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December 8, 2014

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VIA E-FILING

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

Re: In the Matter of a Request for Approval of the Asset Purchase & Sale Agreement Between Interstate Power and Light Company and Southern Minnesota Energy Cooperative
MPUC Docket Nos. E-001, E-115, E-140, E-105, E-139, E-124, E-126, E-145, E-132, E-114, E-6521, E-142, E-135/PA-14-322
Our File No. 2021-14

Dear Dr. Haar:

Attached for filing in the above-referenced docket, please find the Minnesota Chamber of Commerce's Reply Comments. Also attached is the Chamber's Certificate of Service.

Sincerely,

/e/ Richard J. Savelkoul
Richard J. Savelkoul

RJS:wsl

cc: Service List
Larry Schedin (via email)
Kavita Maini (via email)

CERTIFICATE OF SERVICE

I, Wendy S. Latuff, hereby certify that I have this day, served a true and correct copy of the following document to all persons at the addresses on the attached list by electronic filing, electronic mail, courier, interoffice mail or by depositing the same enveloped with postage paid in the United States mail at St. Paul, Minnesota.

Minnesota Chamber of Commerce
REPLY COMMENTS

MPUC Docket Nos. E-001, E-115, E-140, E-105, E-139, E-124, E-126, E-145, E-132, E-114, E-6521, E-142, E-135/PA-14-322

Dated this **8th** day of **December, 2014**

/s/ Wendy S. Latuff

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STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION

In the Matter of a Request for Approval of the Asset Purchase & Sale Agreement Between Interstate Power and Light Company and Southern Minnesota Energy Cooperative	**MPUC Docket Nos. E-001, E-115, E-140, E-105, E-139, E-124, E-126, E-145, E-132, E-114, E-6521, E-142, E-135/PA-14-322**

MINNESTOA CHAMBER OF COMMERCE
REPLY COMMENTS

I. EXECUTIVE SUMMARY

The Minnesota Chamber of Commerce ("Chamber" or "MCC") provides these comments in response to various parties initial comments dated November 10, 2014, and the Commission's questions in the Notice dated October 10, 2014.

The Chamber represents over 2,300 business locations throughout the state of Minnesota, a portion of which are within the proposed transferred service territory and are served by both the proposed transferred distribution assets as well as the generation assets that IPL will retain. The Chamber deals with statewide issues at a policy level, as well as concerns businesses have with respect to doing business or continuing to do business within Minnesota, such as having competitively priced, reliable and environmentally sound energy rates. Energy is one of the Chamber's focal points in terms of making Minnesota's business environment more competitive relative to other states and nations. As such, some Chamber members will be significantly impacted by the proposed transfers and related agreements.

The current structure of the transfer and related agreements concerns the Chamber. However, the Chamber believes that with continued discussion it is possible the parties could reach an agreement on the issues causing the greatest concern, thereby eliminating or reducing our concern. Moreover, the changes are necessary in order for the Commission to find that the sale and related agreements are in the public interest, as required by statute.[1]

The Chamber's comments suggest ways to make the transaction more affordable and fair for all customers in both the short and long term. By adopting our recommendations, the Commission will meet its statutory requirement to protect the interest of current IPL ratepayers. Of greatest concern from the current IPL customers' perspective, there is a lack of prudency review, no certainty of cost impacts and near term (2015) projected increases disproportionately allocated to commercial and industrial customers.

These comments are responsive to the Joint Petitioner's, Department of Commerce's, the Office of Attorney General's and Minnesota Municipal Utility Association's previous comments. Additionally, the Chamber responds to the failure of parties to address certain issues, by raising them herein. Because the parties comments and concerns overlap, the Chamber does not attempt to respond to each party's specific comments in piecemeal responses, rather structures these reply comments broadly.

The Chamber recommends that the transaction be approved subject to the following conditions discussed in more detail in Section II below.

Requirements for IPL

1. The Commission must deny the distribution asset acquisition premium of $16.9+ million and require IPL to provide updated numbers in their next Reply Comments;

[1] Minn. Stat. Sec. 216B.50

2. The Commission should implement the following regarding the transfer of generation assets from retail to wholesale jurisdiction:

   - The Chamber recommends that IPL provide in its reply comments a calculation of the credit that consists of the differential in the FERC book value and Minnesota jurisdiction book value of the generation assets as well as cost differentials in the operations, maintenance and administration costs between the FERC approved and the Minnesota jurisdiction costs. IPL should also explain in its Reply Comments the differences in the treatment of accumulated deferred income taxes at FERC versus Minnesota jurisdiction related to generation assets;
   - The ROE for generation infrastructure should be set at 9.8%, the most recently approved for Xcel's base rate case in 2013 for the 10 year term. If, however, the FERC rate cannot practically be limited, a credit for the present value of the Minnesota generation assets net book value for the difference between 9.8% and 10.97% should be established and passed on to customers. According to DOC-67, the five year credit from 2015-2019 is calculated as $4.373 million. This credit needs to be calculated for the remaining life of the assets;
   - For any new assets added to the FERC rate base, any cost denials related to power costs (investment, O, M&A) in the Iowa jurisdiction should be passed on to Minnesota IPL ratepayers through establishment of a credit. Since the Minnesota Commission will no longer have jurisdiction, the denial of costs in that jurisdiction will serve as proxy for prudency review.

