the Board in Docket No. RPU-88-10.

5. Motions and objections not previously granted or sustained are denied or overruled.

UTILITIES BOARD

Amnie J. Nagel

Nancy S Boyd

ATTEST:

Raymond K. Vawter

Executive Secretary

Emmit J. George, Jr.

Dated at Des Moines, Iowa, this 15th day of October, 1992.

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE: IOWA POWER INC., n/k/a MIDWEST POWER SYSTEMS INC.	DOCKET NO. RPU-92-2

SETTLEMENT AGREEMENT

ARTICLE I

INTRODUCTION

On March 17, 1992, Iowa Power Inc.("Iowa Power") filed with the Iowa Utilities Board ("Board") an application for a rate increase pursuant to Iowa Code Section 476.6 (1991), proposing to increase the annual revenue of Iowa Power by approximately $36.1 million, or 10.0 percent. By order of April 10, 1992, the Board docketed the case as a formal proceeding identified as Docket No. RPU-92-2. On July 22, 1992, Iowa Power and Iowa Public Service Company merged with and into Midwest Power Systems Inc. (the successor corporation to Iowa Power), (hereinafter referred to as "Midwest Power" or "Company"). On July 23, 1992, the Board issued an order assigning the respective service territories of Iowa Power and Iowa Public Service to Midwest Power. The rate increase agreed to in this Settlement Agreement pertains only to customers in the former service territory of Iowa Power.

ARTICLE II

PURPOSE

This Settlement Agreement has been prepared and executed by Midwest

Power, the Office of Consumer Advocate, Bridgestone/Firestone Inc., Deere & Co., and Iowa Electric Light and Power Company (hereinafter collectively referred to as the "Parties", or individually as a "Party") for the purpose of resolving the disputed issues in Docket No. RPU-92-2 as herein provided and is applicable only to Docket No. RPU-92-2. *In consideration of the mutual agreements hereinafter set forth*, the Parties hereby agree as follows.

ARTICLE III

JOINT MOTION

Upon execution of this Settlement Agreement, the Parties shall file the same with the Board together with a joint motion requesting that the Board issue an order approving this Settlement Agreement in its entirety without condition or modification.

ARTICLE IV

CONDITION PRECEDENT

This Settlement Agreement shall not become effective unless and until the Board enters an order approving same in its entirety without condition or modification.

ARTICLE V

PRIVILEGE AND LIMITATION

This Settlement Agreement shall become binding upon the Parties upon its execution, provided, however, that if this Settlement Agreement does not become effective in accordance with Article IV, above, it shall be null, void, and privileged. This Settlement Agreement represents a settlement on a mutually agreeable outcome without resolution of specific issues of law or fact which were raised by the parties except as expressly provided in Article XI. This Settlement Agreement is intended to relate only to the specific matters referred to herein; no Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein; no Party shall be deemed to have approved, accepted, agreed, or consented to any ratemaking principle, any method of cost of service determination, or any method of cost allocation underlying the provisions of this Settlement Agreement (or the attachments thereto) or be prejudiced or bound thereby in any other current or future proceeding before the Board except as expressly provided in Article XI herein. Except as provided in Article XI, no Party shall directly or indirectly refer as precedent to the Settlement Agreement or that part of any Board order referring to this Settlement Agreement in any current or future proceeding before the Board.

ARTICLE VI

TEST PERIOD

The justness and reasonableness of rates in this case is to be determined on the basis of a pro forma annual revenue requirement determined on the basis of a test period ending December 31, 1991, as adjusted.

ARTICLE VII

RATE BASE

The rate base to be used to calculate Midwest Power's annual revenue requirement in this case shall be $704,086,000. The rate base shall be the test year thirteen-month average net original cost of investment in electric plant in service and working capital with pro forma adjustments as set forth in Schedule A.

ARTICLE VIII

REVENUE REQUIREMENT

The total annual revenue requirement in this case shall be $404,259,000 as set forth in Schedule A.

ARTICLE IX

RATE OF RETURN AND CAPITAL STRUCTURE

The parties agree that the allowable overall weighted cost of capital used to calculate the annual revenue requirement in this case shall be 10.227 percent as set forth in Schedule A.

ARTICLE X

RETURN ON EQUITY

The Parties agree that the rate of return on common equity to be used to calculate Midwest Power's annual revenue requirement in this case shall be an 11.9 percent cost of common equity, added to which shall be a 30 basis point management efficiency award associated with merger activity, for an overall allowed return on common equity of 12.2 percent. Consistent with the Board's decision in Docket No. RPU-91-6, the 30 basis point addition to the cost of equity referred to above shall not be used by Midwest Power for calculating AFUDC, in calculations for energy efficiency purposes, or other regulatory purposes.

ARTICLE XI

DECOMMISSIONING COST ASSUMPTIONS

The Parties agree that projections of Midwest Power's decommissioning costs for Cooper Nuclear Station ("Cooper") should be calculated using the following assumptions:

a. that the amount remaining in the Nebraska Public Power District's ("NPPD") Fuel Reserve Fund, for Cooper, at the time Midwest Power's Cooper contract terminates will be used to defray the cost of decommissioning Cooper.

b. that the amount remaining in NPPD's Reserve Account in the Reserve and Contingency Fund, for Cooper, at the time Midwest Power's Cooper contract terminates will be used to defray the cost of decommissioning Cooper.

c. that the amount remaining in NPPD's Operating Fund, for Cooper, at the time Midwest Power's Cooper contract terminates will be used to defray the cost of decommissioning Cooper.

d. that the interest earnings of the above-referenced funds, during the decommissioning period, will be used to defray the cost of decommissioning Cooper.

