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Group 3 Wind Turbine Proposal

John E. Kratchmer
Capital Approval Committee Meeting
Teleconference
June 20, 2011

Agenda

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- Overview of Evaluation Process
- Key Project Risks
- Approvals Requested in Resolutions
- Future Actions
- Discussion / Resolutions
- Appendix

Overview of Evaluation Process

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- Several months of evaluation concerning ultimate deployment of the final 99MWs of the Vestas Group 3 V82 Wind Turbines
 - More recently, three options were considered -
 - Sell the turbines outright to a third party
 - Contributing the turbines as equity to third party development project
 - Deploy the turbines through an AER non-regulated entity and seek to sell power through PPA
- Discussed three options with full Board at the February 9, March 10 and May 10 Board meetings
 - May 25 CEO Letter indicated management's favored option was to deploy through non-regulated entity
 - Noted that several challenges would need to be addressed but majority of these issues are within our control – exception, the potential RFP process for off-take
- Seeking approvals to transfer turbines and commence project execution

Key Project Risks

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- Accounting implications potential future impairment if undiscounted cash flows are less than cost of project
- Construction
- Turbines warranty
- Output options
 - Merchant and related merchant exposure
 - PPA -
 - With 3rd party
 - With utility affiliate
 - FERC 205 process / uncertainty
 - Rate recovery / regulatory issues
 - > Terms and conditions
- Transmission constraints
- Realization of tax benefits
- Overall project economics

Approvals Requested in Resolutions

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- IPL
- Transfer of the Wind Generating Sets under Vestas Master Supply Agreement to Newco II LLC ("Newco II")
- Transfer of Whispering Willow Central Project Land Rights to Newco II
- Engage in regulatory process evaluation, as required

AEC/AER/HEG LLCs

- Use Heartland Energy Group, Inc. ("HEG") and establish limited liability companies under HEG to facilitate transfer of turbines from IPL
- Newco II receipt of turbines and land rights and payment for such assets
- Engage in regulatory processes as needed TRADE SECRET DATA BEGINS
- Approve wind project and additional expenditures TRADE SECRET DATA ENDS) development and construction
- Financing structure

Future Actions

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IPL

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- Special Dividend to AEC up (Full Board approval via consent)
- ERRC

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- EPC agreement, transmission agreement, other project agreements
- Future PPA
- Future third-party financings
- CAC/Full Board
 - Updates on progress at regularly scheduled meetings
 - Project agreements with substantially n (TRADE SECRET DATA BEGINS CAUSE Incremental project expenditures)

or which would

PPA if greater than

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- Future third-party financings

Discussion / Resolutions

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- Discussion / Questions
- Resolutions

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APPENDIX



Group III Wind Turbines ERRC Presentation John Kratchmer, Project Manager June 16, 2011

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Agenda

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- Group III Executive Recommendation (May 17, 2011):
 - Deploy 60 V82 turbines at Whispering Willow site using nonregulated entity
- Roll-off Existing Wind Farm PPAs
- Deal Structure
- Next Steps (in ~ next 30 days)
- Future Steps
- Major Milestone Timeline
- Project Financials
- Executive Accountabilities
- Recommendations/Approvals
- Board CAC Meeting

