

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF MINNESOTA

Beverly Jones Heydinger	Chair
David Boyd	Commissioner
J. Dennis O'Brien	Commissioner
Phyllis Reha	Commissioner
Betsy Wergin	Commissioner

In the Matter of ITC Midwest LLC Compliance with Commitments in Docket No. E 001/PA-07-540 to Improve the Transmission System and Relieve Constraints Docket No. ET-6675/CI-11-1178

In the Matter of the Joint Petition for Approval of Transfer of Transmission Assets of Interstate Power and Light Company to ITC Midwest LLC Docket No. E001/PA-07-540

ITC MIDWEST'S COMPLIANCE FILING

INTRODUCTION

Pursuant to the May 15, 2012, Order Requiring Filings of the Minnesota Public Utilities Commission ("Commission"), ITC Midwest LLC ("ITC Midwest") provides the following information requested by the Commission. ITC Midwest remains fully committed to complying with the conditions ordered by the Commission in connection with its approval of ITC Midwest's acquisition of the transmission assets of Interstate Power and Light, including the construction commitments set forth in the Commission's order. See Order Approving Transfer of Transmission Assets, With Conditions (issue date February 7, 2008; effective date December 18, 2007). ITC Midwest will keep the Commission appropriately informed of its efforts to satisfy those commitments and stands ready to provide the Commission with such other information as the Commission may deem necessary.

RESPONSES TO SPECIFIC REQUESTS

1.a A report on the current state of the transmission system in IPL service territory, including all binding constraints, the current impact of these constraints on Minnesota in terms of annual cost differential for energy flow into Minnesota, the duration of the constraint if no longer 500 hours or no longer fully mitigated, as well as the magnitude of that constraint in MWs that are not getting to Minnesota.

Response: In order to provide the information responsive to this request, ITC Midwest must obtain information from MISO. ITC Midwest has requested the information but has been informed that it will not be available by the time of the June 30 deadline for this filing. Based upon its communications with MISO, ITC Midwest has requested an extension of time, to July 30, to respond to this request.

1.b A report on MISO projects that address constraints in the MN NCA and ITC's plans to implement such projects, including its plans for the Lakefield-Fox Lake-Rutland-Winnebago-Hayward-Adams 161 kV line. This report should include proposed timelines for each project with the incremental steps already taken and to be taken toward the completion of the project, such as filings for state and local permits, public notices, public hearings, easement acquisitions, petitions for franchise approvals, requests for eminent domain, construction, and other relevant actions.

Response: Attachment 1 is a list of the MISO projects planned to address constraints in the Southeast Minnesota, Northern Iowa, and Southwest Wisconsin Narrowly Constrained Areas from the 5/22/2012 MISO Project Database. As can be seen there, a total of eleven projects which address the NCA issue have been through the MISO planning process.

As MISO noted on page 2 of this Attachment, the need for proposed Project 1746, Lakefield-Adams 161 kV rebuild, was effectively replaced (from an NCA perspective) by Projects 3205 and 3213, the Multi-Value Projects (MVPs) in Minnesota and Iowa that were approved as planned projects in MTEP 11 by the MISO Board of Directors in December 2011. As is also noted in the Attachment, four of the Projects are already in service. MISO project 1340 is the Salem-Hazleton project, a status report for which is included as item 4 in this filing. Expected timelines and current status of the remaining five projects is discussed below:

A. Coffey(Lewis Fields) New 161 kV line and 161 kV substation

ITC Midwest has acquired all property easements necessary for construction and a franchise for this project. The substation site for the new Coffey substation requires a change in zoning and a conditional use permit from Linn County in Iowa. ITC Midwest has applied for and currently expects to acquire this permit in July 2012. At that time, ITC Midwest will apply for a National Pollution Discharge Elimination System (“NPDES”) permit from the Iowa Department of Natural Resources, expecting approval in August 2012. ITC Midwest expects to begin construction of this project in late August 2012. The expected in service date for this project is summer 2013.

