



Alliant Energy Corporate Services
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Samantha C. Norris
Senior Attorney

May 23, 2014

Dr. Burl W. Haar, Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

RE: Interstate Power and Light Company and Southern Minnesota Energy Cooperative
Docket No. E001, E132, E114, E6521, E142, E135, E115, E140, E105, E139, E124,
E126, E145/PA-14-322
Reply Comments

Dear Dr. Haar:

Enclosed for e-filing with the Minnesota Public Utilities Commission please find Interstate Power and Light Company and Southern Minnesota Energy Cooperative'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.

Very truly yours,

/s/ Samantha C. Norris
Samantha C. Norris
Senior Attorney

SCN/tao
Enclosures

cc: Service List

Interstate Power and Light Co.
An Alliant Energy Company

Alliant Tower
200 First Street SE
P.O. Box 351
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Office: 1.800.822.4348
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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 A REQUEST FOR APPROVAL OF THE ASSET PURCHASE AND SALE AGREEMENT BETWEEN INTERSTATE POWER AND LIGHT COMPANY AND SOUTHERN MINNESOTA ENERGY COOPERATIVE</p>	<p>DOCKET NO. E001, E132, E114, E6521, E142, E135, E115, E140, E105, E139, E124, E126, E145/PA-14-322</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 23rd day of May, 2014, copies of the foregoing Affidavit of Service, together with Interstate Power and Light Company and Southern Minnesota Energy Cooperative'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 23rd day of May, 2014.

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

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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**

**IN THE MATTER OF A REQUEST FOR THE
APPROVAL OF THE ASSET PURCHASE
AND SALE AGREEMENT BETWEEN
INTERSTATE POWER AND LIGHT
COMPANY AND SOUTHERN MINNESOTA
ENERGY COOPERATIVE**

**DOCKET NO. E-001, E-115, E-140,
E-105, E-139, E-124, E-126, E-145,
E-132, E-114, E-6521, E-142, E-
135/PA-14-322**

REPLY COMMENTS

On April 15, 2014, Interstate Power and Light Company (IPL) and Southern Minnesota Energy Cooperative (SMEC) (Joint Petitioners), filed their Joint Petition with the Minnesota Public Utilities Commission (Commission) for approval of the sale of IPL's Minnesota electric distribution system and assets and transfer of Minnesota service rights and obligations to SMEC (the Transaction) under the Asset Purchase And Sale Agreement dated September 3, 2013, and First Amendment to Asset Purchase and Sale Agreement dated October 28, 2013 (Agreement).

On May 9, 2014 the Minnesota Department of Commerce, Division of Energy Resources (Department), the Office of Attorney General, Antitrust and Utilities Division (OAG), and the Minnesota Municipal Utilities Association (MMUA) filed Comments in response to the Commission's April 22, 2014 Notice of Schedule for Filing Procedural Comments.

These Reply Comments are submitted on behalf of the Joint Petitioners in response to the Comments of the Department, the OAG, and the MMUA. The Joint Petitioners appreciate the thoughtful review by the Department, the OAG, and the MMUA. The Joint Petitioners accept a number of their comments and recommendations, have provided additional requested information, and have addressed comments and recommendations on which there is not agreement, as further explained in these Reply Comments.

I. INTRODUCTION AND SUMMARY

The Comments of the Department, the OAG, and the MMUA all recommended that a full record be developed, providing opportunities for all stakeholders and the public to provide comments. The Joint Petitioners fully support these recommendations.

The Department favored the use of a contested case process while the OAG noted the substantial information included in the Joint Petition and proposed the use of written comments and replies instead of a contested case. The Department also indicated that if the Commission would prefer to proceed without a contested case, the Department would support that decision.¹ The Joint Petitioners believe that a contested case proceeding is not needed to provide a complete record that will fully inform the Commission's decision.

As further explained in these Reply Comments, the Joint Petitioners will take all steps needed to promptly provide a full record for the Commission, including:

- supplementing the record with additional factual information;

¹ Department Comments at 5.