SMEC Requirements:

1. Instead of providing a $2/MWh credit for the first three years as proposed, the full estimated benefit of $8.4 million per year for the first three years and $5.2 million per year for next seven years should be exclusively passed on to IPL customers; Assuming a constant consumption of 840,000 MWhs each year, this would translate into a credit of $10/MWh for the first three years and $6.2/MWh credit each year for the next seven years;
2. In order to avoid the subsidization of (a) one cooperative by another or (b) one customer class by another, due to varying load profiles, the Chamber recommends that SMEC bill the cooperatives using the same methodology that is used by IPL to bill SMEC; similarly, customers classes should be allocated in the same manner, the already known increases coming from rate increases coming from IPL makes this an important condition;
3. Given the potential rate increases expected from IPL, it is very harmful to IPL commercial and industrial customer competitiveness to merge rates using the proposed 5% yardstick; since IPL rates will already be established, the Chamber recommends that Cooperatives not merge rates for the 10 year period of the wholesale power agreement; thereafter and alternatively, the Commission should order that Cooperatives may not merge rates unless the rate impact is less than 1%;
4. The Chamber met with a group of Cooperatives to discuss governance issues. The meeting was productive and the Chamber plans to have further discussions with SMEC members in order to reach a formal arrangement whereby IPL commercial and industrial customers' concerns are adequately addressed on an on-going basis. If the discussions with the cooperatives do not result in a resolution of the issues, the Chamber reserve the right to submit supplemental comments regarding this matter.

II. Detailed Comments

A. RATE IMPACTS

Chamber members are concerned about the rate impacts associated with this transaction. Specifically, the rate impacts associated with the wholesale power transaction are not clear. There is no certainty or assurance about what the increase will be for the first three years much less for the ten year duration of the wholesale power agreement. The joint petitioners indicate that the 2015 power cost adjustment projects a flat increase of $6.32/MWh for all IPL customers, or a 7% increase overall. However, for energy intensive[2] customers the rate impact is higher - for example, a 1 MW customer with an 80% load factor on IPL's Large Power and Light rate (IPL Schedule 360) will experience a 10% increase under the projected 2015 rate proposal.[3]

From IPL customers' perspective, the risk exposure is significant because of the loss of state regulatory oversight on all components of the bill—in particular generation—which together with transmission constitute 70% of a customer's bill. The Chamber recommends that if the Commission approves this sale, it should be subject to the Chamber's detailed conditions discussed below.

B. PROPOSED ASSET SALE AND WHOLESALE POWER AGREEMENT

1. Distribution Asset Sale

The transaction includes a premium above the "book value" of the facilities.[4] The acquisition premium has been described as the "Acquisition Price over Net Book Value" in the

[2] The Chamber uses the term energy intensive to define commercial and industrial customers that spend a significant portion of their production or operating costs on energy.
[3] *See* Exhibit A.
[4] Response to Department of Commerce ("DOC") Information Request ("IR") 63.

amount of $16.9 million.[5] This was calculated as the difference between the net plant value of $105.2 million and the SMEC estimated cost of $122.1.[6] The Chamber is concerned that this premium has grown because the "Base Purchase Price" as indicated in Response to DOC IR 63 does not include certain adjustments that are listed as "to be determined" such as PPE adjustments. We request that the Joint Petitioners clarify the acquisition premium calculation further in reply comments, as well as, if and how the premium will change depending on the closing date. The balance of these comments on the distribution asset sale terms, for simplicity, will assume the premium over Minnesota jurisdictional book value is $16.9 million, but the adjustment should be based on the actual premium at the time of closing.

To assert the premium is reasonable based on the benefits transferred over time is insufficient. This premium does not consider the impact of the wholesale arrangement, which is a requirement of the transaction. There has not been any calculation of impacts for the entire length of the transaction at all, only for five years, nor has there been any firm commitment of this benefit transferring to IPL's current ratepayers (the "public" for purposes of determination of public interest in this case"). Based on past Commission practice and under the principle that IPL ratepayers already paid for these assets through rates, it is inappropriate for SMEC to pay any premium, as SMEC members (the same IPL ratepayers) would ultimately pay the premium.