Language in Article V to the contrary notwithstanding, the agreement of the Office of Consumer Advocate ("Consumer Advocate") and Midwest Power to the above assumptions is intended to have application in all future Midwest Power rate proceedings before the Board. (The agreement of Bridgestone/Firestone Inc. and Deere & Company to the above assumptions is intended to have application only to Docket No. RPU-92-2, not all future Midwest Power rate proceedings before the Board, nor is said agreement to be construed as a waiver of Article V by either Bridgestone/Firestone Inc. or Deere & Company.) Therefore, by virtue of this Article XI, Midwest Power and the Consumer Advocate will have the right to refer to Article XI as Midwest Power's and the Consumer Advocate's mutual approval, acceptance, agreement and consent to the ratemaking principle that projections of Midwest Power's decommissioning costs for Cooper, for ratemaking purposes, should be computed in conformance with the above-stated assumptions. Midwest Power and the Consumer Advocate waive any claim or right to object to use of such assumptions in future computations of the projected Cooper decommissioning costs. Midwest Power and the Consumer Advocate reserve the right to litigate, in future Midwest Power rate proceedings, all other assumptions related to the computation of Midwest Power's projected decommissioning costs for Cooper.

ARTICLE XII

TIMELINESS OF APPROVAL

In entering into this Settlement Agreement, the Parties have contemplated that this Settlement Agreement would be approved by the Board as expeditiously as reasonably possible so that tariffs incorporating its terms could be implemented as ear.

as possible.

ARTICLE XIII

RESERVED FOR FUTURE LITIGATION

The Parties explicitly reserve for future litigation:

a. the issue of whether the Company's costs associated with the canceled Vandalia Project can be recovered from ratepayers;

b. the issue of whether the Company's investment in the reusable plant and equipment at the former Des Moines Power Station (now known as "Des Moines Energy Center") should be included in the Company's rate base;

c. the issue of whether the Board should approve the Company's proposed automatic rate adjustment mechanism relating to its Cooper costs; and

d. the issue of whether the Board should approve the Company's proposal for a sharing of the energy and demand margins from its bulk power sales.

ARTICLE XIV

FINANCIAL ACCOUNTING STANDARD 106

The Parties are in agreement and hereby urge the Board to institute a proceeding of general application (e.g., a rulemaking proceeding) that will address Financial Accounting Standard 106 ("FAS 106"), and that will address the issue of the proper ratemaking treatment to be followed by rate regulated Iowa utilities with respect to the costs for post-retirement medical benefits as booked in accordance with FAS 106.

The Parties are in further agreement and hereby urge the Board to render an agency decision with respect to the foregoing issues on or before December 31, 1992.

ARTICLE XV

EXECUTIVE INCENTIVE COMPENSATION

The Parties agree that Midwest Power's executive incentive compensation plan will be modified to explicitly consider individual performance.

ARTICLE XVI

RATE DESIGN

The Parties agree that the rate increase resulting from this Settlement Agreement shall be allocated to ratepayers in the manner and according to the procedure proposed in the Company's rate increase filing submitted to the Board on March 17, 1992 (i.e., in a manner that produces an across-the-board increase for all classes of customers). The customer charge will not be changed. The billing determinants to be used in designing the Company's rates shall be the test year billing units as set forth in Schedule B, attached hereto. The annual revenue requirement determined in this case is $404,259,000 as set forth Article VIII. However, for purposes of rate design, this revenue requirement shall be reduced by $4,894,000, the amount of the sales growth adjustment referenced in Schedule A. Therefore, final tariffed rates when applied to the billing determinants shown in Schedule B, plus the addition of Sales for Resale-Other Revenue in the amount of $19,340,903 (see Interim Workpaper ODS-C, page 1 of 5) and

Other Operating Revenues-Iowa Jurisdictional in the amount of $3,418,697 (see Interim Workpaper ODS-C, page 1 of 5, filed on June 8, 1992) shall produce revenues not to exceed $399,365,000.

ARTICLE XVII

SECURITY LIGHTING SERVICE

The Parties agree that the Board should approve Midwest Power's proposed new Security Lighting Service program, as described in the prefiled Direct Testimony of O. Dale Stevens, to be offered in lieu of the Lightwatchman program currently being phased out.

ARTICLE XVIII

NEW RATE INCREASE FILING

Midwest Power agrees that any subsequent Application For Increased Electric Rates, filed after the conclusion of Docket No. RPU-92-2, and filed pursuant to Iowa Code Section 476.6 (1991), shall not be filed prior to March 1, 1993 and would not seek an effective date for interim rates prior to June 1, 1993. The foregoing agreement, however, shall not apply and shall not be binding on Midwest Power in the event Midwest Power experiences an extraordinary occurrence that requires the Company to seek rate relief.

Respectfully submitted,

OFFICE OF CONSUMER ADVOCATE

By Ronald C. Polle
Ronald C. Polle
Attorney
4th Floor
Lucas State Office Building
Des Moines, Iowa 50319

ATTORNEY FOR THE OFFICE OF CONSUMER ADVOCATE

Date 8/17/92

MIDWEST POWER SYSTEMS INC.

By Charles R Montgomery
Charles R. Montgomery
Manager-Legal Services
2800 Ruan Center
666 Grand Avenue
Des Moines, Iowa 50309

By Steven R. Weiss
Steven R. Weiss
Senior Attorney
2800 Ruan Center
666 Grand Avenue
Des Moines, Iowa 50309

ATTORNEYS FOR MIDWEST POWER SYSTEMS INC.

Date 08/17/92

BRIDGESTONE/FIRESTONE INC.