- providing opportunities for individual and group discussions between representatives of parties and Joint Petitioners to provide additional information and to facilitate focused Information Requests and additions to the record;
- providing timely responses to written and informal Information Requests;
- participating in public hearings; and
- providing explanations and support addressing policy issues and positions.

These Reply Comments also include specific recommendations for a process and timeline to resolve this Joint Petition.

Given that other non-procedural issues were raised by the Parties in their comments filed on May 9, Joint Petitioners will address those here as well. These issues include:

- The Department Comments raise an issue regarding whether the Wholesale Power Sales Agreement between IPL and SMEC (WPA) would require an Affiliated Interest filing. As explained in these Reply Comments, no affiliated interest filing is required because neither SMEC nor any of its 12 distribution cooperative members (SMEC Member Cooperatives) is the public utility (which is a requirement for application of the Affiliated Interest Statute) and IPL will not be able to exercise any substantial influence over the policies or actions of SMEC or the SMEC Member Cooperatives, which was the Department's concern.
- The Department Comments raise a question regarding the Commission's jurisdiction over SMEC and the SMEC Member Cooperatives. As explained in these Joint Comments, the Commission will have jurisdiction to enforce the obligations of SMEC and the SMEC Member Cooperatives

to customers, although neither SMEC nor the SMEC Member Cooperatives are public utilities. The Joint Petitioners will provide a further explanation and assurance on Commission oversight of SMEC and the SMEC Member Cooperatives' obligations to customers, as may be needed.

- These Joint Comments also respond to the Department's questions regarding the financial ability of some SMEC Member Cooperatives to make significant additions to their membership census and the basis of the \$2/MWH credit.
- Finally, these Reply Comments address the questions regarding franchises raised in the MMUA Comments.

As noted above and explained in the following section, the Joint Petitioner's stand ready to provide more information and further explanation as may be needed.

II. JOINT PETITIONERS' PROCEDURAL RECOMMENDATIONS

In this section, the Joint Petitioners address comments in three categories raised by other parties:

- Developing the record / public comment;
- Need for contested case proceeding; and
- Proposed procedural schedule.

The Joint Petitioners address each of these individually below.

A. The Joint Petitioners Support Developing the Record And Public Comments

The Department, the OAG, and the MMUA all recommend the development of

the record in this proceeding, including providing the opportunity for customers to comment on the proposed Transaction. These are principles that the Joint Petitioners fully endorse, and are reflected in the proposed schedule of activities presented below in Section C. The Joint Petitioners also remain open to other suggestions that would provide the maximum amount of transparency and exchange of information as is necessary to efficiently evaluate the Joint Petition.

B. A Contested Case Proceeding Is Not Needed

Only the Department Comments recommended use of a contested case proceeding. However, the Department also stated a willingness to proceed without a contested case proceeding if that is the Commission's decision. While the Joint Petitioners are willing to participate in a contested case if that is the desire of the Commission, they submit that the issues expressly raised by the Department relate to law and policy, which do not require a contested case hearing for resolution.

The Joint Petitioners believe that a contested case proceeding is not needed because they are committed to an exchange of information as well as public input that will enable an effective evaluation and resolution of this Joint Petition. The Joint Petitioners stand ready to take whatever steps are needed towards that end, as further described in the following section.

The Joint Petitioners' belief that a contested case proceeding is unnecessary is also based on timing considerations. Assuming the Joint Petition can be resolved without a contested case proceeding, doing so would presumably shorten the time to obtain a Commission decision regarding the Transaction. Shortening this timeframe would remove the uncertainties faced by the parties, but more importantly those faced

by customers and affected employees. This position does not indicate a desire by the Joint Petitioners to resolve this matter without appropriate due process. Rather, it simply signals that resolving the docket swiftly – if that is feasible – provides benefits to all stakeholders.

C. The Joint Petitioners’ Proposed Schedule

The OAG correctly pointed out that the Joint Petitioners had not yet formally presented a procedural proposal that would allow completion of the Transaction by year-end 2014. These Reply Comments address this issue.

