Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: April 30, 2015 ....**Agenda Item No. 5

Company:	Interstate Power and Light Company ("IPL" or "Interstate") and Southern Minnesota Electrical Coop (SMEC), together (the "Joint Petitioners")
Docket Nos.	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 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 (the "Petition") E-001/PA-07-540 In the Matter of the Joint Petition for Approval of Transfer of Transmission Assets of Interstate Power and Light Company and ITC Midwest LLC
Issue(s):	Is the proposed sale consistent with the public interest? Should the Commission request additional information? Is a contested case proceeding necessary? Should the Commission approve the proposed transaction? If so, should approval be subject to conditions? How should IPL return the remaining ATA to customers?
Staff:	Clark Kaml.. 651-201-2246 Jorge Alonso .... 651-201-2258 Jerry Dasinger .... 651-201-2235 Andrew Twite 651-201-2245

Relevant Documents

<u>Docket No. 14-322</u>

IPL and SMEC Petition .... April 15, 2014
Commission Order Requiring Additional Record Development .... June 30, 2014
Joint Petitioners Response to Commission .... August 1, 2014
Joint Petitioners Supplemental Response to Commission .... September 4, 2014
Department of Commerce Reply Comments .... October 6, 2014
Office of the Attorney General Reply Comments .... October 6, 2014
MMUA Reply Comments .... October 6, 2014
Commission Notice of Additional Comment Period .... October 10, 2014
Joint Petitioners Response to Commission Notice .... November 10, 2014
Department Supplemental Reply Comments .... November 10, 2014
OAG response to Commission Notice... November 10, 2014

Printed April 21, 2015

Commission Order Directing Public Hearings to be Held .... November 18, 2014
Department Reply Comments .... December 8, 2014
Joint Petitioners Reply Comments .... December 8, 2014
OAG Reply Comments .... December 8, 2014
Minnesota Chamber of Commerce Reply Comments .... December 8, 2014
MMUA Reply Comments .... December 8, 2014
Department Reply Comments .... December 22, 2014
Joint Petitioners Reply Comments .... December 22, 2014
OAG Reply Comments .... December 22, 2014
Department Letter .... March 12, 2015
Joint Petitioner's Letter .... March 18, 2015
IPL Letter Referencing Compliance/Informational Filing in
E001/PA0-07-540 and E001/GR-10-276 .... March 18, 2015
IPL Errata .... March 19, 2015
IPL Distribution Plant Breakdown .... April 3, 2015

Docket No. 07-540 (& 10-276)
IPL ATA Compliance/Informational Filing.. February 27, 2015
Department Comments .... March 26, 2015

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 296-0406 (voice). Persons with hearing loss or speech disabilities may call us through their preferred Telecommunications Relay Service.

Table of Contents

Issues 2
Background 2
Procedural History 2
Relevant Statutes and Rules 4
Minn. Stat. § 216B.48, Relations with Affiliated Interest 4
Minn. Stat. § 216B.50, Restrictions on Property Transfer and Merger 5
Minn. Rules 7825.1600-1800 5
Overview 5
Issues and Party Positions 7
Required Approval Under Minnesota Statutes and rules 7
Party Positions and Recommendations on Approval of Asset Purchase 7
Change in Commission Authority 10
Price (Terms) 14
Cost Benefit analyses 20
Wholesale Power Agreement 25
$2/Megawatt Credit 30
Cost Allocation 31
Rates for Former IPL Customers 35
Conclusions and Recommendations 40
Staff Comment 43
Commission Options 45

Issues

Is the proposed sale consistent with the public interest?
Should the Commission request additional information?
Is a contested case proceeding necessary?
Should the Commission approve the proposed sale?
If so, should the approval be subject to conditions?
How should IPL return the remaining ATA to customers?

Background

PROCEDURAL HISTORY

Alternative Transaction Adjustment

On December 20, 2007, ITC Midwest, LLC acquired the transmission system in Iowa, Minnesota, Illinois and Missouri owned by Alliant Energy's Interstate Power and Light Company (IPL). The Commission approved the sale of IPL's Minnesota transmission assets to ITC at its meeting of December 18, 2007 and in its February 7, 2008 Order in Docket No. E001/PA-07-540.

As part of that transaction, IPL agreed to an Alternative Transaction Adjustment ("ATA") under which it would refund to ratepayers approximately $13.04 million per year for eight years on a total Company basis.

In its November 8, 2011 Order in IPL's 2010 rate case (Docket No. E001/GR-10-276), the Commission required IPL to refund the remaining gain on sale related to the 07-540 transmission asset sale over a four-year period.

On February 27, 2015, IPL filed a compliance filing in both dockets (E001/GR-10-276 and E001/PA-07-540), reporting the ATA amount and the Company's reconciliation analysis of the actual amount of the gain on sale that had been returned to its Minnesota customers. This filing indicated that there was a remaining gain on sale of approximately $200,000 and proposed options for returning the remaining amount to ratepayers.

On March 26, 2015, the Department submitted comments and recommended the Commission require IPL to utilize the FCA mechanism to return the remaining $200,000 balance to ratepayers, or, if IPL's request in Docket 14-322 is approved, through a reduction in payments required of SMEC under the Wholesale Power Sales Agreement. In either case, IPL should provide a compliance filing reporting the amount actually returned to customers.

Proposed Sale of Assets to SMEC

On April 15, 2014, Interstate Power and SMEC filed a petition requesting approval of the sale of IPL's Minnesota electric distribution system and assets, and transfer of IPL's service rights and obligations in Minnesota to SMEC (the Transaction).

On April 22, 2014, the Commission issued a Notice of Schedule for Filing Procedural Comments.

On May 9, 2014, the OAG and MMUA each filed comments.

On May 12, 2014, the Department filed comments.

On May 23, 2014, Interstate and SMEC filed reply comments.

On June 30, 2014, the Commission issued and Order Requiring Additional Record Development.

On August 1, 2014, the Joint Petitioners filed a response to the Commissioners' questions.

From September 2 through December 8, 2014, the Joint Petitioners filed numerous responses to questions from the Commission and information requests from the parties.

On September 4, 2014, the Joint Petitioners filed a supplemental response to Commission questions.

On October 6, 2014, the Department of Commerce, the Office of the Attorney General and MMUA all filed reply comments.

On October 10, 2014, the Commission issued a Notice of Additional Comment Period. The notice included 11 specific topics.

On November 10, 2014, the Joint Petitioners, the Department, and the OAG each filed responses to the Commission's October 4, 2014 Notice of Additional Comment Period.

On November 17, 2014, MCC filed information requests (IRs # 14 - 42).

On November 18, 2014 the Commission issued an Order Directing Public Hearings to be Held.

Also on November 18, 2014, IPL/SMEC filed their objection to the MCC's Information Requests.

On November 21, 2014 MCC filed additional information requests (IRs # 43 - 58).

On December 8, 2014, the Joint Petitioners, the Department, the OAG, the Minnesota Chamber of Commerce, and MMUA each filed Reply Comments.

On December 11, 2014 the Commission issued an Order -Establishing Response Deadline and Designating Lead Commissioner.

On December 22, 2014, the Joint Petitioners, the Department, and the OAG each filed Reply Comments.

On January 7, 2015, the Chamber issued information request numbers 59 through 63 to the Joint Petitioners.

Public hearings were held in Storden on January 15, 2015 and Stewartville and Albert Lea on January 21, 2015.

Also on January 21, 2015, the Joint Petitioners responded the Chamber's information request numbers 59 through 63.

On February 27, 2015, IPL made a Compliance Filing in Docket E001/PA0-07-540 (07-540) discussing the gain on sale returned to ratepayers from Docket 07-540. The same filing was made as an Informational Filing Docket E001/GR-10-276 (10-276)

On March 12, 2015, the Department filed a letter to inform the Commission of an agreement between the Department and the Joint Petitioners on the implementation of the Department's recommendations.

March 18, 2015, the Joint Petitioners filed a letter indicating that they concurred with the Department's March 12, 2015, letter.

On March 18, 2015, IPL filed in this docket, for reference purposes, the February 27, 2015, Compliance Filing and Informational Filing in Dockets E001/PA0-07-540 and E001/GR-10-276

Relevant Statutes and Rules

MINN. STAT. § 216B.48, RELATIONS WITH AFFILIATED INTEREST

Minn. State. § 216B.48 defines affiliated interests and explains that no contract or arrangement between a public utility and any affiliated interest as defined in subdivision 1, clauses (1) to (8), or any arrangement between a public utility and an affiliated interest as defined in subdivision 1, clause (9), is valid or effective unless and until the contract or arrangement has received the written approval of the commission.

MINN. STAT. § 216B.50, RESTRICTIONS ON PROPERTY TRANSFER AND MERGER

Minn. Stat. §216B.50 requires a public utility to obtain Commission approval prior to selling, acquiring, leasing, or renting any plant as an operating unit or system in this state for a total consideration in excess of $100,000, or merge or consolidate with another public utility or transmission company operating in this state, without first being authorized so to do by the commission. Upon the filing of an application for the approval and consent of the commission, the commission shall investigate, with or without public hearing. The commission shall hold a public hearing, upon such notice as the commission may require. If the commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing. In reaching its determination, the commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated.

MINN. RULES 7825.1600-1800.

7825.1600, Definitions for Approval to Acquire Property.
7825.1700, Procedure for Approval to Acquire Property.
7825.1800, Filing Requirements for Petitions to Acquire Property.

OVERVIEW

The joint filing of IPL and SMEC seeks approval of an agreement for IPL to sell to SMEC all of its Minnesota electric distribution system and assets, and to transfer to SMEC its retail electric service rights and obligations in Minnesota (the Transaction). This sale and transfer is made in accordance with the Asset Purchase and Sale Agreement dated September 3, 2013, by and between IPL and SMEC, and First Amendment to Asset Purchase and Sale Agreement dated October 28, 2013, (collectively the Electric APA). This request is made pursuant to Minn. Stat. § 216B.50 and Minn. Rules 7825.1800.

Interstate Power and Light Company[1] is a separate legal entity and first-tier wholly owned subsidiary of Alliant Energy Corporation, a public utility holding company. As of year-end 2012, IPL provided retail electric and natural gas distribution services to approximately 527,000 electric customers and 234,000 natural gas distribution customers in Iowa and southern Minnesota. IPL's Minnesota electric customers total approximately 42,600 in 84 communities.

Southern Minnesota Energy Cooperative (SMEC)[2] is an electric cooperative association organized under Minn. Stat. § 308A.01, et seq. (the Minnesota Cooperative Law). SMEC is a

---

[1] IPL, Interstate, Interstate Power, or the Company

[2] The SMEC Member Cooperative are: Minnesota Valley Electric Cooperative, Steele-Waseca Cooperative Electric, People's Energy Cooperative, Tri-County Electric Cooperative, Freeborn-Mower Cooperative Services, BENCO Electric Cooperative, Brown County Rural Electrical Association, South Central Electric Association, Redwood Electric Cooperative, Federated Rural Electric Association, Nobles Cooperative Electric, Sioux Valley Energy.

non-profit, tax-exempt organization under Internal Revenue Code § 501(c)(12). It was organized by the SMEC Member Cooperatives to:

Create a single counterparty to IPL to effect the Transaction.

Own, operate, and maintain the electric facilities purchased from IPL for up to three years and to establish the initial rates and terms under which service will be provided to current IPL customers (during the Three-Year Initial Period).

Coordinate the transfer and integration of IPL customers to the individual SMEC Member Cooperatives (which may vary between SMEC Member Cooperatives).

Enter into the subsequent sale transactions with the SMEC Member Cooperatives to distribute IPL's assets to the SMEC Member Cooperatives.

During the terms of those power supply contracts, perform and administer the contracts with both IPL and the SMEC Member Cooperatives.

Each of the SMEC Member Cooperatives is a rural electric cooperative and is a tax-exempt organization under Internal Revenue Code § 501(c)(12). Eleven of the SMEC Member Cooperatives are located in southern Minnesota, and one (Sioux Valley Energy) is located in southeastern South Dakota. The SMEC Member Cooperatives provide retail electric service collectively to 135,000 members within their respective and adjacent assigned service territories in Minnesota.

The purchase is a cash transaction based on the book value of the Minnesota Electric Assets and adjustments as of December 31, 2012. The purchase price was originally estimated as approximately $118 million plus customary working capital and closing adjustments. In more recent comments the purchase price is discussed as $122 million.

Upon Commission approval, IPL's physical electric distribution assets will be transferred to SMEC and the IPL electric service area will be transferred to the respective SMEC Member Cooperatives, with distribution system support services provided by the SMEC Member Cooperatives.

As a result of the Transaction, the Joint Petitioners expect increased customer density and economies of scale for the SMEC member Cooperatives that will enhance the efficiency, reliability and cost-effectiveness of their electric distribution service operations.

