



Alliant Energy Corporate Services, Inc.  
Legal Department  
319-786-4236 – Phone  
319-786-4533 – Fax

Samantha C. Norris  
Senior Attorney

Interstate Power and Light Co.  
An Alliant Energy Company

Alliant Tower  
200 First Street SE  
P.O. Box 351  
Cedar Rapids, IA 52406-0351

Office: 1.800.822.4348  
[www.alliantenergy.com](http://www.alliantenergy.com)

November 10, 2014

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

RE: Interstate Power and Light Company and Southern Minnesota Energy Cooperative Docket No. E001, E132, E114, E6521, E142, E135, E115, E140, E105, E139, E124, E126, E145/PA-14-322  
Interstate Power and Light Company and Southern Minnesota Energy Cooperative's Initial Comments in Response to October 4, 2014 Notice of Additional Comment Period

Dear Dr. Haar:

Enclosed for eFiling with the Minnesota Public Utilities Commission (Commission) please find Interstate Power and Light Company and Southern Minnesota Energy Cooperative's Initial Comments in Response to the October 4, 2014 Notice of Additional Comment Period in the above-referenced dockets.

Copies of this filing have been served on the Minnesota Department of Commerce, Division of Energy Resources, the Minnesota Office of Attorney General – Residential and Small Business Utilities Division, and the attached service list.

Very truly yours,

/s/ Samantha C. Norris  
Samantha C. Norris  
Senior Attorney

SCN/kcb  
Enclosures

cc: Service List

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger  
David C. Boyd  
Nancy Lange  
Dan Lipschultz  
Betsy Wergin

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

<p>IN THE MATTER OF A REQUEST FOR APPROVAL OF THE ASSET PURCHASE AND SALE AGREEMENT BETWEEN INTERSTATE POWER AND LIGHT COMPANY AND SOUTHERN MINNESOTA ENERGY COOPERATIVE</p>	<p>DOCKET NO. E001, E132, E114, E6521, E142, E135, E115, E140, E105, E139, E124, E126, E145/PA-14-322</p>
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AFFIDAVIT OF SERVICE

STATE OF IOWA            )  
  ) ss.  
COUNTY OF LINN        )

Kathleen C. Balvanz, being first duly sworn on oath, deposes and states:

That on the 10<sup>th</sup> day of November, 2014, copies of the foregoing Affidavit of Service, together with Interstate Power and Light Company and Southern Minnesota Energy Cooperative's Initial Comments in Response to the October 4, 2014 Notice of Additional Comment Period, were served upon the parties on the attached service list, by e-filing, overnight delivery, electronic mail, facsimile and/or first-class mail, proper postage prepaid from Cedar Rapids, Iowa.

  /s/ Kathleen C. Balvanz    
Kathleen C. Balvanz

Subscribed and Sworn to Before Me  
this 10<sup>th</sup> day of November, 2014.

  /s/ Kathleen J. Faine    
Kathleen J. Faine  
Notary Public  
My Commission Expires on February 20, 2015

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Ross	Abbey	abbey@fresh-energy.org	Fresh Energy	408 Saint Peter St Ste 220  St. Paul, MN 55102-1125	Electronic Service	No	OFF_SL_14-322_Official
Bobby	Adam	bobby.adam@conagrafoods.com	ConAgra	Suite 5022 11 ConAgra Drive Omaha, NE 68102	Electronic Service	No	OFF_SL_14-322_Official
Michael	Allen	michael.allen@allenergysolar.com	All Energy Solar	721 W 26th st Suite 211  Minneapolis, Minnesota 55405	Electronic Service	No	OFF_SL_14-322_Official
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_14-322_Official
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St  Duluth, MN 558022191	Electronic Service	No	OFF_SL_14-322_Official
John	Aune	johna@bluehorizonsolar.com	Blue Horizon Energy	171 Cheshire Ln Ste 500  Plymouth, MN 55441	Electronic Service	No	OFF_SL_14-322_Official
Rebecca J.	Baldwin		Spiegel & McDiarmid	1333 New Hampshire Avenue NW  Washington, DC 20036	Paper Service	No	OFF_SL_14-322_Official
Rick	Bartz	rbartz@ibewlocal949.org	IBEW Local Union 949	12908 Nicollet Avenue South  Burnsville, MN 55337	Electronic Service	No	OFF_SL_14-322_Official
Peter	Beithon	pbeithon@otpc.com	Otter Tail Power Company	P.O. Box 496 215 South Cascade Street Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_14-322_Official
Sara	Bergan	sebergan@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Kathryn J.	Bergstrom		Gray Plant Mooty	500 IDS Center 80 South Eighth Street Minneapolis, MN 550423796	Paper Service	No	OFF_SL_14-322_Official
James J.	Bertrand	james.bertrand@leonard.com	Leonard Street & Deinard	150 South Fifth Street, Suite 2300  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official
William	Black	bblack@mmua.org	MMUA	Suite 400 3025 Harbor Lane North Plymouth, MN 554475142	Electronic Service	No	OFF_SL_14-322_Official
William A.	Blazar	bblazar@mncchamber.com	Minnesota Chamber Of Commerce	Suite 1500 400 Robert Street North St. Paul, MN 55101	Electronic Service	No	OFF_SL_14-322_Official
Michael	Bradley	mike.bradley@lawmoss.com	Moss & Barnett	150 S. 5th Street, #1200  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official
B. Andrew	Brown	brown.andrew@dorsey.com	Dorsey & Whitney LLP	Suite 1500 50 South Sixth Street Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_14-322_Official
Michael J.	Bull	mbull@mncee.org	Center for Energy and Environment	212 Third Ave N Ste 560  Minneapolis, MN 55401	Electronic Service	No	OFF_SL_14-322_Official
Joel	Cannon	jcannon@tenksolar.com	Tenk Solar, Inc.	9549 Penn Avenue S  Bloomington, MN 55431	Electronic Service	No	OFF_SL_14-322_Official
John J.	Carroll	jcarroll@newportpartners.com	Newport Partners, LLC	9 Cushing, Suite 200  Irvine, California 92618	Electronic Service	No	OFF_SL_14-322_Official
Steve W.	Chriss	Stephen.chriss@walmart.com	Wal-Mart	2001 SE 10th St.  Bentonville, AZ 72716-5530	Electronic Service	No	OFF_SL_14-322_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
City	Clerk	sschulte@ci.albertlea.mn.us	City of Albert Lea	221 E Clark St  Albert Lea, MN 56007	Electronic Service	No	OFF_SL_14-322_Official
Steve	Coleman	scoleman@appliedenergyinnovations.org	Applied Energy Innovations	4000 Minnehaha Ave S  Minneapolis, MN 55406	Electronic Service	No	OFF_SL_14-322_Official
Joan	Conrad	N/A	Iowa Utilities Board	1375 E. Court Avenue, Room 69  Des Moines, IA 50319-0069	Paper Service	No	OFF_SL_14-322_Official
Lisa	Crum	lisa.crum@ag.state.mn.us	Office of the Attorney General-PUC	445 Minnesota Street, 1100 BRM  Saint Paul, MN 55101	Electronic Service	No	OFF_SL_14-322_Official
Lisa	Daniels	lisadaniels@windustry.org	Windustry	201 Ridgewood Ave  Minneapolis, MN 55403	Electronic Service	No	OFF_SL_14-322_Official
Dustin	Denison	dustin@appliedenergyinnovations.org	Applied Energy Innovations	4000 Minnehaha Ave S  Minneapolis, MN 55406	Electronic Service	No	OFF_SL_14-322_Official
Executive	Director		League Of MN Cities	145 University Avenue West  St Paul, MN 551032044	Paper Service	No	OFF_SL_14-322_Official
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, BRM Tower St. Paul, MN 55101	Electronic Service	No	OFF_SL_14-322_Official
Steve	Downer	sdowner@mmua.org	MMUA	3025 Harbor Ln N Ste 400  Plymouth, MN 554475142	Electronic Service	No	OFF_SL_14-322_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Bill	Droessler	N/A	Izaak Walton League of America-MWO	1619 Dayton Ave Ste 202  Saint Paul, MN 55104	Paper Service	No	OFF_SL_14-322_Official
Betsy	Engelking	betsy@geronimoenergy.com	Geronimo Energy	7650 Edinborough Way Suite 725 Edina, MN 55435	Electronic Service	No	OFF_SL_14-322_Official
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500  Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_14-322_Official
Nathan	Franzen	nathan@geronimoenergy.com	Geronimo Energy	7650 Edinborough Way Suite 725 Edina, MN 55435	Electronic Service	No	OFF_SL_14-322_Official
Doug	Franzen	djf@franz-mn.com	Franzen & Associates, LLC	1675 Highland Pkwy  St. Paul, MN 55116	Paper Service	No	OFF_SL_14-322_Official
Benjamin	Gerber	bgerber@mnchamber.com	Minnesota Chamber of Commerce	400 Robert Street North Suite 1500 St. Paul, Minnesota 55101	Electronic Service	No	OFF_SL_14-322_Official
Bruce	Gerhardson	bgerhardson@otpc.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_14-322_Official
Elizabeth	Goodpaster	bgoodpaster@mncenter.org	MN Center for Environmental Advocacy	Suite 206 26 East Exchange Street St. Paul, MN 551011667	Electronic Service	Yes	OFF_SL_14-322_Official
Bill	Grant	Bill.Grant@state.mn.us	Minnesota Department of Commerce	85 7th Place East, Suite 500  St. Paul, MN 55101	Electronic Service	No	OFF_SL_14-322_Official
David	Grover	dgrover@itctransco.com	ITC Midwest	901 Marquette Avenue Suite 1950 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_14-322_Official
Tony	Hainault	anthony.hainault@co.hennepin.mn.us	Hennepin County DES	701 4th Ave S Ste 700  Minneapolis, MN 55415-1842	Electronic Service	No	OFF_SL_14-322_Official
J Drake	Hamilton	hamilton@fresh-energy.org	Fresh Energy	408 St Peter St  Saint Paul, MN 55101	Electronic Service	No	OFF_SL_14-322_Official
Samuel	Hanson	N/A	Briggs And Morgan, P.A.	2200 IDS Center E 80 South Eighth Street Minneapolis, MN 55402	Paper Service	No	OFF_SL_14-322_Official
Jack	Hays	jack.hays@westwoodps.com	Westwood Professional Services	7699 Anagram Drive  Eden Prairie, MN 55344	Electronic Service	No	OFF_SL_14-322_Official
Brandon	Heath	bheath@misoenergy.org	MISO Energy	1125 Energy Park Drive  St. Paul, MN 55108-5001	Electronic Service	No	OFF_SL_14-322_Official
Annete	Henkel	mui@mutilityinvestors.org	Minnesota Utility Investors	413 Wacouta Street #230 St.Paul, MN 55101	Electronic Service	No	OFF_SL_14-322_Official
Richard J.	Hettwer	rj.hettwer@smmpa.org	SMMPA	500 First Avenue, SW  Rochester, MN 559023303	Electronic Service	No	OFF_SL_14-322_Official
Lynn	Hinkle	lhinkle@mnseia.org	Minnesota Solar Energy Industries Association	2512 33rd Ave South #2  Minneapolis, MN 55406	Electronic Service	No	OFF_SL_14-322_Official
Holly	Hinman	holly.r.hinman@xcelenergy.com	Xcel Energy	414 Nicollet Mall, 7th Floor  Minneapolis, MN 55401	Electronic Service	No	OFF_SL_14-322_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Margaret	Hodnik	mhodnik@mnpower.com	Minnesota Power	30 West Superior Street  Duluth, MN 55802	Electronic Service	No	OFF_SL_14-322_Official
Anne	Hunt	anne.hunt@ci.stpaul.mn.us	City of Saint Paul	390 City Hall 15 West Kellogg Boulevard  Saint Paul, MN 55102	Electronic Service	No	OFF_SL_14-322_Official
Dwight	Jelle	dkjelle@gmail.com	Best Power International, LLC	P.O. 5126  Hopkins, MN 55343	Electronic Service	No	OFF_SL_14-322_Official
Alan	Jenkins	aj@jenkinsatlaw.com	Jenkins at Law	2265 Roswell Road Suite 100 Marietta, GA 30062	Electronic Service	No	OFF_SL_14-322_Official
Linda	Jensen	linda.s.jensen@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota Street  St. Paul, MN 551012134	Electronic Service	No	OFF_SL_14-322_Official
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	150 S. 5th Street Suite 1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official
Paula	Johnson	paulajohnson@alliantenergy.com	Alliant Energy-Interstate Power and Light Company	P.O. Box 351 200 First Street, SE Cedar Rapids, IA 524060351	Electronic Service	No	OFF_SL_14-322_Official
Elizabeth M.	Jones	elizabeth.jones@ag.state.mn.us	Office of the Attorney General-PUC	445 Minnesota Street Suite 1100 Bremer Tower St. Paul, MN 55101	Electronic Service	No	OFF_SL_14-322_Official
Mara	Koeller	mara.n.koeller@xcelenergy.com	Xcel Energy	414 Nicollet Mall 5th Floor Minneapolis, MN 55401	Electronic Service	No	OFF_SL_14-322_Official
Brian	Krambeer	bkrambeer@tec.coop	Tri-County Electric Cooperative	PO Box 626 31110 Cooperative Way Rushford, MN 55971	Electronic Service	No	OFF_SL_14-322_Official



