

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: June 19, 2014 *Agenda Item # 5

Company: Interstate Power and Light Company

Docket No. E,G-001/AI-14-158
In the Matter of Interstate Power and Light Company’s Petition for the
Approval of a renewed Master Supply Agreement with its Affiliate,
Wisconsin Power and Light Company

Issues: Should the Commission approve the renewal of the Master Supply Agreement,
between Interstate Power and Light Company (IPL) and its affiliate,
Wisconsin Power and Light Company (WPL)?

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Relevant Documents

Interstate Power and Light February 21, 2014
Department of Commerce - Comments March 24, 2014
Interstate Power and Light - Reply Comments April 3, 2014

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June 5, 2014

Statement of the Issues

Should the Commission approve the renewal of the Master Supply Agreement, between Interstate Power and Light Company (IPL) and its affiliate, Wisconsin Power and Light Company (WPL)?

Background

The Master Supply Agreement (Agreement) between IPL and WPL, two regulated subsidiaries of Alliant Energy, was originally entered into on January 6, 2011, to be in effect for a period of three years (i.e., expiring in 2014). The terms of the Agreement included a renewal for an additional three year period at the conclusion of the initial period, upon receiving all required regulatory¹ approvals. The Commission approved the initial Affiliated Interest Agreement (AIA) on September 26, 2011, in Docket No. E,G-001/AI-11-82.

On February 21, 2014, the Company submitted a petition seeking approval to renew the Agreement, effective as of January 22, 2014, pursuant to:

- Minn. Stat. § 216B.48 *Relations with Affiliated Interests*,
- Minn. Rules 7825.2200 *Utilities with Affiliated Interest: Filing*, and
- The Commission's September 14, 1998 *Order Initiating Repeal of Rule Granting Generic Variance, and Clarifying Internal Operating Procedures* in Docket No. E, G-999/CI-98-651 (98-651).

The Agreement recites that a Party under the Agreement may be in need of Equipment² that the other Party has in its inventory and in fixed assets; and to effect an exchange of that Equipment between the Parties, the Parties may enter into Purchase Orders for the purchase and sale of that Equipment.

IPL Filing

The Company explained that the need for the Agreement arose out of the fact that, from time to time, either IPL or its affiliated utility, WPL, will find a surplus of, or need for supplies that can easily be transferred, at cost³, to the other utility. IPL stated that the Agreement is reasonable and consistent with the public interest because it allows IPL ratepayers to benefit from the economies of scale and efficiencies created with the affiliation of two utilities under one utility holding company. Further, the Agreement affords IPL and WPL to directly conduct business

¹ The AIA is subject to review and approval by three regulatory bodies: the Iowa Utilities Board, Public Service Commission of Wisconsin and Minnesota Public Utilities Commission.

² The Agreement defines "Equipment" as "Capitalized Equipment and Inventory Account Equipment per Schedule A." Further, "Inventory Account Equipment" is "the quantity and costs of goods and material kept on-hand for the purpose of operation, maintenance and capital work project.

³ As defined by 18 C.F.R. § 367.

without going through Alliant Energy's service company subsidiary, Alliant Energy Corporate Services, Inc. IPL stated that a transfer of the Equipment under the Agreement enables the utility's need to be satisfied while saving time and money for customers. Furthermore, the Agreement is structured symmetrically, ensuring equal treatment of both WPL and IPL and the utilities' respective customers.

The proposed affiliate transactions do not allow WPL to have access to IPL's customer information.

Competitive bidding is not sought for these equipment transfer transactions. The Company reasoned that IPL and WPL, as utilities under a single public utility holding company, have the opportunity to share costs that would otherwise be greater for each utility to bear individually.

The Agreement includes an attached *Schedule A – Additional Terms*, has three parts, which in turn,

- 1) specify the categories of equipment that can be transferred under the Agreement and provides general price range guidance;
- 2) prohibits the transferring of equipment priced over \$250,000; and
- 3) limits the cumulative total of all Purchase Orders to \$5,000,000 within a 12-month period ending December 31.