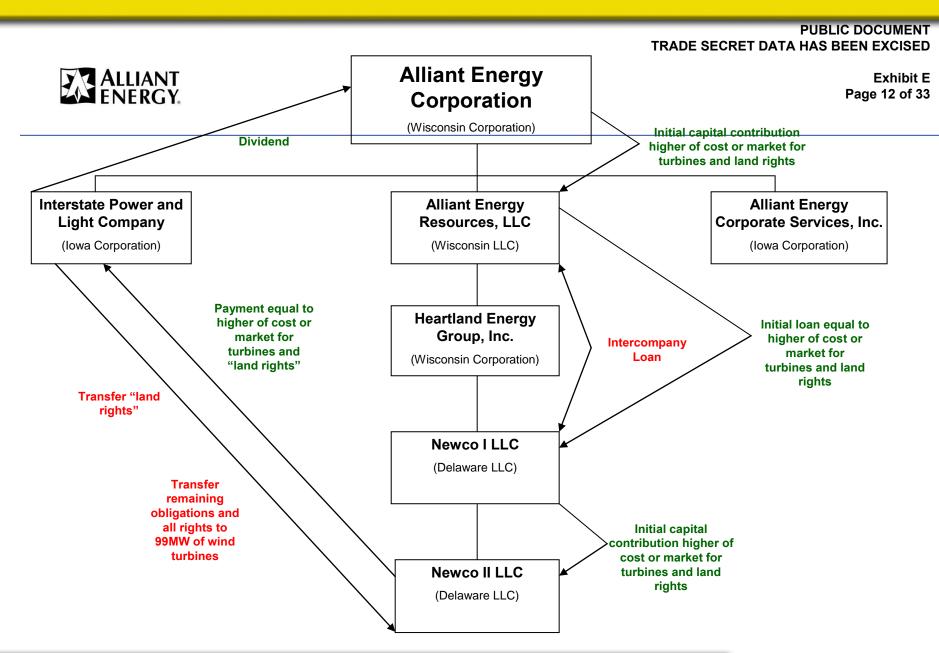
Roll-Off Existing Wind Farm PPAs

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Next Steps – 1 – Legal Entity Structure

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LNT Management to Create Non-Regulated Entities to Own Turbines

- Need at least two layers of LLC's to create maximum corporate financing flexibility acceptable to financial partners
 - 1. Parent-layer LLC that can provide debt and equity financing to the project company
 - 2. Project company LLC to own operating assets and liabilities
 - 3. If there is a tax equity partner, may need to create a third LLC to be the equity partners of the project company LLC
- Want to avoid lowa tax nexus issues at AEC/AER/AEG

Next Steps – 1 – Legal Entity Structure (Cont.)

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1. LNT Management to Create Newco I LLC (Newco I)

- Primary purpose is to own and finance Newco II LLC
- Financing combination of intercompany borrowings, equity and/or project debt

2. LNT Management to Create Newco II LLC (Newco II)

- Owns all operating assets and liabilities related to project
- Initially capitalized with 100% equity

3. LNT Management to Create/Utilize C-Corp to own Newco I

- Heartland Energy Group, Inc. (existing lowa tax nexus)
 - Existing subs of HEG to be cleared out by 2013
 - HEG executive changes needed

Next Steps – 2 – Transfers/Assignments

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- **LNT Board to Approve Transfers Related to Turbines**
 - Transfer IPL's below-the-line (BTL) turbine assets to Newco

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- Because BTL asset, no regulatory approvals required for transfer
- Transfer at higher of cost or market to comply with IUB and FERC affiliated interest requirements
 - Does not require a separate MPUC affiliated interest pre-approval filing because BTL asset

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Market value assessment in progress

Next Steps – 2 – Transfers/Assignments (cont.)

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2. LNT Board to approve transfer of IPL's BTL land and land rights to Newco II

- Because BTL asset, no regulatory approvals required for transfer
- IUB and FERC affiliated interest rules require transfer at higher of cost or market
- - on IPL books for remaining ~300 MWs of sites at Whispering Willow to be allocated between retained and transferred sites
 - Determination of allocation process/amount
 - Market value assessment in progress

Next Steps – 2 – Transfers/Assignments (cont,) Exhibit E (cont,) E

3. LNT Management to assign Vestas agreements to Newco II

- Requires Vestas' consent if assignee entity is not controlled by LNT
- Warranty issue currently scheduled to begin 9/23/11 and expires in two years regardless of actual commissioning date
- Key Risk warranty issue

Next Steps – 3 – Initial Financing Newco I

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100% funding from AEC

Equity infusion / intercompany borrowings

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Next Steps – 4 - Applying Funds at IPL

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- IPL to receive from Newco II when transfer occurs (for turbines and land rights)
 - 1. Retire all ST debt at IPL
 - 2. Authorize dividend/return of capital of (BoD resolution required)
 - Suggest targeting 50% of capital payment
- remaining from prior FERC approval for return of capital; remainder would be paid from retained earnings
 - Currently projected to not have STD outstanding at IPL until Spring 2012 based on anticipated dividend levels
 - 3. Use any remaining funds to reduce sale of receivables outstanding

Next Steps – 5 – Potential Accounting Implications

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- Potential impairments
- Grant accounting
- Capitalized interest
- Depreciation life
- Consolidated vs equity accounting