B. Dundee 161/115 transformer

This project on the Central Iowa Power Company (“CIPCO”) system was identified in MTEP 08 (Project 1349) as a project that would mitigate the constraints in the Southeast Minnesota, Northern Iowa, and Southwest Wisconsin Narrowly Constrained Areas. It was also identified as a non-MISO project because CIPCO owns the Dundee Substation and is not a MISO transmission owner.

Replacement of the Dundee transformer is no longer planned. Instead, CIPCO is upgrading a 115 kV transmission line that connects to this station. Currently the 115kV transmission line limits the power flow before the transformer does when summer equipment ratings are applicable, therefore upgrading the transformer is not a prudent solution. CIPCO is currently rebuilding the Marion – Coggon 115 kV line to 161 kV standards in 2012, and the Coggon – Dundee 115 kV line is being rebuilt to 161 kV standards in 2013. When these lines are converted to operate at 161 kV in 2015, a 161/115 kV transformer at Dundee will no longer be needed.

C. Heron Lake – Lakefield 161 kV rebuild

This project rebuilds an existing 161 kV circuit owned by ITC Midwest. Due to a request from the US Fish and Wildlife Service, ITC Midwest is moving 6 miles of this line to a new route, to create a double circuit tower path along with an existing 69 kV line east of Heron Lake. Easement acquisition is complete for the new double circuit line. ITC Midwest has discussed this project with Minnesota Commission staff, Department of Commerce EFP staff and Jackson County, Minnesota Planning and Zoning staff. ITC plans to apply for local review of this project in Jackson County, Minnesota in July 2012, and begin construction of the project in Fall 2012. The planned in-service date is June 2013.

D. Multi-Value Projects 3205 and 3213

These projects are being constructed by both ITC Midwest and MidAmerican Energy Company in Iowa and Minnesota as part of MISO's Multi-Value Project portfolio, as described below. ITC Midwest has met with Minnesota Commission Facility Permit staff and DOC-EFP staff to discuss these projects and planned filings in Minnesota for the portion of Project 3205 in Minnesota. Both a Certificate of Need and Route Permit will be required for the approximately 70 to 80 miles of new 345 kV line in Minnesota that are part of Project 3205. The in-service dates for these projects identified by MISO range from 12/31/15 to 12/1/16. ITC Midwest will keep the Commission apprised of its expected in-service dates for these projects once it has fully developed its project plan and timeline.

ITC Midwest's portion of Project 3205 originates at ITC's Lakefield Junction substation in southwest Minnesota, connecting east to the Winnebago area in south central Minnesota, and south to a new MidAmerican Energy substation that will be constructed near Algona, Iowa. MidAmerican Energy will construct two lines that meet at this new substation. One originates

from an existing 345 kV line in northwest Iowa near Sheldon, and the other from an existing 345 kV line in central Iowa near Fort Dodge. Project 3205 will require the construction of approximately 145 miles of a 345 kV line in Iowa and 70 miles of a 345 kV line in Minnesota. Project 3213 will connect Project 3205 to ITC's existing Hazleton 345 kV substation northeast of Waterloo, Iowa. The line will connect east to the Mason City area and then south to the Iowa Falls area, then east to the Hazleton substation. MidAmerican Energy will construct a new substation north of Waterloo. Upon completion of this planned Project 3213, ITC Midwest will be responsible for approximately 110 miles of 345 kV line and MidAmerican Energy will be responsible for approximately 70 miles of the 345 kV line.

For the Iowa portion of the projects, ITC Midwest must request and secure franchises from the Iowa Utilities Board ("IUB") prior to construction of the line. ITC Midwest also will need to acquire various local approvals and permits prior to construction. The engineering consulting firm Burns and McDonald is conducting a routing study for ITC Midwest for these projects in Minnesota and Iowa. ITC Midwest expects to make the initial state regulatory filings in Minnesota in 2012. A detailed timeline for project activities will be developed once the routing study is complete. ITC Midwest will update the Commission on its activities and provide a more detailed timeline for these projects in its December 31, 2012 report and in subsequent reports.

1.c A reconciliation of ITC Midwest's assessment of the project costs and benefits during the 07-540 proceeding and why its assessment differed from MISO's 2008 assessment of the Salem-Lore-Hazleton project that had only a 1.23 B/C ratio.