Upon completion of the Transaction:

IPL will no longer provide retail electric service in Minnesota.

IPL will terminate and cancel its electric service tariffs in Minnesota as of the date of closing of the Transaction.

> IPL will no longer be subject to the Commission's jurisdiction regarding the provision of electricity at retail in Minnesota. However, IPL will provide wholesale power to SMEC under the Wholesale Power Sales Agreement (WPSA)[3] subject to FERC regulation.

The Joint Petitioners explained that the Renewable Energy Standards (RES) and Integrated Resource Planning will be maintained. RES obligations will become applicable to SMEC through the Generation and Transmission Cooperatives that serve the SMEC Member Cooperatives, and IPL will continue to file Integrated Resource Plans in accordance with the State of Minnesota's laws and regulations.

Issues and Party Positions

REQUIRED APPROVAL UNDER MINNESOTA STATUTES AND RULES

Interstate Power and Light Company and Southern Minnesota Energy Cooperative filed, pursuant to Minn. Stat. § 216B.50 and Minnesota Rules, Part 7825.1800, a petition requesting Commission approval of the sale of IPL's Minnesota electric distribution system and assets and transfer of service rights and obligations to SMEC pursuant to an Asset Purchase and Sale Agreement dated September 3, 2013 and First Amendment to Asset Purchase and Sale Agreement dated October 28, 2013. IPL and SMEC request an Order from the Commission approving the sale as consistent with the public interest.

There is no disagreement over what approval is required.

PARTY POSITIONS AND RECOMMENDATIONS ON APPROVAL OF ASSET PURCHASE

Before turning to the specific issues raised by parties, Staff first briefly summarizes parties' broad recommendations on the approval of the Asset Purchase.

Joint Petitioners

The Joint Petitioners argued that the record fully shows the Transaction is consistent with the public interest within the meaning of Minn. Stat. § 216B.50, and the Transaction should be approved without further conditions or modifications.

Department

The Department stated that its analysis suggests that the proposed transaction's benefits are greater than its costs. The Department supports approval of the proposed transaction with the condition that SMEC provide:

> Actual weather normalized annual revenue requirements for IPL's former service territory annually for the first three years following the proposed transaction's effective date.

---

[3] This agreement is also referred to as the Wholesale Power Agreement ("WPA").

A bill credit to IPL's former ratepayers if the actual weather normalized annual revenue requirement in any year exceeds the forecasted annual revenue requirement by more than 2 percent; and

Reliability information to the Commission for IPL's former service territory annually for five years.

On March 12, 2015, the Department filed a letter to inform the Commission of an agreement between the Department and the Joint Petitioners on the implementation of the Department's customer protection recommendations. On March 18, 2015, the Joint Petitioners filed a letter confirming that they concur with the Department's March 12, 2015 letter concerning an additional customer protection mechanism.

Department and Joint Petitioners Agreement

The Department and the Joint Petitioners agreed on the following implementation of the Department's customer protection recommendations:

1. A bill credit will be applied to reduce rates for the former IPL electric customers in the event the actual weather normalized revenues from IPL's former customers exceed the Petitioners' forecasted revenues by more than 2 percent, determined as provided below.

2. The actual weather normalized revenues and forecasted weather normalized revenues will be based on total revenues less revenues related to fuel costs. Revenues related to fuel costs will be excluded from the comparison calculations and the determination of the 2 percent threshold. As a result, the customer protection mechanism and calculations will reflect forecasted and actual distribution, non-fuel related power supply, and transmission costs. As described below, measures will be calculated on a cost per unit basis.

3. This comparison of actual weather normalized revenues to forecasted revenues will be made on a cumulative basis, measured over the 36-month period following the close of the Transaction[4].

4. The 36-month period is expected to include a part of 2015, all of 2016 and 2017, and a part of 2018. The forecasts for the portion of 2015 and for 2016 and 2017 included in the 36-month period will be based on the information included in the Application. Forecast information pertaining to 2018 was not included in the Application. Petitioners provided comparable forecasted 2018 power supply and transmission costs in their response to Department Information Request No. 48. The forecast by SMEC for the part of 2018 included in the 36-month period will be determined using the same methods reflected in the Application applying the power supply and transmission cost information provided in DOC IR 48.

[4] For sample calculation formula, see Attachment A on Department's March 12,2015 filing.

5. Actual weather normalized revenues for the 36-month period will be determined using the same methods as used in the Application.

6. To the extent it is reasonably practical, determinations of the partial year forecasts and actual weather normalized results for 2015 and 2018 will be made based on factors specific to the portions of the years 2015 and 2018 that are included in the 36- month period.

7. Annual reports showing a comparison of actual weather normalized results and forecasted results will be made for each 12-month period within 60 days following the end of each 12-month period, beginning with the initial 12-month period and including the periods ending 24 months and 36 months following the closing of the Transaction. These reports should also show the actual weather normalized fuel costs.

Number 8 in the Department's March 12, 2015 letter indicated that Attachment A to the letter provided a template for implementing the customer protection on a cumulative basis for the 36-month period, showing a hypothetical calculation using assumed data. It outlined and explained the steps using that data.

OAG

The OAG stated that when reasonable assessments of the costs and benefits are considered, the Transaction will not benefit ratepayers as currently structured. It argued that the record demonstrates that, if any benefit exists, it is in IPL's favor due to the guaranteed recovery of an acquisition premium and the Wholesale Power Agreement's increased return on equity.

The OAG noted that the claim that IPL's ratepayers benefit from the Transaction is premised on multiple hypothetical rate increases.

The OAG recommended that if the Commission approves the transaction, it should:

Require that IPL forego any gain on sale of its distribution assets.

Order that the transaction costs be paid by IPL.

Order that the sale price paid by SMEC to IPL be reduced by the amount of the gain that IPL will receive in the form of increased return on equity on generation assets in Iowa used to serve Minnesota customers.

Chamber

In its December 8 reply comments, the Chamber stated that it has concerns with the transaction's current structure. It argued that in order for the Commission to find that the sale and related agreements are in the public interest, as required by statute, changes are necessary. The Chamber stated that there is a lack of prudency review, no certainty of cost impacts and near term projected increases disproportionately allocated to commercial and industrial customers. It stated that by adopting its recommendations, the Commission will meet its statutory requirement to protect the interest of current IPL ratepayers.

The Chamber did not file supplemental reply comments, due December 22, 2014. However, it issued additional information requests on January 7, 2015.

MMUA

The MMUA identified seven areas that it stated needed additional record development. It stated that if the issues it and other parties identified are addressed, it has no objection to the transaction.

MMUA noted that the Joint Petitioners identified an estimated $7 million in capital projects planned for 2015. It is likely that additional infrastructure investments will be required in the near-term given the age of some facilities. MMUA stated that it is unclear whether these capital costs will be financed through this transaction. The transferred customers may be responsible for these capital costs in future rates. The Commission should investigate the impact and role of these near-term capital costs as part of this transaction.

The MMUA noted that there have been a number of resolutions by local units of government supporting the transaction, however, it is not clear what information was provided to these governing bodies.

MMUA stated that it does not appear that the Joint Petitioners held a separate webinar or informational meeting for local units of government. It stated that the Commission should not substitute the resolutions of support in place of fully developing the record.

CHANGE IN COMMISSION AUTHORITY

If the proposed transaction occurs, IPL's customers would be incorporated into their respective cooperatives and, as a general matter, the Commission's authority to regulate aspects of their service will change to reflect the regulatory structure for cooperatives. The Commission will no longer have rate regulation authority over the service provided to current IPL customers.

Joint Petitioners

Limited Jurisdiction

The Commission will retain authority and jurisdiction to require SMEC and each SMEC Member Cooperative to perform and comply with the applicable terms and conditions during the Three-Year Initial Period and Two-Year Transition Period. In their August 1 response, the Joint Petitioners explained the limited jurisdiction that the Commission would have after the transaction. They stated that:

> During the Three-Year Initial Period, Commission jurisdiction will assure that SMEC and the Member Cooperatives charge IPL's customers the adopted IPL rates with certain modifications.

> During the Three-Year Initial Period, Commission jurisdiction will assure that the Member Cooperatives prepare standard class cost of service studies (CCOSSs) for (a) the legacy area, (b) the acquired area, and (c) the combined area, reflecting area specific costs for purchased power and distribution facilities.
>
> During the Two-Year Transition Period, Commission jurisdiction will assure that separate rates are maintained for the Legacy and Acquired Areas based on the standard CCOSSs and to assure that any merged rates are within 5% of each other's pre-merged rates.

The Joint Petitioners explained that Commission jurisdiction includes the following:

- Assurance that the IPL retail rates charged during the Three-Year Initial Period apply only to IPL's former customers.
- Assurance that standard CCOSSs will be prepared that apply to both IPL's former customers and to Member Cooperatives' Legacy customers.

Commission jurisdiction will not include rate regulation for either IPL's former customers or the Member Cooperatives' legacy customers.

The Joint Petitioners stated that SMEC is a generation and transmission cooperative, and it will comply with the reporting requirements for G&T cooperatives under law.

Cooperative Ownership

In their December 22 reply comments, the Joint Petitioners stated that the customers themselves will ultimately own the transferred assets. The same customer-owners who will receive the benefits associated with the cooperatives' lower cost of capital and exemption from income taxes and are able to effectively regulate and control the SMEC Member Cooperatives.

The Legislature has expressly stated that effective regulation and control exerted by cooperative customer-owners make rate regulation under Chapter 216B unnecessary. Minn. Stat. 216B.01 states in part:

> Because … 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.

The Joint Petitioners stated that all cooperative members, including large customers, can participate in the control over the cooperative's operations. A representative or employee of a large customer-member who resides in the service territory of the cooperative is eligible to run for the board of directors. Seven SMEC Member Cooperatives have Member Advisory Committees that advise the board of directors on business issues, and large customers are eligible to be members of these committees. The SMEC Member Cooperatives that do not have Member Advisory Committees have regular Key Account meetings that address the interests of large customers. Two SMEC Member Cooperatives have both Member Advisory Committees and Key Account Meetings.

To present concerns of any kind, all members, including large commercial and industrial (C&I) members, will have direct access to SMEC Member Cooperative staff, Chief Executives, and Boards of Directors. When making decisions on all phases of operations, including rates, Cooperative Boards of Directors consider input from both small and large members.

The Joint Petitioners stated that the legislature has determined that the cooperative structure is in the public interest and acts as its own form of regulation.

FERC Regulation

The Chamber asserted that Federal Energy Regulatory Commission (FERC) regulation is inadequate and the transaction represents transfer to a "deregulated wholesale jurisdiction." The Joint Petitioners stated that the proposition that FERC regulation is inadequate does not provide a reasonable basis for Commission decision making. They argued that the Chamber's position and resulting request is at odds with both federal and state law.

Service Reliability and Quality

Although SMEC will retain ownership of IPL's acquired assets (described in Section IV.B. of the Petition), it will contract with the SMEC Member Cooperatives for the operation, maintenance, and related services necessary to operate those assets during the Three-Year Initial Period.

The Joint Petitioners stated that the SMEC Member Cooperatives are committed to providing reliable electric service to the IPL customers they will acquire. Service will be provided to current IPL customers by combining SMEC Member Cooperatives' existing line crew workers with current IPL employees that have received employment offers.

Other Regulatory Requirements

In pages 30 through 33 the petition discussed statutes that address customer protection, distributed generation, renewable energy, conservation improvements, and the transition plan for customer services.

The Petition states that, after the transfer, IPL and SMEC will notify customers, through a Commission-approved customer notice, of the change in service providers.

Department

In its October 6 reply comments, the Department noted that transfer of the distribution function of IPL to SMEC and the SMEC Member Cooperatives would significantly restrict the Commission's oversight regarding the cost and reliability of the electric service provided to those 42,600 IPL ratepayers. General rate proceeding and other rate matter functions that would be lost include:

The right to determine IPL's revenue requirement for its Minnesota jurisdiction.

The ability to determine an appropriate revenue apportionment of that revenue requirement to IPL's different customer classes.

The ability to develop rates that reflect the Commission's policies and preferences.

The Department noted that the Commission would also lose its direct oversight role regarding:

The reasonableness of IPL's recovery of costs of fuel and purchased power.

IPL's service quality and reliability.

IPL's integrated resource planning.

IPL's development of renewable energy and distributed generation in its service territory.

Under the proposal, the oversight regarding the determination for IPL's Minnesota jurisdiction of IPL's wholesale generation-related revenue requirement, revenue apportionment and rate design would reside at FERC. Additionally, the oversight related to IPL purchases of fuel and purchased power would also be transferred to FERC.