In past Commission cases, when assets are sold:

[5] Response to DOC IR 63.
[6] Response to DOC IR 57.

i. between IOU's within Minnesota and the Commission retains jurisdiction, the Commission denied recovery of an acquisition premium from ratepayers as a condition of approving the sale;[7]

ii. outside of Minnesota's jurisdiction, the Commission allowed a premium, but allocated the acquisition premium to the ratepayers (as a credit against rates) instead of allowing shareholders to profit from the sale of assets paid for by ratepayers.[8]

Allowing a premium in this case is inappropriate because Minnesota cooperative members pay for the premium through rates, not shareholders that have an opportunity to profit in exchange for the investment risk. In this case IPL ratepayers are not being given the choice of taking on the risks associated with this transaction. The discussion below provides a detailed assessment of case study experience of instances when the asset sale has been within and outside of the Minnesota jurisdiction.

a. Sale to entities within and outside the Minnesota Jurisdiction

(i) Sales within Minnesota jurisdiction – Ratepayers do not pay any Premium and do not pay transaction costs

Some sales in Minnesota allowed a premium when assets are sold from one IOU to another IOU, but denied recovery of any such premium from ratepayers.[9] The Commission even precluded transition costs of the purchaser. The Chamber's proposed adjustment would account

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[7] In the Matter of the Sale of Aquila, Inc.'s Minnesota Assets to Minnesota Energy Resources Corporation, Docket No. G007, 011/M-05-1676, Order Approving Sale Subject to Conditions, at 6-7 (June 1, 2006) ("In the Matter of the Sale of Aquila").

[8] In the Matter of the Joint Petition for Approval of the Transfer of Transmission Assets of Interstate Power and Light Co. and ITC Midwest LLC, Docket No. E001/PA-07-540 Order Approving Transfer of Transmission Assets With Conditions, (February 7, 2008) ("ITC Transmission Order") at 18.

[9] In the Matter of the Sale of Aquila, at 6-7.

for this as it is our understanding that the $122.1 million figure from DOC IR 57 includes both IPL and SMEC's transition and transaction costs.[10]

The IPL-SMEC arrangement is different. The parties paying the premium would be the same ratepayers through their future rates and future membership in the cooperative. This is why addressing SMEC's transition and transaction costs through the purchase price are important. Additionally, in the previously approved proceedings, the Commission retained jurisdiction over future rates and the IOU shareholders that were at risk if the transfer did not produce the results represented to the Commission that approved the transaction. Neither protection is present for current IPL ratepayers.

(ii) Sales outside of Commission jurisdiction – Ratepayers receive the benefit of a premium received by the utility and do not pay transaction costs

IPL recently sold their transmission assets to ITC Midwest, LLC. In this case Minnesota Ratepayers received a credit, which was used to offset future rate increases (the "ITC Sale").[11] In the ITC Sale, the Minnesota Commission lost jurisdiction over the asset and ability to control, regulate, or otherwise impact rates ITC charged IPL if it resulted in rates higher than represented. Ratepayers did experience higher rates than represented, however, the Commission retained an ATA credit to protect ratepayers and offset future increases. There was no premium paid over net book value – ITC adopted the same book value.[12]

This case proposes a situation that leaves current IPL ratepayers with greater risk—long term representations on rates are not part of the transaction stipulations, there is a premium over book value being paid, it is the same IPL/SMEC ratepayers that are going to be pay the premium

[10] In the Matter of the Sale of Aquila, at 6-7 (making any recovery of transition cost subject to proof of being in public interest subsequent to closing of the transaction).

[11] See, ITC Transmission Order at 18.

[12] See, ITC Transmission Order at 5.

(through future rates and because they are also the equivalent of the shareholders in the ITC Sale whom took on the risk of the transaction not performing) and the Commission does not retain jurisdiction over IPL (who passed on the ITC rates). Therefore, the Commission must find that the $16.9 million premium is not in the public interest and must be removed from this transaction.

A review of the ITC Transmission Order shows that the public interest test is similar to the one necessary for this case.[13] In applying the public interest test, the Chamber is concerned about: the impact on the distribution portion of rates, that ratepayers are being asked to pay for capital costs through the premium over IPL net book value, and that the ratepayers may pay for the SMEC transition and transaction cost.[14]

The commitments on rates are only for a five year period. During this period there may be no pay down of the purchase price, as financing only requires interest payments.[15] Thus, this commitment is not reflective of the impact on IPL ratepayer rates. This is concerning especially because SMEC may borrow more than $122.1 million to pay for assets that have an IPL net book value of $105.2 million.[16]

The difference of $16.9 million presumably includes the premium as well as SMEC transition and transaction cost. The Chamber is unclear whether the SMEC transition and transaction costs are accounted for and if the amount borrowed may be in excess of the amount set forth in response to DOC IR 57 and 63. Therefore, the Chamber requests that SMEC clarify this issue in Reply Comments. The premium, transition, and transaction costs will result in ratepayers paying a significantly higher principal cost for capital assets than if they remained

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[13] See, ITC Transmission Order at 2 and Minn. Stat. Sec. 216B.50.

[14] See, ITC Transmission Order at 2 and Minn. Stat. Sec. 216B.50.

[15] The Chamber understands SMEC is obtaining an interest only loan for the transaction that will be refinanced by each individual cooperative.