Response: As part of the 07-540 proceedings, ITC Midwest referenced study results obtained from Charles Rivers Associates ("CRA") which evaluated the economic benefits of the Salem-Hazleton and Arnold-Vinton projects. CRA used the GE Multi-Area Production

Simulation (MAPS) Model for its evaluation. As Mr. Welch explained, “From that point on we then engaged with an independent outside consultant, Charles Rivers Associates, or CRA as they're called today, who has been modeling and done extensive modeling for the DOE's natural interest corridors. They have done extensive modeling for PJM and MISO. And we asked them to come in because they have a broad-based model that we just don't have access to currently today to bring us those models.” Hearing Transcript (12/11/07), page 35, lines 13-21. Mr. Welch characterized his understanding of the results of the CRA analysis this way: “These two projects [i.e., the Salem-Hazelton 345 kV line and the Arnold-Vinton 161 kV rebuild] on an annual basis address about -- and I have to look at my notes real quick, but memory tells me that they're about \$48 million....” Hearing Transcript (12/11/07), page 36, lines 19-22. Additionally, after subtracting the rate impact to Minnesota customers due to ITC Midwest’s commitment to various transmission upgrades, Mr. Welch stated a conclusion that the analysis indicates Minnesota customers would receive about \$43 million in annual energy cost savings. Hearing Transcript (12/11/07), page 46, lines 3-20. CRA’s results derived from reductions in “Minnesota Hub” prices in the MAPS model and the impact of the reduced energy price to State of Minnesota electric load.

The MISO 2008 assessment referred to here was a different type of analysis. In that instance, MISO performed an “Out-of-Cycle Economic Benefits Review” for the Salem-Hazelton project in February 2008 in response to a request from ITC Midwest. MISO used PROMOD for its evaluation and relied upon data contained in the MTEP 08 2011, 2016, and 2021 Reference Future cases. In this review, MISO only evaluated cost savings and project costs associated with the Salem- Hazelton project, as discussed below. At the time of the MISO evaluation, the expected project costs were estimated at \$140,362,000.

In order to determine cost savings, MISO used a “Weighted Gain, No Loss” (“WGNL”) methodology to measure the expected adjusted production cost (adjusted to account for purchases and sales) and load Locational Marginal Price (“LMP”) savings from this project being built. The WGNL is calculated by adding 70% of the adjusted production cost savings to 30% load LMP savings. The WGNL is calculated for each of the first ten years of the project and then are discounted back over time to determine a net present value for the aggregated WGNL. This net present value WGNL is divided by the net present value of the first ten years of the project costs to derive the Benefit/Cost ratio. In the case of the Salem-Lore-Hazleton project, this ratio was 1.23 for the Reference Future case. Benefit/Cost ratios of 1.31, 0.68 and 1.58 were reported for the Environmental Future, Fuel Future, and Renewable Future cases, respectively. Importantly, MISO calculates the benefits/cost ratio of a project over the entire MISO market, not on a state by state basis or on the basis of any region less than the entire MISO region combination of states.

Thus, ITC Midwest’s 2007 assessment of the benefits of the Salem-Lore-Hazleton 345 kV project and the Arnold-Vinton 161 kV project cannot be directly compared to, or reconciled with the MISO 2008 studies of only the Salem-Hazleton project because of the fundamental differences in the way the studies were performed. Some of these differences are summarized below.

1. Different metrics, time frames and scope of benefits examined: the CRA analysis was based on a near term annual analysis of economic benefits in Minnesota from reductions in “Minnesota Hub” prices in 2008, while the MISO study evaluated the longer term view (2011, 2016 and 2021), based on the effect over the entire MISO region market area, netting increases and decreases in the WGNL metric in different portions of the RTO footprint.
2. Different study scope and assumptions: the CRA analysis looked at the impacts of both projects on a stand-alone basis, based on a near term (2008) transmission system topology. By contrast, the MISO study looked at only the Salem-Hazleton 345 kV

project, using a model that assumed the Arnold-Vinton 161 kV rebuild was completed, and that also assumed numerous other planned transmission additions post-2008 were “in-service” in all the scenarios studied. Therefore, the economic benefits of reduced congestion from the Arnold-Vinton project are not included in the MISO analysis, and the potential effects on congestion cost reduction of the other post-2008 projects assumed in MISO’s model were not calculated.