FERC oversight of IPL's generation function would allow IPL to earn a FERC-approved 10.97 percent return on equity on its generation assets instead of its most recently approved ROE in Minnesota which is 10.35 percent.

The Department noted that approval of the transaction would nullify two Commission decisions regarding calculations currently included in the renewable energy rider (RER) and the fuel clause adjustment (FCA).

The Department agreed that IPL will no longer be providing electric retail service in Minnesota. As a result, it will no longer be a public utility providing service in Minnesota. In its December 8 reply comments the Department stated that it is not opposed to IPL being responsible for filing Integrated Resource Plans for its current service territory for the duration of its purchased power agreement with SMEC.

The Department's analysis regarding the effects of the lessening of Commission oversight in Service Quality and Reliability and Safety did not find a cause for concern. It noted that the Commission does retain some residual jurisdiction as it relates to customer complaints.

OAG

The OAG stated that, with limited exceptions, the Commission does not have authority to regulate electric cooperatives' operations or rates. In this case, however, the Commission would retain the authority to enforce any sale conditions it imposes, including enforcement of the cooperatives' rate commitments,.

In its November 10 comments, the OAG noted that, according to Minn. Stat. § 216B.50, the Commission is instructed to investigate whether or not the sale is consistent with the public interest. If the sale is not consistent with the public interest, then the Commission should either

impose conditions to protect ratepayers or deny the application. If the Commission determines that specific conditions are required to ensure that a transaction is in the public interest, its approval of the sale is subject to those conditions, which it retains authority to enforce.

The OAG noted that the Joint Petitioners acknowledge that the Commission will retain authority and jurisdiction to require SMEC and each SMEC Member Cooperative to perform the applicable terms and conditions of its plan. For the same reasons, the Commission would retain authority to enforce any modifications of the Joint Petitioners' rate mitigation plan that it deems reasonable.

Chamber

The Chamber stated that from the IPL customers' perspective, the risk exposure is significant because of the loss of state regulatory oversight on all components of the bill, in particular, generation, which together with transmission, constitute 70 percent of a customer's bill.

MMUA

MMUA stated that it does not dispute the legitimacy of SMEC, and the notion of a joint action agency, cooperative, or similar entity that may satisfy fundamental requirements by contract. However, the arrangement raises additional questions. The MMUA stated that it is difficult to comprehend a generation and transmission cooperative without either generation or transmission. The distribution Member Cooperatives provide "service at retail" without distribution facilities (which are initially owned by SMEC). This approach creates a situation in which a "hybrid" entity that purports to satisfy the technical provisions of a statute lacks the expected fundamentals.

MMUA raised the concern that it may be difficult to identify responsibilities for operation of facilities. It asked whether a concern would be directed to a Member Cooperative, as the operator and provider of electric service at retail, or to SMEC, as the owner of the facilities. This uncertainty is highlighted by the unknown nature of SMEC's future plans. Although SMEC was organized to assist with this transaction and to administer the wholesale power agreement, representatives have also noted that SMEC may thereafter continue to exist, with unclear roles and responsibilities. It stated that the Commission should further consider these issues, and include appropriate requirements in its order. At a minimum, the Commission should retain the right to review and approve the final form of agreements such as the operation and maintenance agreements.

PRICE (TERMS)

The Transaction includes a premium above the identified value of the facilities. The premium has been described to include an $8.55 million "IPL gain on sale" after IPL's transaction costs. It has also been described as the price over net book value in the amount of $16.9 million. As noted above, the terms of the Agreement include a 10 year Wholesale Power Agreement.

The Chamber stated that the Commission must deny the $16.9 million acquisition premium.

Joint Petitioners

The Joint Petitioners stated the Chamber misstates the applicable standard related to gains on sale and acquisition premiums. It stated that the two cases cited by the Chamber, Aquila (Docket No. G007,011/M-05-1676) and ITC (Docket No. E001/PA-07-540), do not involve facts showing long-run cost reductions in the absence of any further conditions.

The Joint Petitioners stated that the gain on sale reflects a price which has been shown to be fair and reasonable and fully consistent with the standards of Minn. Stat. § 216B.50. Even after paying for the entire purchase price (including all of the IPL gain), there are benefits to customers. The Transaction is consistent with the public interest without any adjustment.

In the ITC docket, the record shows that the public interest determination was close. As a result, IPL had to offer a number of adjustments and conditions, including an offer to return the gain on sale, for the transaction to meet the public interest standard. While the Commission made no affirmative finding regarding the gain on sale in ITC, the Commission subsequently required IPL to credit the ITC gain on sale back to customers in order to fulfill commitments made by IPL during the ITC case. The ITC docket does not support the Chamber's position in this docket because this Transaction presents indisputable customer benefits without the return of the gain on sale.

The Joint Petitioners argued that the Chamber's recommendation violates the standards of Minnegasco v. Minnesota Public Utilities Commission[5]. In Minnegasco, the Minnesota Supreme Court held that customers are not entitled to revenues from assets for which the customers had not paid. The Joint Petitioners stated that IPL's gain is not the result of an increase in the underlying value of the assets being sold to SMEC. The gain results from the lower cost of capital and exemption from income tax available to SMEC and the SMEC Member Cooperatives that enable them to successfully operate the assets and provide benefits to customers, even after payment of the full purchase price, including IPL's gain, and their own transaction costs.

The advantages of a lower cost of capital and exemption from income tax were created by Federal financial and tax policies, not as a result of the payment of rates by IPL's customers. Ratepayers' payments did not create the availability of low cost capital and the exemption from income taxes.

The Joint Petitioners claimed that the standard for recovery of an acquisition premium was established in the Midwest Gas case (Docket G010/GR-90-678). Under Midwest Gas, recovery is based on the prudence of the investment, which in turn is measured by the quantifiable benefits accruing to ratepayers as a result of the transaction. Page 7 of the July 12, 1991, Findings of Fact, Conclusions of Law, and Order states:

> In determining if an acquisition adjustment may be included in rate base and operating expenses, the Commission must look to the prudence of the investment. …
>
> The prudence of an acquisition is best measured by quantifiable benefits to ratepayers.

---

[5] Minnegasco, 549 N.W.2d at 909

The Joint Petitioners argued that the Transaction meets this standard, which justifies IPL's retention of the gain on sale and is a part of the acquisition premium. They argued that the benefits have been established in this case. It further argued that it is appropriate for the Commission to rely on long-run benefits because recovery is appropriate when the acquisition premium is "matched or exceeded by benefits to ratepayers which are quantifiable and are due to the acquisition."

In Aquila, the Department and OAG opposed recovery of the acquisition premium (and transaction costs) because the cost of the transaction to ratepayers (including the acquisition premium) exceeded benefits. The Commission agreed with the Department and OAG and denied recovery of the acquisition premium as one of the conditions that, collectively, made the transaction in the public interest.

Department

The Department noted that some parties were concerned that the price and terms were the result of arms-length negotiations rather than competitive bids. MMUA suggested that the Commission may want to complete an analysis of the transaction using one or more of the three valuation methodologies identified in Minnesota statute.

The Department noted that consolidations of this type have occurred in service territories served by electric cooperatives and investor-owned utilities in several other states.

The Department developed its own cost/benefit analysis to determine the extent of any potential costs or benefits to IPL's current ratepayers. The Department stated that it reviewed distribution service quality and reliability information for both IPL and the SMEC Member Cooperatives. Its conclusion was that current IPL ratepayers' distribution service quality and reliability would at least remain constant and could possibly improve as a result of the proposed transaction.

Other than needing to hold the Applicants accountable to a reasonable level of costs and ensuring that reliable generation service is provided for the period identified in the proposed transition period, the Department did not identify any condition or value that it could identify as unreasonable in the proposed transaction.

OAG

In its November 10 comments, the OAG stated that it thinks some of the terms of the Asset Purchase Agreement are unreasonable. The OAG questioned whether IPL is entitled to a gain on sale of approximately $8.85 million. The Joint Petitioners claim that the approximately $122 million sale price is reasonable for the assets that would be sold to SMEC.

The OAG noted that the DCF modeling used by the Joint Petitioners incorporates assumptions about what IPL would receive in future rate cases from 2013 to 2022. If these assumptions were modified, either by assuming IPL would not receive all of its requested rate increases, or that IPL would not request annual rate increases, the DCF analysis relied on by Petitioners likely would not justify the current proposed terms of sale.

The OAG stated that the Commission has previously questioned whether to allow transaction costs of an asset sale to be recovered from ratepayers and, absent from removing these costs from the sale price, the Commission is unable to address this concern long-term. SMEC must obtain the financing necessary to purchase IPL's assets and those costs will not go away because SMEC agrees to certain rates for some years – they must be recovered either now or in the future. Once the transaction is closed and the five-year rate mitigation plan has expired, the Commission loses jurisdiction. At that point, SMEC will be able to charge rates that recover the full costs of the purchase, including transaction costs and the gain on sale.

The OAG stated that the Commission should require Petitioners to lower the sale price to a reasonable level that does not include IPL's gain on sale or transaction costs.

Chamber

The Chamber raised concerns regarding the size of the acquisition premium, the recovery of the acquisition premium, and the 10 year Wholesale Power Agreement.

The Chamber stated that it is concerned that the premium has grown because the "Base Purchase Price" does not include certain adjustments that are listed as "to be determined". The Chamber requested that the Joint Petitioners clarify the acquisition premium calculation further in reply comments, as well as, if and how the premium will change depending on the closing date.

The Chamber argued that to assert the premium is reasonable based on the benefits transferred over time is insufficient. It stated that the acquisition premium does not consider the impact of the wholesale arrangement, which is a requirement of the transaction. It argued that there has not been:

> Any calculation of impacts for the entire length of the transaction. It has only been calculated for five years.
>
> Any firm commitment of the benefit to IPL's current ratepayers.

The Chamber argued that, based on past Commission practice and under the principle that IPL ratepayers already paid for these assets through rates, it is inappropriate for SMEC to pay any premium since its members would ultimately pay the premium.

The Chamber stated that, in past Commission cases, when assets were sold:

> When the Commission retained jurisdiction, the Commission denied recovery of an acquisition premium from ratepayers as a condition of approving the sale. (In the Matter of the Sale of Aquila, Inc.'s Minnesota Assets to Minnesota Energy Resources Corporation, Docket No. G007, 0l l/M-05-1676.)
>
> Outside of Minnesota's jurisdiction, the Commission allowed a premium but allocated the acquisition premium to the ratepayers (as a credit against rates) instead of allowing shareholders to profit from the sale of assets paid for by ratepayers. (In the Matter of the Joint Petition for Approval of the Transfer of Transmission Assets of Interstate Power and Light Co. and ITC Midwest LLC, Docket No. E001/PA-07-540.)

Pages 7 through 10 of the Chamber's December 8 comments provide a detailed assessment of case study experiences of instances when the asset sale has been within and outside of the Minnesota jurisdiction.

The Chamber stated that allowing a premium in this case is inappropriate because Minnesota cooperative members pay for the premium through rates, not shareholders that have an opportunity to profit in exchange for the investment risk. In this case IPL ratepayers are not being given the choice of taking on (or opting out of) the risks associated with this transaction.

The Chamber noted that the SMEC members paying for the premium would be the same ratepayers through their future rates and future membership in the cooperative; however, the Commission will not have rate jurisdiction after the sale. As result, it is important to address SMEC's transition and transaction costs through the purchase price. The Chamber stated that the Commission must find that the $16.9 million premium is not in the public interest and must be removed from this transaction.

The Chamber noted that the commitments on rates are only for a five year period. The Joint Petitioners have not explained how they will pay back or recover principal costs of financing beyond year five. During the five year period there may be no pay down of the purchase price, as financing only requires interest payments. Thus, the commitment is not reflective of the impact on IPL ratepayer rates. The Chamber stated that this is a concern because SMEC may borrow more than $122.1 million to pay for assets that have an IPL net book value of $105.2 million.

The Chamber stated that it is also unclear whether the SMEC transition and transaction costs are accounted for and if the amount borrowed may be in excess of the amount set forth in response to DOC IR 57 and 63. The Chamber requested that SMEC clarify this issue. It stated that the premium, transition, and transaction costs will result in ratepayers paying a significantly higher principal cost for capital assets than if they remained with IPL.

The Chamber argued that the market value of the assets is not relevant to the need to reject any premium over the net book value paid for the asset. It argued that, if the Commission did accept the market value, SMEC's payment of any premium must be rejected because of two additional shortcomings:

> The purchase of distribution assets came with a significant additional cost due to the WPA and there was no attempt to ascertain the fair market price from another wholesale power provider.
>
> It is unclear whether any assessment of rate impacts included the total transaction cost of both IPL and SMEC.

The Chamber stated that it appears that IPL is not only getting a premium for the distribution assets but also for its generation assets. The premium is associated with receiving guaranteed recovery, a high ROE, and the ability to pass through costs without rate cases in the Minnesota jurisdiction.