[16] Response to DOC IR 57.

with IPL. In the ITC Sale, ratepayers did not pay any premium over net book value and were not responsible for the transaction costs.[17]

The Joint Petitioners have not explained how they will pay back the principal costs of the financing, nor how they will be recover these costs through rates beyond year five. The assumption that SMEC will pay lower interest rates and avoid income taxes does not overcome that rates have not been demonstrated to remain at reasonable levels beyond 5 years, nor that SMEC members (former IPL ratepayers) will be on the hook for loan/capital costs that are far higher than what is currently fair and reasonable for IPL rates. Therefore, as a condition to the sale, SMEC must not pay the $16.9 million premium, transition and transaction costs.

b. Market Value of IPL Distribution Assets Not Relevant

As discussed above, market value of the assets[18] acquired is not relevant to the need to reject any premium paid for the asset over the net book value. However, even if the Commission did accept this, SMEC's payment of any premium must be rejected because of two additional shortcomings.

First, the purchase of distribution assets came with a significant additional cost, the purchase was tied to the requirement to purchase power and energy from IPL, but there was no attempt to ascertain the fair market price from another wholesale power provider.[19] SMEC cannot assert that the wholesale power supply rates are reasonable compared to current market

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[17] See, ITC Transmission Order at 5 ("the book value of the Transmission Assets will be deducted from IPL's rates and... the same amount added to ITC") and 18 ("ITC will forgo recovery through rates of its transaction costs").

[18] It must be noted that no actual economic valuation was performed to determine fair price. See Response to MCC IR 17 (noting that the only valuation done was the Burns and McDonald study), and DOC IR 20 (containing Burns and McDonald study that did not ascertain fair pricing, only physical condition of the assets purchased).

[19] See Response to MCC IR 19. (IPL required the purchase of power and energy "as a condition of the sale"), see also Response to OAG IR 4.

prices, as SMEC did not seek to ascertain a current fair market price.[20] It is entirely possible that SMEC may pay significantly higher than the market price for wholesale power to serve IPL ratepayers as part of the purchase price for the distribution assets.

Second, it is unclear whether any assessment of rate impacts included the total transaction cost of both IPL and SMEC.[21] The Chamber understands that SMEC may borrow significantly more than the $122.1 million to complete the transaction, which leaves open the question of whether there are additional transaction or transition costs not included in the response to DOC IR 57 calculation based on a payment of $122.1 million. Even if the Burns and McDonald valuation established a reasonable price for the distribution assets (in contradiction to past Minnesota practice discussed above), the additional string of the wholesale power purchasing and possible additional cost of the transaction and subsequent transition cost require denial of the premium payment to IPL.

*c. **Conclusion and Recommendation***

Ratepayers served by IPL currently pay for the distribution infrastructure in their rates, and in fact paid for the frontend loaded costs associated with this infrastructure. As discussed above, it is inappropriate for IPL to receive a premium on the sale of assets that were previously included and paid for by IPL ratepayers. As noted in the ITC Order, Commission practice is to give ratepayers the benefit of any premium.[22] Because SMEC members paying for future rates

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[20] See Response to MCC IR 19. (IPL required the purchase of power and energy "as a condition of the sale").

[21] See Response to DOC IR 20. (Burns and McDonald study on condition of assets does not include valuation as requested by Chamber IR 17).

[22] See, ITC Transmission Order at 6, the commission noted the ALJ findings "when there is a gain on a depreciable asset, such as IPL's transmission assets, the net increase is generally accounted for in a way that benefits ratepayers", in this case it is working to ratepayers' detriment as they will ultimately be the ones paying for the premium. The Order further reasoned that the IOU's do not receive the asset because "investors have received the fair rate on their initial investment of capital and to compensate them further would provide a higher rate of return than has been deemed fair and reasonable".

contemplated in this transaction are the same ratepayers that paid for the assets through IPL rates, it is inappropriate for SMEC to pay a premium which will be recovered from cooperative/ratepayer members. Therefore, the Commission must deny any premium on the sale of assets prior to authorizing this transaction.

2. <u>Transfer of Generation Assets and Wholesale Power Agreement ("WPA")</u>

a. Introduction

The transfer of IPL's generation from Minnesota jurisdiction to FERC, and the resulting WPA, are closely related and part of the proposed transaction that the Commission must modify prior to approval. This transfer of service and assets from regulated retail jurisdiction to deregulated wholesale jurisdiction results in adverse impacts to IPL's Minnesota customers. The transfer overrides the past and current benefits afforded by retail regulatory ratemaking and this Commission's jurisdiction. Thus, as a practical matter this transfer is very similar to IPL's previous sale of transmission assets and can be reviewed and compared with the Commission's prior order in that proceeding.

In the ITC Sale, the Commission prohibited ITC from changing the book value of assets transferred, regardless of price paid[23] and premium was found to exist because of the higher rate of return that is achieved through FERC rates.[24] Ultimately a credit was provided to ratepayers used to offset rates going forward.[25] While such a credit has not been determined in this case, the Commission should require a credit to IPL's ratepayers to offset increasing FERC rates.

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[23] <u>See,</u> ITC Transmission Order at 5 ("the book value of the Transmission Assets will be deducted from IPL's rates and… the same amount added to ITC") and at 18 ("ITC will forgo recovery through rates of its transaction costs").