The goals for the Joint Petitioners’ proposed schedule are as follows:

- Allow for complete development of the record;
- Allow for public input; and
- Complete the Transaction by year end.

The Joint Petitioners’ proposed schedule is designed to allow closure of the Transaction by year-end 2014 (Joint Petitioners’ request), recognizing that this schedule is subject to a variety of other factors. For example, Joint Petitioners do not have complete knowledge of the other resource constraints facing the Commission or other parties for the remainder of 2014. As such, the following schedule may require refinement to reflect and accommodate those constraints:

June - August	Informal meetings (and telephone conversations) could be held to facilitate transparency and open dialog between Joint Petitioners and the other parties. The goal of these informal meetings and telephone conversations is to simplify the process and add focus to achieve a complete and open record. These meeting and conversations could eliminate potential issues that may otherwise be based solely on the lack of information or understanding of information pertaining to the Transaction. The Joint
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	Petitioners acknowledge that these meetings and conversations cannot, and should not, replace the use of formal Information Requests and appropriate supplementation of the record. More specifically, Joint Petitioners are willing to facilitate multiple one-day meetings events in St Paul where informal exchange of information can occur, and to provide telephone access to Joint Petitioner representatives with subject matter knowledge. (Information obtained in these meetings and telephone conversations would not be part of the record – formal Information Requests and supplementation of the record would be needed, but the Joint Petitioners believe that it could be far more focused as a result of meetings and conversations.) The Joint Petitioners welcome dialog with, or comment from, the Parties on this idea.
August 25 to September 5	Three Public Comment meetings in Albert Lea, Stewartville, and Winnebago
September 20	Initial Comments by the Parties
October 20	Reply Comments
November 30	Decision by Commission
By December 31	Closing of Transaction

Running in parallel with this proposed schedule (or any other schedule adopted by the Commission) are actions the Joint Petitioners will take to ensure affected customers have adequate information. These activities will continue the communication efforts the Joint Petitioners have already undertaken, including:

- Customer letter sent in connection with the April 15 filing of the Joint Petition;
- Webinar for Commercial and Industrial Customers held on May 13; and

- Regular and on-going dialog with both individual customers and communities.

The Joint Petitioners intend to continue customer outreach as this proceeding unfolds.

III. SMEC’S ROLE AND FUNCTION IN THE TRANSACTION.

The Department Comments contend that the Joint Petition does not clearly define SMEC’s regulatory status. The Department observes that “the Joint Petition does not affirmatively define SMEC as a public utility that is subject to Commission authority for determining rates or reliability...”² The Department further notes that the “Petition inferred that SMEC would not be a public utility subject to Commission oversight immediately post-sale. Rather, it appears to suggest that SMEC and the SMEC Member Cooperatives are choosing to subject that portion of their business attributable to the proposed Transaction to limited Commission authority during the Transition.”³

These Reply Comments clarify SMEC’s regulatory status and that of the SMEC Member Cooperatives. SMEC serves four important roles in the Transaction.

First, SMEC provides an important coordination function and serves as a single counter-party to effect the Transaction with IPL as opposed to having the 12 SMEC Member Cooperatives attempting to effect separate transactions with IPL.

Second, SMEC will own, operate, and maintain the electric distribution facilities purchased from IPL for up to three years, until the SMEC Member Cooperatives purchase their respective shares of these facilities from SMEC. To carry out this operational role, SMEC will contract with the SMEC Member Cooperatives to operate

² Department Comments at 2-3

³ Department Comments at 3.

and maintain the electric distribution facilities, which will avoid SMEC having to hire duplicative employees for these purposes. SMEC's ownership of these facilities for up to a three-year period also provides for the availability of lower borrowing costs from National Rural Utilities Cooperative Finance Corporation (CFC).

Third, SMEC will perform and administer the 10-year WPA directly with IPL during a three-year period when SMEC owns, operates and maintains the electric facilities purchased from IPL. When the SMEC Member Cooperatives purchase their shares of these electric facilities, they will enter into separate wholesale power contracts with SMEC to serve the IPL customers for the remainder of the 10-year period.