By Michael R. May
Michael R. May
Attorney at Law
Suite 935-Two Ruan Center
601 Locust Street
Des Moines, Iowa 50309

ATTORNEY FOR INTERVENOR

Date 8/17/92

IOWA ELECTRIC LIGHT & POWER

By
Jonathan M. Rogoff
Senior Attorney
200 First Street, S. E.
Cedar Rapids, Iowa 52401

ATTORNEY FOR INTERVENOR

Date

Respectfully submitted,

OFFICE OF CONSUMER ADVOCATE

By________________________
Ronald C. Polle
Attorney
4th Floor
Lucas State Office Building
Des Moines, Iowa 50319

ATTORNEY FOR THE OFFICE OF CONSUMER ADVOCATE

Date________________________

MIDWEST POWER SYSTEMS INC.

By________________________
Charles R. Montgomery
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2800 Ruan Center
666 Grand Avenue
Des Moines, Iowa 50309

By________________________
Steven R. Weiss
Senior Attorney
2800 Ruan Center
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Des Moines, Iowa 50309

ATTORNEYS FOR MIDWEST POWER SYSTEMS INC.

Date________________________

BRIDGESTONE/FIRESTONE INC.

By________________________
Michael R. May
Attorney at Law
Suite 935-Two Ruan Center
601 Locust Street
Des Moines, Iowa 50309

ATTORNEY FOR INTERVENOR

Date________________________

IOWA ELECTRIC LIGHT & POWER

By________________________
Jonathan M. Rogoff
Senior Attorney
200 First Street, S. E.
Cedar Rapids, Iowa 52401

ATTORNEY FOR INTERVENOR

Date 8/13/92

DEERE & COMPANY

By George E. Van Damme
George E. Van Damme
John Deere Road
Moline, Illinois 51265

ATTORNEY FOR INTERVENOR

Date 8/17/92

CERTIFICATE OF SERVICE

I, Charles R. Montgomery, hereby certify that I have this day served the attached documents upon the following parties, at the following addresses in accordance with the rules of the Iowa Utilities Board.

Susan Allender
General Counsel
Fifth Floor
Iowa Utilities Board
Lucas State Office Building
Des Moines, Iowa 50319

James R. Maret
Consumer Advocate
Fourth Floor
Lucas State Office Building
Des Moines, Iowa 50319

Michael R. May
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George E. VanDamme
Deere & Company
John Deere Road
Moline, Illinois 51265

Jonathan M. Rogoff
Iowa Electric Light & Power
200 First Street, S. E.
Cedar Rapids, Iowa 52401

Dated at Des Moines, Iowa this 17th day of August, 1992.

By Charles R Montgomery

Charles R. Montgomery
Manager-Legal Services
666 Grand Avenue
2800 Ruan Center
Des Moines, Iowa 50309
Telephone: 515/281-2900

Revenue Requirement
Iowa Power
RPU-92-2

1	Adjusted Rate Base	704,086
2	Rate of Return	10.23%
3	Allowable Operating Income	72,010
4	Pro Forma Operating Income	60,552
5	Additional Operating Income Requirement	11,458
6	Additional Income Taxes	7,867
7	Additional Revenue Requirement	19,325
8	Pro Forma Revenues	384,935
9	Total Revenue Requirement	404,259

Income Statement
Iowa Power
For Test Period Ended December 31, 1991

	Per Books (A)	Adjusts. Page 1 (B)	Adjusts. Page 2 (C)	Adjusts. Page 3 (D)	Total (E)	Increase (Decrease) (F)	Total After Increase (Decrease) (G)
1 Operating Revenues	381,453	3,482	0	0	384,935	19,325	404,259
2 Oper. and Maintenance	219,507	21,859	(6,858)	340	234,847		234,847
3 Depr. and Amortization	42,159	(121)	52	858	42,948		42,948
4 Other Taxes	30,996	(1,381)	17	0	29,632		29,632
5 Federal Income Tax	13,914	(5,132)	1,983	(366)	10,400	5,902	16,302
6 State Income Tax	4,660	(1,745)	660	(122)	3,454	1,965	5,419
7 Deferred Tax	4,888	(124)	14	167	4,945		4,945
8 ITC	(1,850)	6	0	0	(1,844)		(1,844)
9 Total Expense	314,274	13,363	(4,132)	877	324,382	7,867	332,249
10 Operating Income	67,179	(9,881)	4,132	(877)	60,552	11,458	72,010

Income Statement
Iowa Power
For Test Period Ended December 31, 1991

	Franchise Fees	FERC Wholesale Reqmnts.	Int. On Cust. Deposits	Bank Fees	Interest Synch.	Rate Case Expense	Income Tax	RPU88-10 Refund	EOP Customer Levels	EOP Emplee. And Wages	1992 Cooper Budget	1993 Cooper Budget	Cooper Station Annualize Amortization 1991	1992	Capacity Purchases	Total Page One
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)
1 Operating Revenues	(1,297)	(774)						659	4,894							3,482
2 Oper. and Maintenance		(722)	205	122		(205)		657	643	145	13,171	5,933	2,371	(755)	294	21,859
3 Depr. and Amortization		(121)														(121)
4 Other Taxes	(1,296)	(79)								(6)						(1,381)
5 Federal Income Tax	(0)	53	(63)	(37)	(95)	63	109	1	1,298	(42)	(4,022)	(1,812)	(724)	231	(90)	(5,132)
6 State Income Tax	(0)	18	(21)	(12)	(32)	21	0	0	432	(14)	(1,339)	(603)	(241)	77	(30)	(1,745)
7 Deferred Income Tax		(15)					(109)									(124)
8 ITC		6														6
9 Total Expense	(1,296)	(860)	122	72	(126)	(122)	0	658	2,374	82	7,809	3,518	1,406	(448)	174	13,363
10 Operating Income	(1)	86	(122)	(72)	126	122	0	1	2,520	(82)	(7,809)	(3,518)	(1,406)	448	(174)	(9,881)