MMUA

The MMUA stated that, from the Commission's perspective, it is difficult to assess the reasonableness of the premium over the net value of the assets. It is difficult to determine whether the ratepayers have been prejudiced by either receiving too little or too great a purchase amount. No objective standard has been provided.

The MMUA stated that, in terms of a determined or calculated value, a number of components of the transaction do not have a basis. They were the product of negotiation, which makes it difficult for the Commission to assess the reasonableness of the negotiated result. It noted that the buyers and sellers were the only parties involved and, since no alternative transactions were considered and no objective assessment of the terms and conditions of the transaction were presented, the Commission should further investigate the reasonableness of the terms and conditions.

The Joint Petitioners have argued that the transaction is reasonable because it results from arms-length negotiations. MMUA stated that the public interest presents a broader concept. To follow the language of the statute, MMUA stated that it would be helpful for the Commission to consider other standards that have addressed various aspects of the public interest in the electric industry. It stated that Minnesota law addresses the determination of damages in an electric service territory proceeding in which the parties cannot agree upon damages. Minn. Stat. §§ 216B.44 and 47 (2014). The Commission's goal in electric service territory cases is to fairly compensate the displaced utility. The specific statutory criteria include:

1. the original cost, less depreciation, of facilities,

2. integration system costs with serving remaining customers,

3. loss of revenue to the displaced utility, and

4. other appropriate factors. Minn. Stat. §§ 216B.44 and .47.

As in electric service territory proceedings, this transaction transfers "existing and future customers in IPL's existing service territory."

The public interest is not benefited by terms and conditions that impose too high of a purchase price or an inadequate purchase price; ratepayers who are transferred will not benefit from any excess paid and will likely be required to supplement any shortfall. The remaining ratepayers of the incumbent utility do not benefit from insufficient compensation.

MMUA noted that similarly, in considering electric service territory agreements executed in 1974, Minnesota law required the Commission to consider certain specific criteria: "The commission shall approve a contract if it finds that the contract will eliminate or avoid unnecessary duplication of facilities, will provide adequate electric service to all areas and customers affected, and will promote the efficient and economical use and development of the electric systems of the contracting electric utilities." Minn. Stat. § 216B.39, subd. 4. MMUA believes these criteria provide another measure for the Commission to evaluate the public interest of the Transaction.

MMUA offered that another resource in Minnesota law arises in valuation matters, such as condemnation, in which fair market value presents a guiding principle. This concept determines value after considering three alternative approaches:

1. the applicable assets,
2. the income stream, and
3. comparable market sales.[6]

MMUA stated that, in the present case, the Joint Petitioners offer their arms-length negotiations as the measure of a reasonable result. MMUA believes it would be helpful to consider alternative checks and balances to objectively determine the reasonableness of the proposed transaction.

COST BENEFIT ANALYSES

Joint Petitioners

In their December 22 reply comments, the Joint Petitioners claimed that their December 8 reply comments show the Transaction will provide long-term benefits. As a result of lower cost of capital and exemption from income taxes, SMEC and the SMEC Member Cooperatives will have costs that are approximately $4.7 million per year lower than IPL. The net present value to customers of those advantages over the first 10 years is approximately $30.9 million ($24.4 million, after reflecting ratemaking adjustments proposed by the OAG). The net present value of benefits increases to approximately $42.9 million over 25 years. The Joint Petitioners stated that these long-term benefits are concrete and quantifiable and result from the indisputable and permanent cost of capital and tax advantages available to SMEC and the SMEC Member Cooperatives.

The Joint Petitioners stated that the Chamber and OAG ignore the overall impact of the Transaction and attempt to re-write the agreement by adding extreme conditions that would seize more benefits at the expense of the buyer and seller. It argued that the Chamber's and OAG's approach is contrary to Minn. Stat. § 216B.50, which does not require a showing of affirmative benefits. Throughout these proceedings the Joint Petitioners have cited several Commission Orders stating that Minn. Stat. § 216B.50 does not require that the proposed merger affirmatively benefit ratepayers or the public or promote the public interest.

The Joint Petitioners stated that the Chamber's analysis fails to acknowledge the overall benefits associated with the Transaction. At no point in its reply comments does the Chamber address the overall benefits identified by the Joint Petitioners and the Department and does not raise any serious questions regarding the Transaction.

[6] State v. Strom, 493 N.W.2d 554, 558-59 (Minn. 1992); see also County of Ramsey v. Miller, 316 N.W.2d 917, 919 (Minn. 1982); City of Moorhead v. Red River Valley Cooperative Power Assn, 830 N.W.2d 34, 38-39 (reasoning that fair market value principles may be applied in future cases, if meaningful consideration is given to statutory factors); In re Grand Rapids Public Utilities Comm'n, 731 N.W.2d 866, 872 (Minn. App. 2007).

The Joint Petitioners stated that their analysis has accounted for the cost recovery of the $122 million principal amount of the purchase price. The Chamber's claim that Joint Petitioners have included only interest costs in their analysis is incorrect because: (1) it has confused cash flow with cost of service accounting; and (2) recovery of all of the $122 million purchase price is included in the depreciation and amortization expenses included in the Petitioners' analyses.[7]

The Joint Petitioners clarified that IPL's gain on sale is fixed and adjustments to payments to IPL made at close will be for working capital and other similar customary closing adjustments which will not be material and will not impact the gain. Any changes to the SMEC transaction costs will not have a material impact on the acquisition premium.

The Joint Petitioners stated that the OAG's recommendation, if adopted, would require IPL and SMEC to re-assess the Transaction.

Department

In its December 8 reply comments the Department stated that rates are expected to be lower under SMEC than they would be under IPL's ownership. The Department estimated that, if the transaction was approved, rates for residential customers would increase 3.9 as opposed to somewhere between 5 and 10.7 percent if IPL were to retain ownership during the 2015 through 2017 time period. If the transaction is approved, distribution service reliability and quality would likely remain constant or improve for IPL's current ratepayers.

In its December 22 supplemental reply comments, the Department stated that it agrees with the OAG that, when calculating long-term benefits of the transaction, the average weighted cost of capital should reflect a reasonable return on the equity portion of the cooperative's balance sheet.

Consistent with that position, the Department updated Joint Petitioner's December 8, 2014 estimates of net benefits and estimated the annual long-term benefit of the transaction to be $1.1 million or $2.5 million lower than the Joint Petitioners' estimate. The Department noted that the entire difference is attributable to the increase in the SMEC Member Cooperative's cost of capital from 3.38 percent to 4.75 percent.

The Department stated that the Joint Petitioners' ten-year cost-benefit analysis is based on an inappropriate cost of capital for IPL. The short-term cost-benefit analysis includes IPL's Minnesota annual weather normalized revenues for 2015 through 2017. Those estimates overstated IPL's annual revenue requirements resulting from annual rate cases included in those revenues. The increased revenue requirements associated with those rate cases assumes a 10.35 percent ROE, whereas the Applicant's cost-benefit analysis for years 4 through 10 of the analysis assumes an IPL ROE of 9.8 percent.

[7] Attachment P to the Petition includes a 2015 SMEC pro forma income statement and balance sheet. Line 36 of the pro forma income statement shows interest expense and Lines 28 through 32 show total depreciation and amortization expense (including a 25-year amortization of the acquisition premium). Together, these expenses fully reflect the principal amount of the purchase price.

The Department modified the different cost-benefit analyses to provide a more consistent analysis given the differing analytical perspectives. This change lowered the present value of the net benefit from $11.80 million to $10.54 million.

The Department stated that one analytical issue that should be addressed is the change in perspective that occurs in moving from the short-term to the long-term analysis. The analysis goes from a more inclusive attempt at modeling IPL's annual revenue requirement to an incremental approach in the long-term model.

The long-term analysis as presented in the Companies' December 8, 2014 comments only models the asset purchase portion of the proposed transaction. This assumption implies that the distribution-related operating expenses, administrative and general expenses, and conservation-improvement program expenses are identical for both IPL and the SMEC Member Cooperatives. This assumption should be considered as one that understates the benefit for IPL's ratepayers.

Because SMEC and its Member Cooperatives have essentially agreed to cap their annual revenues related to recovering "base-rate" costs for the 2015 through 2017 time frame, SMEC's cost of capital is irrelevant to the short-term cost-benefit analysis.

The Department updated the Companies' ten-year customer benefit analysis to reflect the OAG adjustments to IPL's ROE and the claimed power cost effects. The Companies' cost-benefit analysis identified a present value benefit of $24.6 million whereas the Department's estimated benefit is $13.7 million.

After completing the updated analysis, the Department recommended that the Commission approve the proposed transaction with conditions. As the Department noted in its previous comments, it has been unable to develop a reasonable cost-benefit scenario, either short-term or long-term in which the costs associated with the transaction were greater than the benefits identified.

OAG

In its November 10 comments, the OAG stated that the cost-benefit analyses conducted by the Joint Petitioners is flawed because it failed to account for the increased costs of generation assets and because it incorporated IPL's return on equity established years ago. The Department concluded from its cost-benefit analysis that IPL customers can expect a benefit of $11.80 million. The OAG noted that the Department's analysis is based on a comparison of hypothetical rates from 2015-2017 with and without the transaction. The Department indicated that its calculation likely over-estimates the benefits of the transaction by assuming that IPL would be awarded significant and repeated rate increases if the transaction did not occur.

The OAG argued that the assumptions used in the Department's analysis are unreasonable. IPL's proposed rate increases would be disputed. Assuming that IPL would win every issue in every case defies common sense. The $11.80 million benefit derived from the Department's cost-benefit analysis is skewed in favor of the proposed transaction. The Department noted that it did not attempt an in-depth investigation of the estimated revenue requirements for 2014-2018, and that a contested case proceeding would be necessary for that to be accomplished.

In its December 8 reply comments, the OAG stated that it disagrees with the assumption that any reasonable combination of alternatives shows a net benefit for ratepayers if the proposed transaction is approved.

The OAG stated that there is significant evidence to conclude that the rate impact of the proposed transaction may not benefit ratepayers. If the rate increases assumed in the Department's analysis in 2015-2017 are reduced to 60 percent of the amount proposed by IPL, the benefit from 2015-2017 diminishes from $11.80 million to only $0.17 million on a net present value basis. If only 60 percent of IPL's assumed increases are granted, and IPL does not request a rate increase in each year, the net present benefit becomes a detriment.

The OAG noted that these calculations do not incorporate the effects of the Wholesale Power Agreement. Even if base rates decrease slightly in the short term following the transaction, the Wholesale Power Agreement's estimated $4.3 million costs will more than offset the temporary benefit.

Responding the to the Joint Petitioners' claim that the transaction will benefit from the lower cost of capital, the OAG stated that the fact that this particular transaction may be financed by debt does not mean that SMEC Members can ignore their overall, blended cost of capital in analyzing the transaction's impact on ratepayers. The debt must be secured by parties involved in the transaction, which includes all of the SMEC Member Cooperatives. The Members have equity holders, who are also members, and hold capital allocations and patronage capital. The cooperatives must consider that its current equity holders will ultimately bear the risk of the investment and a full, blended cost of capital must be used when determining the true costs of the Transaction for ratepayers.

Using a capital structure of 50 percent equity and 50 percent debt and a return on equity of 6.26 percent derived from Dakota Electric's most recent rate case, the results of an OAG analysis showed a benefit of $3.7 million over the first five years. The OAG stated that this does not account for the costs of the Wholesale Power Agreement, which are $4.3 million over the first 5 years.

The OAG stated that its analysis indicated that IPL would need to receive at least 60 percent of its anticipated rate increase requests in 2015, 2016, and 2017 before the proposed transaction demonstrates a potential net benefit to ratepayers. If IPL does not file a rate case each year between 2015 and 2017, the transaction would likely be detrimental to ratepayers.

Without a contested case proceeding, the OAG, the Department, and other interveners are not provided the opportunity to analyze all of IPL's costs submitted for recovery during the 2015-2017 time period. IPL's claim that it has not recovered its authorized rate of return since 2010 could be wholly or partially attributable to poor operational, financial, and personnel management, not because it has an unreasonably low rate structure.

The OAG noted that the benefit analyses for the Department, the Joint Petitioners, and the OAG have all shown differing benefits from the transaction. A review of the assumptions used by the Joint Petitioners demonstrates that they are unreasonable.

Premium on the Sale

The OAG claimed that IPL should not receive a premium on the sale. It argued that this record does not demonstrate that this asset sale is reasonable for ratepayers, particularly if IPL is allowed a premium on the sale. The Joint Petitioners have not given any assurance that, after five years, the rates will not increase substantially to the point that they would offset previous benefits accrued in the short term.