[24] <u>See,</u> ITC Transmission Order at 7 ("the ALJ found that ITC will pay IPL an Acquisition Premium not because the book value of the assets has increased but because the buyer has an opportunity to earn a higher Return on Equity (ROE) on the same asset").

[25] <u>See,</u> ITC Transmission Order at 18 ("the book value of the Transmission Assets will be deducted from IPL's rates and… the same amount added to ITC") and 18 ("ITC will forgo recovery through rates of its transaction costs").

b. Transfer of Generation Assets

The Commission denied recovery for certain IPL generation assets, therefore, the Minnesota jurisdictional book value of generation assets may otherwise deviate from their FERC book value. Since future rates will be based on the FERC book value, any difference must be recognized and a credit for that sum provided to ratepayers. The credit should include, but not be limited to, cost differentials associated with Whispering Willows costs, Duane Arnold and any other investment previously denied by the Commission.

The Commission must also ensure that to the extent IPL's operations, maintenance and administrative cost recovery at FERC is higher than currently approved by this Commission, ratepayers receive a credit. For example, in past rate cases expense items related to benefits or officer compensation have been limited. It is improper to now allow these expenses solely because FERC will be the regulatory body. The Chamber encourages the Commission to honor previous precedent on this issue.

The Chamber recommends that IPL should provide in its reply comments a calculation of the credit consisting of the differential in the FERC book value and Minnesota jurisdiction book value of the generation assets as well as differentials in the O, M and A cost differentials between the FERC approved and the Minnesota jurisdiction costs. Further, IPL should also explain in its Reply Comments the differences in the treatment of accumulated deferred income taxes at FERC versus Minnesota jurisdiction related to generation assets.

c. Wholesale Power Agreement

The proposed transaction consists of selling the distribution assets at a premium and requires the cooperatives to enter into a 10-year wholesale power agreement ("WPA") with no certainty on power costs. The WPA is not a fixed price PPA style arrangement. Rather, it is a

formula rate under FERC jurisdiction where the burden of proof is essentially transferred to entities other than the utility to demonstrate why the approved formula rates are not just or reasonable. Further, since FERC does not deal with regulation of electric service to retail customers, federal regulation are not sufficient to protect Minnesota retail customers.

The proposed wholesale power arrangement retains IPL's tariffs for a minimum period of three years. During that three year period, the company uses a PCA adjustment to recover increases in wholesale power costs as calculated through IPL's RES-5 formula rate at FERC as well as transmission costs. The WPA consists of charging SMEC at a FERC approved formula rate at an ROE of 10.97%. For the first three years, the costs increases associated with generation supply (fixed and variable) as well as transmission costs will be passed through using a flat across the board $/kWh change. After this period, costs will be allocated to the various cooperatives based on their individual billing determinants. Several issues about this arrangement concern the Chamber:

- IPL will get full recovery for generation costs that have been denied in the past by this Commission (e.g. Whispering Willows (see response to DOC 51));
- IPL will also get full recovery of operations, maintenance and administrative costs that have been denied in the past by this Commission;
- IPL will earn a significantly higher ROE on generation assets at 10.97% than what is currently considered reasonable under retail jurisdiction;[26]
- There will be no prudency review as is conducted in base rate cases in Minnesota to determine reasonableness of costs being passed through to customers for a 10-year period;
- There is no evidence in the record indicating that this power arrangement was compared to any other competitively priced arrangement (e.g. PPA style fixed arrangement offers or a combination of market purchases and fixed offers); if IPL is

[26] See Xcel rate case decision in docket 12-791 where the Commission approved 9.8% and DOC testimony in current Xcel rate case 13-868 indicates 9.4%

selling the distribution assets and exposing retail customers in a regulated state to deregulation, the valid alternative to compare is not with what IPL's rates would have been but rather competitive wholesale power agreements with alternative suppliers;

- IPL is guaranteed full cost recovery because the RES-5 rate includes true up mechanisms.

Overall, this transaction benefits IPL while exposing retail customers to high power supply (and transmission) costs which constitute 70% of a customer's bill. Even without considering additional infrastructure costs, ratepayers will pay more for existing generation assets due to the high FERC ROE and the ability to recover costs associated with certain assets previously denied recovery in Minnesota. Moreover, the wholesale power agreement assures IPL certainty that it can spread its fixed costs over the Minnesota customer base for a period of at least 10 years. However, for IPL's Minnesota ratepayers, there is potential for high cost increases without the opportunity afforded to them in retail rate cases to assess the prudency of the cost increases.

Lastly, the Chamber remains concerned about the assertion that the wholesale power supply rates are reasonable compared to current market prices as the parties did not ascertain what a current fair market price by seeking competitive bids.[27]

d. Conclusions and Recommendations

It appears that IPL is not only getting a premium for the distribution assets but also for its generation assets. The premium is associated with receiving guaranteed recovery, a high ROE, a true up mechanism, and the ability to pass through costs without rate cases in the Minnesota jurisdiction.

To address the foregoing concerns, the Chamber recommends the following:

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[27] See Response to MCC IR 19. (IPL required the purchase of power and energy "as a condition of the sale").