First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Jon	Kramer	jk2surf@aol.com	Sundial Solar	4708 york ave. S  Minneapolis, MN 55410	Electronic Service	No	OFF_SL_14-322_Official
Jim	Krueger	jkrueger@fmcs.coop	Freeborn-Mower Cooperative Services	Box 611  Albert Lea, MN 56007	Electronic Service	No	OFF_SL_14-322_Official
Allen	Krug	allen.krug@xcelenergy.com	Xcel Energy	414 Nicollet Mall-7th fl  Minneapolis, MN 55401	Electronic Service	No	OFF_SL_14-322_Official
Jeffrey L.	Landsman	jlandsman@wheelerlaw.com	Wheeler, Van Sickle & Anderson, S.C.	Suite 801 25 West Main Street Madison, WI 537033398	Electronic Service	No	OFF_SL_14-322_Official
Harold	LeVander, Jr.	hlevander@felhaber.com	Felhaber, Larson, Fenton & Vogt, P.A.	Suite 2100 444 Cedar Street St. Paul, MN 551012136	Electronic Service	No	OFF_SL_14-322_Official
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_14-322_Official
Bob	Long	rlong@larkinhoffman.com	Larkin Hoffman (Silicon Energy)	1500 Wells Fargo Plaza 7900 Xerxes Ave S Bloomington, MN 55431	Electronic Service	No	OFF_SL_14-322_Official
Rebecca	Lundberg	rebecca.lundberg@powerfullygreen.com	Powerfully Green	11451 Oregon Ave N  Champlin, MN 55316	Electronic Service	No	OFF_SL_14-322_Official
Casey	MacCallum	casey@appliedenergyinnovations.org	Applied Energy Innovations	4000 Minnehaha Ave S  Minneapolis, MN 55406	Electronic Service	No	OFF_SL_14-322_Official
Paula	Maccabee	Pmaccabee@justchangelaw.com	Just Change Law Offices	1961 Selby Ave  Saint Paul, MN 55104	Electronic Service	No	OFF_SL_14-322_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Erik	Madsen	ErikMadsen@alliantenergy.com	Alliant Energy	200 First St SE Cedar Rapid, IA 52401	Electronic Service	No	OFF_SL_14-322_Official
Kavita	Maini	kmains@wi.rr.com	KM Energy Consulting LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_14-322_Official
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_14-322_Official
Natalie	McIntire	natalie.mcintire@gmail.com	Wind on the Wires	570 Asbury St Ste 201 Saint Paul, MN 55104-1850	Electronic Service	No	OFF_SL_14-322_Official
Valerie	Means	valerie.means@lawmoss.com	Moss & Barnett	150 S. 5th Street, #1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official
Brian	Meloy	brian.meloy@stinsonleonard.com	Stinson, Leonard, Street LLP	150 S 5th St Ste 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official
Gregory R.	Merz	gregory.merz@gpmlaw.com	Gray, Plant, Mooty	80 S 8th St Ste 500 Minneapolis, MN 55402-5383	Electronic Service	No	OFF_SL_14-322_Official
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_14-322_Official
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official
Martin	Morud	mmorud@trunorthsolar.com	Tru North Solar	5115 45th Ave S Minneapolis, MN 55417	Electronic Service	No	OFF_SL_14-322_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Carl	Nelson	cnelson@mncee.org	Center for Energy and Environment	212 3rd Ave N Ste 560  Minneapolis, MN 55401	Electronic Service	No	OFF_SL_14-322_Official
Michael	Noble	noble@fresh-energy.org	Fresh Energy	Hamm Bldg., Suite 220 408 St. Peter Street St. Paul, MN 55102	Electronic Service	No	OFF_SL_14-322_Official
Rolf	Nordstrom	rnordstrom@gpisd.net	Great Plains Institute	2801 21ST AVE S STE 220  Minneapolis, MN 55407-1229	Electronic Service	No	OFF_SL_14-322_Official
Samantha	Norris	samanthanorris@alliantenergy.com	Alliant Energy	200 1st Street SE PO Box 351 Cedar Rapids, IA 52406-0351	Electronic Service	No	OFF_SL_14-322_Official
Steven	Nyhus	swnyhus@flaherty-hood.com	Flaherty & Hood PA	525 Park St Ste 470  Saint Paul, MN 55103	Electronic Service	No	OFF_SL_14-322_Official
Priti R.	Patel	pritti.r.patel@xcelenergy.com	Xcel Energy	414 Nicollet Mall MP 800 Minneapolis, MN 55401	Electronic Service	No	OFF_SL_14-322_Official
Donna	Pickard	dpickard@aladdinsolar.com	Aladdin Solar	1215 Lilac Lane  Excelsior, MN 55331	Electronic Service	No	OFF_SL_14-322_Official
Charlie	Pickard	cpickard@aladdinsolar.com	Aladdin Solar	1215 Lilac Lane  Excelsior, MN 55331	Electronic Service	No	OFF_SL_14-322_Official
David E.	Pomper		Spiegel & McDiarmid	1333 New Hampshire Avenue NW  Washington, DC 20036	Paper Service	No	OFF_SL_14-322_Official
Benjamin L.	Porath		Dairyland Power Cooperative	3200 East Avenue South PO Box 817 La Crosse, WI 546020817	Paper Service	No	OFF_SL_14-322_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Gayle	Prest	gayle.prest@minneapolisn.gov	City of Mpls Sustainability	350 South 5th St, #315  Minneapolis, MN 55415	Electronic Service	No	OFF_SL_14-322_Official
Enio	Ricci	ericci@invenergyllc.com	Invenergy LLC	17830 New Hampshire Ave Ste 300  Ashton, MD 20861	Electronic Service	No	OFF_SL_14-322_Official
Michelle	Rosier	michelle.rosier@sierraclub.org	Sierra Club	2327 E. Franklin Avenue  Minneapolis, MN 554061024	Electronic Service	No	OFF_SL_14-322_Official
Dan L.	Sanford	N/A	American Transmission Company LLC	W234 N2000 Ridgeview Pkwy Court  Waukesha, WI 53188-1022	Paper Service	No	OFF_SL_14-322_Official
Richard	Savelkoul	rsavelkoul@martinsquires.com	Martin & Squires, P.A.	332 Minnesota Street Ste W2750  St. Paul, MN 55101	Electronic Service	No	OFF_SL_14-322_Official
Kevin	Saville	kevin.saville@ftr.com	Citizens/Frontier Communications	2378 Wilshire Blvd.  Mound, MN 55364	Electronic Service	No	OFF_SL_14-322_Official
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	12 S 6th St Ste 1137  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official
Matthew J.	Schuerger P.E.	mjsreg@earthlink.net	Energy Systems Consulting Services, LLC	PO Box 16129  St. Paul, MN 55116	Electronic Service	No	OFF_SL_14-322_Official
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	Ste 122 9100 W Bloomington Frwy Bloomington, MN 55431	Electronic Service	No	OFF_SL_14-322_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Gary	Shaver	N/A	Silicon Energy	3506 124th St NE  Marysville, WA 98271	Paper Service	No	OFF_SL_14-322_Official
Erin	Shea	eshea@silicon-energy.com	Silicon Energy	PO Box 376 8787 Silicon Way Mt Iron, MN 55768	Electronic Service	No	OFF_SL_14-322_Official
Doug	Shoemaker	dougs@mnRenewables.org	MRES	2928 5th Ave S  Minneapolis, MN 55408	Electronic Service	No	OFF_SL_14-322_Official
Ron	Spangler, Jr.	rlspangler@otpc.com	Otter Tail Power Company	215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_14-322_Official
Kristin	Stastny	stastny.kristin@dorsey.com	Dorsey & Whitney LLP	50 South 6th Street Suite 1500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official
Donna	Stephenson	dstephenson@greenergy.com	Great River Energy	12300 Elm Creek Boulevard  Maple Grove, MN 55369	Electronic Service	No	OFF_SL_14-322_Official
Erin	Stojan Ruccolo	ruccolo@fresh-energy.org	Fresh Energy	408 Saint Peter St Ste 220  Saint Paul, MN 55102-1125	Electronic Service	No	OFF_SL_14-322_Official
James M.	Strommen	jstrommen@kennedy-graven.com	Kennedy & Graven, Chartered	470 U.S. Bank Plaza 200 South Sixth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-322_Official
Deb	Sundin	deb.sundin@xcelenergy.com	Xcel Energy	414 Nicollet Mall  Minneapolis, MN 55401	Electronic Service	No	OFF_SL_14-322_Official
JoAnn	Thompson	jthompson@otpc.com	Otter Tail Power Company	P.O. Box 496 215 South Cascade Street Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_14-322_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
SaGonna	Thompson	Regulatory.Records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7  Minneapolis, MN 554011993	Electronic Service	No	OFF_SL_14-322_Official
Stephen J.	Videto		ITC Holding Corp.	27175 Energy Way, Fifth Floor  Novi, MI 48377	Paper Service	No	OFF_SL_14-322_Official
Denis R.	Vogel	vmele@wheelerlaw.com	Wheeler, Van Sickle & Anderson, S.C.	25 W. Main Street Suite 801  Madison, WI 53703	Electronic Service	No	OFF_SL_14-322_Official
Marya	White	mwhite@misoenergy.org	MISO	1125 Energy Park Dr  St. Paul, MN 55108	Electronic Service	No	OFF_SL_14-322_Official
Daniel	Williams	DanWilliams.mg@gmail.com	Powerfully Green	11451 Oregon Avenue N  Champlin, MN 55316	Electronic Service	No	OFF_SL_14-322_Official
Robyn	Woeste	robynwoeste@alliantenergy.com	Interstate Power and Light Company	200 First St SE  Cedar Rapids, IA 52401	Electronic Service	No	OFF_SL_14-322_Official

**STATE OF MINNESOTA**

**BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

**Beverly Jones Heydinger  
David C. Boyd  
Nancy Lange  
Dan Lipschultz  
Betsy Wergin**

**Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner**

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**IN THE MATTER OF A REQUEST FOR  
APPROVAL OF THE ASSET PURCHASE  
AND SALE AGREEMENT BETWEEN  
INTERSTATE POWER AND LIGHT  
COMPANY AND SOUTHERN  
MINNESOTA ENERGY COOPERATIVE**

**DOCKET NOS. E001, E132, E114,  
E6521, E142, E135,  
E115, E140, E105,  
E139, E124, E126,  
E145/PA-14-322**

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**INITIAL COMMENTS OF INTERSTATE POWER AND LIGHT COMPANY  
AND SOUTHERN MINNESOTA ENERGY COOPERATIVE  
IN RESPONSE TO OCTOBER 10, 2014 NOTICE OF ADDITIONAL COMMENT PERIOD**

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**INITIAL COMMENTS OF INTERSTATE POWER AND LIGHT COMPANY AND SOUTHERN MINNESOTA ENERGY COOPERATIVE IN RESPONSE TO OCTOBER 10, 2014 NOTICE OF ADDITIONAL COMMENT PERIOD**

The following Initial Comments are submitted to the Minnesota Public Utilities Commission (Commission) by Interstate Power and Light Company (IPL) and Southern Minnesota Energy Cooperative (SMEC) (collectively Petitioners) in response to the October 10, 2014 Notice of Additional Comment Period (October 10 Notice). The Notice identified several topics that directly pertain to the core public interest determination before the Commission under Minn. Stat. § 216B.50 and allowed parties to address other issues.

A majority of these topics have been addressed in the record that has been developed using the process established by the Commission,<sup>1</sup> including the Responsive Comments of Interstate Power and Light Company and Southern Minnesota Energy Cooperative filed on September 4, 2014 (Petitioners' September 4 Comments). These Comments: (1) will address each of the topics identified in the October 10 Notice, with references to other parts of the record also addressing those topics; and (2) will also address some of the other issues raised in the October 6, 2014 Reply Comments of the Department of Commerce, Division of Energy Resources (Department), the Office of Attorney General - Antitrust and Utilities Division (OAG), and Minnesota Municipal Utilities Association (MMUA).

