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Interstate Power and Light Company
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April 3, 2014

Dr. Burl Haar, Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

RE: Interstate Power and Light Company
Docket No. E,G001/AI-14-158
Reply Comments

Dear Dr. Haar:

Enclosed for e-Filing please find Interstate Power and Light Company's Reply Comments in the above-referenced docket.

Copies of this filing have been served on the Minnesota Department of Commerce, Division of Energy Resources, the Minnesota Office of Attorney General - Residential and Small Business Utilities Division, and the attached service list.

Respectfully submitted,

/s/ Michael S. Greiveldinger
Michael S. Greiveldinger
Senior Attorney

MSG/tao
Enclosures

cc: Service List

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
David C. Boyd
Nancy Lange
Dan Lipschultz
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

<p>IN THE MATTER OF INTERSTATE POWER AND LIGHT COMPANY'S PETITION FOR APPROVAL OF AN AFFILIATED INTEREST AGREEMENT</p>	<p>DOCKET NO. E,G001/AI-14-158</p>
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AFFIDAVIT OF SERVICE

STATE OF IOWA)
) ss.
COUNTY OF LINN)

Tonya A. O'Rourke, being first duly sworn on oath, deposes and states:

That on the 3rd day of April, 2014, copies of the foregoing Affidavit of Service, together with Interstate Power and Light Company's Reply Comments, were served upon the parties on the attached service list, by e-filing, overnight delivery, electronic mail, facsimile and/or first-class mail, proper postage prepaid from Cedar Rapids, Iowa.

 /s/ Tonya A. O'Rourke
Tonya A. O'Rourke

Subscribed and Sworn to Before Me
this 3rd day of April, 2014.

 /s/ Kathleen J. Faine
Kathleen J. Faine
Notary Public
My Commission Expires on February 20, 2015

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Bobby	Adam	bobby.adam@conagrafoods.com	ConAgra	Suite 5022 11 ConAgra Drive Omaha, NE 68102	Electronic Service	No	OFF_SL_14-158_AI-14-158
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STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

**Beverly Jones Heydinger
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**IN THE MATTER OF INTERSTATE
POWER AND LIGHT COMPANY'S
PETITION FOR APPROVAL OF AN
AFFILIATED INTEREST AGREEMENT**

DOCKET NO. E,G001/AI-14-158

**INTERSTATE POWER AND LIGHT COMPANY'S
REPLY COMMENTS**

COMES NOW, Interstate Power and Light Company ("IPL" or the "Company"), and hereby submits its Reply Comments to the Comments of the Minnesota Department of Commerce, Division of Energy Resources ("Department"), issued March 24, 2014, regarding the Master Supply Agreement ("Agreement") between IPL and its affiliated utility, Wisconsin Power and Light Company ("WPL").

I. INTRODUCTION

On February 21, 2014, IPL filed with the Minnesota Public Utilities Commission ("Commission") a petition for renewal of the Commission's approval of the existing Agreement between IPL and WPL. The Agreement was originally approved by the Commission on September 26, 2011, in Docket No. E,G-001/AI-11-82.

The Department filed Comments on March 24, 2014, recommending that the renewal of the Agreement be conditioned upon IPL limiting the use of the

Agreement to those transactions consistent with its terms, or alternatively, requiring a modification to the Agreement to ensure that the terms (specifically the list of eligible equipment, and the individual and annual limitation on the equipment transfers) are consistent with Minnesota Statutes and reflect the transactions expected to be made under the Agreement.

In response to the Department's Comments, IPL provides the following Reply Comments.

II. REPLY COMMENTS

The Department commented that its review "identified transactions which did not comply with the criteria listed in (1) or (2) on Schedule A in the Supply Agreement." (Department Comments at 4.) In particular, the Department commented that certain gas materials (tees and various diameter pipes) and, potentially, "transformer pads and transformer poles," which were transferred in 2011 or 2012, were not identified on the list included in Schedule A. (Department Comments at 4.) The Department noted, though, that the "transformer pads and poles could be subsumed in the 'Transformers' category listed in Schedule A." (Department Comments at 4.)

Transformers. It appears that the Department's comments regarding the "transformer pads and poles" may stem from the fact that transformers are usually identified in the annual reports for 2011 and 2012 as "TRAN POLE" or "TRAN PAD." IPL offers the following clarification.

Within the Transformer category, there are two main types of distribution transformers: Pole Mounted Transformers and Pad Mounted Transformers. Pole mounted transformers are smaller transformers, which are light enough to be

mounted on wood poles. Pole mounted units are typically used for rural or residential purposes and are generally less expensive than pad mounted transformers. Within the annual reports, the item description of pole mounted transformers usually starts with "TRAN POLE." Pad mounted transformers are larger transformers, which are too heavy to be mounted on a pole. Pad mounted units are typically used for commercial purposes and as larger units are generally more expensive than pole mounted transformers. Within the annual reports, the item description of pad mounted transformers usually starts with "TRAN PAD."