Fourth, SMEC will coordinate with the SMEC Member Cooperatives in establishing a common set of rates that the SMEC Member Cooperatives will adopt and charge during the Three-Year Initial Period of the Rate Plan (described in the Joint Petition). The SMEC Member Cooperatives will bill and collect the revenues from the IPL customers and forward them to SMEC to pay the expenses of operating the entire system during the initial thirty-six month (i.e. three-year) period following closing of the Transaction.⁴

IV. SMEC'S REGULATORY STATUS

SMEC is not a public utility for purposes of the Minnesota Public Utilities Act of 1974, Section 216B.01, *et seq.* Rather, SMEC is an electric cooperative organized under the provisions of Minn. Stat. § 308A. The last sentence of Section 216B.01 states as follows: "Because municipal utilities are presently effectively regulated by the

⁴ The references to three-year, two-year, and five-year periods do not refer to calendar years but rather to 36-month, 24-month, and 60-month periods respectively, with the Initial Period starting at the closing of the Transaction.

residents of the municipalities which own and operate them, and cooperative electric associations are presently effectively regulated and controlled by the membership under the provisions of chapter 308A, it is deemed unnecessary to subject such utilities to regulation under this chapter except as specifically provided herein.” (Emphasis added.) Section 216B.02, subd. 4, confirms that SMEC, as an electric cooperative, is not a public utility; a public utility does not include “a municipality or a cooperative electric association, organized under the provisions of chapter 308A, producing or furnishing natural, manufactured, or mixed gas or electric service...” (Emphasis added.)

By contracts with the SMEC Member Cooperatives, SMEC will operate and maintain electric facilities for retail service for the entire acquired area during an initial three-year period. SMEC is an electric cooperative, however, which under Section 216B.02, subd. 4, is not a public utility. Similarly, since SMEC Member Cooperatives are Chapter 308A electric cooperatives, they are also not public utilities for purposes of Section 216B.

As stated above, SMEC’s role and function in the Transaction is to supply wholesale power to the SMEC Member Cooperatives and to own (for a Three-Year Initial Period following the closing of the Transaction) certain electric facilities used for retail sales. That function is almost identical to the role and function of the generation/transmission cooperatives operating in Minnesota, such as Great River Energy, Dairyland Power Cooperative, Minnkota Power Cooperative, Basin Electric Power Cooperative, and East River Power Cooperative, which supply wholesale power to their Member Cooperatives. Like SMEC, none of these G&T cooperatives are public utilities under Section 216B.

SMEC and the SMEC Member Cooperatives are submitting themselves to the limited jurisdiction of the Commission, not as public utilities, but as a condition of the approval of the Transaction for the purpose of enforcing all of the commitments in the proposed Five-Year Rate Plan (Three-Year Initial Period and following Two-Year Transition Period). The Commission will have jurisdiction to assure, for example, that the former IPL customers are charged the 2014 IPL retail rates with adjustments for a \$0.002/kWh bill credit, to assure the conversion of IPL's Energy Supply Cost Recovery (ESCR) to a Power Cost Adjustment (PCA), and to assure that the other adjustments identified on pages 22-24 of the Petition during the Initial Period are carried out.

The Commission will have jurisdiction to assure that the SMEC Member Cooperatives conduct class cost of service studies (CCOSS) for the Legacy Areas, the Acquired Areas, and the Combined Areas during the Initial Period. These CCOSSs will be the basis for potentially merging rates for the Legacy and Acquired Areas or keeping them separate during the Transition Period, subject to the 5% limitations on merging rates described on pages 25-26 of the Petition that must also be observed by the SMEC Member Cooperatives. The Commission will have jurisdiction to require SMEC and its Member Cooperatives to comply with all of their commitments set forth in the Five Year Rate Plan. Lastly, the Commission's enforcement jurisdiction will terminate upon the conclusion of the Five-Year Rate Plan.

