

DIRECT TESTIMONY

of

LESLIE PUGH

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Application for Approval of Affiliated Interest Contracts

Interstate Power and Light Company

Docket No. 02-0571

January 13, 2003

1 Witness Identification

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

3 A. My name is Leslie Pugh. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am currently employed as an Accountant in the Accounting Department
7 of the Financial Analysis Division of the Illinois Commerce Commission
8 (“ICC” or “Commission”).

9 **Q. Please describe your professional background and affiliations.**

10 A. I earned a Bachelor of Arts degree in Accounting from the University of
11 Illinois at Springfield. I am a Certified Public Accountant, licensed to
12 practice in the State of Illinois. Prior to joining the Staff of the Illinois
13 Commerce Commission (“Staff”), I was engaged in the practice of public
14 accounting.

15 **Q. Have you previously testified before any regulatory bodies?**

16 A. Yes. I have testified on several occasions before the Commission.

17 **Q. What is the purpose of your testimony in this proceeding?**

18 A. The purpose of my testimony is to present my position on Interstate
19 Power and Light Company’s (“IPL” or “Company”) petition for an order
20 approving contracts with an affiliated interest company and to make

21 recommendations for the Company's related accounting treatment and
22 reporting.

23 **Q. What contracts is IPL seeking approval of?**

24 A. IPL is seeking approval of two contracts with its non-regulated affiliate,
25 Alliant Energy Resources, Inc. ("AER"). The first of these contracts is
26 the Alstom Power, Inc. Partial Assignment, Assumption, and Release
27 ("Alstom Assignment"). The second of these contracts is the General
28 Electric Company, Inc. Partial Assignment, Assumption, and Release
29 ("GE Assignment"). Both of these contracts deal with the purchase of
30 equipment to be used in the construction of a natural gas power plant to
31 be located in Mason City, Iowa.

32 **Q. Have you reviewed the Alstom Assignment (Exhibit 1.1) and the GE**
33 **Assignment (Exhibit 1.2)?**

34 A. Yes, I have reviewed the Alstom and GE Partial Assignments.

35 **Q. Have you reviewed the Payment and Interest Schedules included in**
36 **the Alstom Assignment and the GE Assignment?**

37 A. Yes, I have reviewed the Payment and Interest Schedules included in
38 the Alstom and GE Assignments.

39 **Q. In your review of the Payment and Interest Schedules, what did you**
40 **determine was included in the cost of the equipment under these**
41 **agreements?**

42 A. Interstate Power and Light Company will pay Alliant Energy Resources,
43 Inc. the basis of AER's costs that include the cost of the equipment plus
44 interest and carrying charges.

45 **Q. When is the IPL allowed to include Allowance for Funds Used**
46 **During Construction (AFUDC)?**

47 A. AER has included the interest component of the cost associated with the
48 assigned equipment to IPL as likened to AFUDC. A transaction between
49 affiliated companies shall be deemed to be performed at not more than
50 cost. Direct charges shall be made so far as costs can be identified and
51 related to the particular transaction. Other elements of cost, such as
52 interest and carrying charges, shall be included in the determination of
53 the cost and shall be fairly and equitably allocated. The interest
54 component of this transaction is rationally included in the cost of the
55 equipment but cannot be categorized as AFUDC.

56 AFUDC may be capitalized starting from the date that construction costs
57 are continuously incurred on a planned progressive basis. Interest
58 should not be accrued for the period prior to: (1) the date of issuance of
59 the preliminary permit by the Commission of a licensed hydroelectric
60 project; and (2) the date of the application to the Commission for a

61 certificate to construct facilities by the natural gas company.¹ Therefore,
62 AFUDC cannot be accrued until the approval of the partial assignments
63 by the Illinois Commerce Commission. At that time, AFUDC should be
64 computed in accordance with the formula prescribed in Electric Plant
65 Instruction 3(17) (a) of the Uniform System of Accounts for Electric
66 Utilities Operating in Illinois.

67 **Q. How is IPL proposing to seek recovery of the costs incurred in**
68 **purchasing the equipment noted in the partial assignments?**

69 A. IPL is proposing to recover the costs incurred in purchasing the
70 equipment noted in the partial assignments through rate proceedings in
71 each jurisdiction. The Public Utilities Act, Sec. 7-101 (3) states:

72 **The consent to, or exemption or waiver of consent to, any**
73 **contract or arrangement under this Section or Section 16-111,**
74 **does not constitute approval of payments thereunder for the**
75 **purpose of computing expense of operation in any rate**
76 **proceeding.**

77 Therefore, IPL must file an application with the Commission for approval
78 to include these costs in base rates.

79 **Q. Are you aware of any regulations that IPL must comply with in filing**
80 **to include these costs in rate base?**

¹ Source: F.E.R.C. Release AR-5 (Revised)

81 A. IPL must comply with Sec. 9-212 and 9-213 of the Public Utilities Act.

82 Sec. 9-212 states:

83 **No new electric utility generating plant or gas production**
84 **facility, or significant addition to existing facilities or plant,**
85 **shall be included in a utility's rate base until the Utility proves**
86 **and the Commission determines that such plant or facility is**
87 **both prudent and used and useful in providing utility service**
88 **to the utility's customers. ...**

89 Sec. 9-213 states:

90 **The cost of new electric utility generating plants and**
91 **significant additions to electric utility generating plants shall**
92 **not be included in the rate base of any utility unless such**
93 **cost is reasonable. Prior to including the cost of plants or**
94 **additions to utility plants in the rate base, the Commission**
95 **shall conduct an audit of such costs in order to ascertain**
96 **whether the cost associated with the new generating plant or**
97 **the addition to electric utility generating plant is reasonable.**
98 **...**

99 Therefore, approval of the costs associated with the equipment of these
100 partial assignments in no way constitutes approval of these costs for
101 ratemaking purposes.

102 Recommendations

103 **Q. What are your recommendations regarding these affiliated interest**
104 **contracts?**

105 A. I am making two recommendations. First, that the Commission approve
106 the application for approval of the Alstom Assignment and the GE
107 Assignment with IPL. Finally, I also recommend that the Commission's

108 Order state that it is not approving the cost or the rate recovery of the
109 generating plant in this proceeding.

110 **Q. Does this conclude your direct testimony?**

111 **A. Yes.**