

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
David C. Boyd
Nancy Lange
J. Dennis O'Brien
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

<p>In the Matter of Interstate Power and Light Company for Approval of Transfer of Land Easements, Wind Rights, and Rights to Purchase Wind Turbines, to its Affiliate, Franklin County Wind, LLC</p>	<p>DOCKET NO. E001/PA-13-____ PETITION FOR APPROVAL OF TRANSFER UNDER MINN. STAT. § 216B.50</p>
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PETITION FOR APPROVAL

I. INTRODUCTION

In compliance with Minnesota Public Utilities Commission's (Commission) 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 (IPL) hereby petitions the Commission, pursuant to Minn. Stat. § 216B.50, subd. 1, and Minnesota Rules 7825.1600-1800¹, to approve IPL's sale and transfer of land easements, wind rights, and rights to purchase wind turbines to its affiliate -- Franklin County Wind LLC (FCW). This sale shall generally be referred to as the "Transaction."

¹ Minnesota Rule 7825.1800, subpart B provides that a petition "for approval of a transfer of property shall be accompanied by the following: all information as required in part 7825.1400, subparts A to J; the agreed upon purchase price and the terms for payment and other considerations."

This Petition is being filed in compliance with the Commission's direction in its 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, and seeks, to the extent needed, the Commission's approval of the Transaction as described in the Wind Development Assets Purchase and Sale Agreement (Sale Agreement), dated June, 29, 2011, between IPL and FCW.² 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, and related Schedules 1.01, 5.08, 5.09 and 5.10 and shall generally be referred to throughout this Petition as "Wind Assets." By the submission of this compliance filing, IPL 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.

II. SERVICE ON OTHER PARTIES

IPL has served a copy of the Petition on the Minnesota Department of Commerce, Division of Energy Resources (Department) and the Office of the Attorney General – Antitrust and Utilities Division (OAG). A copy of the Summary of Filing has been served upon IPL's general service list for miscellaneous electric filings.

III. GENERAL FILING INFORMATION

IPL provides the following general information:

² The June 29, 2011, Sale Agreement is included with this Petition as Trade Secret Exhibit A.

A. Name, Address, and Telephone Number of Utility.

Interstate Power and Light Company
200 First Street, SE
PO Box 351
Cedar Rapids, Iowa 52406-0351
800.822.4348

B. Name, Address, and Telephone Number of The Attorney for The Utility.

Interstate Power and Light Company
Kent M. Ragsdale
200 First Street, SE
PO Box 351
Cedar Rapids, Iowa 52406-0351
319.786.7765

C. The Date Of The Filing and The Date The Proposed Asset Exchange Is To Take Effect.

This Petition is being filed August 30, 2013. The Transaction closed on June, 29, 2011.

D. Signature and Title of the Utility Employee Responsible For The Filing.

Interstate Power and Light Company
Kent M. Ragsdale
Managing Attorney
200 First Street, SE
PO Box 351
Cedar Rapids, Iowa 52406-0351
319.786.7765

IV. OTHER APPLICABLE FILING REQUIREMENTS AS PROVIDED IN MINNESOTA RULE 7825.1400

Pursuant to Minnesota Rule 7825.1400, IPL provides the following required information:

A. A Verified Statement By a Responsible Officer Of The Petitioner Attesting To The Accuracy And Completeness Of The Enclosed Information. (Minnesota Rule 7825.1400; subpart E)

See attached Exhibit B, Verification of Thomas Aller, IPL's President.

B. The Purpose For Which The Securities Are To Be Issued. (Minnesota Rule 7825.1400; subpart F)

IPL did not issue any securities related to the Transaction.

C. Copies Of Resolutions By The Directors Authorizing The Petition For The Issue Or Assumption Of Liability In Respect To Which The Petition Is Made; And If Approval Of Stockholders Has Been Obtained, Copies Of The Resolution Of The Stockholders Shall Be Furnished. (Minnesota Rule 7825.1400; subpart G)

Resolutions by IPL's Board of Directors authorizing the Transaction are included as Exhibit C. No stockholder approval was required to complete the Transaction.

