

**Minnesota Public Utilities Commission**  
*Staff Briefing Papers*

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Meeting Date: July 10, 2014.....\*Agenda Item # 4

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Company: Interstate Power and Light Company (“Interstate”, “IPL”, or the “Company”)

Docket No. E,G001/AI-12-32  
In the Matter of IPL’s Petition for Approval of a Common Facilities Capacity Agreement with its Affiliate, Franklin County Wind, LLC

E,G001/AI-12-187  
In the Matter of IPL’s Petition for Approval of a Land Lease Agreement with its Affiliate, Franklin County Wind, LLC

E,G001/AI-12-192  
In the Matter of IPL’s Petition for Approval of a Local Balancing Authority Agreement with its Affiliate, Franklin County Wind, LLC

E,G001/AI-12-792  
In the Matter of Interstate Power and Light Company’s Transfer of Land Easements, Wind Rights, and Rights to Purchase Wind Turbines, to its Affiliate, Franklin County Wind, LLC

E,G001/AI-12-1157  
Interstate Power and Light’s Petition for Approval of an Affiliated-Interest Agreement with Franklin County Wind, LLC regarding a Services Agreement

E,G001/AI-13-787  
Interstate Power and Light’s Petition for Approval of an Affiliated-Interest Agreement with Franklin County Wind, LLC regarding its Sale and Transfer of Land Easements, Wind Rights, and Rights to Purchase Wind Turbines to Its Affiliate – Franklin County Wind, LLC

E,G001/PA-13-788  
Interstate Power and Light’s Petition for Approval of Transfer of Land Easements, Wind Rights, and Rights to Purchase Wind Turbines, to its Affiliate Franklin County Wind, LLC

Issue(s): Is IPL’s Wind Development Asset Purchase and Sale Agreement (Sale Agreement) with its affiliate Franklin County Wind, LLC, consistent with the public interest?

Should the Commission approve IPL's affiliated interest agreements with Franklin County Wind, LLC in Dockets E,G001/AI-12-32, E,G001/AI-12-187, E,G001/AI-12-192, E,G001/AI-12-1157 and E,G001/AI-13-787?

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**Relevant Documents**

IPL Initial Fling, 12-32 ..... January 6, 2012  
IPL Initial Fling, 12-187 ..... March 2, 2012  
IPL Initial Fling, 12-192 ..... March 7, 2012  
Order Requiring Filing ..... July 24, 2012  
IPL Compliance Filing in E,G-001/AI-12-792..... August 27, 2012  
Interstate Petition for approval of an Affiliate Services Agreement  
with Franklin County Wind (Docket No. E,G001/AI-12-1157) ..... October 24, 2012  
*Order Requiring Further Filings* (April 16, 2013 Order), Issued  
in First Five Dockets ..... April 16, 2013  
*Order Denying Reconsideration and Requiring Filings*  
(July 1, 2013 Order), Issued in First Four Dockets ..... July 1, 2013  
IPL Petition for Approval of Affiliated Interest  
Agreement (Docket E,G-001/AI-13-787) ..... August 30, 2013  
IPL Petition for Approval of Transfer of Land Easements,  
Wind Rights, and Rights to Purchase Wind Turbines, to its  
Affiliate Franklin County Wind, LLC (Docket E,G001/PA-13-788) ..... August 30, 2013  
Department Comments ..... February 3, 2014  
IPL Reply Comments ..... March 6, 2014  
Department Additional Comments ..... March 10, 2014

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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.

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## Table of Contents

Statement of the Issues.....	1
Background.....	1
Relevant Statutes and Order.....	3
Statutes.....	3
July 24, 2012, Order Requiring Filing.....	4
April 16, 2013 Order Requiring Further Filings.....	4
July 1, 2013 Order Denying Reconsideration and Requiring Further Filings.....	5
Party Comments.....	5
IPL.....	5
Background.....	5
E,G001/PA-13-788 Sale and Transfer to Franklin County Wind.....	6
E,G001/AI-12-32 Common Facilities Capacity Agreement.....	7
E,G001/AI-12-187 Land Lease Agreement.....	8
E,G001/AI-12-192 Local Balancing Authority Agreement.....	8
E,G-001/AI-12-792 Agreement Transferring Easements and Rights.....	8
E,G001/AI-12-1157 Services Agreement.....	9
E,G001/AI-13-787 Wind Development Assets Purchase and Sale Agreement.....	9
Department of Commerce.....	10
Statutory Requirements.....	10
Filing Requirements.....	10
Analysis of the Agreements.....	11
Department Recommendations.....	14
Interstate Reply Comments.....	14
Department Additional Comments.....	15
Staff Comment.....	16
Commission Options.....	17

## Statement of the Issues

Is IPL's Wind Development Asset Purchase and Sale Agreement (Sale Agreement) with its affiliate Franklin County Wind, LLC, consistent with the public interest?

Should the Commission approve IPL's affiliated interest agreements with Franklin County Wind, LLC in Dockets E,G001/AI-12-32, E,G001/AI-12-187, E,G001/AI-12-192, E,G001/AI-12-1157 and E,G001/AI-13-787?