V. AFFILIATED INTEREST

The Department recommended that the Commission require the Joint Petitioners to fully address the applicability of Minn. Stat. §216B.48 (the Affiliated Interest Statute)

to the proposed WPA on the basis of Minn. Stat. 216B.48, subd. 6, which defines an affiliated interest with a public utility to include:

every corporation or person which the commission may determine as a matter of fact after investigation and hearing is actually exercising any substantial influence over the policies and actions of the public utility even though the influence is not based upon stockholding, stockholders, directors or officers to the extent specified in this section; (Emphasis added).

As explained below, there is no basis for an affiliated interest filing with regards to the WPA (or any part of the Transaction) because: (i) neither SMEC nor any of the SMEC Member Cooperatives is a “public utility;” and (ii) IPL will not exercise any “substantial influence over the policies or actions” of either SMEC or any SMEC Member Cooperative. Rather, the WPA is an open contractual arrangement, negotiated at arms-length, is also subject to Federal Energy Regulatory Commission (FERC) jurisdiction applying a FERC regulated embedded cost tariff rate as the basis of pricing. Further, the Commission will have an opportunity to fully evaluate the WPA in connection with making its determination of whether the Transaction is consistent with the public interest. The WPA is simply not subject to a separate affiliated interest filing requirement.

A. Neither SMEC Nor Any SMEC Member Cooperative Is A “Public Utility” For Purposes Of The Affiliated Interest Statute.

The Affiliated Interest Statute applies only to a contract or arrangement between a “public utility” and an affiliate.⁵ While IPL is a public utility as defined by Minn. Stat. § 216B.02, subd. 4, neither SMEC nor any SMEC member is an affiliate, and there is no basis to believe that SMEC or the SMEC Member Cooperatives will be “exercising any substantial influence over” IPL, which is a requirement for applicability of the Affiliated

⁵ Minn. Stat. 216B.48, subd. 6 and Minn. Rule 7825.1900, Subp. 4.

Interest Statute.

The Department's concern seems to be that IPL would exert substantial influence over SMEC (and possibly the SMEC Member Cooperatives).⁶ But even if that influence existed (which it does not, as explained below) neither SMEC nor any SMEC Member Cooperative is a "public utility" as required for application of the Affiliated Interest Statute. Rather, SMEC and each of the SMEC Member Cooperatives is an electric cooperative association specifically excluded from the definition of a public utility under 216B.02, subd. 4,⁷ and Minnesota Rules 7825.1900, Subp. 7.⁸ Accordingly, an expressly stated precondition for application of the Affiliated Interest Statute is absent.

B. Neither the Arm's Length WPA Contract Nor Other Facts Provide Any Substantial Influence By IPL Over SMEC Or Any SMEC Member Cooperatives.

While the Transaction is reflected in contracts, including the WPA, there are no facts that would support a conclusion that IPL has any influence over SMEC or the SMEC Member Cooperatives, much less any substantial influence. Rather, the entire arrangement between IPL and SMEC and the SMEC Member Cooperatives is based on arm's-length negotiations and the resulting contracts, which do not provide substantial influence within the meaning of the Affiliated Interest Statute.

The WPA will be operated as an arm's length contractual arrangement. There is no basis to believe that an arm's length contract provides "substantial influence" within

⁶ Department Comments at 6-8.

⁷ Minn. Stat. 216B.02, Subd. 4. States "Public utility" means persons, corporations, or other legal entities, their lessees, trustees, and receivers, now or hereafter operating, maintaining, or controlling in this state equipment or facilities for furnishing at retail natural, manufactured, or mixed gas or electric service to or for the public or engaged in the production and retail sale thereof but does not include (1) a municipality or a cooperative electric association, organized under the provisions of chapter 308A, producing or furnishing natural, manufactured, or mixed gas or electric service;

⁸ Minnesota Rules 7825.1900, Subp. 7 reads:

Subp. 7. "Public utility" is as defined in Minnesota Statutes, section 216B.02, subdivision 4, but not including a cooperative electric association.

the meaning of the Affiliated Interest Statute since every contract would then be subject to affiliated interest filing requirements. A contract, with fixed obligations, does not provide the ability to influence policies and actions. Consistent with these facts, the Joint Petitioners are not aware of a single case in which a wholesale power agreement between a public utility and an *unaffiliated entity* was determined to be a transaction subject to the Affiliated Interest Statute, and none was identified in the Department's Comments.