Key Risk - possible impairment if undiscounted future cash flows are less than cost of the project

Next Steps – 6 - Communications Plan

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- Integration into broader generation strategy
- Appropriate heads up regarding decision to other key stakeholders (e.g., regulators, rating agencies, politicians, affected landowners, etc.)
- **Employees**
- External disclosure
 - No 8-K filing requirement as not material event at this time
 - Disclose as part of Q2 release/investor call/10-Q in early August

Future Steps – 1 – Output Options

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- Options for sale of energy and RECs include -
 - Merchant output into MISO
 - Merchant risk assessment/strategy
 - Third-Party PPA
 - Non-affiliated entity PPA
 - Market assessment
 - Utility Affiliate PPA
 - Market assessment
 - Requires FERC approval under Section 205 of the Federal Power Act
 - Needs to meet standard that the PPA is "above suspicion"
 - Could involve independent third party RFP process
 - If IPL agreement -
 - Would require affiliated interest approval by MPUC
 - May implicate MPUC approval for renewable energy PPA
 - Normal rate recovery issues/process
- Possible Newco RFP to determine demand for output



Future Steps – 1 – Output Options (cont.) Exhibit E

- LNT Management to assess "lease option"
 - If IPL is counterparty, would require IUB ratemaking principles filing
- Tax equity partner considerations
- Key risks
 - Merchant
 - Regulatory / rate recovery (if affiliate is party to PPA)
 - PPA terms/conditions (agreement length, pricing, option to buy, etc.)
 - FERC process results in uncertainty

Future Steps – 2 - Affiliated Interest Agreements

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- Generic Affiliated Interest Agreements for construction, operation and/or maintenance of Newco I:
 - Affiliated Interest Agreements between IPL and Newco require filing with **MPUC**
 - Must seek affiliated interest approvals from MPUC within 30 days of contract's effective date
 - Agreements between IPL and Servco do not require filing with MPUC if covered by Master Services Agreement
 - Will be assessed on case-by-case scenario

Future Steps – 3 – Transmission Issues

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- MISO study/approval
- Assess curtailment rules/process for Whispering Willow site
- Transmission Upgrades
 - ITC Nuthatch-Marshalltown line upgrade _{||TRADE SECRET DATA BEGINS}
 - Required upgrades on MidAm and Corn Belt systems
- Local VAR control upgrade at Group III substation trade Secret DATA BEGINS [TRADE SECRET DATA BEGINS also require contribution to regional upgrades

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- Interconnection Agreement
 - Additional study, work and negotiations needed
 - Target to have provisional agreement by end 2011
- Key Risk transmission constraints

Future Steps – 4 - Cash Grant vs. Production Tax **Credits (PTC)**

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Optimize choice of cash grant versus PTC

Cash grant

- 30% of eligible costs (~90-95% of total costs) ~
- Does not require tax appetite to receive benefit

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- Tax equity partner considerations
- Confirming Federal regulations and guidance on requirements for beginning date for "construction" to qualify for cash grant
- Provides near-term cash flows which will assist us in delaying equity needs

Production tax credits

- Limited ability for AEC consolidated to use PTCs in timely fashion
- Subject to capacity factor risks
- Impacts operational characteristics (e.g., MISO bidding strategy)
- Tax equity partner considerations
- Would need to be third party PPA rather than affiliate

Future Steps – 5 - Financing Newco I

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- Long-term financing structure alternatives of Newco I under consideration
 - 1. Continue with 100% funding from AEC
 - > 100% equity infusion
 - Combination equity / LT loan agreement / intercompany borrowings
 - Assess AEC credit quality / double leverage impacts
 - 2. Project debt financing
 - Secured by ownership interest in Newco II
 - Have assumed in financial modeling
 - May require AE

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- No lenders have yet been engaged
- 3. Tax equity financing prior to COD
 - > Tax equity partner considerations