## Background

In 2008, IPL purchased 303 Vestas wind turbines jointly with Wisconsin Power and Light Company (WPL) and Alliant Energy Corporate Services. IPL used 121 of the Vestas to construct the Whispering Willows East (WWE) windfarm, while WPL used 122 of the Vestas to construct a different windfarm. The remaining 60 turbines were initially intended to be used for an additional utility-operated windfarm.

On June 29, 2011, IPL transferred turbine, land, and wind rights to its affiliate Franklin County Wind, LLC (FCW). Details of these transactions are included in the Department's comments filed on April 6, 2012, as DOC Attachments 1 and 2. IPL did not request Commission approval of these transactions.

On January 6, 2012, in Docket No. E,G001/AI-12-32 (12-32), IPL filed a petition under the affiliated interest statute, Minn. Stat. § 216B.48, for approval of its Common Facilities Capacity Agreement with FCW, effective December 7, 2011. In its petition, IPL stated that the wind farm referred to as the Franklin County Windfarm (FCWF) was formerly known as Whispering Willow Windfarm-Central.

On March 2, 2012, in Docket No. E,G001/AI-12-187 (12-187), IPL filed a second petition under the affiliated interest statute, Minn. Stat. § 216B.48, for approval of its Land Lease Agreement with FCW, effective February 1, 2012.

On March 7, 2012, in Docket No. E,G001/AI-12-192 (12-192), IPL filed a third petition under the affiliated interest statute, Minn. Stat. § 216B.48, for approval of its Local Balancing Authority Agreement with FCW, effective February 7, 2012.

On April 6, 2012, the Department filed comments addressing all three petitions. The Department stated that it would be premature to evaluate Dockets 12-32, 12-187, and 12-192 without a full evaluation and a Commission determination on IPL's sale of the Turbine, Land, and Wind rights to its affiliate.

On May 2, 2012, the OAG filed comments addressing Dockets 12-32, 12-187, and 12-192 and requested the Commission order IPL to request Commission approval of the June 2011 transfer

of turbine, land, and wind rights and consider applying penalties for IPL's repeated failure to comply with Minn. Stat. § 216B.48.

On May 14, 2012, IPL filed reply comments regarding all three petitions. IPL stated the transfer of Turbine, Land, and Wind Rights that occurred in June 2011 is not reviewable by the Commission and requested approval of the Three Proposed Agreements currently before the Commission.

On July 24, 2012, the Commission issued an Order Requiring Filings in 12-32, 12-187, and 12-192, finding that it would be premature to evaluate IPL's petitions without considering the June 29, 2011, transfer of turbine, land and wind rights. The Order created Docket No. E,G001/AI-12-792 (12-792) and directed IPL to file, in that docket, the agreements transferring land easements, wind rights, and rights to purchase wind turbines to its affiliates.

On August 27, 2012, IPL made a compliance filing in Docket No. E,G001/AI-12-792. The filing contained the IPL and FCW Wind Development Assets Purchase and Sale Agreement, dated June, 29, 2011.

On October 24, 2012, in Docket No. E,G001/AI-12-1157 (12-1157), IPL filed a fourth petition under the affiliated interest statute, requesting approval of an Affiliate Services Agreement with Franklin County Wind.

On November 28, 2012, the Department filed Response Comments responding to Interstate's compliance filing. The Department filed its Response Comments in the first four dockets.

On December 19, 2012, the Department filed a letter in Docket No. E,G001/AI-12-1157 stating that it would be premature to evaluate this affiliate interest agreement without a full evaluation and determination from the Commission that IPL has shown the underlying agreements in Docket 12-792 to be reasonable and consistent with the public interest.

On December 27, 2012, the OAG filed Reply Comments in Docket No. E,G001/AI-12-792.

On February 6, 2013, Interstate filed Reply Comments in all four dockets.

On April 16, 2013, the Commission issued its *Order Requiring Further Filings* in Dockets E,G001/AI-12-32; 187; 192; 792; and 1157.

On May 6, 2013, IPL filed a Petition for Reconsideration and Rehearing of the April 16, 2013 Order.

On July 1, 2013, the Commission issued an Order Denying Reconsideration and Requiring Filings.

On August 30, 2013, Interstate filed:

In Docket No. E,G001/AI-13-787 (13-787), a petition for Approval of an Affiliated-Interest Agreement with Franklin County Wind, LLC regarding its sale and transfer of land easements, wind rights, and rights to purchase wind turbines to its affiliate – Franklin County Wind, LLC.

In Docket No. E,G001/PA-13-788 (13-788), a petition for Approval of Transfer of Land Easements, Wind Rights, and Rights to Purchase Wind Turbines, to its Affiliate Franklin County Wind, LLC.

On February 3, 2014, the Department filed Comments in all seven dockets recommending approval with one exception.

On March 6, 2014, IPL filed Reply Comments.

On March 10, 2014, the Department filed additional Comments recommending approval of IPL's alternative proposal.

## **Relevant Statutes and Order**

### **Statutes**

Minnesota Statute § 216B.48 addresses relations between utilities and affiliated interests. Minnesota Rule 7825.2200 further addresses relations between utilities and affiliated interests.