Income Statement
Iowa Power
For Test Period Ended December 31, 1991

	Changes In Wages (A)	Vandalia Project (B)	Storm Damage (C)	Power Plant Mntnce. (D)	OPS Retiremts. (E)	Merger Savings Sharing (F)	Alloc. Merger Costs (G)	Early Retire. Savings (H)	Non-Labor Cost Savings (I)	Elim. Severance Savings (J)	FAS 106 (K)	MINT Project (L)	1985 Early Retmnt. (M)	Rose Chemical (N)	Syc-Leh. 345kV Rebuild (O)	Total Page Two (P)
1 Operating Revenues																0
2 Oper. and Maintenance	1,745	(673)	(467)	(4,376)	91	0	(779)	(1,361)	(92)	(534)	0	63	(303)	(152)		(6,658,
3 Depr. and Amortization												4			46	52
4 Other Taxes	100							(66)								17
5 Federal Income Tax	(564)	206	143	1,336	(26)	0	157	446	26	163	0	(20)	93	46	(24)	1,963
6 State Income Tax	(186)	66	47	445	(9)	0	52	149	9	54	0	(7)	31	15	(8)	660
7 Deferred Income Tax															14	14
8 ITC																0
9 Total Expense	1,096	(399)	(277)	(2,595)	54	0	(570)	(870)	(55)	(317)	0	40	(160)	(90)	30	(4,132)
10 Operating Income	(1,096)	399	277	2,595	(54)	0	570	870	55	317	0	(40)	160	90	(30)	4,132

Income Statement
Iowa Power
For Test Period Ended December 31, 1991

	Leh.-Rain 345kV Rebuild (A)	Bulk Power Sales (B)	Control Center (C)	Energy Managmnt System (D)	Expense Adj. (E)	Consol. Tax Savings (F)	Executive Bonuses (G)	Economic Devlpmnt. (H)	(I)	DMPS Asbestos Removal (J)	(K)	(L)	(M)	(N)	(O)	Total Page (P)
1 Operating Revenues		0														0
2 Oper. and Maintenance		0			(215)		0	(162)	0	716						340
3 Depr. and Amortization	86		190	582												858
4 Other Taxes																0
5 Federal Income Tax	(43)	0	0	(219)	66	0	0	49	0	(219)	0	0	0	0	0	(366)
6 State Income Tax	(14)	0	0	(73)	22	0	0	16	0	(73)	0	0	0	0	0	(122)
7 Deferred Income Tax	24			143												167
8 ITC																0
9 Total Expense	53	0	190	433	(127)	0	0	(96)	0	425	0	0	0	0	0	877
10 Operating Income	(53)	0	(190)	(433)	127	0	0	96	0	(425)	0	0	0	0	0	(877)

Rate Base
Iowa Power
For Test Period Ended December 31, 1991

	13-Month Avg. Balance	Cooper Station 1991	Cooper Station 1992	Oct. 91 IceStorm Syc-Leh.	Oct. 91 IceStorm Leh.-Rein	Des Moines Power Station	IaPower Control Center	Energy Mangmnt Center	MINT Project	90-Day Coal Burn	Working Capital			Adjusted Rate Base
1 Plant-In-Service	1,126,200	0	0	2,120	3,768	0	6,457	5,793	309					1,144,647
2 Accumulated Depreciation	(416,088)			100	178	0	(150)	(348)	(5)					(416,313)
3 Net Plant	708,112	0	0	2,220	3,946	0	6,307	5,445	304	0	0	0	0	728,334
Deductions:														
4 Accumulated Deferred Income Taxes	101,190			6	14			83				0		101,295
5 Unamortized Investment Tax Credit	516													516
6 Customer Advances for Construction	2,909													2,909
7 Customer Deposits	1,494													1,494
8 Reserve for Workers Compensation & Major Losses	(539)													(539)
9 Reserve for Uncollectible Accounts	268													268
10 Unclaimed Checks	273													273
11 Total Deductions	106,201	0	0	6	14	0	0	83	0	0	0	0	0	106,306
Additions:														
12 Cooper Contractual Payments	79,669	7,642	(6,780)											80,531
13 Working Capital (OCA Ex.___(BWT), Schedule V)	4,769									(264)	1,208			5,713
14 Total Additions	84,438	7,642	(6,780)	0	0	0	0	0	0	(264)	1,208	0	0	86,244
15 Total Rate Base	686,349	7,642	(6,780)	2,212	3,932	0	6,307	5,362	304	(264)	1,208	0	0	706,272
16 Less: Non-Jurisdictional at .309499572%	2,124	24	(21)	7	12	0	20	17	1	(1)	4	0	0	2,186
17 Total Jurisdictional Rate Base	684,244	7,618	(6,759)	2,205	3,920	0	6,287	5,345	303	(263)	1,205	0	0	704,086

Common Stock	328,108	48.198%	11.900%	5.736%
ME/Merger	328,108	48.198%	0.300%	0.145%
Common Stock–Total	328,108	48.198%	12.200%	5.880%
Preferred Stock	19,277	2.832%	4.365%	0.124%
Long–Term Debt	333,369	48.971%	8.625%	4.224%
Total	680,754			10.227%

DIRECT TESTIMONY OF

PETER W. AHN

IOWA POWER, INC.