D. A statement as to whether, at the time of filing of the petition, the petitioner knows of any person who is an "affiliated interest" within the meaning of Minnesota Statutes, section 216B.48 , subdivision 1, who has received or is entitled to receive a fee for services in connection with the negotiations or consummation of the issuance of the securities, or for services in securing underwriters, sellers, or purchasers of the securities (Minnesota Rule 7825.1400; subpart H)

No affiliated interest of IPL received any fees for "services in connection with the negotiations or consummation of the issuance of the securities, or for services in securing underwriters, sellers, or purchasers of the securities" related to the Transaction.

E. A signed copy of the opinion of counsel in respect to the legality of the issue or assumption of liability. (Minnesota Rule 7825.1400; subpart I)

None. Other than the retention of liabilities listed on Schedule 2.02(C) of the Sale Agreement, IPL did not issue or assume any liability to complete the Transaction.

- F. **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. When the petitions include long-term securities, such statements shall show the effects of the issuance on such balance sheet and income statement. (Minnesota Rule 7825.1400; subpart J)**

See Exhibit D.³

- G. **A description of the property involved in the transaction including any franchises, permits, or operative rights, and the original cost of such property, individually or by class, the depreciation and amortization reserves applicable to such property, individually or by class. If the original cost is unknown, an estimate shall be made of such cost. A detailed description of the method and all supporting documents used in such estimate shall be submitted. (Minnesota Rule 7825.1800; subpart C)**

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 of [TRADE SECRET DATA BEGINS ██████████ TRADE SECRET DATA ENDS], 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 also evaluated and a determination was made that the market price was below cost, thus they were transferred at

³ Exhibit C contains the referenced information but is for the 12 months ended December 31, 2012. IPL seeks the Commission's waiver of a strict application of Minnesota Rule 7825.1400; subpart J requiring that this information be "dated no earlier than six months prior to the date of the petition." Since the Transaction closed in 2011, IPL 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.

V. DESCRIPTION OF THE PARTIES

A. Parties.

1. Summary Description of IPL and IPL's Corporate Structure.

IPL is an Iowa corporation and is headquartered in Cedar Rapids, Iowa. IPL is a public utility engaged primarily in the generation, distribution and sale of electric energy; the purchase, distribution, transportation and sale of natural gas; and the provision of steam services. IPL provides service to approximately 700,000 gas and electric customers in southern Minnesota and Iowa.

IPL is a direct, wholly-owned subsidiary of Alliant Energy Corporation (Alliant Energy). Alliant Energy was formed on April 21, 1998, as the result of the merger between WPL Holdings, Inc., IES Industries, Inc. (Industries), and Interstate Power Company. Alliant Energy is a public utility holding company and has two direct public utility subsidiaries: IPL and WPL.

IPL owns and operates facilities in Minnesota for furnishing, at retail, natural gas and electric service to the public and, therefore, is a public utility as defined by Minn. Stat. § 216B.02.

2. Summary Description of FCW.

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.

VI. LEGAL STANDARD FOR REVIEW OF TRANSACTION

A. Statutory Requirements.

The Commission must approve the Transaction in accordance with Minn. Stat. § 216B.50. Minn. Stat. § 216B.50, subd. 1 provides that Commission approval is required for property transfers. Subd. 1 provides in part, “[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 operating in this state, without first being authorized so to do by the commission. . . .” Minn. Stat. § 261B.50, subd. 1.

Minn. Stat. § 216B.50, subd. 1 also provides that “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.” The Commission has established that the public interest standard “does not require an affirmative finding of public benefit.” See *In the Matter of the Proposed Merger of Minnegasco, Inc. With and Into ARKLA, Inc.*, Docket No. G-008/PA-90-604 (1990). Nor does the “public interest” standard require that the Transaction “promote” the public interest. See *In the Matter of a Request for Approval of the Acquisition of the Stock of Natrogas, Incorporated*, Docket No. G-002/PA-99-1268 (2000). Rather, it need only be compatible with the public interest. See *Id.*

B. The Transaction Meets the Public Interest Requirements of Minn. Stat. § 216B.50.

The public interest standard pursuant to Minn. Stat. § 216B.50 requires that the Transaction be compatible with the public interest. As explained below, 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.

1. Description of the Transaction

In 2008, Vestas Americas (Vestas), IPL, WPL and 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 (WWE)) and WPL erected 122 turbines in Freeborn County, Minnesota (known as Bent Tree) leaving 60 turbines (Group III Turbines) to be deployed. Originally, the Group III Turbines were to be used by either IPL or WPL, but 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.