Major Milestone Timeline

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	June 2011	EPPC/POD Approve Neuros II Project
	June 2011	ERRC/BOD Approve Newco II Project
		Assign Vestas Contracts to Newco II
		Newco II Engineering / Design Start
		ERRC/BOD Approve Entity/Financing Structure and Related Resolutions
		Intercompany cash transfers
•	July 2011	Develop and file applicable affiliated generic interest agreements as needed
	Aug-Sept 2011	Assign Land Rights to Newco II
		Develop/implement RFP process and/or pursue contract negotiations
	Sept. 2011	Newco II Engineering complete
		Complete Vestas project documents
•	Q4 2011	File Section 205 if RFP process yields Newco II PPA contract with affiliate
	April/May 2012	Construction process ramps up
	Spring 2012	Secure tax equity commitment (if third party PPA)
	Summer 2012	Secure project debt financing commitment
	Dec. 2012	Newco II commercial operation date

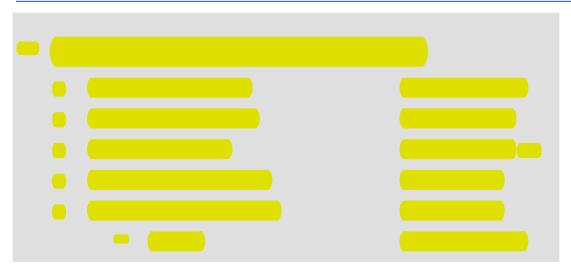
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Project Financials

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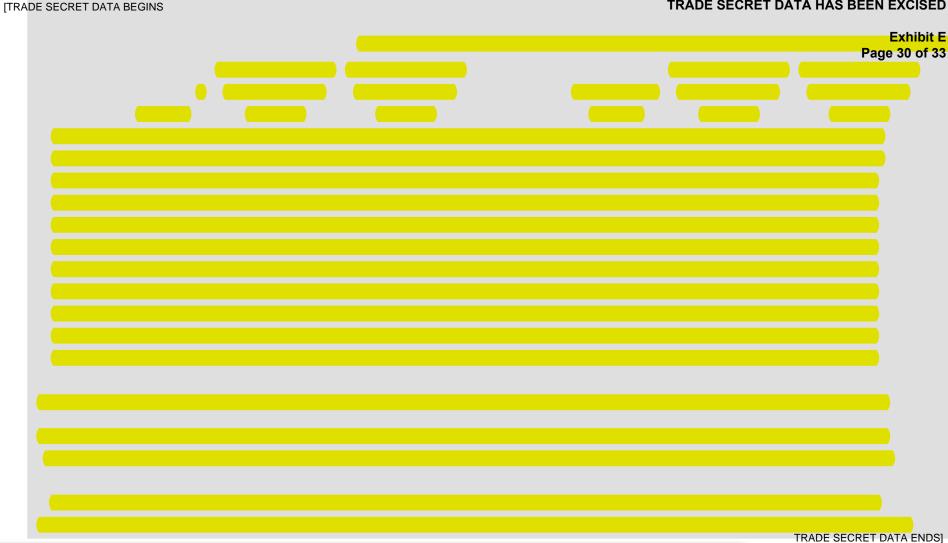


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(1) Subject to MISO/other considerations

Project Financials (cont.)

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Executive Accountabilities

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- Project Manager John Kratchmer
 - Financial Tom Hanson
 - Legal and FERC Jim Gallegos
 - State Regulatory Joel Schmidt
 - Construction Tom Aller

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Recommendations / Approvals

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- Today Approve 3 Project with expenditures up to \$85 million turbines from IPL) (in addition to the
 - Transfer of 99MWs turbines and project land rights to AER LLC
 - Balance of Plant, site, EPC, transmission -
 - TRADE SECRET DATA ENDS Engage in regulatory process, as needed, and financing
- Prior to June 30th CAC Meeting for IPL and AEC to approve:
 - IPL authorizations to transfer turbines and land rights and engage in regulatory process, as required
 - AEC authorizations as sole member of AER to establish new LLC entities; provide consideration to IPL; approve the non-regulated wind project; provide for approval of in development and construction; and approve initial financing structure
- Prior to June 30th IPL Board unanimous consent resolution to dividend

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Board CAC Meeting

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- Discuss approach/game plan
 - Presentation
 - Presenter(s)
 - Management attendees at meeting
 - Invite entire Board to participate?
 - Approvals/resolutions -
 - June 2011 CAC meeting
 - Full Board in June 2011
 - > Later

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