RPU-92-2

BEFORE THE

IOWA STATE UTILITIES BOARD

ON BEHALF OF

BRIDGESTONE/FIRESTONE GROUP

June 15, 1992

I. STATEMENT OF QUALIFICATIONS

Q. Would you please state your name, address and occupation?

A. My name is Peter W. Ahn. My business address is 2150 Dain Bosworth Plaza, 60 South Sixth Street, Minneapolis, Minnesota. I am an Associate Consultant with Dahlen, Berg & Co., a management consulting firm.

Q. Please you summarize your experience in the area of public utility regulation.

A. I have participated in several regulatory engagements regarding electric and gas utilities. These engagements have included testifying, analysis of filings, research and assistance in preparation of testimony, exhibits and briefs concerning rate of return, rate design, program design, and cost allocation. I performed analyses and testified before the Iowa State Utilities Board (Board) on the rate of return on common equity in Docket No. RPU-91-9, Iowa Electric Light and Power's request for a rate increase.

I have performed analyses and assisted in preparing testimony before the Iowa State Utilities Board in the following cases:

In Docket No. RPU-91-7 - Interstate Power Company's request for an electric rate increase, I performed analyses and assisted in preparing testimony and briefs regarding rate of return.

In Docket No. RPU-91-6 - The Office of the Consumer Advocate's request for a decrease in Iowa Public Service's electric rates, I performed analyses and assisted in preparing testimony and briefs regarding rate of return.

In Docket No. EEP-91-8 - Iowa Public Service Company's energy efficiency plan, I assisted in preparing testimony regarding lost revenue estimates, cost allocation, and program design.

In Docket No. RPU-91-5 - Midwest Gas' request for a natural gas rate increase, I performed analyses and assisted in preparing testimony and briefs regarding rate of return and rate design.

In Docket No. EEP-91-5 - Interstate Power Company's energy efficiency plan, I prepared analyses regarding program design.

Additionally, I performed analyses regarding rate of return before Nebraska Municipalities in August, 1991 regarding Minnegasco, a division of Arkla, Inc.'s, filing for a general rate increase in Nebraska Municipalities.

Q. Have you participated in any other engagements involving utilities?

A. Yes. For the Blue Earth Light and Water Department, Blue Earth, Minnesota, I performed analyses of the present value of lost revenues from a protected service territory. Also, I performed financial analyses related to the purchase and construction of additional capacity for Blue Earth.

On behalf of the Minnesota Energy Consumers, I participated in the Northern States Power (NSP) Demand-Side Management Energy Efficiency Task Force.

On behalf of the River Electric Association and Minnesota Municipal Power Agency (MMPA), I performed financial analyses related to development of the MMPA. This work included analyses related to debt financing and other financial projections.

On behalf of the Minnesota Alliance for Fair Competition, I performed analyses and conducted discovery related to ratepayer subsidization of utilities' unregulated businesses.

Q. Would you outline your educational background?

A. In June of 1991, I received an M.B.A. degree with a concentration in strategic management from the Carlson School of Management at the University of Minnesota, Minneapolis, Minnesota. During 1989, I attended the A.B. Freeman School of Business at Tulane University, New Orleans, Louisiana. In January of 1988, I received a B.A. degree with a major in economics from Macalester College, St. Paul, Minnesota.

Q. Would you describe your professional background?

A. In August of 1991, I joined the management consulting firm of Dahlen, Berg & Co. During the academic year 1990-91, I was a teaching assistant in the finance department and a research assistant in the strategic management department at the University of Minnesota, Minneapolis, Minnesota. In 1989, I completed an internship in the finance and debt management department of Union Electrica Fenosa, an investor-owned electric utility in Madrid, Spain.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. My testimony presents the results of my analysis of Iowa Power's (IP) cost of common equity related to IP's request for an electric rate increase in this case.

Q. By whom were you engaged in this case?

A. Dahlen, Berg & Co. was engaged by the Bridgestone/Firestone group. The members of this group are customers of IP's Large General Service class.

Q. What is the scope of the work you performed in this case?

A. I reviewed IP's filing and performed analyses of information related to IP and other electric utilities. The scope of my work was limited to review of IP's filing, other documents prepared by IP, and other publicly available information.

Q. How is your testimony organized?

A. My testimony is presented in the following sections:

- Section III, Rate of Return, and
- Section IV, Industry Average Returns.

III. RATE OF RETURN

Q. What rate of return on common equity has IP proposed in this proceeding?

A. IP has proposed a rate of return on common equity of 12.75% in this proceeding. The proposed 12.75% rate of return on common equity is based on the results of Risk Premium and Discounted Cash Flow (DCF) analyses performed by IP witness Dr. Vander Weide.

Q. Should the Board allow IP's proposed 12.75% rate of return on common equity?

A. No. The Board should not allow IP's proposed 12.75% return on common equity because the proposed return is significantly higher than IP's cost of common equity.

Q. What is the basis of the rate of return criteria for regulated businesses presented in your testimony?

A. The basis of the rate of return criteria presented in my testimony was set forth in the Supreme Court's Bluefield (1923) and Hope (1944) cases. In these cases, the Supreme Court determined two basic criteria of a "fair" rate of return for a regulated company. First, the return of common equity should be equal to the return on companies of similar risk and uncertainty. Second, the "fair" rate of return must provide enough earnings for the company to maintain its credit rating and attract capital on reasonable terms.

Cost of Common Equity

Q. What is IP's cost of common equity?

A. IP's cost of common equity is 9.46%. My estimate is based on the average cost of common equity for companies comparable to IP.