Nevertheless, it is important to note that both study approaches identified expected economic benefits from the Salem-Hazleton project. The MISO study sensitivities demonstrate a wide range of potential benefits, dependent on assumptions about future generation characteristics, but in nearly all cases show net benefits that exceed the comparable costs.

1.d Based on current data, an estimated projected savings over the next 15 years in Minnesota from the completions of (i) the Salem-Hazleton Project and (ii) the Arnold-Vinton Rebuild; and additionally, the extent to which constraints in the area are mitigated by these projects. If they are not fully mitigated, state by how many of the 500 hours annually this area will see constraints with and without the projects.

Response: In order to provide the information responsive to this request, ITC Midwest must obtain information from MISO. ITC Midwest has requested the information but has been informed that it will not be available by the time of the June 30 deadline for this filing. Based upon its communications with MISO, ITC Midwest has requested an extension of time, to August 30, to respond to this request.

2. By June 30, 2012, ITC shall file a report on the impact of rerouting the Salem-Lore-Hazleton project around the Lore substation and provide the Commission with evidence that the rerouting of the project did not impact the purpose of the project as defined by the Settlement Agreement.

Response: Performance of the Salem-Hazleton 345kV project and the Salem-Lore-Hazleton project were directly compared, along with other project alternatives, in the 2006 Eastern Iowa Transmission Reliability Study performed by MISO, a copy of which accompanies this compliance filing as Attachment 2. The study demonstrated that the two project alternatives performed very similarly in terms of reliability and congestion relief. The study observed neither alternative resulted in overloaded flowgates (page 45). In comparing the two project

alternatives, MISO noted the Salem-Hazleton alternative, as compared to the Salem-Lore-Hazleton alternative, resulted in less loading on the Salem - Rock Creek - Quad Cities 345 kV line, Dundee 161/115 kV transformer, and Lore - Turkey River 161 kV line (page 44). The Salem-Hazleton alternative also resulted in significant flowgate reductions across Lore-Turkey River, Turkey River-Cassville and Quad Cities –Rock Creek when compared to the Salem-Lore-Hazleton alternative (Page 44).

In contrast, MISO noted that the Salem-Lore-Hazleton alternative, as compared to the Salem-Hazleton alternative, resulted in less loading on the two Hazleton 345/161 kV transformers, the Julian – Salem - S. Grandview - 8th St. 161 kV lines, the Dubuque 8th Street 161/69 kV transformer, the Beaver Ch. – Albany – Savanna - York 161 kV lines, the Hazleton - Dundee 161 kV line and the Rock Creek 345/161 kV transformer. The Salem-Lore-Hazleton alternative also demonstrated flowgate reduction across Salem – Julian, 8th Street - Kerper, Hazleton 345/161 kV transformer, Salem 345/161 kV transformer and Rock Creek 345/161 kV transformer compared to the Salem-Hazleton alternative (page 44-45).

In terms of economic performance of the two alternatives, MISO projected a 2011 Annual Production Cost Savings in the Eastern Iowa region of \$32,287,508 for Salem-Hazleton project versus the base case versus \$32,304,971 for the Salem-Lore-Hazleton project (page 59), a difference of only \$17,463 per year.

The 2006 Eastern Iowa Transmission Reliability Study recommended the Salem-Lore-Hazleton project as the preferred solution alternative, primarily due to reduced loading on 161kV lines in the Dubuque area (page 46). But, in the design process for the line, ITC Midwest concluded it would be extremely difficult to obtain a 345kV line franchise into the Lore Substation from the IUB in a timely, or financially feasible, manner due to residential growth in

potential line corridors areas near the Lore substation. It was a prudent decision for ITC Midwest to change the scope of the project because previous studies had indicated performance of the two alternatives to be similar. In an August 17, 2009 letter from ITC's Jeff Eddy, Manager of Planning, MISO was notified of the proposed project change in which the Lore substation would be bypassed and the planned 345/161kV transformer which was to be located at Lore would instead be installed at Salem Substation. See Attachment 3. On September 28th, 2009, MISO's Manager of Expansion Planning, Dave Duebner, responded to ITC and affirmed ITC's conclusion that rerouting and bypassing Lore did not impact the purpose of the project. See Attachment 4. MISO stated "we do not believe that ITCM is substantially modifying the design of the 345 kV line between Salem and Hazelton, nor that the underlying driver for the project has changed." MISO further summarized: "The major project element is the 345 kV line between Salem and Hazelton. The location of the 345/161 kV transformation is flexible."

