



Group 3 Wind Turbine Proposal

John E. Kratchmer

Capital Approval Committee Meeting

Teleconference

June 20, 2011

Agenda

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

Overview of Evaluation Process

- 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

- 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

■ IPL

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- Transfer of the [REDACTED] Wind Generating Sets under Vestas Master Supply Agreement to Newco II LLC (“Newco II”) [TRADE SECRET DATA ENDS]
- 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
- Approve wind project and additional expenditures [REDACTED] in development and construction [TRADE SECRET DATA BEGINS] [TRADE SECRET DATA ENDS]
- Financing structure

Future Actions

■ IPL

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- Special Dividend to AEC up [REDACTED] (Full Board approval via consent)

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■ ERRC

- 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 [REDACTED] or which would cause incremental project expenditures [REDACTED]
- PPA if greater than [REDACTED]
- Future third-party financings [REDACTED]

Discussion / Resolutions

- Discussion / Questions
- Resolutions

APPENDIX



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

Alliant Energy Proprietary and Confidential

Agenda

- **Group III - Executive Recommendation (May 17, 2011):**
 - **Deploy 60 V82 turbines at Whispering Willow site using non-regulated 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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Alliant Energy Corporation

(Wisconsin Corporation)

Dividend

Initial capital contribution higher of cost or market for turbines and land rights

Interstate Power and Light Company

(Iowa Corporation)

Alliant Energy Resources, LLC

(Wisconsin LLC)

Alliant Energy Corporate Services, Inc.

(Iowa Corporation)

Payment equal to higher of cost or market for turbines and "land rights"

Intercompany Loan

Initial loan equal to higher of cost or market for turbines and land rights

Transfer "land rights"

Transfer remaining obligations and all rights to 99MW of wind turbines

Heartland Energy Group, Inc.

(Wisconsin Corporation)

Newco I LLC

(Delaware LLC)

Initial capital contribution higher of cost or market for turbines and land rights

Newco II LLC

(Delaware LLC)

Next Steps – 1 – Legal Entity Structure

- **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 Iowa tax nexus issues at AEC/AER/AEG**

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

- 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 Iowa tax nexus)
 - Existing subs of HEG to be cleared out by 2013
 - HEG executive changes needed

Next Steps – 2 – Transfers/Assignments

■ LNT Board to Approve Transfers Related to Turbines

1. Transfer IPL's below-the-line (BTL) turbine assets to Newco

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- [REDACTED]
- **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**
- **Market value assessment in progress**

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

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
 - Does not require a separate MPUC affiliated interest pre-approval filing because BTL asset

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- [REDACTED] 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

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

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

- **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 [REDACTED] from Newco II when transfer occurs (for turbines and land rights)

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1. Retire all ST debt [REDACTED] at IPL
2. Authorize dividend/return of capital of [REDACTED] (BoD resolution required)

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➤ Suggest targeting 50% of capital payment

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➤ [REDACTED] remaining from prior FERC approval for return of capital; remainder would be paid from retained earnings

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➤ 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

- 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

- **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

- 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.)

- **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

- **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

- **MISO study/approval**
- **Assess curtailment rules/process for Whispering Willow site**
- **Transmission Upgrades –**
 - ITC Nuthatch-Marshalltown line upgrade
 - Required upgrades on MidAm and Corn Belt systems
 - Local VAR control upgrade at Group III substation

also require contribution to regional upgrades
- **Interconnection Agreement –**
 - Additional study, work and negotiations needed
 - Target to have provisional agreement by end 2011
- **Key Risk – transmission constraints**

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

■ Optimize choice of cash grant versus PTC

– Cash grant

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

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– 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

■ 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 [REDACTED] in financial modeling
- May require AE [REDACTED]
- No lenders have yet been engaged

3. Tax equity financing prior to COD

- Tax equity partner considerations

Major Milestone Timeline

- **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**

Project Financials

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(1) Subject to MISO/other considerations

Project Financials (cont.)

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Exhibit E
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This block contains a table where all data is redacted with yellow bars. The table appears to have 6 columns and approximately 24 rows. The redactions are uniform across the entire content area of the table.

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Executive Accountabilities

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

Recommendations / Approvals

- **Today – Approve** **3 Project with expenditures up to \$85 million**
(in addition to the [TRADE SECRET DATA BEGINS] [REDACTED] turbines from IPL) [TRADE SECRET DATA ENDS]
 - Transfer of 99MWs turbines and project land rights to AER LLC
 - Balance of Plant, site, EPC, transmission - [TRADE SECRET DATA BEGINS] [REDACTED] [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 [TRADE SECRET DATA BEGINS] [REDACTED] in development and construction; and approve initial financing structure [TRADE SECRET DATA ENDS]
- **Prior to June 30th - IPL Board unanimous consent resolution to dividend**
[TRADE SECRET DATA BEGINS]
up to [REDACTED] to AEC
[TRADE SECRET DATA ENDS]

Board CAC Meeting

- **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**