Minn. Stat. § 216B.48, subd. 3 states in pertinent part:

No contract or arrangement, including any general or continuing arrangement, providing for the furnishing of management, supervisory, construction, engineering, accounting, legal, financial, or similar services, and no contract or arrangement for the purchase, sale, lease, or exchange of any property, right, or thing, or for the furnishing of any service, property, right, or thing . . . 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. . . .

The commission shall approve the contract or arrangement made or entered into after that date only if it clearly appears and is established upon investigation that it is reasonable and consistent with the public interest. No contract or arrangement may receive the commission's approval unless satisfactory proof is submitted to the commission of the cost to the affiliated interest of rendering the services or of furnishing the property or service to each public utility. Proof is satisfactory only if it

includes the original or verified copies of the relevant cost records and other relevant accounts of the affiliated interest, or an abstract or summary as the commission may deem adequate, properly identified and duly authenticated, provided, however, that the commission may, where reasonable, approve or disapprove the contracts or arrangements without the submission of cost records or accounts. The burden of proof to establish the reasonableness of the contract or arrangement is on the public utility.

Minnesota Statute section 216B.50 addresses restrictions on property transfers and mergers. Minn. Stat. § 216B.50, subd. 1 states:

Commission approval required. No public utility shall sell, acquire, lease, or rent 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.

This section does not apply to the purchase of property to replace or add to the plant of the public utility by construction.

### **July 24, 2012 Order Requiring Filing**

The Commission's July 24, 2012, Order Requiring Filing stated:

The Commission agrees with the Department and the OAG that it is premature to approve the agreements in these dockets without first examining whether the underlying land, wind, and turbine transfers required Commission approval. The Commission will require IPL to file the agreements transferring the land, wind, and turbine rights in a new docket opened for that purpose, and will take comments from the parties and interested persons concerning the applicability of Minn. Stat. §§ 216B.48 and 216B.50, and the significance of the Commission's order in Docket No. E,G-999/CI-98-651.

### **April 16, 2013 Order Requiring Further Filings**

In its April 16, 2013 Order Requiring Further Filings the Commission:

Determined that Interstate Power and Light Company's Wind Development Assets Purchase and Sale Agreement with Franklin County Wind, LLC, is subject to Commission approval under Minnesota Statutes §§ 216B.48 and 216B.50;

Required Interstate Power and Light Company to file a complete petition for approval of the Wind Development Assets Purchase and Sale Agreement under Minn. Stat. § 216B.48 in accordance with the Commission's September 14, 1998 order in Docket No. E, G999/CI-98-651 and Minnesota Rule 7825.2200; and

Required Interstate Power and Light Company to make a filing seeking Commission approval of the Wind Development Assets Purchase and Sale Agreement under Minn. Stat. § 216B.50.

## **July 1, 2013 Order Denying Reconsideration and Requiring Further Filings**

In its July 1, 2013 Order Denying Reconsideration and Requiring Further Filings the Commission stated:

Based upon this review, the Commission finds that the petition does not raise new issues, does not point to new and relevant evidence, does not expose errors or ambiguities in the April 16, 2013, order, and does not otherwise persuade the Commission that it should rethink the decisions set forth in the order. The Commission concludes that those decisions are consistent with the facts, the law, and the public interest, and will therefore deny the petition for reconsideration

The Commission also required that within 60 days of the date of the Order, Interstate Power and Light Company make the filings required by the April 16, 2013, Order Requiring Further Filings.

## **Party Comments**

### **IPL**

#### **Background**

FCW is a Delaware limited liability company that was formed on June 21, 2011, and is directly owned by Franklin County Holdings LLC (FCH). FCH is a Delaware limited liability company that was also formed on June 21, 2011, and is directly owned by Heartland Energy Group, Inc. (Heartland). Heartland is a Wisconsin corporation that was formed on June 1, 1995, and is 100% owned by Alliant Energy Resources, LLC (AER). AER is a Wisconsin limited liability company that was formed on January 6, 1988, and is 100% owned by Alliant Energy.

In 2008, Vestas Americas (Vestas), IPL, WPL and Alliant Energy Corporate Services, Inc. (AECS) entered into a Master Supply Agreement (Vestas MSA) for the purchase of 303 Vestas 1.65 mega Watt (MW) Turbines. Of those turbines, IPL erected 121 turbines in Franklin County,

Iowa (known as Whispering Willow Wind Farm East) and WPL erected 122 turbines in Freeborn County, Minnesota (known as Bent Tree) leaving 60 turbines (Group III Turbines) to be deployed.

The Group III Turbines were expected to be used by either IPL or WPL. IPL stated that as environmental, political, economic, and regulatory climates changed, IPL and WPL re-evaluated the need to build additional wind projects, and concluded that construction and ownership of additional wind projects at the embedded prices for the Group III Turbines was not in the public interest at that time.

IPL petitioned the Commission for approval of the Common Facilities Capacity Agreement, Land Lease Agreement, and Local Balancing Authority Agreement in separate dockets (12-32, 12-187, 12-192 (collectively “Three Proposed Agreements”). The Three Proposed Agreements are between IPL and its affiliate, FCW. All three stem from the development of Franklin County Windfarm and all were preceded by the June 2011 transfer of IPL’s Turbine, Land, and Wind Rights to its affiliate.