Recent events in Minnesota supported IPL's conclusions regarding the change in regulatory climates for any additional IPL-owned wind projects. In IPL's 2010 electric rate case (Docket No. E-001/GR-10-276), the Department expressed concerns regarding IPL's construction cost for WWE and placed particular emphasis on the costs associated with the Vestas turbines:

The OES⁵ contends that the Commission should deny IPL full cost recovery for the WWE because the costs of constructing the facility were unreasonably high. The OES infers that the primary reason why the WWE's costs were unreasonably high was IPL's decision to accelerate construction of WWE to assure that facility would be in service by the end of 2009. Because of that decision, the OES argues, IPL did not procure its WTGs through a competitive bidding process, and that, in turn, resulted in unreasonably high WTG costs. (Administrative Law Judge's Findings of Fact, Conclusions and Recommendation issued on April 27, 2011, ¶ 210, p. 54).

During the time that the ultimate disposition of the Group III Turbines was under review, the Vestas MSA required that progress payments be made to Vestas for the right of an Alliant Energy entity to purchase the Turbines. IPL made these progress payments to Vestas. Prior to concluding that the Group III Turbines should be constructed by FCW, other opportunities were investigated, including: 1) selling the Group III Turbines, 2) partnering with a third party; 3) and allowing Vestas to sell the Group III Turbines to another party.

By spring of 2011, none of these prospects appeared likely to move forward, and it was decided to transfer the right to purchase the turbines to FCW, a new, non-regulated affiliate of IPL and WPL. This decision to transfer the Wind Assets, including the rights to the Group III Turbines, was thoroughly reviewed by IPL's Board of Directors. The presentation to IPL's Board of Directors regarding the Transaction is attached to this petition as **Trade Secret** Exhibit E.⁶

It was then decided that FCW would construct its wind project at WWC, which required FCW to obtain the land easements and wind rights associated with WWC. These land easements and wind rights were held as non-utility

⁵ At the time that Docket No. E-001/GR-10-276 was litigated, the Department was known as the Minnesota Department of Commerce/Office of Energy Security (the OES).

⁶ This presentation was provided in IPL's response to the OAG's Information Request 106 in Docket No. E,G001/AI-12-187.

property by IPL (in FERC account 121 – Nonutility Property) and transferred to FCW. At that point, neither IPL, FCW, nor any other AEC entity had possession or control of the Group III Turbines.

Subsequent to the decision to transfer the Group III Turbines, IPL consulted and followed the company wide affiliate interest transaction procedure: REG 100 (REG 100 was submitted to the Commission, as Exhibit A, with IPL's May 24, 2012, Reply Comments in Docket Nos. E,G-001/AI-12-32, E,G-001/AI-12-187 and E,G-001/AI-12-192). Under this procedure the transaction was analyzed and it was concluded that the Group III Turbine, Land and Wind rights were not utility property. This conclusion was reached because the Group III Turbine, Land and Wind rights had never been used and useful in rendering service to the public and ratepayers had not borne any of the costs related to the creation of these rights. Consequently, the transfer of the Group III Turbine, Land, and Wind rights did not have any regulatory impact on ratepayers.

The transfer of these non-utility assets were transferred to FCW, and FCW remitted to IPL the higher of cost or market. As explained in greater detail herein, 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.⁷ The market cost of the Group III Turbines was determined by analyzing confidential discussions with potential third party purchasers, market research, and industry

⁷ IPL provided a similar description, regarding the Wind Development Assets Purchase and Sale Agreement, in its May 14, 2012, Reply Comments in Docket Nos. E,G-001/AI-12-32, E,G-001/AI-12-187 and E,G-001/AI-12-192.

reports, which led to the conclusion that the cost of the Group III turbines surpassed the market value at the time of transfer.⁸

2. Land Rights, Wind Rights, and Reimbursement of Other Incurred Project Costs

IPL received [TRADE SECRET DATA BEGINS ██████████ TRADE SECRET DATA ENDS] from FCW for the land rights, wind rights, and reimbursement of other incurred project costs.