The OAG noted that, in previous cases, the Commission has determined that sale premiums are only permissible when the benefits for ratepayers are equal to the premium and that the utility must prove that these benefits are tangible and identifiable. Since the Commission will not have rate regulation authority over SMEC and its Member Cooperatives, the only reasonable alternative is to deny IPL the premium on the acquisition over net book value.

In its December 22 supplemental reply comments, the OAG argued that the Petitioners' claimed benefits of the Transaction are overstated in both the short term and long term. The OAG noted that the Petitioners have shifted their focus to arguing that the transaction provides long-term benefits for ratepayers. The Petitioners claim that the long-term benefits are the fundamental economic advantages enjoyed by SMEC and its members, including a lower cost of capital, lower borrowing costs, and the lack of income tax obligations for cooperatives.

The OAG summarized the Joint Petitioners argument as the benefits of cooperative ownership outweigh those of rate regulation. The OAG believes the Joint Petitioners' argument is flawed because:

> Petitioners have not proven that any economic advantages resulting from the proposed Transaction outweigh the substantial upfront costs to ratepayers in this case.
>
> The benefits of cooperative ownership may not outweigh the benefits of rate regulation for IPL's customers. 10 of the 12 cooperatives currently have higher overall rates than IPL, while only two have lower overall rates.

The OAG stated that although the Petitioners have provided new analyses of the supposed long-term benefits of the Transaction, the new analyses do not incorporate all of the concerns expressed by the OAG. The Petitioners have wrongly compared the overall cost of capital for IPL against the 3.38 percent cost of debt they claim for the Transaction. This comparison implies that the equity holders of SMEC Member Cooperatives bear no risk from this venture and do not require a return on their investment. This false assumption skews the benefit analysis to show additional ratepayer benefits that do not exist. When all of the flaws in Petitioners' original cost/benefit analysis are corrected and all aspects of the Transaction are viewed as a whole, IPL ratepayers likely face a detriment.

The OAG argued that the rate difference suggests that, despite any of the general benefits afforded to cooperatives, the overall cost of serving members of the SMEC cooperatives are higher than those of serving IPL's customers. Once the initial five-year rate mitigation period has expired and the rates for IPL customers are merged with those of their respective future cooperatives, the IPL customers will likely see large rate increases that will subsidize the costs of

serving current SMEC customers. The cost/benefit analyses produced by Petitioners do not account for this factor.

WHOLESALE POWER AGREEMENT

The Asset Sale and Purchase Agreement contains a Wholesale Power Agreement whereby IPL will sell to SMEC the power needed to operate an electric distribution service business for customers in the area currently receiving that service from IPL. SMEC will provide to each SMEC Member Cooperative the electric power needed for that SMEC Member Cooperative to provide electric service to the customers located in the areas acquired from IPL. The Wholesale Power Agreement is for 10 years from the date of closing, with a 5-year termination notice. Pricing under the Wholesale Power Agreement is based on IPL's existing FERC-approved formula rates. The price paid by SMEC to IPL under the Wholesale Power Agreement will be adjusted for the customer credits resulting from the remaining balances of the gain on Seller's sale of transmission assets to ITC Midwest and for the Sutherland regulatory asset.

The Chamber and the OAG have concerns regarding the WPA. As discussed below, the Chamber has proposed changes to the WPA.

Gain from Sale of Transmission Assets in Docket E-001/PA-07-540

On April 27, 2007 IPL and ITC Midwest LLC requested Commission approval of the sale of all of IPL's Minnesota transmission assets to ITC. On December 18, 2007, the Commission made an oral decision approving the transaction, subject to IPL and ITC abiding by all the commitments and other terms and conditions of a December 12, 2007 Offer of Settlement, all the commitments made during the course of the proceedings before the Commission on December 11,13, and 18, and other conditions.

On page 12 of its November 8, 2011, Order After Reconsideration Clarifying and Modifying Order of August 12, 2011, in Docket No. E001/GR-10-276, the Commission stated that ITC and IPL agreed to reduce transmission rates by $4,125,000 a year for the first eight years following the sale approved in 07-540. The Commission instructed IPL to return the gain on sale proceeds from 07-540 to customers over a four-year amortization period. On page 2 of that Order the Commission stated:

> The Commission will therefore require amortization of the unreturned gain on sale over four years, beginning July 6, 2010, at the $1,203,701 annual rate required to exhaust the unreturned gain. At the end of the amortization period, the Company will implement new rates reflecting the expiration of the annual $1,203,701 credit.

IPL conducted a reconciliation analysis of the gain on sale and the actual amount of the gain that had been returned to Minnesota retail electric customers through their bills. IPL took the actual billing determinants by rate code over the 48-month amortization period (approximately July 2010 through June 2014) and multiplied those sales by the gain on sale credit built into customer rates. The results of the reconciliation analysis indicated that Minnesota retail electric customers have received approximately $4.6 million of the $4.8 million gain on sale.

IPL stated that it will cooperate in taking the necessary steps to carry out the Commission's intention with respect to treatment of the gain as provided in the Order. It stated that, if the Transaction with SMEC is approved, the remaining Alternative Transaction Adjustment (ATA) will be returned to customers through a reduction in payments under the Wholesale Power Sales Agreement. If the Commission determines that the approximately $200,000 of remaining gain should be returned to customers, the mechanism for applying the remaining ATA could be used to return the remaining gain to customers.

Joint Petitioners

The Joint Petitioners stated that the Commission should reject the Chamber's piecemeal analysis and resulting recommendation to radically rewrite the WPA. They explained that WPA is an integral component of the overall Transaction. Both the Petitioners and Department have shown that the Transaction, including the WPA, is consistent with the public interest.

The Joint Petitioners explained that: 1) the Transaction, including the WPA, generates customer benefits; 2) the WPA is priced similarly to the methodology used by the Commission to set retail rates; and 3) it is unreasonable to attempt to capture the significant benefits of the Transaction while arbitrarily altering or discarding elements of the WPA.

The Joint Petitioners stated that, in the absence of the Transaction, IPL would have continued to rely on its own generation to meet customer needs in Minnesota, making an alternative wholesale arrangement an unreasonable point of comparison. Any divestiture by IPL of its distribution assets would be impossible without an agreement for IPL to continue to sell power on a wholesale basis. The loss of load from approximately 42,000 customers would cause significant imbalances in power costs for IPL's other retail and wholesale customers and impair generation planning (both past and future).

The Joint Petitioners stated that several of the Chamber's claims are unsupported by facts. Responding to the Chamber's December 8 reply comments, the Joint Petitioners stated:

> First, contrary to the Chamber's assumptions, the Commission has determined IPL's investment in Whispering Willow to be reasonable and prudent and has allowed full ongoing cost recovery.
>
> Second, the Chamber cites Duane Arnold Energy Center (DAEC) costs. However, the DAEC costs reflected in the WPA are not materially different from DAEC costs if IPL were to maintain ownership of the assets being transferred. In no event would such costs outweigh the benefits of the lower cost of capital and exemption from income taxes available to SMEC and the SMEC Member Cooperatives.
>
> Third, the Chamber refers to disallowances of benefits and officers' compensation. However, while these disallowances have occurred in other utilities' rate cases, there is no connection between those cases and IPL generation costs, nor has the Chamber demonstrated any significance of such costs in comparison to the advantages of the lower cost of capital and exemption from income taxes available to SMEC and the SMEC Member Cooperatives.

> Fourth, the cost differential associated with the FERC ROE is outweighed by the cost of capital and tax benefits of the Transaction. The Chamber's recommendation to further increase customer benefits by requiring additional ROE credits is unreasonable and contrary to the standards of Minn. Stat. § 216B.50, which simply require consistency with the public interest, not maximization of customer benefits at the expense of sellers and buyers. Further, such costs could not possibly outweigh the advantages of much lower cost capital and exemption from income taxes available to SMEC and the SMEC Member Cooperatives.

The Joint Petitioners stated that contrary to the Chamber's inferences, no generation assets are being transferred. The Chamber appears to have confused the WPA (where no assets are being transferred) with ITC, which involved a transfer of transmission assets governed by a completely different statute; Minn. Stat. § 216B.16, subd. 7c. The Chamber is incorrect in suggesting that there will be changes to the book value of the IPL generation assets or changes in the accumulated deferred income tax balances associated with those generation assets.

Department

Other than needing to hold the Applicants accountable to a reasonable level of costs and ensuring that reliable generation service is provided for the period identified in the proposed transition period, the Department stated that it did not identify any condition or value that was unreasonable in the proposed transaction.

The Department stated that its cost-benefit analysis includes the higher costs associated with the WPA.

OAG

In its November 10 comments the OAG stated that it is unclear whether the WPA is reasonable for IPL's existing ratepayers, the evidence suggests that it likely is not. The OAG noted that the Joint Petitioners assert that the WPA benefits IPL's existing ratepayers by assuring an uninterrupted power supply after the transaction is completed. The significance of this benefit would depend upon: (1) whether IPL's existing ratepayers would have an uninterrupted power supply without the WPA and, (2) whether the WPA provides the uninterrupted power supply at a competitive rate, particularly if an alternative source is available.

If alternative power sources are available at better rates, then requiring the cooperatives to execute the WPA and purchase power from IPL for ten years is a detriment.

The OAG attempted to determine whether the various SMEC cooperatives would have alternative power supplies for the customers added to their systems. However, in response to information requests, the Petitioners simply stated that the SMEC cooperatives had to obtain permission from their respective G&T providers to enter into the WPA. The Joint Petitioners also claimed that "[n]o comparison of the cost of IPL and the respective G&Ts is available." The OAG interpreted this response to indicate that a comparison of the wholesale rates that SMEC will receive from the WPA versus what cooperatives would receive from their various G&Ts is not available.

The OAG argued that the reluctance to state whether the G&Ts have sufficient power and transmission services to serve IPL's existing customers suggests that the benefit for the WPA may be overstated. The OAG stated that its conclusion is supported by:

> IPL's requirement of the WPA as a condition of the sale and the fact that the SMEC cooperatives do not appear concerned about their ability to obtain the power necessary to serve these customers.
>
> The Integrated Resource Plans filed by Great River Energy ("GRE"), a G&T cooperative that serves several SMEC member cooperatives, suggests that it has a capacity surplus sufficient to serve all of IPL's existing customers. GRE's 2012 IRP states that it serves 645,000 retail customers in Minnesota and that it expects an annual capacity surplus of 26% in 2014. GRE also expects a capacity surplus of 13% when the WPA would terminate in 2024. Given this information, there is no evidence suggesting that GRE is unable to serve an additional 42,000 customers now or in the future, and would have ample time to add additional resources if circumstances were to change.

The OAG stated that two intervenors in GRE's IRP docket concluded that GRE overestimated future demand in its IRP filing, and this was a factor contributing to the Commission's denial of GRE's petition. This indicates GRE's ability to serve IPL's existing customers is even greater.

The OAG is also concerned with the Joint Petitioners' claim that no comparison between the cost of providing SMEC's power through the WPA and the cost of obtaining power from the various G&Ts is available. The Joint Petitioners' reluctance to affirmatively show that customers will pay less for power under the WPA than they would otherwise suggests that customers may, in fact, pay more.

The OAG stated that obtaining power through the WPA will undisputedly increase the rate of return currently paid by ratepayers for IPL's generation assets. As the OAG previously pointed out, the costs of IPL's generation assets will be billed as a pass-through to Minnesota ratepayers at FERC formula rates, including a current ROE of 10.97 percent. IPL's current, Commission approved ROE is 10.35 percent, which would likely decrease if it filed another rate case.

The increased costs to ratepayers of applying FERC's formula rates to IPL's generation assets will likely be significant. In response to an information request from the Department, IPL determined that applying its FERC-approved ROE of 10.97 percent, versus a hypothetical ROE of 9.8 percent, results in the company collecting more than $4.3 million in additional rates between 2015 and 2019, half the duration of the WPA. It is likely that the cumulative effects of the WPA's higher ROE will be even greater than $4.3 million when calculated over the full ten years. The OAG argued that it is not reasonable for ratepayers to pay such a significant premium for use of the same generation assets currently serving IPL's customers, particularly since it appears that cooperatives' respective G&Ts are capable of providing these services at lower rates. In this light, it appears that the terms of the WPA are not reasonable.

In its December 22 comments the OAG restated the fact that, when asked, Joint Petitioners did not provide a comparison of the cost of providing power to SMEC through the WPA and the cost of obtaining power from the various G&Ts. The Joint Petitioners' failure to do so suggests that

the WPA may result in higher costs. The OAG stated that the Joint Petitioners' continued failure to provide any information to the contrary reinforces the OAG's concern.