### **E,G001/PA-13-788 Sale and Transfer to Franklin County Wind**

#### **Petition**

In compliance with the Commission’s July 1, 2013, Order in Docket Nos. E,G001/AI-12-32, E,G001/AI-12-187, E,G001/AI-12-192 and E,G001/AI-12-792, Interstate Power and Light Company requested that the Commission approve, pursuant to Minn. Stat. § 216B.50, subd. 1, and Minnesota Rules 7825.1600-1800, IPL’s sale and transfer of land easements, wind rights, and rights to purchase wind turbines to Franklin County Wind.

IPL stated that the Petition seeks the Commission’s approval of the Transaction as described in the Wind Development Assets Purchase and Sale Agreement dated June 29, 2011. Pursuant to the Sale Agreement, on June 29, 2011, IPL sold, and FCW purchased from IPL certain land easements, wind rights, and rights to purchase wind turbines. These specific assets are identified in Exhibits A and B, of the Sale Agreement. IPL stated that by this filing it does not waive any rights to challenge the application of the Commission’s jurisdiction, under Minn. Stat. § 216B.50, subd. 1, to the sale of these non-utility, Iowa-based assets.

IPL transferred the land rights associated with the Whispering Willows Central site in Franklin County, Iowa (WCC) to FCW on June 29, 2011, at IPL’s original cost, which was determined to be equivalent to the current market price. Also on June 29, 2011, IPL transferred to FCW its right to purchase 60 Vestas wind turbine generators under the 2008 agreement between IPL, Vestas, IPL’s sister utility Wisconsin Power and Light Company (WPL), and their service company, Alliant Energy Corporate Services, Inc. (AECS). The cost associated for the right to the turbines was determined to be above the market price, and they were transferred at IPL’s original cost. IPL noted that the transfer of these assets was the higher of cost or market.

IPL stated that the market cost of the land and wind rights were also analyzed using a series of quantitative and qualitative factors, and it was determined that the market value of the land and wind rights were equivalent to IPL's cost.

### **Public Interest**

IPL noted that the public interest standard pursuant to Minn. Stat. § 216B.50 requires that the Transaction be compatible with the public interest. IPL believes that the Transaction is compatible with the general public interest standard set forth in Minn. Stat. § 216B.50 because of the various benefits that will be realized.

IPL stated that the Transaction: (i) transferred the Wind Assets at the greater of cost or market; (ii) relieved IPL from making additional progress payments to Vestas for the above-market Group III Turbines; and (iii) preserved IPL's financial strength by avoiding the addition of above-market priced assets to its balance sheet.

### **Request for Waiver**

Minnesota Rule 7825.1400; subpart J requires that the petition include:

A balance sheet dated no earlier than six months prior to the date of the petition together with an income statement and statement of changes in financial position covering the 12 months then ended.

IPL requested a Commission's waiver of a strict application of Minnesota Rule 7825.1400 arguing that since the Transaction closed in 2011, it does not believe that the expense of preparing an income statement and statement of changes in financial position for IPL to cover the twelve months ended June 30, 2013, would assist the Commission in its consideration of this petition.

### **E,G001/AI-12-32 Common Facilities Capacity Agreement**

This agreement allows FCW to use the remaining capacity of IPL's Whispering Willow Windfarm-East interconnection facilities to accommodate interconnection of the Franklin County Windfarm to the transmission grid. IPL is seeking an effective date of December 7, 2011. IPL stated that this agreement is in the public interest because it allows IPL ratepayers to benefit from compensation paid to IPL from FCW to share capacity of the interconnection facilities and recover FCW's share of the operations and maintenance costs of the common facilities.

Competitive bidding was not sought because it would have been difficult to determine the value of capacity on common interconnection facilities.

### **E,G001/AI-12-187 Land Lease Agreement**

This agreement is a land lease for a laydown area to be used by FCW, which was previously used as laydown area and is currently sitting idle. The laydown area will be used as a construction staging site to erect the wind turbine generators.

IPL is seeking an effective date of February 1, 2012. IPL stated that this agreement is in the public interest because it allows IPL ratepayers to benefit from compensation paid to IPL from FCW for use of a vacant property that would otherwise be required to be maintained. Further, IPL has not received any offers to purchase or lease this property that were not well below market prices. Competitive bidding was not sought because the property is located in an agricultural zone and it would be unlikely there would be a demand for a graveled area.

### **E,G001/AI-12-192 Local Balancing Authority Agreement**

The FCWF is located within IPL's Alliant West Energy (ALTW) Local Balancing Authority (LBA) Area. As such, IPL is the entity responsible for the ALTW LBA Area and has a directive to meet certain reliability requirements including owning, operating, and maintaining meters within the ALTW LBA Area to ensure meter data integrity. According to IPL, the LBA Agreement is designed to recover costs incurred by IPL to install, operate, and maintain necessary equipment for IPL to meet its LBA metering requirements due to the FCWF interconnecting with the ALTW LBA Area. The LBA Agreement outlines each party's obligations and responsibilities relating to operations and communications for reliable operation. IPL stated that it will charge FCW for the actual costs incurred, plus overhead but not profit, to install, own, and maintain the required LBA metering for the FCWF.