- First, the Commission should prevent IPL from passing through costs that have been previously denied by this Commission (e.g.: Whispering Willows, Duane Arnold) – A credit should be established if FERC book value cannot be adjusted. Further, to the extent IPL's operations, maintenance and administrative (OM&A) cost recovery at FERC is higher than currently approved by this Commission that should be refunded to current IPL ratepayers. The Chamber recommends that IPL provide in its Reply Comments a calculation of the credit that consists of the differential in the FERC book value and Minnesota jurisdiction book value of the generation assets as well as differentials in the OM&A cost differentials between the FERC approved and the Minnesota jurisdiction costs. Further, IPL should also explain in its Reply Comments the differences in the treatment of accumulated deferred income taxes at FERC compared to the Minnesota jurisdiction related to generation assets;
- Second, the ROE for generation infrastructure should be set at 9.8% (the most recently approved for Xcel's base rate case in 2013) for the 10 year term– if the FERC rate cannot practically be limited, a credit for the present value of the Minnesota generation assets net book value for the difference between 9.8% and 10.97% should be established for the remaining life of the assets and passed on to customers. According to DOC-67, the five year credit from 2015-2019 is calculated as $4.373 million. This credit needs to be calculated for the remaining life of the assets;
- For any new assets added to the FERC rate base, any cost denials related to power costs (investment, O, M&A) in the IA jurisdiction should be passed on to Minnesota IPL ratepayers through establishment of a credit. Since the Minnesota Commission

will no longer have jurisdiction, the denial of costs in that jurisdiction will serve as proxy and a yardstick for prudency review.

C. SMEC PROPOSAL

1. Two Dollars per MWh Credit by SMEC

SMEC proposes to provide a \$2/MWh credit for a period of three years to IPL's Minnesota retail customer base. Response to DOC IR-2 indicates that this credit was made possible due in large part to the ability to secure a bridge loan with an interest rate of 1.59%, the fact that cooperatives are exempt from federal and state income taxes and due to operational efficiencies. Using annual energy consumption of 840,000 MWh results in an annual credit of \$1.68 million and cumulative credit of \$5.04 million over the three year period. In response to DOC IR 57, the benefits are estimated at \$8.4 million annual benefits for years 1-3 and \$5.4 million for years 4-10.

The Chamber recommends that this full benefit be returned exclusively **to IPL customers** as a \$/kWh credit. For example, using the annual energy consumption of 840,000 MWh, this would result in \$10/MWh each year for years 1-3, and \$6.2/MWh each year, for years 4-10. It is important to ensure that these benefits be passed exclusively to IPL customers.

2. Cost Allocation to Cooperatives and IPL Customer Classes

The Chamber's principal and fundamental policy regarding utility rate regulation is to eliminate inter and intra class subsidization. This transaction poses a unique circumstance because: (a) the cooperatives will have legacy rates for their current customers and new rates for former IPL customers which could result in subsidization; and (b) there is potential for subsidization between cooperatives as the load profiles change with the addition of IPL

customers. The Chamber believes it is fair and equitable that neither the existing cooperative customers should subsidize IPL customers nor should current IPL customers subsidize the legacy customers. Further, the Chamber opposes any subsidization within the IPL customer classes. Our discussion with the cooperatives indicates that this follows cooperatives principles and they are in general agreement with this principle. However, there are a few issues the Chamber believes need to be addressed in order to ensure there is no subsidization as a result of this transaction.

The approach as proposed by the Joint Petitioners is that for the first three years of the transaction, customers receive an across the board flat $/MWh increase. This increase will be associated with wholesale power costs and transmission costs that IPL will bill to SMEC. While this approach facilitates administrative ease, it will not result in the same rate impact for all customers. In fact, this method results in subsidies between the 12 cooperatives as well as subsidies between the former IPL customer classes. Energy intensive customers will pay a larger share of these costs under a flat $/MWh increase. This occurs for the following two reasons:

- First, the IPL wholesale formula rate consists of a fixed demand charge that recovers the costs of fixed generation investment and on and off peak energy charges that recover fuel and variable costs. Similar to retail time of use tariffs, IPL's RES-5 wholesale rate specifies the billing determinants applied to the demand charge (coincident peak demand) and those to the on and off peak energy charge (on and off peak energy requirements). By forcing all these costs into a $/MWh unit cost, costs will be disproportionately recovered from cooperatives that will service energy intensive customers (and in turn the customers themselves) because their energy share will be higher than their demand share;
- Second, the transmission costs are fixed charges. Similar to the issue of the demand charges mentioned earlier, these should be billed on the basis of demand. Converting this

charge to a $/MWh will result in a larger allocation of costs to cooperatives serving energy intensive customers. Those costs are subsequently passed on to cooperative customers.