IPL recognizes that the identification in the annual reports may lead one to conclude that transformer poles and transformer pads were being transferred; however, as noted above, the items identified in the reports were either pad mounted or pole mounted transformers. Accordingly, IPL offers that the items fit within the category of "Transformers."

The Department also noted that several of the transformers (pad mounted transformers) were valued at more than \$40,000, which was more than the \$10,000 general price listed in Schedule A. When the original Master Supply Agreement was put in place, IPL anticipated various sizes of transformers would be transferred, and that most of the units transferred would have an individual value under \$10,000. Schedule A of the Agreement recognizes that transformers transferred under the Agreement are "generally priced between \$500 and \$10,000 each." The transfers of transformers during 2011 and 2012 were consistent with the general price range identified in Schedule A to the Agreement, with a

significant majority of the transformer units transferred in 2011 and 2012 valued at under \$10,000/unit.¹

Transfers beyond Scope of Agreement. IPL recognizes that the transfer of certain gas-utility materials (tees and various diameter pipes) that were not specifically covered by the Agreement and a transfer of cable that exceeded the \$250,000 per transaction threshold were inadvertently undertaken.

Transfer of Gas Material. In regards to the gas materials, IPL notes that the value associated with gas material transferred in 2011 and 2012 was, respectively, \$7,326.58 and \$14,874.32, which represent less than 1% of the gross value transferred in the respective years.² IPL does believe that IPL and its ratepayers could benefit from explicitly identifying certain gas-utility materials, such as tees and pipes, within the Schedule A to the Agreement.

Transfer in Excess of Per-Transfer Threshold. In October of 2011, a need for cable was identified in WPL and a surplus was identified in IPL. Due to lead times to acquire cable, WPL and IPL effectuated a transfer under the Agreement. Unfortunately, the amount of cable transferred resulted in the transfer exceeding the \$250,000 per transaction threshold by \$4,067. In undertaking this transfer, IPL inadvertently exceeded the per-transaction limit contemplated by the Agreement.

Internal Controls. The Department, in its Comments, requested that IPL explain the internal controls that it will put into place to ensure compliance with the criteria of the Agreement in future transactions. IPL will also develop internal

¹ Approximately 88% of the transformer units transferred in 2011 and approximately 93% of the transformer units transferred in 2012 were under \$10,000.

² IPL also notes that the value of none of the gas materials transfers in 2011 and 2012 exceeded \$50,000. See Minn. Stat. § 216B.48 Subd. 4.

controls designed to prevent transactions under the Agreement from deviating from the terms of the Agreement. Items that IPL will investigate for implementation include: ensuring individuals within Supply Chain Support Services who work with the Agreement receive updated training on the scope and requirement of the Agreement; investigating establishing internal notifications or internal approvals over certain monitoring levels (e.g. transactions at or over \$200,000 to ensure compliance with \$250,000 threshold); and conducting periodic review of transactions.

Modification of Supply Agreement. The Department also posits that the Commission could approve the renewal of the Agreement with the condition that IPL modify the Agreement to ensure that the terms – in particular, the list of eligible equipment, and the individual and annual limitations on transfers – reflect transactions expected to be conducted under the Agreement, as informed by operational experience. (Department Comments at 4 & 6.) IPL is willing to investigate modifications of the Agreement and, in particular, the list of eligible equipment, and the individual and annual limitations on transfers. IPL requests, though that the Commission approve the Agreement as it is currently structured, and authorize IPL to propose modifications following a more comprehensive review by IPL and WPL. This will enable IPL and its ratepayers to continue to benefit from the efficiencies and flexibility provided by the Agreement, while IPL and WPL analyze the nature and extent to which the Agreement should be modified.

Among the modifications that IPL would consider are the whether the categories and general price ranges should be updated and whether new categories (such as categories for gas-utility materials) should be included.

Application of Minn. Stat. § 216B.50. In its comments, the Department briefly discussed Minn. Stat. § 216B.50, which applies, in part, to the sale, acquisition, lease, or rental of “any plant as an operating unit or system for total consideration in excess of \$100,000.” (Department Comments at 4-5.) The Department noted that several transfers under the Agreement were in excess of \$100,000, but noted that “The Department prefers not to pursue this discussion at this juncture given the apparent benefits the Supply Agreement provides to ratepayers.”

IPL agrees with the Department that the Supply Agreement provides benefits to ratepayers, and is willing to defer discussion of the applicability of Minn. Stat. § 216B.50 at this time. However, IPL reserves its right to present arguments about the applicability of Minn. Stat. § 216B.50 to transfer of supplies, such as transformers and wires, both with and without the approved Agreement.

WHEREFORE, IPL respectfully requests the Commission give IPL’s Reply Comments due consideration and approve the renewal of the Master Supply Agreement.

Dated this 3rd day of April, 2014.

Respectfully submitted,

Interstate Power and Light Company

/s/ Michael S. Greiveldinger

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