IPL's affiliated utility, WPL, was required to receive approval from the Public Service Commission of Wisconsin (PSCW) prior to renewing the Agreement. The PSCW approved the three-year renewal of the Agreement in a Final Decision, dated January 22, 2014, in PSCW Docket No. 6680-AU-114.

Department Comments

Affiliated Interest Filing and Statutory Requirements

The Department determined that IPL's petition complied with the Commission's Order in Docket No. E,G-999/CI-98-651, and with the filing requirements under Minnesota Rule 7825.2200(B).

Under statute, Minn. Stat. § 216B.48, subd. 3, the Department cited two tests, the reasonableness and public-interest tests, for the Commission to apply to affiliated-interest contracts and noted the burden to proof lies with IPL:

The commission shall approve the contact or arrangement . . . only if it clearly appears and is established upon investigation that it is reasonable and consistent with the public interest. . . The burden of proof to establish the reasonableness of the contract or arrangement is on the public utility.

Review of Initial Contract Period Activity

As part of its analysis, the Department reviewed equipment transfer activity reports for 2011 and 2012 and found that, at times, the Parties did not comply with the terms of the Agreement in a

number of ways. First, some of the equipment transferred (tees and gas pipes) did not fall within the Agreement's listed permissible categories (Agreement Schedule A, Part 1). Second, a single equipment transfer (cable for \$254,067) exceeded the Agreement's stated limit of \$250,000 (Agreement Schedule A, Part 2). Third, some equipment transfers prices were notably higher than the stated "general price range" guide for the equipment category (Agreement Schedule A, Part 1). Because some transaction activity was inconsistent with the Agreement's terms, the Department requested IPL to explain in reply comments the internal controls that the Company will put into place to ensure that all future transactions under the Agreement comply with the criteria found therein. In addition, the Department recommended that IPL continue to submit annual reports that list equipment items transferred in each direction and the cost of each transaction.

The Department also pointed out the criteria in Minn. Stat. § 216B.50 (Restrictions on Property Transfer and Merger) which require Commission approval of a public utility's sale, purchase, lease, or rent of any plant as an operating unit or system in Minnesota in excess of \$100,000. Although the Department noted the occurrence of a few transactions⁴ where the total price exceeded \$100,000, the Department decided not to pursue the discussion on this point at this juncture given the apparent benefits the Agreement provides to ratepayers.

Competitive Bidding

Addressing the lack of competitive bidding, the Department apparently accepts and believes the assumption here appeared to be that any item held in either company's warehouse underwent a cost minimization test in its procurement. Requiring the Parties to go through a second competitive bidding process for similar equipment would lessen the amount of the efficiency gain achieved under the Agreement. Therefore, the Department concluded that the proposed at-cost transfers between Parties are appropriate.

Agreement Duration

The Department concluded that the Agreement's three-year term is not unreasonable.

Public Interest

Overall, the Department agreed that IPL's proposal to renew the Agreement could allow the Company to retain an efficiency gain relative to the two Companies' cost functions for sourcing material. Based on its review, the Department concluded that the Agreement is consistent with the public interest. However, the previously noted activity wherein a few transactions did not appear to comply with contract terms result in Department putting forth options of a conditional or an alternate recommendation.

Recommendations

The Department recommended that the renewal of the Agreement should be conditioned upon IPL limiting the use of the Agreement to those transactions consistent with its terms, or, alternatively, requiring the Parties to modify the Agreement to ensure that the terms (specifically the list of eligible equipment, and the individual and annual limitations on the Equipment

⁴ Approximately 98 transactions occurred in 2011 and 135 transactions occurred in 2012.

transfers) are consistent with Minnesota Statutes and reflect the transactions expected to be made under the Agreement.

In addition, the Department recommended that IPL continue to file annual reports listing the equipment items transferred in each direction and the cost of each transaction.