Further, all of the facts demonstrate conclusively that IPL has no ownership in or control over SMEC, or the SMEC Member Cooperatives, and has no basis to exert any influence, much less substantial influence, over SMEC or the SMEC Member Cooperatives. Rather, IPL is completely separate from SMEC and the SMEC Member Cooperatives. For example, IPL and SMEC are not engaged in any joint business operations. SMEC and the SMEC Member Cooperatives have their own financing and credit. SMEC and the SMEC Member Cooperatives will provide their own management and marketing. In addition, there are no overlapping directors, or officers, and IPL has no ownership interest in SMEC or in the SMEC Member Cooperatives, which could provide substantial influence.

Moreover, all rights and obligations to serve customers in IPL's current electric service areas in Minnesota (after they are transferred to SMEC) will be divided among and transferred to the twelve SMEC Member Cooperatives, without any input or consent required by IPL. SMEC will purchase wholesale power from IPL under the WPA for a minimum of 10 years, subject to regulation by FERC, but to serve the areas in which

SMEC acquired customers from IPL the purchase of power under a contract does not provide substantial influence.

Accordingly, the record is clear (without the need further investigation) that: (i) SMEC and the SMEC Member Cooperatives are not public utilities within the meaning of the Affiliated Interest Statute; (ii) IPL does not and will not exercise any substantial interest over SMEC and the SMEC Member Cooperatives; (iii) IPL and SMEC and the SMEC Member Cooperatives are not affiliated interests; and (iv) Minn. Stat. § 216B.48 is not applicable to the WPA or the Transaction.

VI. FINANCIAL IMPACTS ON SOME SMEC MEMBER COOPERATIVES

In its Comments, the Department concluded that further information regarding the financial impacts of the Transaction on the certain SMEC Member Cooperatives should be provided. Specifically, the Department asked that Joint Petitioners address the likelihood of the SMEC Member Cooperatives receiving reasonable terms to finance the purchase of their shares of the former IPL assets from SMEC. The Department also asked the Joint Petitioners to address the financial and operational risks for Freeborn-Mower Cooperative Services and Redwood Electric Cooperative, in particular, which electric cooperatives will be realizing major increases in their customer bases from the Transaction.⁹

The SMEC Member Cooperatives have met with both the CFC and the Rural Utilities Service (RUS), the predominant lenders to SMEC and the SMEC Member Cooperatives, and have received assurances from both of their support for the Transaction. CFC has committed to a bridge term loan for up to 5 years at a below

⁹ Department Comments, p. 8

market interest rate of 1.59 percent (LIBOR 1 month rate plus 140 basis points) , and is willing to convert this to a long term loan (30 years) at CFC's interest rate at the time the loan is made.

RUS is also available to make a long term loan (30 years) to finance the transaction at U.S. Treasury interest rates plus 12.5 basis points. While a loan application has not yet been made to the RUS, SMEC and the SMEC Member Cooperatives do not anticipate any difficulty in obtaining RUS approval.

Neither lender requires SMEC or the SMEC Member Cooperatives to finance any portion of the Transaction with equity capital. In fact, it is common practice for cooperatives to finance system improvements and expansions entirely with debt capital. While no decisions have been made to date, it is expected that SMEC will finance the Transaction for the first three years using a bridge loan from CFC. It is currently expected that at the end of the initial three-year period, the facilities will be transferred ("spun down") to the individual SMEC Member Cooperatives who will then refinance their share of the Transaction via RUS long term loans. When the transfer will actually occur, however, depends on further analysis and long-term interest rates. It is possible that one or more of the SMEC Member Cooperatives might chose to spin down facilities earlier in order to lock in a more favorable long-term interest rate.