IPL stated that this agreement is in the public interest because it holds ratepayers harmless to the costs incurred by IPL to install, own, operate, and maintain the LBA meter. Competitive bidding was not sought because IPL will charge FCW for actual costs incurred, including overhead but not profit, to install, own, operate and maintain the required metering.

### **E,G-001/AI-12-792 Agreement Transferring Easements and Rights**

In a July 24, 2012, Order in Dockets E,G-001/AI-12-32; E,G-001/AI-12-187; E,G-001/AI-12-192; and E,G-001/AI-12-792, the Commission required Interstate Power and Light Company to file, in Docket E,G-001/AI-12-792, the agreements transferring land easements, wind rights, and rights to purchase wind turbines to its affiliate.

On August 27, 2012, IPL filed the Wind Development Assets Purchase and Sale Agreement, dated June 29, 2011, between IPL and FCW. Through this agreement IPL transferred to FCW land rights and wind rights and the rights to purchase wind turbines.

### **E,G001/AI-12-1157 Services Agreement**

Beginning on page 3 of its E,G001/AI-12-1157 filing, IPL stated that the need for the agreement arises out of the fact that FCW is developing a windfarm (FCWF) which is adjacent to IPL's recently developed WWE windfarm. According to IPL, the intent of the Services Agreement is to provide a backstop for FCW to use IPL for "reactive" work on FCWF, if another third party contractor is unavailable to perform work in a timely manner. IPL stated that it is not the intent of either FCW or IPL that FCW would use the Services Agreement for regularly scheduled or planned work for the FCWF.

The Services Agreement was signed on September 24, 2012 for a one year period. The Services Agreement automatically renews for additional one-year periods and may be terminated by either party upon ten days' written notice.

IPL stated that the Services Agreement is reasonable and consistent with the public interest because it would allow IPL ratepayers to benefit from any payments from FCW to IPL in the event FCW calls upon IPL to provide services on the FCWF. Under the terms and conditions of Article 3 of the Services Agreement, IPL shall only be required to provide Services when available to serve the FCWF without detriment to IPL's operations, and shall not incur any penalty or default in the event IPL is required to discontinue Services to respond to IPL's operations or obligations.

Competitive bidding was not sought before the Services Agreement was negotiated, however, the specific terms of the agreement provide that market prices will be sought before IPL receives compensation for any services provided. FCW has bargained for the opportunity to request IPL to supply reactive services for FCWF is [sic] third party vendors are not available. According to the terms and conditions of Article 4 of the Services Agreement, FCWF shall pay to IPL the higher of (a) the fair market value of the Services rendered or (b) IPL's fully loaded costs. This article of the Services Agreement also provides that fair market value shall be determined by comparison to regularly scheduled maintenance work provided to FCWF by other third party Contractors. Thus, the higher of market or cost standard is met.

### **E,G001/AI-13-787 Wind Development Assets Purchase and Sale Agreement**

On August 30, 2013 IPL filed a petition E,G001/AI-13-787 in compliance with the Commission's July 1, 2013, Order in Docket Nos. E,G001/AI-12-32, E,G001/AI-12-187, E,G001/AI-12-192 and E,G001/AI-12-792. In Docket E,G001/AI-13-787 IPL requested Commission approval of an affiliated interest agreement, under Minn. Stat. §216B.48, Minn. R. 7825.2200, and the Commission's September 14, 1998 Order in Docket No. E,G-999/CI-98-651.

The affiliated interest agreement is the Wind Development Assets Purchase and Sale Agreement, dated June, 29, 2011, between IPL and FCW. Pursuant to the Sale Agreement, on June 29, 2011, IPL sold, and FCW purchased from IPL land easements, wind rights, and rights to purchase wind

turbines. IPL requested approval of the Wind Development Assets Purchase and Sale Agreement effective as of its execution date of June 29, 2011.

IPL's filing addresses each of the 10 items required by the Commission's September 14, 1998 Order in Docket No. E,G-999/CI-98-651.

## **Department of Commerce**

### **Statutory Requirements**

The Department agreed with the Commission that the Agreements between IPL and FCW listed above fall under the purview of the Commission pursuant to Minn. Stat. § 216B.48 and the filing requirements provided in Docket No. E,G999/CI-98-651. Minn. Stat. §216B.48 requires a finding that affiliated-interest contracts are reasonable and in the public interest as part of the Commission's approval of such contracts. As a result, IPL has the burden of proof to establish the reasonableness of its Agreements, and the Commission shall approve the Agreements only if the Commission finds that the Agreements are reasonable and consistent with the public interest.

The Department considers the Agreements to fall under the purview of the Commission pursuant to Minn. Stat. § 216B.50. Although IPL disputed whether its Sale Agreement with FCW was subject to approval under Minn. Stat. §216B.50, the Commission concluded that the agreement was subject to the Commission's jurisdiction in its April 16, 2013 Order Requiring Further Filings and in its July 1, 2013 Order Denying Reconsideration and Requiring Filings. The Department recommended that the Commission consider the provisions under Minn. Stat. §216B.48 and Minn. Stat. §216B.50 in determining whether IPL has shown that its proposed Agreements are reasonable and consistent with the public interest.