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<sup>1</sup> Order Requiring Additional Record Development, June 30, 2014.

## **I. BACKGROUND AND SUMMARY**

As explained further in Petitioners' September 4 Comments and these Initial Comments, the Transaction fully meets the public interest criteria of Minn. Stat. § 216B.50 without the addition of any other requirements or conditions. The Petitioners have developed and provided a well-balanced approach that includes significant customer benefits and protections and Commission oversight for the 5-year period following closing and facilitates a transition from traditional rate regulation to the cooperative model of regulation, member control, and member ownership.

The cooperative model of regulation, member control, and ownership may not be as familiar as the traditional regulation provided by the Commission, but there is no basis to question the Legislative Finding in Minn. Stat. 216B.01 that cooperatives such as SMEC and the SMEC Member Cooperatives are "effectively regulated and controlled by the membership."

Further, the affected IPL customers will obtain an ownership interest in the IPL assets being transferred as a result of the cooperative membership in the SMEC Member Cooperatives. Ownership by the customer-members eliminates the typical division of interests between "stockholders" and "customers," making this case unlike prior acquisitions that the Commission has reviewed. The ownership interest in the assets transferred includes the right to subsequent transfer by the SMEC Member Cooperatives, including any gain that may result.

As also further explained in these Initial Comments, the IPL customers will obtain added long-term cost benefits from the very low costs of capital and exemption from income taxes available to SMEC and the SMEC Member Cooperatives.

## **II. TOPICS IDENTIFIED IN THE OCTOBER 10 NOTICE**

Responses to the topics identified in the October 10 Notice are included in this section.

The order of the topics has been changed to clarify the discussion between related topics.

### **1. Whether the proposed Transaction is in the public interest.**

The Petitioners submit that the record demonstrates that the Transaction is consistent with the public interest because:

1. Customers will benefit from rates that will be lower with the Transaction than without as a result of: (i) the proposed five-year rate plan for SMEC and the SMEC Member Cooperatives; and (ii) their cost advantages, including cost of capital and exemption from income taxes.
2. The Commission will retain oversight over implementation of the five-year rate plan by SMEC and the SMEC Member Cooperatives.
3. As cooperative members, Customers will have ownership interests in the margins remaining after payment of the costs of providing service and in the assets being purchased. Rate control through cooperative management has been used in Minnesota for over the past 70 years.
4. Quality of service will be maintained, or possibly improved. The SMEC Member Cooperatives have a proven track record of providing high quality service to immediately adjacent areas, and the proximity of service areas will strengthen the ability to provide quality service to all customers.
5. Uninterrupted power supply is assured. IPL and SMEC will enter into a Wholesale Power Agreement that will supply power to all of the current IPL customers for no less than 10 years.
6. Renewable Energy Standards (RES) and Integrated Planning will be maintained. SMEC will meet the RES obligations, with assistance from IPL and IPL will continue to file Integrated Resource Plans.

### **2. What are the benefits of the Transaction?**

As noted above, the Transaction will provide significant benefits to customers in several areas which can be summarized as follows:

1. Rates during the years immediately following the closing will be lower for the current IPL customers with the Transaction than without the Transaction, as shown in the analyses performed by the Petitioners and the Department;
2. The current IPL customers will obtain the long-run cost benefits resulting from the far lower costs of capital and exemption from income taxes available to SMEC and the SMEC Member Cooperatives;

3. The current IPL customers will obtain the benefits of ownership of margins and assets as a result of becoming members of the SMEC Member Cooperatives;
4. Quality of service will be maintained and possibly improved; and
5. IPL will continue to supply power, which will assure that power supply will remain available and reliable.

The benefits of the Transaction were identified in the Petition and were further explained in Petitioners' September 4 Comments. The benefits of the Transaction are further explained in the responses to the topics identified in October 10 Notice. Specifically:

- The benefits of lower rates following the closing are explained in Section II.3.B below.
- The benefits of the far lower costs of capital and exemption from income taxes available to SMEC and the SMEC Member Cooperatives are explained in Section II.3.C below.
- The benefits of ownership of margins and assets as a result of becoming members of the SMEC Member Cooperatives are explained in Section II.3.D below.
- Quality of service benefits are explained in Section III.7 below.
- The Wholesale Power Supply Agreement is explained in Section III. 5 below.

There is also significant public support for the Transaction, including resolutions of support from a number of municipalities, two Chambers of Commerce, and statements of support from individuals, as further explained in Section III.C below.

### **3. What will the rate impact be on current IPL customers?**

The completion of the Transaction, under all reasonable assumptions, is reliably expected to lead to rates for IPL customers that will be lower than the rates that would be paid by those customers if the Transaction did not occur. While the levels of customer rate benefits vary (based on the assumptions that are applied), a rate difference that benefits customers is present under all reasonable assumptions. These differentials in the five years immediately following the Transaction are the result of the SMEC Member Cooperatives' Rate Plan. In the

longer run, the significantly lower costs of capital and exemption from income taxes will provide continued benefits.

**A. Summary of SMEC and SMEC Member Cooperatives' Rate Plan.**

The SMEC Member Cooperatives' Rate Plan, which was discussed in detail on pages 22 to 26, and 36 to 51 of the Joint Petition as follows:

1. For the first three years, referred to as the Initial Period, the Cooperatives have agreed to adopt IPL's currently approved rates, with the following adjustments:

a. IPL's Energy Supply Cost Recovery (ESCR) mechanism, basically an adjustment mechanism intended to track changes in IPL's cost of fuel and purchased energy, will be replaced with a Power Cost Adjustment (PCA) mechanism designed to track changes in SMEC's cost of purchased power, including transmission delivery.

b. The SMEC Cooperatives have agreed to offer an across the board \$2.0/MWh credit for the three-year Initial Period. As stated in Petitioners' response to OAG IR No. 2 and DOC IR No. 4, the \$2.0/MWh credit is not based on a definitive calculation, but rather is intended to help moderate the increase in rates that will result from tracking increases in the cost of wholesale power supply and transmission delivery services that have occurred since IPL's last rate case in 2010. To a large extent, this discount is made possible by SMEC's ability to secure a bridge loan having a very low annual interest rate of approximately 1.59 percent,<sup>2</sup> the fact that SMEC and the SMEC Member Cooperatives are exempt from federal and state income tax, and the expectation of operational efficiencies, in spite of the fact that distribution costs have risen since IPL's last rate case.

c. The Cooperatives propose to reduce the amount of Conservation Improvement Program (CIP) expense recovered in base rates from \$2.69/MWh to \$1.4/MWh in order to be more closely aligned with IPL current expenditures and with what the Cooperatives are legally

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<sup>2</sup> The bridge loan is available to SMEC for up to 5 years, although the SMEC Member Cooperatives plan to purchase and refinance their individual shares of assets within the first 3 years.

obligated to spend.<sup>3</sup> Since the recovery of CIP expense is tracked through an automatic adjustment mechanism, this modification of IPL's existing rates has no long term revenue impact, but instead reduces the potential for over-collections followed by refunds that would occur absent this change. (See response to DOC IR No. 9.)

d. The Renewable Energy Resource (RER) charge will be rolled into base rates, as this cost is now included in the cost of purchased power, and will automatically be tracked through the PCA mechanism. (See response to DOC IR No. 16.)

2. For the following two years (i.e., years 4 and 5), referred to as the Transition Period, unless the criteria discussed below are met, the Cooperatives will maintain separate rates structures for the Acquired and Legacy Areas. The rates in each area will be designed in total to recover the revenue requirements of each respective area. Class Cost of Service Studies (CCOSS) for each area, which the SMEC Member Cooperatives have committed to developing, will be utilized along with other traditional cooperative rate design objectives (e.g., rate stability, avoidance of unacceptably abrupt changes, appropriate price signals, encouragement of energy and capacity efficiency, customer acceptance) will be utilized to design the individual rates in each area. The rates for the two areas will not be merged unless the following criteria is met:

a. The revenue produced by the two area rates are within 5 percent of each other;  
and

b. No rate may be increased by more that 5 percent per year to accomplish a merger of rates.

3. After the three-year Initial Period and two-year Transition Period, the Board of Directors of each SMEC Member Cooperative will be solely responsible for setting its rates. The members of the Boards are elected by and ultimately answerable to the membership

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<sup>3</sup> Cooperatives do not require or seek a financial incentive to meet their CIP goals, such as the one the Commission has authorized for IPL, which also reduces the amount that must be recovered from customers.

including the former IPL customers who will become members, at closing, of their local SMEC Member Cooperative.

**B. The Transaction will provide significant customer rate savings.**

The Petitioners' net benefits analysis reflects a realistic assessment of the rate effects with and without the Transaction. While different assumptions can be applied, the effects on rates with and without the Transaction show a significant net benefit to customers during the near term following the Transaction. As shown in the following Subsection C, those near term benefits will be followed by significant long term cost benefits. The presence of net benefits under any reasonable combination of alternatives shows that a contested case is not needed to enable the Commission to complete its review.

The Petitioners' net benefits analysis reflects the fact that upward cost pressures, including power supply and transmission, will have an effect regardless of who provides service. The issue is not whether costs and rates will increase, but rather whether the Transaction will lead to higher rate increases. As the record shows, the Transaction will lead to lower rate increases than would occur without the Transaction.

Petitioners' net benefits analysis covered the years 2014-2017. The year 2014 was included in the analysis because IPL would have filed for rate relief assuming interim rates that would have been effective by July 2014, or earlier, absent the Transaction.

The Petitioners' net benefits analysis also reflects recovery of the full investment of \$122 million, including, the elimination of the accumulated deferred (ADIT) tax reserve mandated by the Internal Revenue Code, the IPL gain on sale, and the SMEC acquisition costs. This analysis shows a cumulative net benefit of \$28.3 million by 2017 (assuming IPL would have filed a rate case in 2014):<sup>4</sup>

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<sup>4</sup> Joint Petition for Approval of Asset Purchase and Sale Agreement Between Interstate Power and Light Company and Southern Minnesota Energy Cooperative (Joint Petition) at 37.



**Comparison of Projected Revenue Increases--Total System**  
(\$ Millions)

Description	2013	2014	2015	2016	2017
Base = 2013 Customer Cost	\$ 77.00				
		Rate Case			Rate Case
IPL Rates		\$ 80.5	\$ 88.2	\$ 92.4	\$ 100.2
% Change from Prior Year		4.5%	9.6%	4.8%	8.5%
SMEC proposal			\$ 81.4	\$ 85.1	\$ 89.5
% Change			5.7%	4.5%	5.2%
Annual Benefit (Detriment)		\$ 3.5	\$ 6.8	\$ 7.3	\$ 10.7
% Benefit		4.5%	8.8%	9.5%	13.9%
Cumulative Benefit		\$ 3.5	\$ 10.3	\$ 17.6	\$ 28.3

The presence of net benefits after recovery of the total purchase price (including gain on sale, acquisition costs, and elimination of the ADIT): (1) meets the rate case standards for full rate recovery of the total purchase price (as explained in Section IV.A.2 below); and (2) exceed the public interest standard of Minn. Stat. § 216B.50.

The Department determined that the Petitioners' assumptions and approach would lead to a net present value benefit of \$21.67 million, but concluded that assuming a 2014 rate case overstated the benefits.<sup>5</sup> As a result, the Department performed its own analyses, which assumed annual rate case filings in 2015 and showed a net present value benefit of \$11.80 million if IPL obtained full recovery of its rate increase requests.<sup>6</sup> While IPL does not agree that a 2014 rate case was an unreasonable assumption,<sup>7</sup> benefits continue to meet or exceed costs, making a contested case unnecessary, as explained in Section IV.B below.

<sup>5</sup> October 6, 2014 Reply Comments of Department of Commerce (Department Reply Comments) at 11.

<sup>6</sup> Department Reply Comments at 12.

<sup>7</sup> IPL does not agree with the assertion that a 2014 rate case filing was an unreasonable assumption, since such a filing was within IPL's control and is consistent with IPL's consistent very low earned returns. Table 2 of the Department's Comments showed the ROE's as follows: (Note: this table reflects the reported ROE, weather normalized and non-weather normalized.)