The Joint Petitioners appear to claim that the WPA is reasonable because the methodology used to determine its price by FERC's formula rates is "very similar" to the process for determining retail rates used by the Commission. The OAG did not argue that the methodology for determining the pricing of the WPA is in any way flawed or unreasonable. However, the OAG does not agree that determining whether the WPA is in the public interest in this case and whether the transaction complies with Minnesota law is as simple as IPL suggests.

Chamber

The Chamber noted that, under the WPA, pricing is based on IPL's existing formula rates, approved under FERC jurisdiction where the burden of proof is essentially transferred to entities other than the utility when the rates change. The Chamber argued that since FERC does not deal with regulation of electric service to retail customers, federal regulation is not sufficient to protect Minnesota retail customers.

The proposed wholesale power arrangement retains IPL's tariffs for a minimum period of three years. During that three year period, the company uses a PCA adjustment to recover increases in wholesale power costs as calculated through IPL's RES-5 formula rate at FERC as well as transmission costs. The WPA consists of charging SMEC at a FERC-approved formula rate based on a 10.97% ROE. For the first three years, the costs increases associated with generation supply as well as transmission costs will be passed through using a flat, across the board $/kWh charge. Thereafter, costs will be allocated to the various cooperatives based on their individual billing determinants. The Chamber indicated that it is concerned with several issues about this arrangement:

- IPL will get full recovery for previously denied generation costs (e.g. Whispering Willows);
- IPL will get full recovery of previously denied operations, maintenance and administrative costs;
- IPL's 10.97% ROE on generation assets is significantly higher than what is currently considered reasonable under retail jurisdiction;
- There will be no prudency review, such as the one conducted in base rate cases, to determine reasonableness of costs being passed through to customers for a 10-year period;
- There is no evidence in the record indicating that this power arrangement was compared to any other competitively priced arrangement. If IPL is selling the distribution assets and exposing retail customers in a regulated state to deregulation, the valid comparison is not with what IPL's rates would have been but rather what competitive wholesale power agreements with alternative suppliers could be;
- IPL is guaranteed full cost recovery because the RES-5 rate includes true up mechanisms.

The Chamber stated that, overall, this transaction benefits IPL while exposing retail customers to high power supply (and transmission) costs - which constitute 70 percent of a customer's bill. Without considering additional infrastructure costs, ratepayers will pay more for existing generation assets due to the high FERC ROE and IPL's ability to recover costs associated with certain assets previously denied recovery in Minnesota. The WPA assures IPL certainty that it can spread its fixed costs over the Minnesota customer base for a period of at least 10 years. However, for IPL's Minnesota ratepayers, there is potential for high cost increases without the opportunity afforded to them in retail rate cases to assess the prudency of the cost increases.

The Chamber stated that it is concerned about the assertion that the wholesale power supply rates are reasonable compared to current market prices as the parties did not seek competitive bids to ascertain what a current fair market price would have been. .

MMUA

The MMUA stated that no analysis quantifying the value of the wholesale power agreement has been performed.

$2/MEGAWATT CREDIT

SMEC proposes to provide a $2/MWh credit for a period of three years to IPL's Minnesota retail customer base.

Chamber

The Chamber noted that the response to DOC IR-2 indicates that this credit was made possible due in large part to the ability to secure a bridge loan with an interest rate of 1.59 percent, the fact that cooperatives are exempt from federal and state income taxes and due to operational efficiencies. Assuming an annual energy consumption of 840,000 MWh, the annual credit is $1.68 million with a cumulative credit of $5.04 million over the three year period. In response to DOC IR 57, the annual benefits are estimated at $8.4 million for years 1-3 and $5.4 million for years 4 through 10.

The Chamber recommended that this benefit be returned exclusively to IPL customers as a $/kWh credit. Using the annual energy consumption of 840,000 MWh, this would result in $10/MWh each year for years 1 through 3 (instead of $2/MWh), and $6.2/MWh each year, for years 4 through 10.

Joint Petitioners

The Joint Petitioners argued that the Chamber's recommendation should be rejected because the Transaction provides benefits without any additional conditions and additional credits are not necessary for the Transaction to be consistent with the public interest. The Joint Petitioners stated that the Chamber ignored savings that customers will see during the 3-year Initial Period (i.e., the projected difference between what they would pay should IPL continue to serve the area versus what they will pay when served by the SMEC Member Cooperatives) that averages

approximately $8.3M/year. They argued that almost the entire projected savings during the first three years is already being flowed through to former IPL customers by using IPL's current rates, adjusted as stated in the Petition, including the proposed $2.0/MWh credit.

Increasing the credit during the first three years by another $8.0/MWh would result in a net loss of revenue for the SMEC Member Cooperatives and essentially results in a subsidy being provided to the acquired area customers by the SMEC Member Cooperatives' legacy area customers.

Providing a $6.2/MWh credit in the seven years beyond the Initial Period is not necessary for the Transaction to be consistent with the public interest. Cooperatives operate on a not-for profit-basis based on the costs of providing service. Under the SMEC Member Cooperative bylaws, the members cannot earn a return on their investment. As a result, the actual savings available to the SMEC Member Cooperatives (due to their far lower cost of capital and exemption from income tax) will inherently be reflected in customer rates.

Department

The Department does not appear to have specifically addressed this issue. However, it does appear to fall under the statement that the Department did not identify any condition or value that it could identify as unreasonable in the proposed transaction, other than needing to hold the Joint Petitioners accountable to a reasonable level of costs.

OAG

The OAG does not appear to have specifically addressed this issue.

MMUA

The MMUA stated that the Commission could conclude that a different approach or credit is appropriate to moderate rate increases and to satisfy the public interest standard.

COST ALLOCATION

As part of the Transaction, during the Three-Year Initial Period, SMEC proposed that each SMEC Member Cooperative will prepare CCOSS as part of developing a long range Rate Plan. The CCOSS will determine the cost to serve 1) the legacy area, 2) the acquired area, and 3) the combined area. The SMEC Member Cooperatives' legacy area and acquired area CCOSSs will reflect the area-specific costs for purchased power and distribution facilities. Other costs common to both the legacy areas and acquired areas, such as Customer Accounting, Customer Service and Information, Sales, A&G and fixed costs related to General Plant, will be allocated to each area and then to each rate class based on appropriate allocation factors. The allocations will be made in a nondiscriminatory manner. Margin requirements in the acquired area will be determined in exactly the same manner as in the legacy area.

In its December 8 reply comments, the Chamber proposed a different method for allocating IPL's wholesale generation and transmission costs for the first three years following the

Transaction. The Chamber proposed that transmission costs should be billed entirely as demand, and that a twelve coincident-peak (12CP) method should be used to allocate additional generation costs to customers.

Joint Petitioners

In its petition, the Joint Petitioners explained that, based on the results of the CCOSSs, each SMEC Member Cooperative will develop a plan to either: 1) continue to serve its acquired area and legacy area under separate cost based area rate structures, or 2) merge the rates of its acquired area and legacy area over time, or 3) some combination of alternatives one and two. The key to this determination will be the impact of the plan on the bills of the affected customers, including the limitations on rate impacts.

The Joint Petitioners noted that the Chamber coupled its recommendation to bill the Member Cooperatives for purchased power costs in the same manner as IPL bills SMEC with a recommendation that the Power Cost Adjustment (PCA) factor be separated into demand and energy components. The Chamber asserted that a PCA mechanism that is based entirely on energy will have a greater impact (in terms of percentage of the bill) on high load factor rate classes and customers than on low load factor rate classes and customers.

The Joint Petitioners acknowledged the varying impacts (in terms of percentage of the bill) that an energy based PCA mechanism will have on rate classes and customers as a function of load factor. However, they stated that the Chamber's recommendation should not be implemented during the 3-year Initial Period because: (1) it is contrary to typical practice for cooperatives; and (2) it is overly complicated given the nature of IPL's current rates, which the Member Cooperatives are adopting.

PCA mechanisms are common for cooperatives and cooperatives generally use an energy-only approach to their PCAs. Since the SMEC Member Cooperatives have agreed to adopt IPL's current rates, subject to specified modifications, including the PCA mechanism, the PCA mechanism should be consistent with typical cooperative practice during the 3-year Initial Period.

The Joint Petitioners noted that current IPL rates are not based entirely on a Class Cost of Service Study (CCOSS). Consequently, it is not possible to establish a definitive base level for particular costs for allocating changes in the capacity component of purchased power and transmission costs to individual classes based on demand during that period.

Since all costs of operation will be paid by SMEC, it would be inconsistent to single out purchased power costs and to directly assign such costs to the SMEC Member Cooperatives. After the IPL distribution facilities are transferred from SMEC to the individual SMEC Member Cooperatives, the SMEC Member Cooperatives will operate as independent systems and SMEC will bill each SMEC Member Cooperative in essentially the same manner as SMEC is billed by IPL.

The Joint Petitioners stated that, after the 3-year Initial Period, the SMEC Member Cooperatives will have developed CCOSS's for their respective acquired areas that will incorporate load survey and actual metered data to identify the 12CP contribution of each class to the wholesale

billing demand. Each SMEC Member Cooperative and its Board of Directors will determine how the PCA mechanism should be designed for their respective SMEC Member Cooperatives.

It is expected that many of the SMEC Member Cooperatives will "roll-in" the increase in purchase power and transmission costs that have occurred since IPL's current rates were developed (i.e., circa 2009-2010), thereby minimizing the magnitude of the PCA factor and any adverse impacts resulting from the issue raised by the Chamber.

Approximately 40 percent of energy sales are billed solely on an energy, not demand, basis. Even for rate classes billed on the demand as well as energy basis, the definition of billing demand applied at wholesale to SMEC will be different than the definition of billing demand applied at retail. Wholesale billing demand is defined as demand coincident (i.e., at the same time as) to IPL's or the transmission providers' 12 monthly peaks (12CP), while at retail, the IPL tariff definition of billing demand reflects the monthly non-coincidental peak-demand (NCP) of each individual customer.

Department

The Department noted that the recommendations in the Chamber's December 8 reply comments focus on using the proposed asset sale as a lever to lower rates in the near term. The Department stated that its standard analytical approach for transactions of this nature is to develop a reasonable cost/benefit analysis to determine if the proposed transaction's benefits are greater than its costs. If the estimated benefits exceed the estimated costs, the Department would conclude that the proposed transaction is in the public interest.

The Chamber's analysis did not adopt this approach. The Department stated that it is unclear what basis is being used by the Chamber to recommend changes to rates. As a result, the Department does not have any additional comments on the Chamber's recommendations.

OAG

The OAG noted that the Chamber proposes a different method for allocating IPL's wholesale generation and transmission costs for the first three years following the Transaction, before the results of the cooperatives' CCOSSs are known. The Chamber has not presented a valid basis to alter the apportionment proposed in the Joint Petitioners' April 15, 2014 filing, and not disputed by either the Department or the OAG.

The OAG stated that cost causation cannot be estimated until the SMEC cooperatives perform their respective CCOSSs during the first three years following the Transaction. The Commission has previously rejected the Chamber's suggestion to charge fixed costs as demand and variable costs as energy in the interim period. The Commission rejected Xcel Large Industrials' ("XLI") proposal to change the allocation of "Other Production O&M" costs in Xcel's 2010 rate case. In responding to the XLI's suggestion to allocate costs based on a similar fixed/variable distinction, the Commission stated the following:

> The fixed/variable distinction does not correspond to whether those expenses are attributable to energy or demand; a number of fixed expenses at a nuclear plant, for

example, arise in connection with fuel consumption and handling, and do not fit neatly in this binary distinction.

The Commission's reasoning for rejecting XLI's argument applies here. The only reason for incorporating the Chamber's suggested changes to cost allocation over the initial three-year period, without the benefit of a CCOSS, would be to benefit the large C&I customers represented by the Chamber. The allocation suggested by Petitioners should be retained until cost allocation can be estimated for each cooperative.

Chamber

The Chamber's stated that its principal and fundamental policy regarding utility rate regulation is to eliminate inter and intra class subsidization. This transaction poses a unique circumstance because: (a) the cooperatives will have legacy rates for their current customers and new rates for former IPL customers which could result in subsidization; and (b) there is potential for subsidization between cooperatives as the load profiles change with the addition of IPL customers.

The Chamber thinks that the existing cooperative customers and IPL customers not subsidize each other. The Chamber also opposes any subsidization within the IPL customer classes and stated that the cooperatives are in general agreement with this principle. However, in order to ensure there is no subsidization, the Chamber believes there are a few issues that need to be addressed.