### **Filing Requirements**

The Department noted that in its September 14, 1998 Order in Docket No. E,G999/CI-98-651, the Commission provided the following minimum filing requirements that are consistent with Minnesota Rule 7825.2200, subpart B, for all affiliated interest filings.

1. A heading that identifies the type of transaction.
2. The identity of the affiliated parties in the first sentence.
3. A general description of the nature and terms of the agreement, including the effective date of the contract or arrangement and the length of the contract or arrangement.
4. A list and the past history of all current contracts or agreements between the utility and the affiliate, the consideration received by the affiliate for such contracts or agreements, and a summary of the relevant cost records related to these ongoing transactions.

5. A descriptive summary of the pertinent facts and reasons why such contracts or agreement is in the public interest.
6. The amount of compensation and, if applicable, a brief description of the cost allocation methodology or market information used to determine cost or price.
7. If the service or good acquired from an affiliate is competitively available, an explanation must be included stating whether competitive bidding was used and, if it was used, a copy of the proposal or a summary must be included. If it is not competitively bid, an explanation must be included stating why bidding was not used.
8. If the arrangement is in writing, a copy of that document must be attached.
9. Whether, as a result of the affiliate transaction, the affiliate would have access to customer information, such as customer name, address, usage or demographic information.
10. The filing must be verified.

The Department confirmed that IPL complied with the affiliated interest requirements of Minnesota Rule 7825.2200, subpart B, by providing the information for each requirement and a brief explanation on how the Company has satisfied each requirement.

The Department concluded that IPL has substantially provided the required information in compliance with the Commission's Order and rules, specifically, Minnesota Rules 7825.2200, subpart B.

### **Analysis of the Agreements**

#### **Sale Agreement in 13-787 and 13-788**

The Department stated that based its review of IPL's various petitions and the related Sale Agreement, it agrees that IPL sold the wind assets to its affiliate at the higher of cost or market value, and it did not result in cross-subsidization. As a result, the Department concluded that the Sale Agreement appears to be reasonable and not contrary to the public interest. The Department recommended that the Commission approve IPL's proposed Sale Agreement with Franklin County Wind, LLC, effective June 29, 2011.

#### **Common Facilities Capacity Agreement in 12-32**

Under the terms of the Common Facilities Capacity Agreement (CFCA), IPL agreed to sell to FCW the interconnection capacity necessary to connect FCWF with the transmission grid. IPL stated that, due to the original design of its WWE interconnection facilities and the MISO interconnection request for the FCWF, FCW requested permission from IPL to use the remaining

capacity of WWE's interconnection facilities to accommodate interconnection of the FCWF to the transmission grid.

The Department stated that based on its review of IPL's various petitions and the related CFCA, it concluded that IPL's decision to sell capacity to FCW does not result in any cross-subsidization by IPL's ratepayers since FCW agrees to pay IPL a share of the cost to construct and maintain the facility even though IPL and its regulated wind farm, WWE, receive preferential treatment over the FCWF under the terms of the CFCA. The Department concluded that:

IPL's ratepayers are held harmless by this transaction.

The CFCA appears to be reasonable and consistent with the public interest.

The Department recommended that the Commission approve the CFCA with Franklin County Wind, LLC, effective December 7, 2011.

#### **Land Lease Agreement in 12-187**

Beginning on page 3 of petition, IPL stated that the need for the Land Lease Agreement arises out of the fact that FCW is developing the FCWF which is adjacent to IPL's recently developed WWE windfarm. To erect its wind turbine generators, FCW requires the use of land as a laydown area that is rocky and level for a construction staging site. IPL stated that its former laydown yard used for WWE is currently sitting idle and is ideal for this purpose.

Under the terms of the Land Lease Agreement, FCW agreed to pay IPL for the use of vacated property in monthly rental payments. As a result, IPL proposed to charge FCW an annual rental amount of \$98,386.42 or \$8,198.87 per month. The Land Lease Agreement became effective February 1, 2012. The Land Lease Agreement was scheduled to terminate by December 31, 2012, after FCW gave IPL 30 day's prior written notice to terminate.

IPL stated that the Land Lease Agreement is reasonable and consistent with the public interest because it allows IPL ratepayers to benefit from a payment from FCW to IPL for the use of a vacant property that IPL would otherwise need to continue to maintain by regularly controlling for weeds. In addition, IPL stated that it will not be developing another windfarm in the immediate area and has no need for the use of this land. Lastly, IPL stated that offers by IPL to sell or lease the land to others have been far below market levels. The Department noted that in its petition IPL stated competitive bidding was not sought for this transaction, and would be difficult if not impossible to obtain.

The Department stated that under normal circumstances IPL's proposed 10 percent rule to determine rental payments may be reasonable. However in this case, IPL's regulated operations end up paying a much higher price to use a laydown area than IPL's non-regulated operations. IPL initially purchased the property for \$166,650, spent an additional \$817,214.16 in land

improvements (primarily grading and gravel) for a total investment of \$983,864.16. In addition, IPL will incur ongoing property taxes and maintenance.