**Table 2: IPL's Reported RORs in Annual Jurisdictional Reports**

Year	Docket	ROE (normalized)	ROR (unnormalized)
2010	11-4	(3.29%)	2.08%
2011	12-4	0.99%	4.15%
2012	13-4	0.53%	3.74%
2013	14-4	0.43%	3.66%

The Department noted that SMEC and the SMEC Member Cooperatives had used the results of their modeling to secure financing of the acquisition,<sup>8</sup> which includes 100% debt financing.<sup>9</sup> Although the Department identified possible risks that could affect the costs and benefits presented by the Petitioners,<sup>10</sup> the Department concluded that:

[T]he Department believes that the likelihood of IPL/SMEC's forecasts containing significant errors is minimal."<sup>11</sup>

As further explained in Section IV.B below, a contested case is not needed to review the IPL/SMEC rate forecasts because there is a net customer benefit under any reasonable set of factual results.

**C. The far lower cost of capital and exemption from income taxes available to SMEC and the SMEC Member Cooperatives will provide added long run customer rate benefits.**

Although this Transaction is both complex and unique, long run benefits to customers will result from SMEC and the SMEC Member Cooperatives access to the significantly lower financing costs afforded through RUS financing, the historically low interest rate environment, and exemption from federal and state income tax.

This Transaction will be financed by SMEC and the SMEC Member Cooperatives with 100% debt, as opposed to a debt and equity structure of IPL as a regulated investor owned utility. The historically low interest rate environment that has persisted for the last several years therefore presents a timely opportunity for this Transaction, allowing the SMEC Member Cooperatives to lock in long-term cost advantages that will accrue to the members of the acquired system.

SMEC has obtained a bridge loan commitment from the National Rural Utilities Cooperative Finance Corporation (CFC) at an interest rate of 1.57% for up to 5 years until the

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<sup>8</sup> Department Reply Comments at 14

<sup>9</sup> Department Reply Comments at 14.

<sup>10</sup> Department Reply Comments at 13

<sup>11</sup> Department Reply Comments at 14

Member Cooperatives secure long term loans to buy down their share of the facilities. (Even though the Cooperatives plan to buy down their share of assets from SMEC no later than three years from Closing, the bridge loan from CFC may be extended up to 5 years.)

The SMEC Member Cooperatives also have a preliminary commitment from the Rural Utilities Services (RUS) to provide long term financing for the purchase of the assets from SMEC at interest rates that currently are less than 3.5%. The Cooperatives will also be monitoring the RUS and CFC interest rates, and have the ability to quickly perform a buy down earlier to lock in lower rates or to reduce risk if interest rates appear to be headed upward. The fact that this Transaction will be financed with 100% debt and the historically low financing rates available to the Cooperatives relative to the capital costs of IPL represents a significant portion of the benefits that will accrue to customers.

Another source of long term benefit results from the fact that SMEC and the SMEC Member Cooperatives are not-for-profit organizations that are not subject to state and federal income taxes. As a result, any margins remaining after payment of all expenses are not subject to income tax and are retained for the benefit of the members.

**D. Other benefits from cooperative ownership model.**

Unlike prior utility acquisitions that have been reviewed by the Commission, in this case the affected IPL customers will obtain an ownership interest in the assets being transferred, which will occur as a result of the cooperative structure of SMEC and the SMEC Member Cooperatives. This ownership interest means that: (1) the typical division of interests between “stockholders” and “customers” is absent; (2) customers own the operating margins (after coverage of costs) that result from their services; and (3) customers have an ownership interest in the assets of the cooperative, including the assets purchased from IPL (which could be subsequently resold).

**4. Are the terms and conditions of the Asset Sale reasonable?**

The terms and conditions of the Transaction are reasonable. As described in the Responsive Comments of Interstate Power and Light Company and Southern Minnesota Energy Cooperative (filed Sept. 4, 2014), SMEC is paying IPL a fair and reasonable price for IPL's electric distribution assets. The purchase price (with the acquisition premium, including gain) and the ratio of the purchase price to the net book value of the assets (the multiple) were the result of arm's-length negotiations between IPL and representatives of SMEC and the SMEC Member Cooperatives.

The multiple to net book value was determined to be reasonable and consistent with the range of multiples to net book value of publicly announced electric distribution asset sales of similar nature and size that had recently occurred as the Transaction was being negotiated by and between IPL and SMEC and SMEC Member Cooperatives.

The resulting purchase price will fairly compensate IPL for the reasonable value of its utility property. The purchase price (including the gain and acquisition premium, including costs incurred by IPL in connection with the Transaction) also represents an amount that the SMEC Member Cooperatives determined to be reasonable in relation to the benefits that are expected to accrue over time.

**5. Is the Wholesale Power Agreement reasonable?**

As the Petitioners' September 4 Comments show, the Wholesale Power Supply Agreement (Wholesale Power Agreement) is both reasonable and assures a reliable source of power for the IPL customers who will become members of the SMEC Member Cooperatives.

Under the Wholesale Power Agreement, IPL will provide to SMEC all of the electricity required to provide service to customers located within the areas in Minnesota that will be acquired from IPL. The Wholesale Power Agreement is a full-requirements agreement between IPL and SMEC for electric supply to existing customers in the areas acquired from IPL.

SMEC will, in turn, provide all needed electricity to the SMEC Member Cooperatives for those customers in the areas in Minnesota acquired from IPL. The term of the Wholesale Power Agreement is 10 years from the date of closing, with a 5-year termination notice. Pricing under the Wholesale Power Agreement shall be based on the FERC regulated cost of providing service, and is the same as provided in IPL's applicable tariff, currently FERC Rate Schedule RES-5 tariff, which is included in Attachment F of the initial Joint Petition.

Under the Wholesale Power Agreement, IPL will provide to SMEC a pro rata share of the renewable energy of the retail-regulated IPL system and will assist SMEC in meeting renewable obligations if SMEC's renewable obligations exceed a pro rata share of the output of renewable energy generated or procured by IPL. SMEC will bear the full cost for such incremental renewable energy contracts or credits. IPL will also assist SMEC with satisfying any applicable renewable reporting requirements.

**6. Are there operational concerns that could result from the Transaction?**

The Department considered operational issues and concluded:

"The Department does not anticipate any operational issues associated with the proposed sale of the Electric distribution assets from IPL to SMEC." Department Reply Comments, p. 7

The record, including information submitted by SMEC and the SMEC Member Cooperatives in response to the Information Requests, fully supports the Department's conclusion. Accordingly, there are no material facts in dispute with respect to operational issues.

**A. Distribution System.**

The IPL distribution system has been inspected as part of SMEC's due diligence process, and SMEC's Member Cooperatives' distribution system engineers have been diligently studying the system to determine system needs. No operational concerns have been identified.

Furthermore, the contiguous service areas of the SMEC Member Cooperatives will provide significant ongoing advantages for the operation of the distribution assets transferred to the SMEC Member Cooperatives. For example, the SMEC Member Cooperatives currently

operate 21 service centers from which crews are dispatched. These service centers are spread uniformly across their Minnesota service territories from Pipestone on the west to Caledonia on the east. These service centers are in areas contiguous to the IPL service territory footprint. In addition, the SMEC Member Cooperatives plan to maintain many of IPL's existing service centers. All SMEC Member Cooperative service centers will be available for the maintenance of service to former IPL customers.<sup>12</sup>

In addition, ten of the twelve SMEC Member Cooperatives have installed or are in the process of installing either Automatic Meter Reading (AMR) or Advanced Meter Infrastructure (AMI), which allow remote meter reading from headquarters and better management of system operations. Most of the SMEC Member Cooperatives are planning to expand their current AMR/AMI in the future to cover customers in the former IPL service territory.<sup>13</sup>

In addition, the Cooperatives' distribution system engineers have identified a number of locations where the former IPL distribution system can easily be interconnected with the local Cooperative's system, thereby, increasing reliability, operational flexibility and service quality.

#### **B. Data Transfer.**

The IPL customers will become members/owners of the SMEC Member Cooperative in whose service territory they reside at closing. The Petitioners' response to Department IR No 6 for Freeborn-Mower Cooperative Services in terms of the transfer of IPL customers to cooperative membership applies also to the other eleven SMEC Member Cooperatives.

Specifically, IPL and the SMEC Member Cooperatives are currently working on the preparation of a data list to transfer customer information from IPL's CIS to the SMEC Member Cooperatives' Customer Information Systems. The identification of account data fields necessary for the conversion is underway. There will be a test result of the data transfer process. On the date of closing, IPL will obtain final meter readings for its customers, generate

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<sup>12</sup> Response to Department IR No. 42.

<sup>13</sup> Petitioners' September 4 Comments at 19-20. See also Responses to Department IR Nos. 61-62.

a final bill, and transfer the account information to the particular SMEC Member Cooperative. Post-sale support will be available to answer all questions related to the data conversion.

**C. Electric Supply.**

As stated in its Reply Comments, “the Department does not anticipate any operational issues associated with the transmission of power and energy from IPL to SMEC’s member cooperatives.”<sup>14</sup> There is no reason for a contested hearing on electric supply.

With reference to transmission service, the Petitioners stated as follows:

Power and energy will be delivered to SMEC distribution stations through the same transmission facilities that provide delivery prior to the date of the same transmission providers ... IPL will have authority to act on SMEC’s behalf to procure appropriate transmission services from [the Midwest Independent System Operator (MISO)], receiving and paying bills from MISO and passing the associated charges through to SMEC. (Joint Petition, 21-22)

This combination of factors will assure that transmission delivery service will remain reliable for the IPL customers.

With reference to electric supply, the Wholesale Power Agreement provides that IPL will provide SMEC with the all requirements electric supply necessary to serve customers in the areas acquired from IPL for a minimum term of 10 years following the closing of the sale. SMEC must give IPL a 5-year notice of termination, which cannot be given until the 5<sup>th</sup> anniversary of the effective date of the Wholesale Power Agreement.

**7. Are there reliability, service quality or safety concerns that could result from the Transaction?**

There are no significant reliability, service quality or safety concerns that are expected to result from the Transaction, as explained below.

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<sup>14</sup> Department Reply Comments at 8.

**A. Reliability.**

The Department concluded that reporting and reliability controls are appropriate, saying in part:

“It appears that the different cooperatives BODs have adequate controls in place to stay informed regarding significant customer outages similar to those contained in Minn. Rule 7826.07 that pertain to the Commission.... The fact that the respective cooperatives’ board members are elected suggests that sufficient requirements or incentives are in place to insure that the SMEC Member Cooperatives maintain a focus on system reliability.” Department Reply Comments, p. 16.

Minn. Stat. § 216B.029 prescribes service reliability and service quality standards for regulated electric utilities and states that standards for electric cooperatives should be as consistent as possible as the standards for regulated companies.

Over the past five years the SMEC Member Cooperatives have achieved better reliability metrics than IPL, despite having four times the miles of line exposure per customer than IPL. See Petitioners’ Response to Department IR No. 21, providing a tabulation of the SAIDI, SAIFI, and CAIDI reliability index for each SMEC Member Cooperative for the period 2009-2013 along with a five-year average and an average for all 12 SMEC Member Cooperatives. Similar statistics are provided for IPL in Charts 1-1 through 1-3, contained in the Department’s Reply Comments, pp. 15-16, and a graphic summary of the comparisons between IPL and the SMEC Member Cooperatives for these indexes.

The Department accurately concluded as follows:

The information in Chart 1-1 through 1-3 suggests that the SMEC Member Cooperatives’ service reliability is comparable to, if not better, than IPL’s. This information should suggest that IPL’s current rate payers would not likely suffer a decline in reliability, and could experience improvement, if the Transaction is approved.  
Department Reply Comment, p. 15.

Regulated utilities are required to report major service interruptions and outage-related data to the Commission. SMEC Member Cooperative follow similar procedures for reporting service interruptions and outages to their respective Boards of Directors, which perform the



same oversight functions as the Commission does.<sup>15</sup> SMEC Member Cooperatives report service interruption and outages to their respective Boards of Directors.<sup>16</sup> All SMEC Member Cooperatives must report more detailed reliability information to RUS on an annual basis under RUS Bulletin 1730A-119.

**B. Service Quality.**

The Transaction will not result in any decrease in service quality and may improve the level of service. IPL/SMEC provided extensive information regarding service levels for each SMEC Member Cooperative and IPL. After reviewing the information provided by Petitioners, the Department concluded that “It appears that the SMEC Member Cooperatives’ service quality, as defined in Minn. Rule 7826.08-7826.12 is comparable to that provided by IPL with one notable exception. SMEC Member Cooperatives’ service quality may even be superior in some instances.” Department Reply Comments, p. 17.

The notable exception referred to by the Department refers to Redwood Electric Cooperative and South Central Electric Cooperative, where residential and small commercial customers read their own meters. This self-reading feature by these two SMEC Member Cooperatives skewed the meter-reading data for them when compared to IPL, because IPL reads all its customer meters. However, service quality will not be adversely affected by self-reading of meters by members of these two cooperatives.