Q. How did you estimate IP's cost of common equity?

A. I estimated IP's cost of common equity using a DCF analysis.

Q. Why should a DCF analysis be used to estimate the cost of common equity in this case?

A. A DCF analysis should be used to estimate the cost of common equity in this case because the DCF analysis produces a cost of common equity estimate that satisfies the rate of return criteria for regulated businesses set forth in the Supreme Court's Hope and Bluefield cases. Further, utilities are generally dividend-paying stocks, making the DCF analysis especially useful for estimating the cost of common equity.

Discounted Cash Flow Analysis

Q. What is a Discounted Cash Flow analysis?

A. A Discounted Cash Flow analysis is a method for estimating a company's cost of common equity. The DCF model is based on the theory that the price of a stock is equal to the present value of future dividends plus any growth in the value of the stock.

Q. What form of the DCF model was used in your analyses?

A. The DCF model used in my analyses was as follows:

$k = D_1 / P + g$ where,

k = the rate of return expected on securities of similar risk,

D_1 = the dividend expected during the next twelve months,

P = the stock price, and

g = the expected dividend growth rate.

Q. How did you estimate the dividend expected during the next twelve months, "D_1"?

A. I estimated "D_1" by multiplying the most recent quarterly dividend by four (the indicated annual dividend) times one plus one half of "g".

Q. Why is this method of estimating "D_1" appropriate?

A. The method I used to estimate "D_1" is appropriate because it reflects current information and recognizes firms will, on average, increase dividends halfway through the year.

Q. How did you estimate the stock price, "P"?

A. I estimated "P" by taking an average of the high and low stock prices over the period February, 1992 to April, 1992 as shown in Exhibit_____(PWA-1), Schedule 1.

Q. How did you estimate the expected dividend growth rate, "g"?

A. The expected dividend growth rates used in my analyses are *Value Line* estimates. The *Value Line* estimates used in my analyses are widely available and reflect current information about dividend growth.

Q. Did you use the *Institutional Brokers Estimate System* (*IBES*) estimate of earnings growth that Dr. Vander Weide used in his analyses?

A. No. I did not use the *IBES* estimates. The *IBES* estimates are a summary of investment analysts' projections that present earnings growth estimates rather than dividend growth estimates. Further, given that *Value Line* predicts no earnings growth for Midwest Resources, the 5.5% *IBES* earnings growth rate for Midwest Resources used by Dr. Vander Weide appears excessive.

Q. What base sample of companies was used in your DCF analyses?

A. The base sample of companies in my DCF analyses was electric companies in the *Value Line Electric Utility (East, Central and West) Industry.* Companies were excluded from the analyses if:

- The stock of the utility was not traded on either the New York Stock Exchange or the American Stock Exchange, or
- The company had decreased or omitted a common dividend in the current or prior three quarters.

Q. Did you apply the DCF model to other comparison groups?

A. Yes, I applied the DCF model to two subsets of the base sample of companies. The subsets were determined using the following comparison criteria:

- o Companies with a *Value Line* safety rating of "2," and
- o Companies with a *Standard & Poor's* (*S&P*) bond rating of "A".

DCF analyses performed on groups of risk comparable companies produces a cost of common equity estimate that satisfies the standards set forth in the Hope and Bluefield cases. I have included a list of the companies in the base sample of companies and their ratings as Exhibit______(PWA-1), Schedule 2.

Q. Would you describe the comparison criteria used in your analyses?

A. Yes. The comparison criteria used in my analyses are readily available ratings, commonly used by investors and analysts.

- The *Value Line* safety rating is an investment ranking index, scaled "1" to "5," with "1" being the safest. Midwest Resources has a safety rating of "2," so companies with a safety rating of "2" were used in the comparison group. (The only way to purchase Iowa Power equity is to buy Midwest Resources common stock).
- The second comparison measure used was the *Standard and Poor's* (*S&P*) bond rating which is a relative rating of a firm's ability to repay debt. IP's *S&P* bond rating is "A," so companies with a bond rating of "A" were used in this sample.

Q. What were the results of your DCF analyses?

A. The DCF analyses for the comparison groups described above yielded an estimated cost of common equity ranging from 9.24% to 9.83% The individual DCF results are as follows:

<u>Results for Comparison Groups</u>

Value Line base sample	9.83%
Value Line safety rating of 2	9.30%

S&P debt rating of A 9.24%

I have included a summary of my DCF analyses as Exhibit_____(PWA-1), Schedule 3.

Q. What is your recommended cost of common equity for IP?

A. I recommend a 9.46% cost of common equity for IP, based on the average cost of common equity of the comparison groups in my DCF analyses.

IP's Proposed Return on Common Equity

Q. Should the Board use the Risk Premium analysis as a basis for estimating IP's cost of common equity?

A. No. The Board should not use the Risk Premium analysis to estimate IP's cost of common equity. The Risk Premium analysis depends on averages of historical values that do not recognize today's capital market conditions.

Q. Does a risk premium analysis determine what investors require as an equity premium today?

A. No. A risk premium analysis does not determine what investors require as an equity premium today. A risk premium is simply an average of historical risk premiums from the time period selected. IP witness Dr. Vander Weide has presented no evidence that proves investors require any particular equity risk premium at any particular time. Nor has Dr. Vander Weide presented any evidence that investors require the 4.5% to 5.5% equity risk premium he recommends.

Q. Should the Board use the quarterly DCF model used by witness Dr. Vander Weide?

A. No. The Board should not use the quarterly DCF model used by witness Dr. Vander Weide because it overestimates the cost of common equity. The quarterly DCF model overestimates the cost of common equity because the model assumes the company should pay an extra return to investors on the dividends the company has already paid. In other words, the quarterly DCF model assumes the company should, in addition to paying the dividend, pay a return on the dividend. Investors earn returns through dividends and stock appreciation. After a company pays a dividend, the company is not responsible for paying any additional return on that dividend.