As explained in the Joint Petition, in years four and five, the SMEC Member Cooperative's intend to develop cost based areas rates that will be sufficient to cover each area's (Legacy and Acquired) assigned revenue requirements, and merge the area cost based rates only when certain criteria are met. The revenue requirements for each area will be designed to meet appropriate interest and debt service coverage

requirements determined by each SMEC Member Cooperative Board in a non-discriminatory manner that will protect the financial integrity of the SMEC Member Cooperative. As also explained in the filing , there are several indicators that the rates necessary to meet the revenue requirements in the Acquired Areas will be less than they would have been under continued IPL ownership, including: 1) lower cost of money; 2) no state or federal income tax obligation; and 3) operational efficiencies. Thus, the financial integrity of each SMEC Member Cooperative will be preserved, regardless of how many customers are acquired *vis a vis* its current customer base.

The SMEC Member Cooperatives, specifically including Freeborn-Mower Cooperative Services and Redwood Electric Cooperative, recognize the responsibility they have undertaken with the Transaction in acquiring the IPL Minnesota electric service territory. They have committed to offer employment to all current IPL employees, and to supplement that workforce as necessary while integrating the new and existing employees. Plans are moving forward to determine which IPL employees will accept job offers from the SMEC Member Cooperatives, and the extent to which additional employees must be hired to operate the integrated electric systems in a cost-effective, safe and reliable manner. The SMEC Member Cooperatives have also established a number of committees to study and plan for the efficient and reliable operation of the newly acquired areas along with their existing areas. They are also developing plans to coordinate operations as appropriate so that employees and facilities are shared in an efficient manner and service reliability is enhanced.

VII. \$0.002/kWh CREDIT

The Department Comments also indicated that it “would appreciate a discussion of the basis of the \$0.002/kWh credit to energy usage the Petitioner discussed on page 23 of the filing.” The \$0.002/kWh Cooperative Ownership Credit being offered by SMEC and the SMEC Member Cooperatives for the Initial Period (estimated to be 2015-2018, depending on the closing date) is intended to help moderate the increase in rates that will result from tracking increases in the cost of wholesale power supply and transmission delivery services that has occurred since IPL’s last rate case in 2010. This discount is made possible to a large extent by the ability to secure a bridge loan for the first three years after closing having a very low annual interest rate of approximately 1.59 percent, the fact that the Cooperatives are exempt from federal and state income tax, and the expectation of operational efficiencies, in spite of the fact that distribution costs have also risen since IPL’s last rate case. However, it should also be understood that this credit is not a permanent cost-based pricing element, but rather a mechanism to ensure the Transaction is in the customer’s interest from a short term pricing perspective.

VIII. FRANCHISE ASSIGNMENT

The MMUA Comments asked whether IPL’s current franchises will be assigned, if permitted under the terms of the franchise, or if new franchises would be required with the SMEC Member Cooperatives. IPL will assign its electric franchises to SMEC pursuant to the terms of the Agreement. Specifically, Section 2.1(c) of the Agreement provides that IPL will assign to SMEC all franchises associated with IPL’s electric distribution business; a list of IPL’s electric franchises is contained in Schedule 2.1(c) to

the Agreement. Each franchise was issued to IPL and its successors and assigns or to Interstate Power Company (IPL's predecessor company) and its successors and assigns. Thus, all of IPL's franchises are assignable, though three require some form of consent from the municipality.

IX. CONCLUSION

As explained in these Reply Comments, the Joint Petitioners are committed to taking all steps necessary to provide a complete record for the Commission to evaluate the Joint Petition, including promptly providing additional information. A contested case process is not needed to provide such a record. These Reply Comments have furnished additional requested information and addressed concerns raised in the Comments of the Department, the OAG, and the MMUA. Accordingly, the Joint Petitioners respectfully request the Commission:

1. Adopt a written comment and reply process for resolution of this Joint Petition that will provide a complete record from which the Commission may evaluate the Joint Petition; and
2. Adopt the Joint Petitioners' proposed procedural schedule which will allow Commission resolution of the Point Petition in time for the Joint Petitioners to close the Transaction by year-end 2014.

Dated: May 23, 2014

Respectfully submitted,

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