While noting that comparing cooperative service metrics with IPL’s was difficult due to reporting requirement differences, the Department concluded that “the cooperatives’ long-standing affinity for local control, and to some extent local accountability, is a factor in their favor in this discussion.” Department Reply Comments, p. 17. Significantly, the SMEC Member Cooperatives ratings from the American Consumer Satisfaction Index, a benchmark of service quality for electric utilities, ranged from 79 to 91, while the average ASCI rating for all electric

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<sup>15</sup> Response to Department IR No. 24

<sup>16</sup> Department Reply Comments, p. 17

utilities is 77.4. These facts demonstrate that there is no basis or concern regarding service quality.

**C. Safety.**

There is also no basis for concern regarding safety. The SMEC Member Cooperatives provided extensive information on various safety metrics, including OSHA-related injury claims, property damage information. After reviewing information provided, the Department stated as follows:

Based on the cooperatives' responses, the Department could not identify a discernable difference in the level of safety provided by IPL or the SMEC Member Cooperatives. As a result, the Department believes that the current level of safety provided by IPL to its electric rate payers will remain constant if the Transaction is approved and the SMEC Member Cooperatives begin to provide electric distribution service to IPL's current rate payers. Department Reply Comments, p. 18.

No party to this proceeding has challenged the factual accuracy of the information submitted by SMEC and the SMEC Member Cooperatives in response to the Information Requests regarding reliability, service quality, and safety. Nor has any party raised safety issues as a potential issue in this Transaction. Accordingly, there are no material facts in dispute on this issue.

**8. How will the Commission's authority over the provision of service to current IPL customers change?**

The following discussion will focus on the changes to Commission authority over the provision of service as it relates to rates, service standards and practices, and general customer protections. Commission changes in authority concerning statutory mandates on energy conservation, renewable energy objectives, and integrated resource planning, which apply to SMEC and the SMEC Member Cooperatives as utility entities are addressed elsewhere in these Initial Comments.

With respect to rates, the Commission will not have the authority to determine the revenue requirements of the SMEC Member Cooperatives, their apportionment of that revenue

requirement among the various rate classes, nor their rate design, as it now does for IPL's customers. However, as noted above, cooperative self-regulation has been endorsed by the Legislature and has successfully operated for many years, with only one cooperative electing traditional state rate regulation. These facts show that the change in regulatory model should not be a source of concern, especially when members are able to elect traditional regulation as an alternative. Further, the Commission will have the authority to enforce the terms of the Rate Plan as proposed by SMEC and the SMEC Member Cooperatives to accomplish a transition from traditional regulation to the cooperative self-regulatory model.

**A. Commission Role Regarding the SMEC and SMEC Member Cooperatives' Rate Plan.**

The Petitioners explained the Commission's role with regard to SMEC and the SMEC Member Cooperatives rates in the Petitioners' September 4 Comments.<sup>17</sup> The Commission's role is to require SMEC and the SMEC Member Cooperatives to live up to the commitments made in this docket. The Department Comments recognized the usefulness of the Commission obtaining this information, and the Commission's ability to enforce the SMEC and SMEC Member Commitments adds further benefits.<sup>18</sup>

During the Three-Year Initial Period following the closing, the question of whether SMEC and the SMEC Member Cooperative have performed the following Obligations relating to rates will be clear:

1. Do the base rates reflect the IPL base rates?
2. Do monthly customer charges match the IPL monthly customer charges?
3. Have SMEC and the SMEC Member Cooperatives adopted a \$2.00/MWh credit?
4. Has the PCA mechanism been designed to reflect changes in the costs of purchased power and transmission delivery?

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<sup>17</sup> Petitioners' September 4 Comments at 23-24

<sup>18</sup> Department Reply Comments at 23.

The information required to make these determinations could be required as compliance filings in connection with the Commission's Order in this proceeding. Determining whether Obligations 1 – 3 have been met will be a bright- line decision.

Determining whether Obligation 4 has been met will similarly involve a bright-line determination that will not require the Commission to evaluate the results of the PCA mechanism or make a determination whether the best method has been used. Rather, the decision will be simply whether a reasonable method has been used. While this level of review is less than may have been applicable to IPL, having the Commission make these determinations will make a meaningful contribution to the public interest without requiring the Commission to become involved in an excessively detailed and extended process.

During the following Two-Year Transition Period, the question of whether SMEC and the SMEC Member Cooperative have performed their rate-related Obligations will be equally clear:

1. Were rates in an Acquired Area and Legacy Area merged, and if so, were the rates in either an Acquired Area or a Legacy Area increased by more than 5%?
2. Did SMEC and the SMEC Member Cooperatives perform the CCOSS which they agreed to do for rate evaluation purposes?

The information required to make these determinations could also be required as compliance filings in connection with the Commission's Order in this proceeding. Determining whether these Obligations have been met will also involve bright- line evaluations.

The question of whether Obligation 1 has been met will be apparent from a compliance filing in relation to any merger of rates. Similarly, as to Obligation 2, a compliance filing can be required that would include the CCOSS prepared by SMEC or the SMEC Member Cooperatives.

The Commission need not, and should not, become involved in the highly subjective decision of *how* the CCOSS information was prepared or *how* the results were used. While complex decisions between different rate designs will be made by the SMC Member Cooperatives, the Commission can make a meaningful contribution to the public interest by

assuring that a reasonable process was used without needing to make or substitute its decision for any of the SMEC Member Cooperatives.

Electric cooperative members can also vote to place their cooperative under Commission rate regulation pursuant to Minn. Stat. § 216B.026.

With respect to power supply rates under the Wholesale Power Agreement, the Commission will not have jurisdiction over those rates which will be subject to FERC jurisdiction only.

**B. Commission authority to enforce the Rate Plan.**

The Petitioners explained the basis for the Commission's authority to enforce conditions on its approval of the Transaction, including the commitments of SMEC and the SMEC Member Cooperatives in the Petitioners' September 4 Comments.<sup>19</sup> There are several sources of authority for the Commission

First, the Commission has the authority to make a determination of whether a proposed transfer of public utility property is consistent with the public interest under Minn. Stat. § 216B.50, which includes the power to require terms and conditions. Accordingly, the Commission has authority to impose requirements on SMEC and the SMEC Member Cooperatives as purchasers under a Commission Order approving a transfer that may exceed the scope of their obligations without such a purchase and transfer.

Second, the Commission has the express statutory authority to require both public utilities and other persons to comply with its orders. Minn. Stat. § 216B.54 authorizes the Commission to refer to the Attorney General any pending or actual violation by "any person or public utility" of "any order of the commission" reading:

Whenever the commission or department shall be of the opinion that any person or public utility is failing or omitting or is about to fail or omit to do anything required of it by Laws 1974, chapter 429 or by any order of the commission, or is doing anything or about to do anything, or permitting anything or about to permit

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<sup>19</sup> Petitioners' September 4 Comments at 21-22

anything to be done, contrary to or in violation of Laws 1974, chapter 429 or of any order of the commission, it shall refer the matter to the attorney general who shall take appropriate legal action. (Emphasis added.)

Minn. Stat. §216B.02, Subd. 3 defines “person” broadly, reading:

"Person" means a natural person, a partnership, or two or more persons having a joint or common interest, and a corporation as hereinbefore defined.

The term “person” would certainly include a person who purchased utility property pursuant to an order issued under Minn. Stat. § 216B.50, thus establishing a clear statutory basis for the Commission to enforce its order in regards to the Transaction.

Third, the willingness of SMEC and the SMEC Member Cooperatives to consent to the Commission’s ability to enforce their commitments adds another level of assurance of the Commission’s authority.

### **C. Cooperative Business Model.**

In an electric cooperative, the purchasers of electric service, or member rate payers, are also the owners of the business. Any revenues received by the cooperative in excess of the cost of service are returned to the member/owners based on their usage or “patronage.” This patronage is credited to a capital account for each member, and a portion of the amount in each member’s account is generally retired in cash each year. The SMEC Member Cooperatives have paid back over \$194 million in capital retirements to their members since they were organized. In a cooperative, there is no outside investors who expect to earn a return on their investment in the business. As a result, there is no incentive to charge rates above the cost of providing service.

The member/owners hold the governance rights in the cooperative. The members elect other members to serve on the Board of Directors. The directors are directly responsible to the members in making all business decisions, including the rates to be charged for service. The SMEC Member Cooperative directors are elected by members from districts that have approximately equal in numbers of members. The SMEC Member Cooperatives will revise

these director districts to include the IPL customers, so that all director districts to maintain approximately equal numbers of members. Members can decide not to reelect directors whom they believe are not managing the cooperative properly.

In setting rates, the Board usually retains a rate consultant to prepare a CCOSS. This COSS determines the overall revenue requirement for the cooperative, based on the costs of providing service to each customer class. The Board approves rates based essentially on the CCOSS, with due consideration for mitigating factors such as rate impacts, consolidation of rates, and customer rate incentives. The role played by the Board in rate setting is very similar to the role of the Commission.

Electric cooperatives provide service to over one million Minnesotans. They have excellent records for providing safe, reliable, and quality service, as proven by their high ratings in the American Consumer Service Index. Cooperative members elect their own directors. Any revenues received in excess of the cost of service are allocated to and paid back to their member/owners.

It is this self-regulating feature of electric cooperatives, together with their record of performance, which caused the Legislature to find as a matter of public policy that it was unnecessary to subject the cooperatives to rate regulation. Specifically, Minn. Stat. 216B.01 reflects that finding and reads in part:

Because .... cooperative electric associations are presently effectively regulated and controlled by the membership under the provisions of chapter 308A, it is deemed unnecessary to subject such utilities to regulation under this chapter except as specifically provided herein. (Emphasis added)

**D. Customer Service Rules.**

With respect to customer service rules and regulations, IPL's customer service rules under Minn. Rule 7820.0800-7820.0560 will no longer be applicable. Rather, the IPL customers will become subject to the member service rules of the particular SMEC Member Cooperative in whose service territory they reside. Notably, the SMEC Member Cooperative service rules

address the same subjects as the IPL customer service rules. The Commission will retain jurisdiction over the SMEC Member Cooperatives to adjudicate complaints with respect to service standards and practices from customers. Minn. Stat. § 216B.17, subd. 6.

**E. General Customer Protections.**

It should be noted that there are numerous customer service protection provisions in statute that IPL customers will continue to benefit from if the Transaction is approved. These protections include the Cold Weather Rule in Minn. Stat. § 216B.097; the Excessive Heat Rule in Minn. Stat. § 216B.0975, the disconnection notices to cities during the cold weather months in Minn. Stat. § 216B.0976; budget billing, payment agreements, undercharges, and medically-necessary equipment under Minn. Stat. § 216B.098; customer deposits under Minn. Stat. § 325E.02; delinquency charges under Minn. Stat. § 325E.021; landlord/tenant utility bills under Minn. Stat. § 325E.025; utility payment arrangements for military service personnel under Minn. Stat. § 325E.028; distributed generation tariffs under Minn. Stat. § 216B.1611, subd. 2; C-BED tariffs under Minn. Stat. § 216B.1612, subd. 4; and provisions for co-generation and small power production under Minn. Stat. § 216B.164.

**9. What entity will be responsible for filing integrated resource plans under Minn. Stat. § 216B.2422?**

IPL and SMEC have assumed from the time of filing the Joint Petition that IPL would remain the entity responsible for filing integrated resource plans (IRPs) under Minn. Stat. § 216B.2422 for at least the initial 10-year term of the Wholesale Power Agreement.<sup>20</sup> IPL and SMEC renewed this position in their Responsive Comments.<sup>21</sup> Such an arrangement is similar to other power suppliers without Minnesota retail customers.

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<sup>20</sup> “The Wholesale Power Agreement will have no impact on IPL’s integrated resource plan (IRP) for the term of the agreement because IPL’s total load will not be changed as a result of the Transaction; IPL will continue to provide power to the same Minnesota customers and areas in Minnesota before and after the Transaction.” Joint Petition at 16.

<sup>21</sup> “Renewable Energy Standards (RES) and Integrated Planning will be maintained. RES obligations will become applicable to SMEC, as the Generation and Transmission Cooperative serving the SMEC Member Cooperative, and IPL will continue to file Integrated Resource Plans



The Department raised the possibility that SMEC would be the entity responsible for filing IRPs with appropriate assistance to be provided by IPL.<sup>22</sup> While this approach would be acceptable to SMEC and IPL, some factors support having IPL be both the entity responsible and the entity that performs the IRP, although IPL will not meet the definition of a “public utility” following the closing of the Transaction.