PREPARED DIRECT TESTIMONY OF

DR. DAVID S. HABR

RE: IOWA POWER INC.

DOCKET NO. RPU-92-2

Q: Please state your name and address.
A: David S. Habr, Lucas State Office Building, Des Moines, Iowa.
Q: By whom are you employed?
A: I am employed by the Consumer Advocate Division of the Iowa Department of Justice as the Chief of the Technical Bureau.
Q: When did you join the staff of the Consumer Advocate Division?
A: In November of 1987. For the previous six years I had been employed by the Utilities Division of the Iowa Department of Commerce.
Q: Would you describe your education and experience?
A: I received a Bachelor of Arts (1968) and a Master of Arts (1969) degree from the University of Nebraska-Lincoln. In both cases my major field of study was Economics. I received a Ph.D. in Economics from Washington State University in 1976. My dissertation is entitled "The Relationship Between Advertising and Liquor Sales in the State of Washington."

Within economics, I have specialized in the following fields: industrial organization and government regulations, public utility economics, and transportation economics. In addition, I have had graduate course work in monetary theory and advanced statistics. While a member of the Utilities Division staff, I attended Myron Gordon's workshop on the Cost of Capital to Public Utilities, the NARUC Annual Regulatory Studies Program, and the NARUC Advanced Regulatory Studies Program.

Prior to joining the Utilities Division staff in 1981, I was employed as an economist by the University of Nebraska-Lincoln (1968-69), Washington State University (1969-73), Drake University (1973-79), and Mitchell and Mitchell Economists, Ltd. (1979-80).

During my tenure at Drake University, I taught several different areas within economics including "Public Utilities and Transportation," "Government Regulation of Business," and "Managerial Economics." While at Mitchell and Mitchell, I developed and directed a feasibility study for the City of Des Moines and developed and estimated a revenue forecasting model for Northwestern Bell.

For the year prior to joining the staff of the Utilities Division, I was engaged in a private consulting practice. In the course of this practice, I was called upon to determine damages in antitrust cases and I testified on behalf of Midwestern Telephone Company, Inc. in Docket No. RPU-80-40. I have also testified in court proceedings and before the Industrial Commission.

As a member of the Utilities Division or Office of Consumer Advocate staff, I have testified in the proceedings shown on Appendix A of my testimony. I also provided staff review in a number of utility rate cases that were not litigated.

During 1986-87, I served as a member of the NARUC Ad Hoc Committee on Diversification and I presented a paper on double leverage at the committee's 1987 winter meeting. My paper entitled "A Note on Transaction Costs and the Cost of Common Equity for a

Public Utility" appeared in the January 1988 issue of the NRRI Quarterly Bulletin.

In addition to my regular duties, I taught a seminar on antitrust economics at the Drake Law School in the fall of 1981. During the spring and fall of 1987 I taught the macroeconomics class in the Drake M.B.A. program.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to determine the appropriate market based common equity return Iowa Power should be given the opportunity to earn on its Iowa jurisdictional operations and comment on certain aspects of the testimonies of Dr. Vander Weide and Mr. Christiansen.

Q: Have you prepared an exhibit for presentation in this proceeding?

A: Yes. Exhibit ____(DSH), Schedules A through N, was prepared by me or under my direct supervision.

Q: Have you found a market based common equity return appropriate for Iowa Power's jurisdictional operations?

A: Yes. Based on my analysis, Iowa Power should be given the opportunity to earn 10.9% on the common equity portion of its jurisdictional operations. My 10.9% common equity return derives from my analysis of the market based cost of common equity for Midwest Resources and is supported by my analysis of other Iowa based utility companies.

Q: Why did you analyze Midwest Resources?

A: The only way it is possible for an investor to buy a common equity

As is shown on page 3 of Schedule G, what is typically referred to as "the" arithmetic average risk premium is in fact the arithmetic average of discrete yearly risk premiums as opposed to an arithmetic average of yearly continuous risk premiums. It is preferable to use a geometric mean because it is not only based on arithmetic averages, it also has the property of getting from beginning values to ending values.

Q: In general, does Dr. Vander Weide's quarterly DCF model provide an accurate estimate of common equity return a utility should be given the opportunity to earn?

A: No, Dr. Vander Weide's model overestimates the common equity return a utility should be given the opportunity to earn.

Q: What is the basis for your last answer?

A: Dr. Vander Weide's model does not reflect the fact that the utility's assets which underlay the common equity owner's shares generate earnings on a continuous basis. Rather, the quarterly DCF model shows the common share as a "black box" which emits dividends on a quarterly basis. Such treatment results in an overestimation of the common equity return a utility should be given the opportunity to earn.

Q: Can you provide an illustration which demonstrates the overestimation you have described?

A: Yes. Schedule H contains the results of two simulations which compare continuous and discrete compounding. The simulations demonstrate conclusively that the continuous form of the DCF model is the proper form to use to estimate the common equity return a utility should be given the opportunity to earn.

Q: Would you describe the nature of your simulations?

A: Yes. Each of my simulations begin with the following four premises: (1) the firm is 100% common equity financed, (2) the firm earns 11% on a continuous basis, (3) the current market price is \$100.00 (beginning of quarter 1) which is equal to book value, and (4) 75% of annual earnings are paid out as dividends. The simulations differ in the timing of the growth of dividend payments. The quarterly dividend is increased once a year in Simulation 1 while it is increased each quarter in Simulation 2. The dividend flows from each of these simulations are shown on pages 2 and 3 of Schedule H.