The approach as proposed by the Joint Petitioners is that, for the first three years of the transaction, customers receive an across the board flat $/MWh increase. This increase will be associated with wholesale power costs and transmission costs that IPL will bill to SMEC. This will not result in the same rate impact for all customers. The Chamber argued that this method results in subsidies between the 12 cooperatives as well as subsidies between the former IPL customer classes. Energy intensive customers will pay a larger share of these costs under a flat $/MWh increase. This occurs for the following two reasons:

> The IPL wholesale formula rate consists of a fixed demand charge that recovers the costs of fixed generation investment and on and off peak energy charges that recover fuel and variable costs.
>
> The transmission costs are fixed charges. These should be billed on the basis of demand. Converting this charge to a $/MWh will result in a larger allocation of costs to cooperatives serving energy intensive customers. Those costs are subsequently passed on to cooperative customers.

In response to MCC-22, the Joint Petitioners provided a hypothetical example of the cost allocation method they will use for cost allocation to classes after the first three years. This method allocates costs to customer classes in the same manner as IPL will bill SMEC and SMEC will bill each of the cooperatives.

The method explained by the Joint Petitioners is consistent and proportionally passes costs based on how they were incurred. However, in the first three years, the proposed 100% energy allocation method will not proportionally pass along costs based on how they were incurred.

The Chamber ran calculations that it stated demonstrated that the 100% energy method will disproportionately allocate costs to cooperatives that have energy intensive customers. They stated that the 100% energy allocation method does not follow cost causation principles and results in subsidies among cooperatives and cooperative customer classes. To align with Cooperative and Chamber principles against cross subsidization, the Chamber recommends that Cooperatives use the same methodology used by IPL to bill SMEC (i.e., FERC method) to allocate costs to cooperatives and their customers. This will ensure that each cooperative, and in turn, each customer class will pay its fair share and nothing more. The comparisons can be found on pages 19 through 22 of the Chamber's December 8 reply comments.

RATES FOR FORMER IPL CUSTOMERS

The Joint Petitioners have proposed that, for the Acquired Areas during the Three-Year Initial Period, SMEC and the SMEC Member Cooperatives will adopt IPL's retail base rates, including the fixed monthly customer charges as approved by the Commission in the last IPL electric rate case, at the IPL levels in effect on the date of closing, subject to the following modifications:

New PCA clause. IPL's existing ESCR clause will be replaced by a PCA clause that will reflect and track changes in the cost of purchased power and transmission delivery service that will be used by SMEC and the SMEC Member Cooperatives to provide service in the areas acquired from IPL from a base level of $0.07110/kWh. The $0.07110/kWh base level reflects the level of power supply and transmission delivery cost included in IPL's current base rates plus the Renewable Energy Recovery (RER) surcharge. The replacement of IPL's ESCR with a PCA is expected to produce an estimated average system increase in rates of approximately $0.00832/kWh, or 9.2 percent, in 2015.

Credit to Energy Charges. A credit of $0.002/kWh will be applied to energy usage to reflect expected operational efficiencies, a lower borrowing rate, and exemption from federal and state income taxes. This represents an estimated average rate decrease of approximately 2.2 percent in 2015.

Roll-in of RER. The present IPL RER surcharge of $0.00222/kWh will be rolled into base rates. The roll-in is revenue neutral.

Conservation Improvement Program (CIP) Costs. IPL's current CIP rider will be maintained- with surcharges or credits to customers to reflect actual CIP expenses that are above or below the level included in base rates. The level of CIP costs recovered in base rates will be decreased from $0.00269/kWh to $0.00140/kWh, which more closely approximates the SMEC and SMEC Member Cooperative CIP obligation and the CIP expenditures that are anticipated. This adjustment is unlikely to have a long-term net revenue impact, but will limit short term over-collections and subsequent refunds.

ATA Credit. IPL's Alternative Transaction Adjustment (ATA) credit mechanism, used to refund a portion of the gain realized from IPL's sale of transmission assets to ITC-Midwest, will be retained as a separate rate component. The amount refunded will be equal to the amount refunded by IPL to SMEC under the Transmission Adjustment in the Wholesale Power Agreement.

SGS-4 Costs. SMEC's purchased power cost under the Wholesale Power Agreement will include an adjustment to recover development costs associated with the cancelled Sutherland Generating Station Unit 4 (SGS-4) generating unit, amortized over 10 years. This adjustment is similar to the adjustment authorized by the Commission in IPL's last electric rate case.

The net effect of this rate proposal, for customers in the area acquired from IPL (including the conversion to the PCA and credit to energy charges) is projected to be an increase of approximately $0.00632/kWh, or 7.0 percent, in 2015. A comparison of the IPL rates scheduled to be in effect July 6, 2014 with SMEC's proposed Initial Period Rates is provided in Attachment H, Schedule 2.

Joint Petitioners

SMEC and its Member Cooperatives plan to assign purchased power costs, including transmission costs, in two phases. Until the acquired facilities are purchased by the individual Member Cooperatives from SMEC, SMEC will receive essentially all revenue and be responsible for paying all expenses, including costs associated with purchased power and transmission, debt service, and operations and maintenance (i.e., reimbursement to the Member Cooperatives for operating and maintaining their respective portions of the distribution system purchased from IPL).

The Two-Year Transition Period will extend for 24 months from the end of the Three-Year Initial Period. SMEC's commitments for the Two-Year Transition period will replace its commitments for the Three-Year Initial Term. During the Transition Period, for rates that do not meet the criteria for merging rates (as outlined below):

1. Each SMEC Member Cooperative will maintain separate rates for its Acquired Area and Legacy Area; and

2. The rates for the acquired area and legacy area will be designed to recover, in total, sum of the class revenue requirements for the acquired area, as determined by the CCOSS. The same approach will be used for the legacy area, with the total revenue requirements of the acquired area and legacy area being kept separate.

A SMEC Member Cooperative may merge one or more Legacy Area and Acquired Area rates, determined on a rate-by-rate basis, during the Two-Year Transition Period, provided that:

1. No rates will be merged unless the projected revenue produced by the legacy area and acquired area rates in question are within 5 percent of each other; and

2. No rate will be increased by more than 5 percent per year, excluding the operation of the PCA mechanism, to facilitate the merger of a legacy area and acquired area rate.

Regarding customer service rules and regulations, the Joint Petitioners stated that each of the SMEC Member Cooperatives has its own policies governing the terms and conditions of electric service. These policies address the same subjects as IPL's customer service rules. Customer prepayments, deposits, contributions in aid of construction, and any similar fees, charges, or payments will be transferred at closing from IPL to SMEC, and thereafter from SMEC to the SMEC Member Cooperatives. Accordingly, SMEC or the SMEC Member Cooperatives will be responsible for refunds or credits to customers of any, such as prepayments, deposits, contributions in aid of construction, and any similar fees, charges, or payments following the closing.

For special services and rates programs, the Joint Petitioners stated that the SMEC Member Cooperatives currently offer several programs designed to promote energy conservation and manage load. These programs include: Off Peak Generation, Interruptible Water Heating, Electric Dual Fuel/Off Peak, Heat Pump Heating and Cooling, Cycled Air Conditioning, and energy efficiency grants and loans to business members. Since the SMEC Member Cooperatives will adopt IPL's rates for the Initial Period, SMEC Member Cooperatives will not offer IPL customers the SMEC Member Cooperatives' own special rate programs; however, these rates will be offered once the Transition Period begins.

IPL has 27 net metered customers. The SMEC Member Cooperatives will maintain the current net metered status of these customers after closing. New SMEC customers/members in the acquired areas requesting net metering after closing will comply with the net metering rules for electric cooperatives contained in Minnesota Statutes Section 216B.164.

The Chamber recommended that SMEC Member Cooperatives not be allowed to merge rates for the full 10 year period of the WPA, or in the alternative, agree not to merge rates unless they are within 1 percent of each other. The Joint Petitioners stated that this recommendation should be rejected because it is overreaching and because it is not necessary for the Transaction to be consistent with the public interest.

The SMEC Member Cooperatives have already proposed a five-year Rate Plan that provides substantial consumer protections. A 5-year plan substantially exceeds the duration of protections that the Commission has provided in connection with the sale of distribution assets in any prior case of which Petitioners are aware. The individual SMEC Member Cooperative Boards of Directors will have the responsibility to establish the retail rates after the 3-year Initial Period.

Department

The Department estimated high and low class revenue requirements for IPL for the three major customer classes by year. The IPL high estimate assumed that the Commission approved 100 percent of IPL's forecasted revenue requirements for 2015 through 2017. The Department developed the IPL low estimate using the same assumptions except using only 46.5 percent of IPL's forecasted revenue requirements.

In its December 8 reply comments the Department stated that rates are expected to be lower under SMEC than they would be under IPL's ownership. The Department estimated that rates for residential customers would increase 3.9 percent on average assuming the transaction was approved as opposed to somewhere between 5 and 10.7 percent if IPL were to retain ownership during the 2015 through 2017 time period.

The full comparison can be found on page 6 of the Department's November 10 supplemental reply comments.

OAG

The OAG noted that the Petitioners have proposed a rate mitigation plan that they claim limits potential rate increases for IPL's customers for the first five years after the transaction is completed. However, the OAG stated that it appears that the proposed transaction, as currently structured, will result in increased rates for customers and is likely not in the public interest. Evaluating the reasonableness of future distribution rates or the WPA in isolation may lead to an incomplete analysis. Since Petitioners request approval of the Asset Purchase Agreement, their analysis has focused on whether the APA is or is not in the public interest.

In its November 10 comments, the OAG stated that there is significant evidence to conclude that the rate impact of the proposed transaction may not benefit ratepayers. If the rate increases assumed in the Department's analysis in 2015-2017 are reduced to 60% of the amount proposed by IPL, the benefit from 2015-2017 diminishes from $11.80 million to only $0.17 million on a net present value basis. Additionally, if only 60% of IPL's assumed increase is granted, and IPL does not request a rate increase in each year, the net present benefit becomes a detriment.

The OAG noted that these calculations also do not incorporate any effects of the Wholesale Power Agreement. Based on these variances, it is unclear whether the transaction provides an overall benefit to customers' distribution rates, before consideration of the WPA.

In its December 22 supplemental reply comments the OAG noted that the Chamber's comments indicated that:

> 10 of the 12 cooperatives currently have higher overall rates than IPL, while only two have lower overall rates.
>
> 6 of the 12 cooperatives have overall rates that would be more than five percent higher than current IPL rates
>
> 5 of the 12 cooperatives have overall rates that are more than ten percent higher than current IPL rates.
>
> Benco and Peoples have 34 percent and 35 percent higher rates, respectively.

This suggests that, despite any of the general benefits afforded to cooperatives, the overall costs for serving members of the SMEC cooperatives are higher than those of serving IPL's customers. Once the initial five-year rate mitigation period has expired and the rates for IPL customers are merged with those of their respective future cooperatives, the IPL customers will

likely see large rate increases that will subsidize the costs of serving current SMEC customers. The cost/benefit analyses produced by Petitioners do not account for this factor.

Chamber

The Chamber is concerned about the rate impacts associated with this transaction. It noted that the rate impacts associated with the wholesale power transaction are not clear. There is no certainty or assurance about what the increase will be for the first three years much less for the ten year duration of the wholesale power agreement. The joint petitioners indicate that the 2015 power cost adjustment projects a flat increase of $6.32/MWh for all IPL customers, or a 7 percent increase overall. However, for energy intensive customers, the rate impact is higher. The Chamber stated that a 1 MW customer with an 80 percent load factor on IPL's Large Power and Light rate (IPL Schedule 360) will experience a 10 percent increase under the projected 2015 rate proposal.

The Chamber stated that the risk exposure is significant due to the loss of state regulatory oversight on all components of the bill, in particular generation, which together with transmission, constitute 70 percent of a customer's bill.

In order to avoid the subsidization of (a) one cooperative by another or (b) one customer class by another, due to varying load profiles, the Chamber recommends that SMEC bill the cooperatives using the same methodology that is used by IPL to bill SMEC; similarly, customer classes should be allocated costs in the same manner, the already known increases coming from IPL makes this an important condition.

The Chamber stated that it is concerned with the 5% yardstick. It argued that energy intensive businesses that operate in a globally competitive environment cannot afford such significant increases. Any increase is challenging for such customers, especially a 5% increase given that (a) these increases have nothing to do with cost causation, and (b) they exclude the IPL costs associated with the wholesale power agreement.

The Chamber thinks it is not appropriate to merge the IPL rates with the legacy rates as early as the three year period as proposed by SMEC. Since the cooperatives will already have established the IPL rates and cost allocation methodologies, they should continue to maintain two separate rate books. Maintaining separate rate books in this instance will ensure that neither the Legacy customers subsidize IPL customers and vice versa.