In response to MCC-22, Petitioners provided a hypothetical example of the cost allocation method they will use for cost allocation to classes after the first three years. This method allocates costs to customer classes in the same manner as IPL will bill SMEC and SMEC will bill each of the cooperatives. The response to MCC-22 states:

> After all of the Member Cooperatives have purchased their shares of the assets, the power supply and transmission costs generally will be classified and allocated by SMEC to the Member Cooperatives in the same manner as they are billed to SMEC by IPL. For example, costs that are billed by IPL to SMEC based on the number of delivery points will be billed by SMEC to the Member Cooperatives on the basis of the number of delivery points serving each Member system. Costs that are billed to SMEC by IPL on the basis of monthly coincidental peal (CP) demand, will be classified as demand related and allocated (billed) to the Member Cooperative's on the basis of their contribution to SMEC's monthly coincidental billing demand. Costs billed to SMEC by IPL on the basis of monthly energy requirements will be allocated (billed) to the Member Systems based on energy, time differentiated as appropriate.

This method is consistent and proportionally passes costs based on how they were incurred. However, in the first three years, the proposed 100% energy allocation method will not proportionally pass along costs based on how they were incurred.

The Chamber used the example provided in response to MCC-22 to show in **Table 1** how the 100% energy method will disproportionately allocate costs to cooperatives that have energy intensive customers. **Table 1** below replicates the example provided for allocation to customer classes in MCC-22 but instead assumes that the allocation is to four different cooperatives and keeps all assumptions about the allocation

the same. In line 14, the Chamber simulated the cost allocation assuming 100% allocation based on energy allocators. **Table 1** demonstrates Cooperatives C and D are allocated more than the method that should be used following cost causation. In other words, these two cooperatives are subsidizing Cooperatives A and B.

Table 1: Comparison of FERC Method Post Three Year Period v. 100% Energy Method Pre Three Year Period – Allocation to Cooperatives

Line #	Description	Alloc Factor	Total	Coop A	Coop B	Coop C	Coop D
1	**FERC Method**						
2	Purchased Power Costs ($)						
3	Customer Charge	12CP	$4,800	$2,264	$852	$1,642	$41
4	Demand Charge	12CP	$1,365,000	$643,892	$242,269	$467,049	$11,790
5	Energy Charge	ENG	$1,420,000	$592,640	$231,154	$582,804	$13,402
6	Transission Charge	12CP	$1,270,000	$599,079	$225,408	$434,543	$10,969
7	Total		$4,059,800	$1,837,875	$699,683	$1,486,038	$36,202
8							
9	Allocation Factors						
10	Energy	ENG	57,745	24100	9,400	23,700	545
11	Energy Allocator			42%	16%	41%	1%
12	Co. Peak		105,360	49700	18700	36050	910
13	12CP Demand Allocator			47%	18%	34%	1%
	PROPOSED METHOD						
14	100% Energy Allocation		$4,059,800	$1,694,366	$660,873	$1,666,244	$38,317
15	FERC Method - All Energy Prop Method			-$143,509	-$38,810	$180,206	$2,115
	Negative means allocated less and Positive means allocated more						

The same phenomenon occurs in allocation to customer classes. To demonstrate the impact to customer classes, we used Cooperative C's cost allocation using the FERC method compared to the 100% energy method. We ran two cases:

- In the first case, we allocated the $1,486,038 from Line 7 in **Table 1** to customer classes using the FERC method and 100% energy method – as **Table 2** demonstrates, the 100% energy allocation results in over allocating costs to the large C&I class by $65,962 (line 15 in **Table 2**).
- In the second case, the Chamber allocated the $1,666,244 from Line 14 in **Table 1** to customer classes using the FERC method and 100% energy method – as **Table 3**

demonstrates, the 100% energy allocation results in over allocating costs to the large C&I class by $73,961 (line 15 in **Table 3**).

- Ultimately, the 100% energy allocation method results in over allocating $135,923 ($65,962+$73,961) to the large C&I class.

Table 2: Cooperative C: Cost Allocation to Classes Using Amount Determined by FERC Method

Line #	Description	Alloc Factor	Total	Residential	Small Comm	Large Comm	Other
1	FERC Method						
2	Purchased Power Costs ($)						
3	Customer Charge	12CP	$1,757	$829	$312	$601	$15
4	Demand Charge	12CP	$499,641	$235,688	$88,679	$170,957	$4,316
5	Energy Charge	ENG	$519,773	$216,928	$84,611	$213,328	$4,906
6	Transission Charge	12CP	$464,867	$219,285	$82,508	$159,059	$4,015
7	Total		$1,486,038	$672,731	$256,110	$543,945	$13,251
8							
11	Energy Allocator			42%	16%	41%	1%
13	12CP Demand Allocator			47%	18%	34%	1%
	PROPOSED METHOD						
14	100% Energy Allocation		$1,486,038	$620,201	$241,904	$609,907	$14,025
15	Prop Method - FERC Method			($52,530)	($14,206)	$65,962	$774
	Negative means allocated less and Positive means allocated more						

Table 3: Cooperative C: Cost Allocation to Classes Using Amount Determined by 100% Energy Method