In contrast, FCW will have incurred, at most, short-term monthly rental payments totaling \$90,188. Although IPL will continue to own this land in the future, rental options and resale value are limited, as indicated above by the Company's statements. As a result, it appears highly unlikely that IPL will ever fully recover its investment in this property.

Given IPL's statements regarding the limited use of this land and the apparent lack of response to IPL's offers to sell or lease this land to others, the Department recommended that the Commission require IPL and FCW to share equally in the total costs necessary to purchase, develop, and maintain this land. In addition, the Department recommended that IPL and FCW share equally in any future rental income and/or gains or losses in the event the land is leased or sold. The Department stated that this approach would provide some assurances that IPL's ratepayers are not cross-subsidizing FCW by paying substantially more for land used as a laydown area, which has ongoing costs and limited rental opportunities and resale value, than FCW would pay for the same purpose.

In addition, the Department requested that IPL indicate in reply comments the effect, if any, this recommendation may have on the basis of the rate imposed under IPL's renewable energy rider in Docket No. E001/M-10-312

### **Local Balancing Authority Agreement in 12-192**

The Department agreed that IPL's decision to charge its affiliate for LBA metering costs does not result in cross-subsidization by IPL's ratepayers. As a result, the Department concluded that the LBA Agreement appears reasonable and consistent with the public interest. The Department recommended that the Commission approve IPL's proposed LBA Agreement with Franklin County Wind, LLC, effective February 7, 2012.

### **Services Agreement in 12-1157**

The Department agreed that IPL's decision to charge its affiliate for services at the higher of IPL's fully-loaded costs or market value does not result in cross-subsidization by IPL's ratepayers. As a result, the Department concluded that the Services Agreement appears to be reasonable and consistent with the public interest. However, to monitor this Service agreement in practice, the Department recommended that the Commission require IPL to report annually on:

- 1) The number of times this agreement is used.
- 2) Itemization of the services provided.
- 3) IPL's costs of providing each service.
- 4) The market value, including foundation for the estimated market value of the services.

With this reporting, the Department recommended that the Commission approve IPL's proposed

Services Agreement with Franklin County Wind, LLC, effective September 24, 2012.

### **Department Recommendations**

The Department initially recommended that the Commission:

1. Approve IPL's proposed affiliated-interest Sale Agreement with Franklin County Wind, LLC, effective June 29, 2011 (13-787, and 13-788).
2. Approve IPL's affiliated-interest Common Facilities Capacity Agreement with Franklin County Wind, LLC, effective December 7, 2011 (12-32).
3. Deny IPL's proposed affiliated-interest Land Lease Agreement with Franklin County Wind, LLC, effective February 1, 2012. Require IPL and FCW to share equally in the costs necessary to purchase, develop, and maintain the land used as a laydown area for the development of IPL's regulated wind farm WWE and FCW's non-regulated windfarm FCWF. In addition, the Department recommends that IPL and FCW share equally in any future rental income and/or gains or losses associated with this land in the event that it is ever leased or sold (12-187).
4. Approve IPL's affiliated-interest Local Balancing Authority Agreement with Franklin County Wind, LLC, effective February 7, 2012 (12-192).
5. Approve IPL's affiliated-interest Service Agreement with Franklin County Wind, LLC, effective September 24, 2012 (12-1157), with the following reporting requirements to monitor this agreement in practice:
  - a) The number of times this agreement is used.
  - b) Itemization of the services provided.
  - c) IPL's costs of providing each service.
  - d) The market value, including foundation for the estimated market value of the services.

### **Interstate Reply Comments**

IPL disagreed with the Department's conclusions regarding the Land Lease Agreement and the recommendation that the Commission deny IPL's Land Lease Agreement with FCW (12-187). The Department's recommendation was based, at least in part, on "the limited use of this land and the apparent lack of response to IPL's offers to sell or lease this land to others."

IPL estimated that the effect of excluding \$491,932 from rate base (which is 50 percent of the land and improvements) would reduce the levelized rate to \$56.33 per MWh from the \$56.40 per MWh that was approved by the Commission in Docket No. E001/M-10-312.

It argued that the Land Lease Agreement is reasonable and in the public interest and restated explanations from the petition in 12-187:

The vacant property in question is located in an Agricultural Zoned District and therefore the need for a graveled parking lot is virtually non-existent. FCW Project is the first opportunity for the vacant property to be utilized since the construction of [Whispering Willow Windfarm-East (“WWE”)]. Without use by [Franklin County Windfarm], the land would continue to sit vacant and not generate revenue.

(Petition, Docket No. 12-187, at 7.) IPL argued that neither the limited land uses nor the lack of acceptable sale or lease offers is an appropriate basis to conclude that FCW should bear half of the cost to purchase, develop, and maintain the land. The land and the improvements to the land were needed for the construction of WWE. The Land Lease Agreement enabled part of the investment to be offset by the rental payments from IPL instead of the land remaining unproductive.

IPL proposed the following alternative:

IPL will commit, for the purposes of ratemaking within IPL’s Minnesota territory, to reduce the rate base value of the laydown land by \$324,675 to \$659,189 (total Company), which equates to a reduction in the Minnesota rate base of \$19,481 to \$39,551. IPL proposes using this one-third reduction, in lieu of the Department’s recommended equal sharing, to reflect the relative sizes of WWE (121 turbines) and FCW (60 turbines).