IPL will not meet the definition of a “public utility” under Minn. Stat. § 216B.02, Subd. 4 following the closing, because it will not be providing “retail” service to the public in Minnesota.<sup>23</sup> However, the need to file IRPs are not limited to “public utilities” but apply to the broader category “utility defined in Minn. Stat. § 216B.2422, Subd.1(b):

(b) "Utility" means an entity with the capability of generating 100,000 kilowatts or more of electric power and serving, either directly or indirectly, the needs of 10,000 retail customers in Minnesota. Utility does not include federal power agencies. (Emphasis added.)

IPL meets this definition because it has generating capability of more than 100,000 kilowatts and it will continue to serve the wholesale electric power needs of its approximately 40,000 current retail customers in Minnesota “indirectly” through SMEC and the SMEC Member Cooperatives.<sup>24</sup> Direct service is not required to meet the definition of a “utility” for filing an IRP.

The application of the IRP filing requirement to entities other than public utilities is confirmed by Minn. Stat. § 216B.2422, subd. 2, which reads in part:

The commission shall approve, reject, or modify the plan of a public utility, as defined in section 216B.02, subdivision 4, consistent with the public interest. In

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in accordance with the State of Minnesota’s laws and regulations.” Petitioners’ September 4 Comments at 6.

<sup>22</sup> Department of Commerce October 6, 2014 Reply Comments at 20.

<sup>23</sup> Minn. Stat. § 216B.02, Subd. 4 reads in part:

"Public utility" means persons, corporations, or other legal entities ... now or hereafter operating, maintaining, or controlling in this state equipment or facilities for furnishing at retail natural, manufactured, or mixed gas or electric service to or for the public or engaged in the production and retail sale thereof but does not include (1) a municipality or a cooperative electric association, ... .

<sup>24</sup> When and if IPL no longer provides electric power to 10,000 or more customers in Minnesota, it would no longer need to file IRPs, but that would not occur during the initial 10-year term of the Wholesale Agreement in the absence of completely unanticipated developments.

the resource plan proceedings of all other utilities, the commission's order shall be advisory and the order's findings and conclusions shall constitute prima facie evidence which may be rebutted by substantial evidence in all other proceedings. (Emphasis added.)

The conclusion that IPL is within the scope of the definition of utility of Minn. Stat. § 216B.2422 (and the related IRP filing requirement) is also supported by the exception for “federal power agencies” which would be needed only if the definition was significantly broader than a provider of retail service in Minnesota.

Filing an IRP would be not be feasible for SMEC because it does not own generation facilities which are the focal point of IRP filings, and there would be no benefit for SMEC to simply adopt an IRP prepared by IPL.

**10. Will IPL or SMEC be responsible for SMEC members meeting their renewable energy standards obligation, pursuant to Minn. Stat. §216B.1691, and how will that information be reported?**

SMEC will be responsible for meeting the Minnesota Renewable Energy Standards (RES) of Minn. Stat. § 216B.1691 after the closing of the Transaction, and IPL will perform the Midwest Renewable Energy Tracking System (MRETS) reporting function with respect to SMEC’s share of renewables obtained from IPL under the Wholesale Agreement.<sup>25</sup> SMEC will be responsible for meeting the RES obligation because it will meet the definition of an “electric utility” under Minn. Stat. § 216B.1691, Subd.1(b), while neither IPL nor the SMEC Member Cooperatives will meet that definition.

Minn. Stat. § 216B.1691, Subd. 2(a) sets the RES obligations and reads in part:

(a) Except as provided in paragraph (b), each electric utility shall generate or procure sufficient electricity generated by an eligible energy technology to provide its retail customers in Minnesota, or the retail customers of a distribution utility to which the electric utility provides wholesale electric service, ... . (Emphasis added.)

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<sup>25</sup> IPL and SMEC September 4, 2014 Responsive Comments at 27-28.

Accordingly, RES obligations: (1) apply to an “electric utility;” (2) which shall “generate or procure” the set amounts of eligible energy; (3) to meet the needs of “its retail customers” or “the retail customers of a distribution utility” (if it is a wholesale provider).

Minn. Stat. § 216B.1691, Subd.1(b) defines “electric utility” as follows:

"Electric utility" means a public utility providing electric service, a generation and transmission cooperative electric association, a municipal power agency, or a power district. (Emphasis added)

This definition of “electric utility” is significantly different from the definition “utility” under Minn. Stat. § 216B.2422, Subd.1(b) (which determines obligations regarding IRPs).

“Electric utility” includes “a generation and transmission cooperative electric association” but there is no requirement to own any generation or transmission facilities. Rather, as noted above, the RES requirement is phrased in terms of either generating or procuring energy under Minn. Stat. § 216B.1691, Subd. 2(a). While SMEC does not own generation or transmission facilities, SMEC meets the definition of an electric utility because SMEC is a “generation and transmission cooperative electric association” that “provides wholesale electric service” to the SMEC Member Cooperatives under agreements between SMEC and the SMEC Member Cooperatives.

IPL will not be an “electric utility” following the closing because it will not meet any of the four categories in the definition of an “electric utility” in Minn. Stat. § 216B.1691, Subd. 1(5)(b). Specifically, IPL will no longer be a “public utility” because it will not provide retail service in Minnesota following the closing,<sup>26</sup> and it will not be a “generation and transmission cooperative electric association, a municipal power agency, or a power district.” The SMEC Member

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<sup>26</sup> Minn. Stat. § 216B.02, Subd. 4 reads in part:

"Public utility" means persons, corporations, or other legal entities ... now or hereafter operating, maintaining, or controlling in this state equipment or facilities for furnishing at retail natural, manufactured, or mixed gas or electric service to or for the public or engaged in the production and retail sale thereof but does not include (1) a municipality or a cooperative electric association, ... . (Emphasis added)

Cooperatives do not have the RES obligations because they are “distribution utilities” served by SMEC within the meaning of Minn. Stat. § 216B.1691, Subd. 2(a).

SMEC’s responsibility to meet RES requirements is also reflected in the terms of the Wholesale Agreement between IPL and SMEC. As noted in the first paragraph of the Wholesale Agreement, SMEC is “a Minnesota rural electric cooperative engaged in the business of acquiring and providing power and energy to its member cooperatives.” Under Section 19 of the Wholesale Agreement: (1) IPL will provide SMEC a pro rata share of the renewable energy of the retail-regulated IPL system;<sup>27</sup> (2) IPL will assist SMEC in meeting renewable obligations if SMEC’s renewable obligations exceed a pro rata share of the output of renewable energy generated or procured by IPL;<sup>28</sup> (3) SMEC shall also bear the full cost for such incremental renewable energy contracts or credits;<sup>29</sup> and IPL will assist SMEC in meeting reporting requirements.<sup>30</sup>

As to reporting of information pertaining to RES requirements, Section 19 also provides that “IPL agrees to assist [SMEC] with satisfying any applicable renewable reporting requirement that may be in effect from time to time.” IPL proposes to perform the MRETS reporting function with respect to SMEC’s share of renewables obtained from IPL under the Wholesale Agreement.

**11. What plans, if any, are there for the development of community solar gardens in the SMEC members’ service territories?**

As explained in Petitioners’ response to DOC IR No. 39, all of the SMEC Member Cooperatives are actively engaged in researching the viability and best ways to implement local

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<sup>27</sup> “[SMEC] is entitled to a pro rata share of the output or renewable electric power resources that IPL generates or procures;”

<sup>28</sup> “IPL agrees to negotiate in good faith to assist [SMEC] in meeting such incremental [renewable] requirement.”

<sup>29</sup> “All IPL and [SMEC] costs associated with meeting such incremental RPS requirement shall be borne by [SMEC].”

<sup>30</sup> “In addition, IPL agrees to assist [SMEC] with satisfying any applicable renewable reporting requirement that may be in effect from time to time. IPL’s costs in excess of those necessary to satisfy similar renewable reporting requirements in Iowa shall be borne by [SMEC].”

solar projects. Freeborn-Mower, People's and Tri-County are partners in a 517 kW project located in Oronoco, MN. People's is also in the process of planning and developing a community solar project to be located in Stewartville, MN. Tri-County also recently commissioned a 73 kW community solar project in Rushford, MN. BENCO, Brown County, Nobles, Redwood and Steele-Waseca are working with their G&T supplier, Great River Energy, and expect to have solar projects up and running in 2015. Sioux Valley also is budgeting for a 40 kW solar project in Brandon, SD in 2015.

### III. OTHER ISSUES PERTAINING TO PUBLIC INTEREST

#### 1. Expected Customer benefits meet the Commission's criteria for rate recovery of the full Transaction price and exceed the public interest criteria of Minn. Stat. § 216B.50.

The Petitioners have demonstrated net customer benefits after recovery of the full purchase price, including the results of eliminating ADIT (as required by the Internal Revenue Code), the premium (including both gain and transaction costs), and future power supply costs, including the results of the higher FERC authorized ROE. While stringent rate case criteria are not applicable in this proceeding to authorize a transfer of IPL assets to SMEC and the SMEC Member Cooperatives, this showing by Petitioners would even meet those criteria, and exceed the criteria of Minn. Stat. § 216B.50. Because there are overall net customer cost benefits that will result from the Transaction, there is no basis for either a reduction in the gain on sale or a requirement to support future power costs.<sup>31</sup>

The more stringent rate case criteria for recovery of costs resulting from the acquisition of utility assets were described in *Midwest Gas*.<sup>32</sup> In *Midwest Gas*, the Commission allowed recovery of the premium that “equals savings ... due to the acquisition”<sup>33</sup> and “to the extent that is it able to demonstrate that the acquisition provides comparable benefits to ratepayers ... that

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<sup>31</sup> The present case is unlike Joint Petition for Approval of the Transfer of Transmission Assets Of *Interstate Power and Light Company to ITC Midwest LLC*, E-001/PA-07-540 Order Approving Transfer Assets With Conditions, because: (1) the record in this case shows consistency with the public interest and appropriate protection of customers without the addition of any further requirements or conditions; and (2) the five factors identified in Minn. Stat. § 216B.16, subd. 7c are specific and are not involved in this Transaction.

The present case is also unlike *Joint Application for Approval and Consent of Interstate Power and Light Company and FPL Duane Arnold LLC*, E-001/PA-05-1272, Order Approving Sale and Transfer of Ownership Interest in The Duane Arnold Energy Center With Conditions, (January 25, 2006) because the current record shows that customer costs are likely to be lower and customers are fully protected without the addition of any further requirements or conditions.

<sup>32</sup> *In the Matter of the Application of Midwest Gas, a Division of Iowa Public Service Company, for Authority to Change Its Schedule of Gas Rates for Retail Customers within the State of Minnesota*, Docket No. G010/GR-90-678, Findings of Fact, Conclusions of Law, and Order (July 12, 1991) [*hereinafter Midwest Gas Order*].

<sup>33</sup> *Midwest Gas Order* at 7

... would not have been realized absent the acquisition.”<sup>34</sup> The Commission affirmed the principles of *Midwest Gas* in *Minnegasco*, but denied rate case recovery because it found the levels of rate increases that would have occurred if the acquisition had not occurred to be speculative.<sup>35</sup>

In this case, the levels of rate increases demonstrated by the Petitioners are not speculative, and show significant customer cost benefits even if assumptions are significantly modified to reduce estimated benefits, as explained in Section III.B below.

Further, the substantially lower cost of capital and exemption from income taxes that are available to SMEC and the SMEC Member Cooperatives will provide significant ongoing benefits in relation to the operation of the distribution assets, as shown in the Petitioners’ response to Department IR No. 57. Customers are not the source of these advantages, which result from federal financial and tax policy, which further shows the absence of any justification to transfer any part of the gain or acquisition premium to customers.

**2. Neither a contested case nor a rate case is needed to support the Commission’s determination of public interest under Minn. Stat. § 216B.50.**

Questions have arisen regarding the process to be used in evaluating the public interest of the Transaction under Minn. Stat. § 216B.50. For the reasons set forth below, neither a contested case nor a rate case under Minn. Stat. § 216B.15 is needed for the Commission to make the public interest determination.