Line #	Description	Alloc Factor	Total	Residential	Small Comm	Large Comm	Other
1	FERC Method						
2	Purchased Power Costs ($)						
3	Customer Charge	12CP	$1,970	$929	$350	$674	$17
4	Demand Charge	12CP	$560,230	$264,269	$99,433	$191,689	$4,839
5	Energy Charge	ENG	$582,804	$243,234	$94,871	$239,197	$5,501
6	Transission Charge	12CP	$521,240	$245,877	$92,513	$178,347	$4,502
7	Total		$1,666,244	$754,310	$287,167	$609,907	$14,858
8							
11	Energy Allocator			42%	16%	41%	1%
13	12CP Demand Allocator			47%	18%	34%	1%
	PROPOSED METHOD						
14	100% Energy Allocation		$1,666,244	$695,411	$271,239	$683,868	$15,726
15	Prop Method - FERC Method			-$58,900	-$15,929	$73,961	$868
	Negative means allocated less and Positive means allocated more						

Tables 1, 2 and 3 demonstrate the 100% energy allocation method does not follow cost causation principles and results in subsidies among cooperatives and cooperative customer classes. To align with Cooperative and Chamber principles against cross subsidization, the Chamber recommends that Cooperatives use the same methodology used by IPL to bill SMEC (i.e., FERC method) to allocate costs to cooperatives and their customers. This will ensure that each cooperative, and in turn, each customer class will pay its fair share and nothing more.

3. Rate Levelization

The Cooperatives propose the following regarding IPL rates after three years:

> A SMEC Member Cooperative may merge one or more Legacy Area and Acquired Area rates, determined on a rate-by-rate basis, during the Two-Year Transition Period, provided that:
>
> 1. No rates will be merged unless the projected revenue produced by the Legacy Area and Acquired Area rates in question are within 5 percent of each other; and
>
> 2. No rate will be increased by more than 5 percent per year, excluding the operation of the PCA mechanism, to facilitate the merger of a Legacy Area and Acquired Area rate.
>
> ***See*** Page 26 of the application

The 5% yardstick concerns the Chamber. Energy intensive businesses that operate in a globally competitive environment simply cannot afford such significant increases. Any increase is challenging for such customers, especially a 5% increase given that (a) these increases have nothing to do with cost causation, and (b) they **exclude** the IPL costs associated with the wholesale power agreement.

The Chamber does not believe it is appropriate to merge the IPL rates with the legacy rates as early as the three year period as proposed by SMEC. Since the cooperatives will already

have established the IPL rates and cost allocation methodologies, they should continue to maintain two separate rate books. Similar to the discussion earlier about cost allocation, maintaining separate rate books in this instance will ensure that neither the Legacy customers subsidize IPL customers and vice versa.

The Chamber recommends maintaining two separate rate books throughout the 10 year term as the cooperatives propose for the first three years. Alternatively, a Cooperative should only be authorized to merge the rates during the 10 year term, and beyond if there is less than a 1% differential. The Chamber's concern is largely because of the significant disparity in rates currently. Below is a table illustrating the significance of the rate differences:

2013 Revenues, MWh and $/MWh[28]

Cooperative	Revenue/kWh	Percent of IPL
Nobles	$0.0734	94%
So. Central Elec.	$0.0758	98%
IPL	$0.0771	99%
Freeborn-Mower	$0.0777	100%
Sioux Valley	$0.0779	100%
Federated	$0.0795	102%
MN Valley	$0.0802	103%
Brown	$0.0847	109%
Tri-County	$0.0863	111%
Steele-Waseca	$0.0882	113%
Redwood	$0.0895	115%
Benco	$0.1043	134%
Peoples	$0.1052	135%

4. Governance

We have had some preliminary discussions with the cooperatives on governance issues. We plan to have further discussions to address the goal of developing a formal arrangement

[28] Attachment B- OAG Informational Requests with Attachments - IR 17A - IPL Responsive Comments.

whereby the IPL business customers' concerns are adequately addressed on an on-going basis. If the discussions with the cooperatives do not result in a resolution of the issues, we reserve the right to submit supplemental comments regarding this matter.

The Chamber appreciates the opportunity to participate in this important proceeding.

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Respectfully submitted,

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Exhibit A

2015 Rate Impact for an Energy Intensive Customer

	IPL Rate 360	Summer	Winter
Current	Demand Charges	$15.14	$9.28
Proposed	Demand Charges	$15.14	$9.28
Current	Energy Charges	$0.04799	$0.04188
Proposed	Energy Charges	$0.05431	$0.04820
Source:	Joint Petitioners Initial Filing, Attachment H-2 (All Rolled In)		
	Demand	1000	KW
	load factor	80%	
	Monthly kWh	584,000	
	Current	Summer Charges	Winter Charges
	Demand - Annual	$60,560	$74,240
	Energy - Annual	$112,105	$195,663
	Total	$442,568	
	Unit Cost	$0.06315	
	Proposed		
	Demand - Annual	$60,560.00	$74,240.00
	Energy - Annual	$126,868	$225,190
	Total	$486,859	
	Unit Cost	$0.06947	
	Change in Rates	$0.00632	
	% of current rate	10%	