IPL's cost was [TRADE SECRET DATA BEGINS ██████████ TRADE SECRET DATA ENDS]

Competitive bidding was not used for this transaction because of the uniqueness of the good and service being transferred to FCW and the lack of verifiable market information. Instead, IPL used the quantitative and qualitative factors described below to determine what the cost would be and then transferred the rights in accordance with the Federal Energy Regulatory Commission's Order No. 707, which requires a utility to charge a non-utility affiliated.

Quantitative Factors - A quantifiable market value for the land rights and development costs was not readily available since there was not an active and liquid market for wind site assets in Franklin County, Iowa where the Franklin County Wind site resides. In addition, quoted prices for similar wind site assets remain extremely limited since most wind site transactions are confidential. Additionally, any quoted prices that are available for similar assets may not be

⁸ A large portion of the ensuing discussion was outlined in IPL's response to the Departments Information Request Nos. 1 and 2 in Docket No. E,G001/AI-12-32. IPL's Responses to the Department's Information Requests 1 and 2 were included in the Department's April 6, 2012, comments in Docket Nos. E,G001/AI-12-32, AI-12-187 and AI-12-192 as Attachment 1 and 2.

reflective of the market value for the Franklin County Wind site assets because more qualitative site specific criteria determine the value of different wind sites.


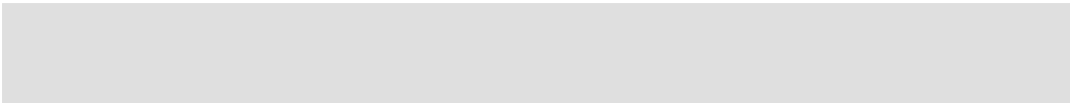
Examples of these qualitative factors include; wind regime, transmission access, tax incentives, easement terms, community support, local zoning and permit requirements, federal permit requirements, and a host of environmental permitting requirements specific to each site. These issues are discussed in further detail below.

In 2007, [TRADE SECRET DATA BEGINS [REDACTED]
[REDACTED] TRADE SECRET DATA ENDS] This market data represented the best available quantitative information available for the wind site assets specific to this location.

Qualitative Factors – As mentioned above, IPL also assessed various qualitative factors to determine whether the market value for the Franklin County Wind site assets had changed since their purchase in 2007. The following is a discussion of various qualitative factors that have a direct influence on changes to the market value of wind sites:

- a. Renewable Energy Standards (RES) – Regional RES had not changed since 2007 as Iowa continues to have a very modest standard adopted in 1990 that requires only 105 MW of renewable energy for all utilities in Iowa. Wisconsin and Minnesota had not changed their current RES since they were issued in 2006 and 2007, respectively. In addition, a federal energy policy prescribing a national RES still does not exist.
- b. Federal Tax Incentives – Alliant Energy's corporate strategy includes building wind projects to produce electricity to meet customer demand and renewable portfolio standards. In addition to producing electricity, these wind projects may also generate material incentives depending on when

they begin commercial operation. The American Recovery and Reinvestment Act of 2009 (ARRA) enacted in February 2009 and extended in Section 707 of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 provides incentives to owners of wind projects placed into service between Jan. 1, 2009 and Dec. 31, 2012. The incentives available to qualified wind projects under the ARRA included production tax credits for a 10-year period based on the electricity output generated by the wind project, an investment tax credit equal to 30% of the qualified cost basis of the wind project, or a cash grant equal to 30% of the qualified cost basis of the wind project in lieu of the investment tax credit. At the time of this analysis, both the investment tax credit and the cash grant were subject to normalization requirements that, in particular, limited the attractiveness of these options to regulated utilities in providing the greatest benefits to their customers. The investment tax credit and cash grant incentives are only available for qualified wind projects that are placed into service in 2009, 2010 or 2011 and qualified wind project that began construction in 2009, 2010 or 2011 and are placed into service by Dec. 31, 2012.

- c. Transmission constraints – Given the rapid expansion of wind in the Midwest, this site, along with most other sites faces challenges dispatching full capacity to MISO. That said, constraints faced here were no more or less significant than other sites within the region, further supporting the essence of cost being the equivalent of market price.
 - d. Wind Regime/Constructability – Each are fundamental aspects in determining site valuation. As one would expect, both remain consistent today with the valuation of each during the time of site development.
 - e. Landowner easement terms – **[TRADE SECRET DATA BEGINS** 
- 

[REDACTED] **TRADE SECRET
DATA ENDS]**

After careful consideration of various quantitative and qualitative factors, it was determined that the carrying cost of the Franklin County Wind land rights and development costs approximated fair market value; therefore, transfer of the land rights and development costs from IPL to FCW at cost, which is the higher of cost or market was in accordance with FERC Order No. 707, ¶ 70.