On March 28, 2011, the MISO responded to an IUB Order issued March 9, 2011, in which MISO was requested to review the Salem-Hazelton project proposal's performance based upon current system conditions relative to the project values established at the time of MISO approval of the project. See Attachment 5. MISO prefaced that the "project was recommended on the basis of a variety of benefits that included improved reliability, and reductions in congestion that would contribute to 1) eliminating the need for the Narrow Constrained Area ("NCA") designation in the area, and 2) reducing system production costs." MISO's analyzed the Salem-Hazleton project using power flow models with and without the Salem-Hazleton project included:

- MTEP10_2015 Summer Peak SCED (wind 5%)
- MTEP10_2015 Shoulder SCED (90% wind)

- MTEP11_2021 Shoulder (90% wind) RMD

MISO's analysis included planned generation in Iowa that entered the interconnection queue after 1/1/2007 and therefore, were not in 2006 study. Additionally, MISO modeled planned or proposed transmission projects in Eastern Iowa which have been made since the 2006 study.

MISO reviewed congestion in eastern Iowa, the Narrow Constrained Areas, and steady-state reliability. The analysis noted that congestion persists in the area, and the Minnesota Narrow Constrained Area is still an NCA with pivotal suppliers. Further, it was observed that long-term reliability issues were still present in Eastern Iowa under the latest study assumptions for the near term planning horizon. MISO concluded: "Therefore, P1340 continues to be a key element of the present expansion plan for the area which includes numerous other lines. The Midwest ISO continues to support and recommend that P1340 Salem – Hazleton 345 kV line be constructed."

3. On June 30, 2012 and December 31, 2012, ITC shall file a report on the investment projects ITC has completed as part of its requirement to make \$250 million in capital investments in transmission infrastructure in the IPL service territory during the five years following closing of the transaction transferring IPL's transmission facilities to ITC.

Response: Through May 2012, ITC Midwest has completed transmission infrastructure capital investment projects totaling \$658,096,697 following closing of the IPL/ITC Midwest transaction in December 2007. A detailed breakdown of these projects accompanies this filing as Attachment 6. In addition, ITC Midwest has incurred \$176,707,844 for additional capital expenses still recorded as construction-work-in-progress (CWIP) for projects that are not yet completed, including \$93,411,181 for the Salem-Hazleton 345 kV project. These totals also include \$23,735,797 of capital property acquisitions and \$15,879,768 of CWIP that was transferred from IPL to ITC Midwest in December 2007.

The total capital cost of specific completed projects that have increased the capability of the ITC Midwest transmission system to deliver power into Minnesota are listed below :

- Arnold-Vinton-Dysart-Washburn 161 kV rebuild \$ 41,335,850
- Hayward-Worth and Adams-Barton 161 kV rebuilds (G595) \$ 51,983,827
- Hazleton 345/161 kV Transformer \$ 6,938,094
- Savanna 161 kV Upgrade \$ 544,199
- Salem 345/161 kV transformer \$ 9,537,464
- Rock Creek 161 kV terminal Upgrades \$ 168,419
- Lansing – Genoa 161 kV terminal upgrades \$ 165,005
- Adams 161 kV terminal upgrades \$ 368,104
- Fox Lake – Rutland 161 kV line clearance upgrade \$ 4,446,804
- Freeborn – Hayward 161 kV rebuild * cost directly assigned to customer

4. ITC shall file status reports on the progress of the construction of the Salem-Hazleton Project on June 30, 2012, December 31, 2012, every six months thereafter, and upon the completion of the project.