Q: How did you use these simulations to arrive at the DCF cost rates you show on page 1 of your Schedule H?

A: I used the dividends and dividend growth rates from each simulation to measure the values of the discrete and continuous forms of the DCF model that derive from each simulation.

Using Simulation 1 as an example, the discrete dividend yield of 8.81% is determined using the formula Dr. Vander Weide shows on his Schedule 2 without the flotation cost adjustment. That is, it is the sum of quarters 1 through 4 dividends, each appropriately "grown" by the expected cost of common equity, 11.63%, with the result, \$8.81, divided by the share price of \$100.00. Adding to this dividend yield the discrete dividend growth rate of 2.82%

results in the discrete DCF value for "k" of 11.63%.

Still using Simulation 1 as an example, the continuous dividend yield of 8.22% is determined by summing the preceding four quarters' (quarters -3 through 0) dividends, $8.22, and dividing by the share price of $100.00. Adding to this dividend yield the continuous growth rate of 2.78% results in the continuous DCF "k" value of 11.00%.

Q: And what do your simulations illustrate?

A: They demonstrate that the continuous form of the DCF model, not the discrete form, provides the correct estimate of the 11% underlying earnings rate. They also demonstrate that the continuous DCF model yields an income stream sufficient to cover stockholder expectations based on the discrete quarterly receipt of dividends.

Q: What is the impact on ratepayers of using the discrete form of the DCF?

A: Use of the discrete method will always result in an overestimate of the common equity return a utility should be given the opportunity to earn. Hence, rates based on the discrete DCF method will exceed the actual cost of providing the utility service.

Moreover, Dr. Vander Weide's use of the quarterly model has the effect of requiring ratepayers to pay a return on dividends that stockholders have already received. The continuous model, on the other hand, does recognize that investors chose to leave their "daily dividends" with the firm by allowing them to earn a compound return on the reinvested "daily dividends."

Q: Is a utility able to earn on a basis that is consistent with continuous compounding?

A: Yes. A utility sells its products 24 hours a day, seven days a week, 365 days a year. With cycle billing and dispersed collection stations (e.g., grocery stores), a utility's revenues flow in on a daily basis and are thus available for immediate reinvestment.

Q: If revenues flow to the utility on a daily basis, does continuous compounding still yield reasonable results?

A: Yes. For example, 11% compounded daily or continuously yields the same annual return of 11.63%.

Q: Turning now to Dr. Vander Weide's flotation cost adjustment, is his proposed adjustment correct?

A: No. First, Dr. Vander Weide applies his flotation cost adjustment to all of Company's outstanding common equity when in fact only a portion of that common equity was obtained through new public issues. Second Dr. Vander Weide's analysis does not recognize the transaction costs incurred by investors who purchase a utility's common stock in the secondary market. Hence, his adjustment is incomplete and, because it is incomplete, the adjustment leads to an overstatement of the common equity return Iowa Power should be given the opportunity to earn on its electric operations.

Q: What portion of Midwest Resources' common equity is the result of new issues to the general public?

A: About 37.5% of MWR's year-end 1991 common equity was derived from new issues of common stock sold to the general public.

Q: What is the dollar value of the issuance expenses incurred by Midwest Resources and its predecessors?

A: From 1957 through 1991, MWR and its predecessors incurred total issuance expenses of $8.6 million (including the $2.048 million expenses associated with the December 1991 MWR issue) or about $245,000 per year.

Q: If Dr. Vander Weide's flotation cost adjustment were applied to all of Midwest Resources utility operations, how much would MWR collect each year for issuance expenses?

A: Midwest Resources would collect about $4.6 million before taxes or $2.8 million after taxes. Dr. Vander Weide's proposed yearly collections exceed the total expenses MWR incurred in its latest common stock issuance, and that was the first time in ten years MWR or its predecessors had a public common stock issuance.

Q: With respect to Dr. Vander Weide's flotation cost adjustment, do you agree with his statement at page 29 of his direct testimony that "my adjustment allows Iowa Power only to recover current carrying costs associated with flotation costs incurred at the time stock sales were made?"

A: No. His annual after tax "carrying charge" is 31.4 percent ($2.7 million divided by $8.6 million). This return is three times bigger than Company's proposed weighted average cost of capital

Q: If a flotation cost adjustment is going to be made, why is it necessary to recognize secondary market transaction costs?

A: Generally speaking, all stock prices used in DCF analyses are

DOCKET NOS. RPU-83-38

STATE OF IOWA

IOWA STATE COMMERCE COMMISSION

IN RE: IOWA POWER AND LIGHT COMPANY (IOWA GAS)	DOCKET NO. RPU-83-38

ORDER

(Issued December 23, 1983)

On October 3, 1983, Iowa Gas Company (Company), at that time an operating division of Iowa Power and Light Company, filed a proposed general increase of $3.9 million, a 2.7 percent annual increase, and an interim rate increase request of $3.6 million, representing a 2.5 percent increase in total rates. On November 2, 1983, the Office of Consumer Advocate (OCA) filed an objection to interim rates. We have reviewed the Company's request, OCA's objection, and in view of the stipulation and addendum discussed below, approve Company's proposed interim rates in their entirety. Company's corporate undertaking is also approved. These interim rates shall take effect with usage on and after January 1, 1984.

On December 5, 1983, a stipulation and joint motion to approve the stipulation and establish a procedural schedule were filed by Company and OCA. This stipulation resolves all fact and issues in this docket, except the issue of whether Iowa Gas is charging customers for plant not required to provide adequate service. The terms of the stipulation also require