3. Group III Turbine Rights

IPL received **[TRADE SECRET DATA BEGINS [REDACTED] TRADE
SECRET DATA ENDS]** from FCW for the turbine rights.

IPL's cost was **[TRADE SECRET DATA BEGINS [REDACTED]
TRADE SECRET DATA ENDS]**

As discussed below, IPL did attempt to market the Group III turbine rights, but was unsuccessful. This attempt, along with the research and analysis discussed below demonstrated that the Group III turbine rights were above the market price in 2011.

The following information was assessed to determine whether the **[TRADE SECRET DATA BEGINS [REDACTED] TRADE SECRET DATA
ENDS]** payment by IPL for the wind turbine generators rights through June 29, 2011, and, after future progress payments, total committed costs under the Vestas Master Supply Agreement (Vestas MSA) of **[TRADE SECRET DATA
BEGINS [REDACTED] TRADE SECRET DATA ENDS]** approximates or exceeds market value:

- a. Attempts were made to market the Group III turbines through i) a direct sale to a third party; and ii) a partnership with third parties to jointly develop a wind farm. These efforts also included engaging Vestas to advise its customers that the Group III turbines were available. All such activities indicated that the current market value of such turbines were below the cost of the turbines.
- b. Market research was performed utilizing wind market commentaries and comparisons of the cost of wind farms utilizing turbines purchased in the current market relative to the cost necessary to complete construction of a wind farm utilizing the Group III turbines -- the largest portion of which is the cost of turbines. For instance, MidAmerican Energy Company publicly disclosed at a fixed income investor conference on March 30, 2011, that it expected to complete construction of 593 MWs of new wind generating capacity at a cost of approximately \$1,750 per kW utilizing Siemens turbines contracted in late 2010. While such information does not provide the portion of the cost associated with the turbine purchase, industry knowledge of construction costs [TRADE SECRET DATA BEGINS
[REDACTED]
[REDACTED] TRADE SECRET DATA ENDS] indicates that the associated turbine value was below IPL's Group III cost of [TRADE SECRET DATA BEGINS [REDACTED] TRADE SECRET DATA ENDS] Another example of market commentary of the market value of turbine costs was from NextEra's first quarter earnings call (April 29, 2011), in which its CFO commented that current turbine technology improved wind capture 20-30% at a cost that was roughly 20% lower than 2008, thus implying that the market value of the Group III turbines that were contracted in June 2008 were now below cost.
- c. Additionally, IPL updated its market data through its consultant Garrad Hassan, in January 2011. In its report, Garrad Hassan indicated that it expected a "buyer's market" in the short and medium terms, again implying that the current value of the Group III turbines were below the

cost contracted under the June 2008 Vestas MSA. The Garrad Hassan January 2011 Report is attached to this petition as **TRADE SECRET** Exhibit F.

After careful consideration of various quantitative and qualitative factors, It was reasonable for IPL to conclude that the market price for the Group III turbines is less than their cost; therefore, transfer of the rights to the Group III turbines from IPL to FCW must be at cost in accordance with FERC Order No. 707, ¶ 70.

A transfer of the Wind Assets from IPL to FCW, at cost, met the public interest since IPL received greater value than if the rights to the Wind Assets were transferred at market value. The transfer of the Wind Assets, at cost, helps preserve IPL's financial strength which benefits the public and IPL's customers. The conclusion that the Transaction is compatible with the public interest is re-enforced since the Wind Assets had never been used and useful in rendering service to the public and ratepayers had not borne any of the costs related to the creation of these rights. Consequently, the transfer of the Wind Assets did not have any regulatory impact on ratepayers.

VII. CONCLUSION

The Petition establishes that this Transaction is consistent with the public interest. 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.

Accordingly, the Petition should be approved as submitted.

WHEREFORE, Interstate Power and Light Company respectfully requests that the Minnesota Public Utilities Commission approve the Transaction for the reasons set forth *supra*.

Dated August 30, 2013.

Respectfully submitted,

INTERSTATE POWER AND LIGHT COMPANY

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