Response: ITC Midwest is still working diligently to complete the Salem-Hazleton 345 kV transmission line project by mid-2013, as reported in December 2011. As described below, there is on-going litigation in Iowa relating to eminent domain proceedings in Dubuque County that may impact the project construction schedule.

A. Current Project Schedule and Possible Impact from Iowa Court Case

In December, ITC Midwest reported that because of appeals filed by the Landowner Group and the Iowa Office of Consumer Advocate (“OCA”), a partial stay of the IUB decision granting ITC Midwest the right of eminent domain over certain land parcels in Dubuque County

was entered into by the Dubuque County District Court. At that time, the stay was scheduled to expire in April 2012, absent further action by the Court. Since December of 2011, there have been numerous orders and filings in this proceeding. The timeline for the case accompanies this filing as Attachment 7. As noted in the Attachment, the stay was continued indefinitely by the Dubuque County District Court in February 2012. On March 2, ITC Midwest filed a motion requesting that the Court set a date certain for termination of the stay. Specifically, ITC Midwest has requested that the stay terminate no later than July 2, 2012. In a brief filed on May 14, 2012, in resistance to the Landowner Group's request to present new evidence and in support of its motion to set a date certain for expiration of the stay, ITC Midwest included an affidavit from the project manager which explained how project costs will increase by over \$2.3 million if the stay were to remain in place through September 1, 2012, due to the need for construction crews to demobilize to avoid planned construction in condemnation parcel areas, and continued storage of project materials.

The Court has not yet ruled on ITC Midwest's motion to set a date certain for expiration of the stay and there is no practical or effective way of compelling the Court to act by a date certain. Eventually, continuation of the stay could delay the planned in service date for the project. It is estimated today that the project may be delayed beyond mid-2013 if the stay is not terminated by mid-August 2012.

ITC Midwest continues to work with landowners to acquire voluntary easements, and has been able to reach agreement with 2 of the 9 landowners involved in the condemnation process reducing the numbers not settled to 9 parcels and 7 landowners.

B. Current Status of Project Construction

For purposes of project tracking, the Salem-Hazleton project has been broken down into eight sections: DH1, DL1-DL2 and LS1-LS5. A project map illustrating these segments accompanies this filing as Attachment 8. A graph showing the percentage completion of seven different construction activities by project section accompanies this filing as Attachment 9. As these attachments show, the majority of project materials have already been received. ITC Midwest estimates that 100% of the required steel structures and insulators will have been received by the end of July 2012 and that the remainder of the line conductor material is due in September 2012. Overall for the eighty-one mile project, as of June 10, 2012, 277 (47%) of the 592 foundations have been poured, 207 (35%) of poles have been set, and 20 miles (25%) of conductor has been strung. ITC Midwest has averaged over 70 construction workers for the project over the most recent four week period, booking 15,400 labor hours for a total of 100,444 labor hours since project construction began in Fall 2011.

5. ITC shall notify the Commission in the future about any changes to the Salem-Hazleton Project that are conveyed to the Midwest Independent Transmission System Operator or the Iowa Utilities Board, including such things as siting or line path changes.

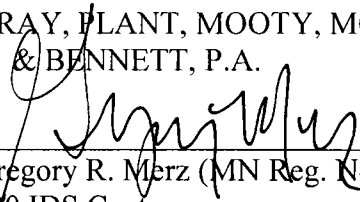
Response: ITC Midwest commits to complying with this directive from the Commission.

6. For any project reasonably related to the settlement agreements incorporated into the February 7, 2008 order, ITC shall clearly and fully identify the operative and essential assumptions the Company is making when committing to project completion dates.

Response: ITC Midwest commits to complying with this directive from the Commission.

Dated: June 29, 2012

GRAY, PLANT, MOOTY, MOOTY
& BENNETT, P.A.



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- 3 Correspondence dated 8/17/09, from Jeff Eddy, Manager, Planning, ITC Midwest, to Dave Duebner, MISO
- 4 Correspondence, dated 9/28/09, from Dave Duebner to Jeff Eddy
- 5 MISO response, dated 3/28/11, to Iowa Utilities Board request for review of Salem-Hazleton Project
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