IPL stated that imputing this reduction in the rate base value of the laydown land would have a similar effect as FCW sharing in the investments in the land, while not necessitating that FCW and IPL enter into an additional transaction to effectuate the cost sharing. This method will enable IPL to maintain full control of the land.

## **Department Additional Comments**

The Department noted that in its March 6, 2014 Reply Comments, IPL claimed the Department’s recommendations would reduce the rate imposed under IPL’s Renewable Rider from \$56.40 per MWh to \$56.33 per MWh. IPL also disagreed with the Department’s recommendation that IPL and FCW share equally in the costs associated with the laydown area. Instead, IPL proposed the following alternative:

IPL will commit, for the purposes of ratemaking within IPL’s Minnesota territory, to reduce the rate base value of the laydown land by \$324,675 to \$659,189 (total Company), which equates to a reduction in the Minnesota rate base of \$19,481 to \$39,551. IPL proposes using this one-third reduction, in lieu of the Department’s recommended equal sharing, to reflect the relative sizes of WWE (121 turbines) and FCW (60 turbines). Imputing this reduction in the rate base value of the laydown land

would have a similar effect as FCW sharing in the investments in the land, while not necessitating that FCW and IPL enter into an additional transaction to effectuate the cost sharing. Additionally, this method will enable IPL to maintain full control of the land.

The Department agreed that IPL's proposal would provide an effect similar to Department proposal, but would avoid the need for FCW and IPL to enter into an additional transaction to effectuate the cost sharing. The Department concluded that IPL's proposal to reduce the rate base value of the laydown land based on the respective number of turbines located at each wind farm appears reasonable. As a result, the Department recommended that the Commission approve IPL's proposed Land Lease Agreement conditioned upon IPL's alternative proposal to reduce WWE's rate base by \$324,675.

## Staff Comment

As noted by IPL, Minnesota Rule 7825.1400; subpart J requires that the petition include:

A balance sheet dated no earlier than six months prior to the date of the petition together with an income statement and statement of changes in financial position covering the 12 months then ended.

Minn. Rules 7829.3200 Subpart 1 states that the Commission shall grant a variance to its rules when it determines that the following requirements are met:

- A. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- B. granting the variance would not adversely affect the public interest; and
- C. granting the variance would not conflict with standards imposed by law.

IPL's filing directly addresses only the first condition, arguing that since the Transaction closed in 2011, the expense of preparing an income statement and statement of changes in financial position for IPL to cover the twelve months ended June 30, 2013 would not assist the Commission in its consideration of this petition.

Addressing the two other conditions, it does not appear that granting the variance would adversely affect the public interest, nor would it conflict with standards imposed by law.

The Department's recommendation did not specifically address Docket No. E,G-001/AI-12-792. This filing was an informational filing made to comply with the Commission's July 24, 2012, Order Requiring Filings in Docket Nos. E,G-001/AI-12-32, 12-187, and 12-192, and did not request any Commission approval or action. However, the Commission may want to accept the filing as complying with the July 24, 2012 Order. Commission Options

Some Commission options are:

I. Sales Agreement

A. Adopt the Department's recommendations and:

1. Approve IPL's proposed affiliated-interest Sale Agreement with Franklin County Wind, LLC, effective June 29, 2011 (Docket Nos. E,G001/AI-13-787 and E,G001/PA-13-788).
2. Approve IPL's affiliated-interest Common Facilities Capacity Agreement with Franklin County Wind, LLC, effective December 7, 2011 (Docket No. E,G001/AI-12-32).
3. Approve IPL's proposed Land Lease Agreement conditioned upon IPL's alternative proposal to reduce WWE's rate base by \$324,675. (This equates to a reduction in the Minnesota rate base of \$19,481 to \$39,551.) (Docket No. E,G001/AI-12-187)
4. Approve IPL's affiliated-interest Local Balancing Authority Agreement with Franklin County Wind, LLC, effective February 7, 2012. (Docket No. E,G001/AI-12-192)
5. Approve IPL's affiliated-interest Service Agreement with Franklin County Wind, LLC, effective September 24, 2012, (Docket No. E,G001/AI-12-1157) with the following reporting requirements to monitor this agreement in practice:
  - a) The number of times this agreement is used.
  - b) Itemization of the services provided.
  - c) IPL's costs of providing each service.
  - d) The market value, including foundation for the estimated market value of the services.

B. Accept IPL's compliance filing in Docket E,G-001/AI-12-792 as complying with the Commission's July 24, 2012, Order Requiring Filings in Docket Nos. E,G001/AI-12-32, 12-187, and 12-192.

C. Decide to not approve one or more of the petitions.

## II. Variance

- A. Grant IPL's request to be exempt from Minnesota Rule 7825.1400; subpart J requiring that the petition include:

A balance sheet dated no earlier than six months prior to the date of the petition together with an income statement and statement of changes in financial position covering the 12 months then ended.

- B. Deny IPL's request to be exempt from Minnesota Rule 7825.1400; subpart J and require that IPL file:

A balance sheet dated no earlier than six months prior to the date of the petition together with an income statement and statement of changes in financial position covering the 12 months then ended