IPL Reply Comments

IPL acknowledged that some transactions were inadvertently undertaken that were not within the Agreement terms (i.e., equipment that outside listed categories, and a transition priced over \$250,000 limit). IPL also recognized that the price of certain equipment transfers (i.e. transformers) exceeded the general price range, but pointed out that the majority of transformer units sold/purchased were within the price range.

IPL stated it will develop internal controls designed to prevent transactions under the Agreement that deviate from Agreement terms. Specifically, IPL will investigate 1) ensuring individuals receive updated training on the scope of the Agreement, 2) establish internal notifications/approvals of transaction that have dollar levels near threshold limits, and 3) conduct periodic review of transactions.

IPL requested that the Commission approve the Agreement as it is currently structured. IPL stated its willingness to work with WPL to conduct a more comprehensive review to determine the need for Agreement modifications.

IPL agreed with the Department to defer discussion of the applicability of Minn. Stat. § 216B.50 at this time and reserved the right to present arguments in the future about the applicability of this statute with respect to the transfer of supplies.

Staff Comments

IPL and WPL are subject to multiple regulatory jurisdictions with varying procedures. As stated earlier, PSCW requires approval of affiliated interest agreements before the contract can be executed. In Minnesota, the utility is to file within 30 days of executing a contract or arrangement with an affiliate, which allows parties' to proceed under contract but holds parties at risk with respect to rate recovery.⁵

The Department conducted a thorough review, providing two recommendation options for the Commission's consideration. Should the Commission decide to require modification to the Agreement, such changes would also be subject to PSCW (Public Service Commission of Wisconsin) review and approval prior to contract execution. Should the Commission opt to approve Agreement in its current state, staff believes that the Company would bear the risk with

⁵ The Commission's September 14, 1998 Order Initiating Repeal of Rule Granting Generic Variance, and Clarifying Internal Operating Procedures in Docket No. E, G-999/CI-98-651.

respect to future rate recovery of any transactions that are not consistent with the approved Agreement terms.

The Department pointed out that certain transactions between IPL and WPL may be subject to the requirements of Minn. Stat. § 216B.50, in addition to any Agreement terms.

Minn. Stat. § 216B.50 – Restrictions on Property Transfer and Merger, states in part:

Subdivision 1. 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. [...]

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

The Department and IPL are in agreement not to pursue further discussion on the applicability or interpretation of this statute as it would apply to the three transactions that have exceeded the \$100,000 threshold.⁶ Staff suggests the Commission make no determination at this time with respect to the applicability of Minn. Stat. § 216B.50 to these three transactions. As noted by the Department, going forward the Company should keep in mind the filing requirement of Minn. Stat. § 216B.50 when conducting future Agreement transactions and when developing its internal control mechanisms.

Decision Alternatives

1. Approve the renewal of the Master Supply Agreement affiliated interest agreement, limited to transactions consistent with the agreement terms as currently structured [DOC recommendation]; **or**
2. Do not approve the renewal of the Master Supply Agreement affiliated interest agreement at this time. Require IPL to submit proposed modifications to the Master Supply Agreement terms such that the affiliated interest agreement is consistent with the equipment transfer transactions expected [DOC alternative recommendation]; **or**
3. Approve the renewal of the Master Supply Agreement affiliated interest agreement. Authorize IPL to investigate modifications to the agreement and to propose modifications after a more comprehensive review by IPL and WPL. [IPL recommendation]

⁶ Cable transferred from IPL to WPL on 10/5/2011 at price of \$254,067. Three pad-mount transformers transferred from WPL to IPL on 5/30/2012 at a price of \$130,602. Three pad-mount transformers transferred from IPL to WPL on 10/11/2012 at a price of \$120,523.

4. Make no determination as to the applicability of Minn. Stat. § 216B.50 to the notated prior transactions as described in footnote six. [DOC recommendation, IPL accepts]

5. Direct IPL to continue to file annual reports to the Commission showing the list of items that were transferred in each direction under the Master Supply Agreement and the cost of each transaction. [DOC recommendation, IPL does not object]