**A. A contested case is not needed.**

In evaluating possible rate impacts in connection with the public interest determination, the possibility certainly exists that IPL would not obtain a full recovery of its rate requests under either IPL’s assumption of a rate case that would have been filed in 2014 and another case in

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<sup>34</sup> Midwest Gas Order at 8

<sup>35</sup> *In the Matter of the Application of Minnegasco, a Division of NorAm Energy Corp., for Authority to Increase Its Natural Gas Rates in Minnesota*, Docket No. G008/GR-95-700, Findings of Fact, Conclusions of Law, and Order (June 10, 1996)

2017, or under the Department's assumption of annual rate cases beginning in 2015.<sup>36</sup> However, there is significant information in the record that supports the need for a substantial increase in IPL rates. Specifically, Petitioners presented information that supported a revenue requirement that is summarized as follows:<sup>37</sup>

Attachment J  
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Attachment J

**INTERSTATE POWER & LIGHT COMPANY  
OVERALL FINANCIAL SUMMARY  
MINNESOTA ELECTRIC RETAIL JURISDICTION  
YEAR ENDED DECEMBER 31, 2013**

Line	Description	(a) Reference to Supporting Schedule	(b) Actual Unadjusted 2013 Calendar Year	(c) Proposed Test Year 2013
1	Revenue	A	\$ 76,999,227	\$ 76,125,819
2	Rate Base	C	\$ 139,990,794	\$ 162,601,133
3	Operating Income	A	\$ 4,328,858	\$ 7,005,819
4	Overall Rate of Return (3 divided by 2)		3.092%	4.309%
5	Rate of Return Requested	E	7.983%	7.983%
6	Required Net Operating Income (2 x 5)		\$ 11,175,465	\$ 12,980,448
7	Income Deficiency (6 - 3)		\$ 6,846,607	\$ 5,974,629
8	Gross Revenue Conversion Factor	A	1.705611	1.705611
9	Revenue Increase Requested (7 x 8)		\$ 11,677,652	\$ 10,190,396

In addition, IPL's history of inadequate ROEs since its last rate case (filed in 2010 for a 2009 test year) also supports the conclusion that substantial increases in IPL rates would be needed:

<sup>36</sup> The Department noted that its analysis reflected favorable assumptions of annual rate case filings and full recovery of the requested levels (Department Reply Comments at 12).

<sup>37</sup> Joint Petition Attachment J.



<b>Year</b>	<b>MN Elec ROE (not Weather Normalized)</b>	<b>Weather Normalized MN Elec ROE</b>
2009	10.02%	11.41%
2010	-2.55%	-3.29%
2011	1.81%	0.99%
2012	1.24%	0.53%
2013	-1.20%	0.43%

This information provides ample support in the record to support the conclusion that a significant increase in IPL's rates would result from a rate increase request by IPL that could readily have been filed in 2014 but for the decision by IPL not to do so as a result of this pending Transaction.

In addition, a finding that there are significant net benefits to customers does not depend on the assumption of full recovery by IPL of rate case requests (whether for a 2014 and 2017 rate cases (as assumed by IPL) or for annual rate cases beginning in 2015 (as assumed by the Department)). Rather, significant net customer benefit remains even with assumptions of rate case recovery by IPL that is substantially less than full recovery.

Even if the analysis is limited to the short run, there are substantial public interest benefits result under either the rate requests assumed by either Department or IPL at a 75% recovery level that is very reasonable in light of the fact that the great majority well over 50% of IPL's revenue deficiency is based on third-party costs charged to IPL, including FERC approved transmission rates, costs to meet environmental mandates, and other capital expenditures.<sup>38</sup> For example, if it is assumed that IPL would obtain 75% percent of its rate requests, the net present value of the customer benefit determined by the Department (for the three-year period 2015 to 2017) would be \$4.52 million and the net present value of the customer benefit determined by IPL (for the four-year period 2014 through 2017) would be \$10.65 million.

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<sup>38</sup> See, Response to DOC IR No. 12, Attachment 12A. Further, IPL's transmission costs are not affected by the intrastate ROE that the Commission may award since there are FERC regulated costs that are pass through costs.

Similarly, a significant benefit remains if the ROE for the IPL FERC wholesale power rate was reduced from the currently authorized 10.97% to an assumed 9.80%.<sup>39</sup> Specifically, if the assumed IPL ROE is reduced to 9.80%, there is a cumulative net present value benefit (with a full recovery of the requests and a 7.5% discount rate) of:

- \$9.86 million (\$11.80 million minus \$1.94 million) based on the Department's approach; and
- \$19.59 (\$21.67 million minus \$2.08 million) based on IPL's approach.

Even with the combination of a reduced 9.80% ROE assumed for the IPL FERC wholesale power rate and a rate case recovery of 75%, the net present value of the customer benefit would be:

- \$780,000 for the three-year period 2015-2017 based on the Department's approach; and
- \$6.91 million for the four-year period 2014-2017 based on the IPL approach.

The point is that even with modifications of the assumptions, the customer costs without the Transaction would equal or exceed the customer costs with the Transaction (determined on the basis of recovery of the full \$122 million purchase price and all other costs), even before consideration of: (1) the long-run cost advantages of the Transaction that will result from the very low costs of capital and exemption from income taxes enjoyed by SMEC and the SMEC Member Cooperatives; and (2) the additional benefits of ownership that arise from cooperative membership. This result meets the Commission's stringent rate case standards for full recovery in rates and exceeds the public interest standard of Minn. Stat. § 216B.50. Accordingly, there is no need for a contested case to make a precise determination of the IPL revenue requirement.

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<sup>39</sup> IPL does not agree that a 9.80% ROE is a reasonable assumption.

**B. A rate case under Minn. Stat. § 216B.16 is not needed.**

A rate case proceeding under Minn. Stat. § 216B.16 is similarly not needed in connection with this proceeding because: (1) while IPL's rates are subject to Minn. Stat. § 216B.16, IPL's rates are not being increased as a result of this proceeding, making a rate case procedure inapplicable; and (2) SMEC and the SMEC Member Cooperatives are specifically exempt from the requirements of Minn. Stat. § 216B.16. These facts are not presented to hamstring the Commission's ability to conduct a thorough review of the merits of the Transaction. However, the Commission should similarly not incur procedural burdens that are simply not applicable.

The plain language of Minn. Stat. § 216B.16 applies only to changes in rates by public utilities and the Commission has authority to vary those requirements for public utilities:

**Subdivision 1. Notice.**

Unless the commission otherwise orders, no public utility shall change a rate which has been duly established under this chapter, except upon 60 days' notice to the commission.

Minn. Stat. § 216B.16 does not apply with respect to "customers" of a "public utility" but rather with respect to the public utility itself. Thus, Minn. Stat. § 216B.16 does not apply when service changes from one public utility to another public utility or to non-public utility providers, such as in this case.

The argument for application of Minn. Stat. § 216B.16 is separately refuted by the fact that the SMEC Member Cooperatives are excluded from the definition of public utilities under Minn. Stat. § 216B.02, subd.4, which reads in part:

"Public utility" ... does not include (1) a municipality or a cooperative electric association, organized under the provisions of chapter 308A, producing or furnishing natural, manufactured, or mixed gas or electric service ...

SMEC and all of the SMEC Member Cooperatives are cooperative electric associations within the meaning of Minn. Stat. § 216B.02, subd.4 and are thus not public utilities.

### **3. Petitioners have provided substantial customer information and outreach**

Petitioners have provided substantial information to customers and have engaged in substantial outreach efforts. IPL sent a direct mail notice to all current customers the week of April 28, 2014 explaining the proposed Transaction, including the fact that rate increases were expected, both with and without the Transaction.<sup>40</sup> On May 13, Petitioners held a webinar for all interested commercial and industrial customers.<sup>41</sup> On August 11, 2014, IPL sent a notice to all current IPL customers giving them the opportunity to comment to the Commission on the Transaction.<sup>42</sup> Petitioners have continued to respond to customer questions and are committed to continue doing so throughout this process.

Petitioners cannot know that every customer has fully understood all nuances of this proposed Transaction. However, the record reflects the following:

- 53 cities in the area have adopted resolutions in favor of the Transaction;
- Four local Chambers of Commerce, including Albert Lea and Rochester, have adopted resolutions in favor of the Transaction;
- Of 51 responses from individual or business customers, 41 were in favor of the Transaction, and 11 were either opposed to or had only questions about the Transaction.
- There is no reasonable basis to doubt that rate increases will occur, both with without the Transaction;
- Customer protections are included to ensure a smooth transition – including a \$2 per MWh credit that is not available under continued IPL ownership
- Longer term benefits associated with cost of capital and exemption from income taxes of SMEC and the SMEC Cooperative Members will accrue to the benefit customers;
- The Current IPL customers will become and owners as a result of this Transaction.

Accordingly, there is a substantial basis for the very favorable expressions of support for the Transaction that are part of then record in this proceeding.

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<sup>40</sup> Petitioners' September 4 Comments, Attachment E

<sup>41</sup> Petitioners' September 4 Comments, Attachment F

<sup>42</sup> Petitioners' September 4 Comments, Attachment G

#### **IV. RESPONSE TO DEPARTMENT, OAG AND MMUA REPLY COMMENTS**

##### **1. Response To Department Reply Comments**

While the Department October 6 Reply Comments did not include its final recommendations, those Reply Comments appear to accept much or all of several of Petitioners' key points, including: (1) IPL's rates are lower than its reported cost of service; (2) there are substantial net present value benefits to customers from the Transaction based on the differences between forecasted revenue requirements for IPL and SMEC and the SMEC Member Cooperatives; (3) the Transaction is similar to other transactions in which a utility changes service areas to meet business needs; (4) the fact that SMEC was able to secure \$140 million in financing based its revenue projections supports the financial viability of the Transaction as planned; (5) service reliability and quality and safety will not be impaired by the Transaction. The Petitioners are in substantial agreement with the Department as to these subjects.

##### **2. Response to OAG Reply Comments**

The OAG suggests that IPL should not be allowed to keep the gain on sale and should be required to pay the SMEC acquisition costs and to support power supply costs.<sup>43</sup> None of these recommendations should be adopted because: (1) there are substantial net benefits to customers (after recovery of all costs); (2) the customers are also the owners of the assets being acquired, which means that there are no differences of stockholder and customer interests; and (3) the lower cost of capital and exemption from income taxes available to SMEC and the SMEC Member Cooperatives provide the support for the purchase price over net book value.

Further, the OAG has indicated that it is likely to recommend approval only if: (1) IPL forgoes the gain on sale; (2) IPL pays SMECs transaction costs; and (3) IPL absorbs a portion of the transaction costs. (OAG Comments at 3) As explained below, there is no basis for any of

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<sup>43</sup> OAG Reply Comments at 3

these recommendations. Such adjustments are especially inappropriate in this case because, unlike prior utility acquisitions that have been reviewed by the Commission, in this case the affected IPL customers will obtain an ownership interest in the assets being transferred.

**A. None of the OAG Reply Comments support use of a contested case.**

The OAG has identified several concerns that the OAG asserts require either a contested case or additional substantial comments. These concerns include: (1) the OAG's speculation regarding the cost of capital of the SMEC Member Cooperatives (which are contrary to the facts in the record); (2) the ROE that would be awarded in a general rate case for IPL; (3) the effects of purchase of power from IPL; and (4) the effects on the SMEC Member Cooperatives costs from elimination of the accumulated deferred income tax (ADIT) reserve, some planned investments in the distribution system, IPL's gain on sale, and SMEC's transaction costs. The OAG claims that Petitioners have not shown benefits that will outweigh the sources of cost increase.

To the contrary, as explained above, the cost benefit analyses provided by Petitioners include all cost increases (including all cost increases identified by the OAG) and show a net benefit to customers under all reasonable alternatives and assumptions, including decisions by the Commission that would authorize rate increases substantially lower than requested by IPL. The Transaction meets all Commission standards for full rate recovery of all costs and the public interest determination without further alteration. Specifically, no matter how customer benefits are estimated, there is a demonstrable net benefit of reduced customer costs **after** recovery in rates of all estimated ongoing costs and the entire SMEC purchase price. This net customer benefit fully justifies approval of the Transaction without any adjustment or any additional conditions. In addition, customers also have an ownership interest (through cooperative membership) that provides added benefits. Accordingly, there is no justification to conduct a contested case.

**B. The OAG's suggested costs of capital for SMEC and SMEC Member Cooperatives are baseless and inconsistent with facts in the record.**

The OAG claims that the Petitioners' analysis of customer benefits is based on "several questionable assumptions."<sup>44</sup> The OAG admits that it "has not conducted a detailed analysis," but claims nonetheless that "information" suggests that Petitioners estimated rates of return are likely to be "far too low."<sup>45</sup> There is not a shred of support for these claims. Rather, the OAG has substituted speculation for known facts, which does not create any fact issue.

The costs of capital of the SMEC Member Cooperatives were fully documented in the Response to OAG Information Request No. 6. The OAG requested calculations based on OAG-determined costs of capital of 4.5% and 5.25%. The Petitioners performed these arithmetic exercises, but clearly established that these calculations were meaningless in light of the unrefuted fact of the CFC [National Rural Utilities Cooperative Finance Corporation] loan commitment at 1.57% for at least the Initial 3-year period used in the analysis;<sup>46</sup> and (2) the fact that "there is no economic indication that 30-year U.S. Treasuries (the basis of RUS funding) will reach the 5.25% specified by the OAG when long-term financing for SMEC Member Cooperatives is finalized after the three-year Initial Period."<sup>47</sup> Furthermore, the SMEC Member Cooperatives have the ability to purchase their share of the facilities and lock in long range interest rates before the end of the 3-year Initial Period if that is advantageous or to mitigate the risk if increasing interest rates..