The Chamber recommended maintaining two separate rate books throughout the 10 year term as the cooperatives propose for the first three years. Alternatively, a Cooperative should only be authorized to merge the rates during the 10 year term and beyond if there is less than a 1% differential. The Chamber's concern is largely because of the significant disparity in rates currently. Below is a table illustrating these rate differences:

2013 Revenues, MWh and $/MWh[28]

Cooperative	Revenue/kWh	Percent of IPL
Nobles	$0.0734	94%
So. Central Elec.	$0.0758	98%
IPL	$0.0771	99%
Freeborn-Mower	$0.0777	100%
Sioux Valley	$0.0779	100%
Federated	$0.0795	102%
MN Valley	$0.0802	103%
Brown	$0.0847	109%
Tri-County	$0.0863	111%
Steele-Waseca	$0.0882	113%
Redwood	$0.0895	115%
Benco	$0.1043	134%
Peoples	$0.1052	135%

MMUA

MMUA stated that the Commission has been asked to effectively authorize a rate increase without the benefit of a fact-finding rate case proceeding. In past rate cases involving IPL, the Commission has acted to the benefit of ratepayers in excluding certain costs such as travel by officers. No similar protections have been offered in the present transaction. The Commission should further investigate protections for ratepayers consistent with IPL's past recovery of costs.

CONCLUSIONS AND RECOMMENDATIONS

Joint Petitioners

The Joint Petitioners stated that they and the Department have demonstrated the Transaction is consistent with the public interest and results in significant overall customer benefits using the Commission's recognized approach. The record shows that the Transaction is consistent with the public interest within the meaning of Minn. Stat. § 216B.50, and the Transaction should be approved without further conditions or modifications.

The Department's March 12, 2015, letter to the Commission indicated that the Joint Petitioners agreed with the protocol, as contained in that letter, for the implementation of the Department's recommended customer protection mechanisms.

Department

The Department's analysis suggests that the proposed transaction's benefits are greater than its costs. The Department supports approval of the proposed transaction with the condition that SMEC provide:

Actual weather normalized annual revenue requirements for IPL's former service territory annually for the first three years following the proposed transaction's effective date.

A bill credit to IPL's former ratepayers if the actual weather normalized annual revenue requirement in any year exceeds the forecasted annual revenue requirement by more than 2 percent; and

Annual reliability information for IPL's former service territory for five years.

OAG

The OAG stated that its analysis demonstrates that, when a reasonable assessment of the costs and benefits are considered, the Transaction, as currently structured, will not benefit ratepayers. But the record demonstrates that, if any benefit exists, it is weighted heavily in IPL's favor due to the guaranteed recovery of an acquisition premium and the Wholesale Power Agreement's increased return on equity. Petitioners' claim that IPL's ratepayers benefit from the Transaction is premised on multiple hypothetical rate increases.

The OAG recommended that, should the Commission approve the transaction, it:

Require that IPL forego any gain on sale of its distribution assets.

Order that the transaction costs be paid by IPL.

Order that the sale price paid by SMEC to IPL be reduced by the amount of the gain that IPL will receive in the form of increased return on equity on generation assets in Iowa used to serve Minnesota customers.

Chamber

The Chamber's December 8 reply comments had recommendations specific to IPL and SMEC.

For IPL, the Chamber recommended that the Commission:

Deny the distribution asset acquisition premium of $16.9 million and require IPL to provide updated numbers:

Implement the following regarding the transfer of generation assets from retail to wholesale jurisdiction:

IPL provide in a calculation of the credit that consists of the differential in the [Federal Energy Regulatory Commission] FERC book value and Minnesota jurisdiction book

value of the generation assets as well as cost differentials in the operations, maintenance, and administration costs between the FERC-approved and the Minnesota jurisdiction costs. IPL should also explain the differences in the treatment of accumulated deferred income taxes at FERC versus Minnesota jurisdiction related to generation costs.

The ROE for generation infrastructure be set at 9.8%. If the FERC rate cannot be practically limited, a credit for the present value of the Minnesota generation assets net book value for the difference between 9.8% and 10.97% should be established and passed on to customers. According to DOC-67, the five year credit from 2015-2019 is calculated as $4.373 million. This credit needs to be calculated for the remaining life of the assets.

For any new assets added to the FERC rate base, any cost denials related to power costs (investment, Operations, and Maintenance and Administrative) in the Iowa jurisdiction should be passed on to Minnesota IPL ratepayers through the establishment of a credit. Since the Minnesota Commission will no longer have jurisdiction, the denial of costs in that jurisdiction will serve as a proxy for prudency review.

For SMEC:

Require the full estimated benefit of $8.4 million per year for each of the first three years and $5.2 million per year for the next seven years be passed on exclusively to IPL customers. (This would be instead of providing the proposed $2/MWh credit for the first three years.)

In order to avoid the subsidization of (a) one cooperative by another or (b) one customer class by another, require SMEC to bill the cooperatives using the same methodology that is used by IPL to bill SMEC, i.e., customer classes should be allocated costs in the same manner.

That Cooperatives not merge rates for the 10 year period of the wholesale power agreement; thereafter and alternatively, the Commission should order that Cooperatives may not merge rates unless the rate impact is less than 1%.

The Chamber stated that it met with a group of Cooperatives to discuss governance issues. The Chamber noted that it is having discussions with SMEC members to reach a formal arrangement to address IPL commercial and industrial customers' concerns on an on-going basis. It stated that if the discussions do not result in a resolution of these issues, the Chamber reserves the right to submit supplemental comments regarding this matter.

MMUA

MMUA requested that the Commission consider the issues it identified, as well as issues identified by other parties, in evaluating the public interest. It stated that if these issues are addressed, MMUA would not object to this transaction.

STAFF COMMENT

As discussed by the parties, the cost benefit analyses in this docket are dependent on assumptions regarding 3 hypothetical rate increases by Interstate in a three year period. The parties' discussions have focused on the percentage amount (i.e. the $ amount awarded compared to the $ amount initially requested) of the requests that are typically awarded by the Commission. Staff has several concerns with this type of analysis.

First, there is no evidence in this record supporting the IPL hypothetical rate requests. The numbers are supplied by the Joint Petitioners without supporting documentation.

Second, while it is not abnormal for a utility to request rate increases in consecutive years, there needs to be cost increases, or revenue reductions, that justify the rate increase from a previous year. Such requests are often the result of capital expenditures. Generally, O&M expenses do not increase sufficiently from year to year to justify rate cases in consecutive years. Changes in fuel and energy costs are usually recovered through riders between rate cases. If the need for the three consecutive rate requests were the result of necessary capital expenditures, unless the parties can explain why the capital expenditures would not be necessary after the transfer of assets, the need for increases in the revenue would still exist after the transaction.

Alliant Energy is constructing an approximately 650 MW combined-cycle, natural gas fired generating in Marshalltown, Iowa with an estimated cost of $700 million. It stated that the projected rate increase request in 2017 would reflect this Marshalltown facility. However, there is no supporting documentation for the rate impact from the Marshalltown facility.

Third, it would be unusual for IPL to file consecutive rate requests. IPL has filed 10 electric rate cases with the Commission since Minnesota statewide regulation of energy utilities began in 1974.

The most recent prior electric rate case was filed in 2010 (Docket No. E-001/GR-10-276), with a final Commission order after reconsideration on August 12, 2011.

The other cases were:

ER-1-1	1975
E001/GR-76-1826	1976
E001/GR-78-1065	1978
E001/GR-81-345	1981
E001/GR-86-384	1986
E001/GR-91-605	1991
E-001/GR-95-601	1995
E-001/GR-03-767	2005
E001/GR-10-276	2010

The average increase allowed is 7.42%.

Staff also has a concern with the large number of CCOSSs that will be filed as part of the transaction agreement. The Commission may want to indicate that it will not take any action on any individual CCOSS unless an issue or protest is raised.

Staff notes that if the transaction is approved as proposed by the Joint Petitioners, SMEC will become subject to the RES (Renewable Energy Standard)[8] while the responsibility for filing resource plans will remain with IPL. Because IPL will no longer be providing service at retail in Minnesota, the Commission's Order with respect to its resource plan will become advisory.

More notable, but not disputed by parties at this time, is SMEC's request that it be considered the entity subject to the RES even though it owns no generation or transmission facilities. The RES applies to all "generation and transmission cooperative electric associations."[9] In comments, the Joint Petitioners state that SMEC meets this definition because it will be supplying the generation and transmission requirements for SMEC Cooperative members and there is no requirement in statute that a G&T cooperative own facilities. Staff does not oppose this interpretation but notes that it could broaden the definition in the RES. In theory, broadening this definition could bring other entities under the umbrella of the RES, but in practice, staff is not aware of any entities this interpretation could impact.

---

[8] SMEC will be required, under the Commission's RES process, to make annual filings demonstrating REC (Renewable Energy Credit) retirement each year, and make biennial filings showing its more long range plans to meet the RES. In their response to Information Request (IR) 52, submitted December 5, 2014 in the record, the Joint Petitioners explain how IPL will allocate RECs to SMEC. Commission staff has not included decision options related to SMEC's filing obligations under the RES since the Commission's Orders apply to any entity subject to the RES and SMEC has agreed it is subject to the RES.

[9] Minn. Stat. §216B.1691, subd. 1(b).

COMMISSION OPTIONS

Some Commission options are:

A. Consistent with the Public Interest

1. Determine that the Commission cannot conclude that the Proposed Transaction is consistent with the public interest and deny the petition.

2. Determine that the Proposed Transaction is consistent with the public interest and approve the transaction as filed.

3. Determine that the Proposed Transaction is consistent with the public interest if certain conditions are applied and approve the petition subject to one or more conditions.

B. Additional Information

4. Determine that additional information is necessary and require MERC to file any information the Commission considers appropriate.

5. Determine that additional information is necessary and require a contested case proceeding.

6. Determine that additional information is not necessary at this time.

C. Conditions of approval

7. Require SMEC to provide Actual weather normalized annual revenue requirements for IPL's former service territory annually for the first three years following the proposed transaction's effective date. (DOC)

8. Require SMEC to provide a bill credit to IPL's former ratepayers if the actual weather normalized annual revenue requirement in any year exceeds the forecasted annual revenue requirement by more than 2 percent. (DOC)

9. For 6 and 7 above, adopt the implementation programs as detailed in the Department's March 12, 2015 letter. (DOC and Joint Petitioners)

10. Require SMEC to provide reliability information to the Commission for IPL's former service territory annually for five years. (DOC) and

    Require SMEC to make a compliance filing with ninety days describing what reliability information will be provided, who will be preparing and filing the information, and when it will be filed each year. (Staff)

11. Require that IPL forego any gain on sale of its distribution assets. (OAG)

12. Order that the transaction costs be paid by IPL. (OAG)

13. Order that the sale price paid by SMEC to IPL be reduced by the amount of the gain that IPL will receive in the form of increased return on equity on generation assets in Iowa used to serve Minnesota customers. (OAG)

14. Deny the distribution asset acquisition premium of $16.9 million and require IPL to provide updated numbers. (Chamber)

15. Require IPL to provide a calculation of the credit that consists of the differential in the [Federal Energy Regulatory Commission] FERC book value and Minnesota jurisdiction book value of the generation assets as well as cost differentials in the operations, maintenance, and administration costs between the FERC-approved and the Minnesota jurisdiction costs. (IPL should also explain the differences in the treatment of accumulated deferred income taxes at FERC versus Minnesota jurisdiction related to generation costs.) (Chamber)

16. Set the ROE for generation infrastructure at 9.8%. (If the FERC rate cannot be practically limited, provide a credit, for the remaining life of the assets, for the present value of the Minnesota generation assets net book value for the difference between 9.8% and 10.97%.) (Chamber)

17. Require that, for any new assets added to the FERC rate base, any cost denials related to power costs (investment, Operations, and Maintenance and Administrative) in the Iowa jurisdiction be passed on to Minnesota IPL ratepayers through the establishment of a credit. (Chamber)

18. Require the full estimated benefit of $8.4 million per year for the first three years and $5.2 million per year for the next seven years be exclusively passed on to IPL customers. (This would supplant the $2/MWh credit for the first three years as proposed.) (Chamber)

19. Require SMEC to bill the cooperatives using the same methodology that is used by IPL to bill SMEC; customer classes should be allocated in the same manner. (Chamber)

20. Modify the Agreement to not allow Cooperatives to merge rates for the 10 year period of the wholesale power agreement, and thereafter, prohibit the Cooperatives from merging rates unless the rate impact is less than 1%. (Chamber, as modified by staff)

D. Remaining ATA (Docket No. 07-540)

21. Require IPL to return the remaining Alternative Transaction Adjustment to customers through a reduction in payments under the Wholesale Power Sales Agreement. (IPL, DOC, if the IPL/SMEC Transaction is approved)

22. Require IPL to return the approximately $200,000 of the Alternative Transaction Adjustment to existing customers using IPL's fuel clause adjustment (FCA) mechanism.

23. Require IPL to provide a compliance filing reporting the amount actually returned to customers.