The OAG adds an equally speculative capital structure consisting of 50% equity and cost of equity, saying that "there is no reason to believe that the cost of equity for the SMEC cooperatives will be significantly lower" than the 6.26% ROE (based on rate case decision for

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<sup>44</sup> OAG Reply Comments at 11.

<sup>45</sup> OAG Reply Comments at 11.

<sup>46</sup> CFC 1.57% funding is available to SMEC for up to 5 years.

<sup>47</sup> Petitioners' Response to OAG IR No. 6

Dakota Electric Association).<sup>48</sup> However, there are two fundamental flaws with the OAG analysis.

First, as a matter of fact, SMEC and all of the SMEC Member Cooperatives are using 100% debt financing for the acquisition<sup>49</sup>, not a 50% equity regulated capital structure. Second, also as a matter of fact, SMEC and all of the SMEC Member Cooperatives will establish their rates to achieve an interest or debt service coverage ratio for their 100% debt financing,<sup>50</sup> not on the basis of the hypothetical capital structure of a different rate regulated cooperative. Accordingly, the OAG's arguments do not support the existence of any fact issue in this case regarding the cost of capital.

**C. Other OAG criticisms of Petitioners' cost benefit analyses are unfounded and would not show a material fact issue even if they were correct.**

The OAG makes several arguments intended to suggest that there could be significant cost increases.<sup>51</sup> These arguments do not support the OAG recommendations or provide a basis for any further factual inquiries. The Petitioners' net benefits analysis reflects the full \$122 million purchase price paid by SMEC, which includes the elimination of the ADIT reserve required under the Internal Revenue Code, the IPL gain on sale, and the SMEC acquisition costs. This analysis shows a cumulative net benefit of \$28.3 million by 2017 (assuming IPL would have filed a rate case in 2014).<sup>52</sup> The Petitioners' net benefits analysis is explained at Section II. 3. C. above.

The OAG argues that there will be increases to "rate base" as a result of the Transaction, including the gain on sale, acquisition costs and the effects of eliminating the ADIT offset.<sup>53</sup> The OAG also argues that the customers will be harmed by application of the FERC approved ROE as part of the rates to be charged for the supply of electric power. However,

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<sup>48</sup> OAG Reply Comments at 11.

<sup>49</sup> See Joint Petition at pp. 14-15 and 18-19.

<sup>50</sup> See Petitioners' Responses to DOC IR Nos. 10 and 11

<sup>51</sup> (OAG Reply Comments at 6-11

<sup>52</sup> Joint Petition at 37

<sup>53</sup> OAG Reply Comments at 6-8



these points do not support the OAG proposal for further adjustments because the customer benefits resulting from the Transaction exceed the Commission's rate-making criteria for recovery of the full purchase price for the Transaction.

The OAG also argues that the cost benefit analyses performed by Petitioners are affected by inconsistencies.<sup>54</sup> While the Petitioners have presented different analyses in response to different questions, there are no inconsistencies and **all of** the analyses show that customer benefits exceed the costs of the Transaction, including recovery of the full purchase price.

The OAG focuses on the analyses the Petitioners presented in response to DOC IR No. 57 in claiming inconsistencies.<sup>55</sup> However, the Petitioners' Response Department IR No. 57 made it clear that the analysis was related *solely* to the effect of "an approximation of the lower cost of capital [of SMEC and the SMEC Member Cooperatives]," an explanation that the OAG overlooks. The Response also referred to the "net benefits" analysis that was included in the Joint Petition.<sup>56</sup> That analysis included both cost savings and cost increases, with and without the Transaction. While these "net benefits" are lower than the benefits resulting from the lower costs of capital for SMEC and the SMEC Member Cooperatives, that difference is hardly surprising and does not indicate any inconsistency.

The OAG also argues that the Petitioners' cost benefit analyses do not reflect the higher FERC ROE that will apply to power costs under the Wholesale Agreement.<sup>57</sup> To the contrary, power costs that include the 10.97% FERC ROE are included in the anticipated net benefits analysis (if the Transaction occurs)<sup>58</sup>.

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<sup>54</sup> OAG Reply Comments at 9.

<sup>55</sup> OAG Reply Comments at 9-10.

<sup>56</sup> Response to Department IR No. 57 continues, saying in part: "The net benefits provided by the Transaction are also reflected in the anticipated cost savings discussed on pages 36-38 of the Joint Petition."

<sup>57</sup> OAG Reply Comments at 8, 10

<sup>58</sup> See, e.g., Petitioners' Responses to DOC IR Nos. 17, 47, 48 and 67, and to Chamber of Commerce IR No. 7 and Attachment 7E.

### **3. Response To MMUA Reply Comments**

#### **A. MMUA has no interest in the proceeding**

MMUA's participation in these proceedings is hard to understand. The Transaction will not affect MMUA in any way. The Transaction will not change the operations of any municipal utility, nor will the Transaction impact the customers of any municipal utility in any way. The Transaction will not affect the functions of any municipal power agency.

The specific sale price in the Transaction will have no effect on MMUA nor its municipal utility members. The specific terms of the SMEC Rate Plan will have no collateral impact on MMUA, its municipal utility members, nor the customers of any municipal utility. As the saying goes, "MMUA does not have a dog in this fight." Accordingly, MMUA has no legitimate interest in this docket thus its position should be given no weight.

#### **B. MMUA's claims do not justify a contested case hearing**

MMUA professes concern as to whether the Transaction is in the public's interest, stating: "Meaningful public participation would assist the Commission in determining whether disputed issues of material fact exist, as well as providing a sound foundation from which to determine the public interest."<sup>59</sup> However, MMUA's participation in this docket appears to be motivated by a desire to obtain information for use in unrelated future service territory acquisition proceedings with the SMEC Member Cooperatives.<sup>60</sup> Accordingly, the MMUA's arguments against the Transaction should be given no weight.

In its October 6, 2014 Reply Comments, MMUA advanced seven (7) reasons to justify its recommendation that the Commission initiate a contested case hearing, which have been addressed in principle in Section III above and are specifically discussed below. None of these reasons has merit, as shown below.

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<sup>59</sup> MMUA May 14 Letter, page 2

<sup>60</sup> MMUA also submitted twenty one (21) Information Requests dated July 15, 2014. SMEC objected to several Information Requests because they sought information on unrelated service territory acquisition proceedings under Minn. Stat. § 261B.44 or Minn. Stat. § 216B.47. MMUA did not move to compel responses.

**a. “Premium” Above Asset Value.**

MMUA tries to create a fact issue by professing confusion that two different terms – “acquisition premium” and “gain on sale” – have two different values.<sup>61</sup> Quite simply, the acquisition premium is the difference between the purchase price and IPL’s net plant value, i.e., \$16.9 million. The \$8.55 million “IPL gain on sale” is included in the acquisition premium and represents the gain on the sale of its assets after paying taxes and transaction costs. There is no inconsistency and no weight to MMUA’s comments.

The purchase price was negotiated at arm’s length between the parties. No material facts about the purchase price are in dispute, and it is a matter for Commission judgment as to whether the price to be paid constitutes the “reasonable value of the property” pursuant to Minn. Stat. § 216B. SMEC and the SMEC Member Cooperatives retained the firm of Burns & McDonnell to conduct an inspection of IPL’s assets, and the SMEC Member Cooperatives performed their own due diligence reviews of the assets. SMEC and the SMEC Member Cooperatives were satisfied that they were paying a reasonable price for IPL’s assets.<sup>62</sup> This MMUA argument is also refuted by the fact that there are net customer benefits after recovery of all costs as discussed in Section II.3.B above.

**b. Reasonableness of Purchase Terms and Costs.**

MMUA questioned the absence of a separate value for the Wholesale Power Agreement, but that is not significant.<sup>63</sup> SMEC did not place a value on the Wholesale Power Agreement as such. Rather, SMEC prudently included the cost of purchase power and transmission in its analysis of the economics of the entire Transaction. SMEC’s analysis of the cost of purchase power and transmission, along with all other components of the sale, proved that the Transaction was economically beneficial to SMEC and the SMEC Member Cooperatives, and would also provide benefits to customers.

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<sup>61</sup> MMUA Reply Comments, p. 2

<sup>62</sup> Response to MMUA IR No. 8.

<sup>63</sup> MMUA Reply Comments, p. 3

MMUA also questioned the \$2/Megawatt Hour Credit. The reason for this credit was identified in the IPL/SMEC response to OAG IR 2 dated June 6, 2014. The credit was intended to moderate the rate increase due to the conversion to a PCA mechanism. There is no calculated value associated with it; a contested case hearing on this issue will not result in the resolution of any disputed fact because there is none.

**c. Future Capital Improvements.**

MMUA urged contested case hearing to explore whether SMEC will need to make future capital improvements in the acquired IPL system.<sup>64</sup> To the contrary, SMEC will not need to make significant expenditures to bring the IPL distribution system into compliance with RUS standards.<sup>65</sup> As the responses indicate, SMEC will not need to make significant expenditures to bring the IPL distribution system into compliance with RUS standards. SMEC's Engineering Committee is investigating the need for various capital improvement projects in the future as any prudent utility would do. IPL would do the same, if it retained the system.

The cost for the SMEC cooperatives to make these investments is significantly lower than the cost for IPL, if IPL continued to own and operate the system. The distribution systems of IPL and the SMEC Member Cooperatives are designed to operate independently, and there is currently no need to interconnect the systems, although there are advantages in reliability and operational flexibility in integrating parts of the two utility systems in the future.

**d. Rates for Former IPL Customers.**

MMUA expressed concern that the Commission will have no authority to set the rates of the SMEC Member Cooperatives after the first three years.<sup>66</sup> As discussed above, the cooperative model for rate control has been expressly endorsed by the Legislature in Minn. Stat. § 216B.01. Further, MMUA's concern is especially ironic, as the Commission also has no authority to set the rates of municipal utilities under Minn. Stat. § 216B.02, subd. 4. The

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<sup>64</sup> MMUA Reply Comments, p. 5

<sup>65</sup> See responses to MMUA IR Nos. 8 and 18

<sup>66</sup> MMUA Reply Comments at 5

Legislature has determined that electric cooperatives are adequately regulated by their boards of directors, whom the members elect. In addition, Minn. Stat. § 216B.026 provides the remedy of Commission rate regulation if the members desire.

The rate increases quoted by MMUA for 2017 simply reflect increases in the cost of purchased power and transmission that have taken place since 2010, offset by the \$2.00/Megawatt Hour Credit. The IPL customers would pay these increased costs if IPL retained the service territory. These concerns do not warrant a contested case hearing.

**e. Legal Status and Future Implications.**

MMUA also claims concern about SMEC's status as a "paper G&T" cooperative, but this concern has no merit.<sup>67</sup> Many utilities rely on power supply provided by other entities and those sources of supply are given no less credit than utility owned power supply. SMEC is the acquisition entity owned by the SMEC Member Cooperatives and will be the purchasing agent for power supply and transmission for its members for ten years. SMEC will purchase generation rather than producing it. Thus it qualifies as a generation and transmission cooperative under Minn. Stat. § 216B.1691, subd. 1(b). SMEC will own distribution assets also for up to three years and will contract with its Member Cooperatives for the operation and maintenance of these assets.

If a customer wishes to bring a claim concerning the improper operation of facilities, the claim would be brought to the individual SMEC Member Cooperative. All typical retail functions such as the operation and maintenance of the distribution system, customer billing and accounting, special rate programs, net metering, distributed generation, etc. will be handled by the SMEC Member Cooperatives. There will be no dodging of responsibility in responding to customer complaints. Neither of these concerns warrant a contested case hearing.

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<sup>67</sup> MMUA Reply Comments, p. 7

**f. Public Participation.**

MMUA also seeks to create a fact issue by discounting the value of nearly 50 City Council and city Chamber of Commerce resolutions from communities in the IPL service territory in favor of the Transaction.<sup>68</sup> To the contrary, City Councils seek relevant information and make informed decisions on matters brought before them. The City Council resolutions are products of that process. Interestingly, the Cities of Le Center and Le Sueur (MMUA members) have submitted resolutions in support of the Transaction.

**g. Other Measures of Reasonableness.**

Finally, MMUA advocates for a contested case hearing so that the Commission can consider the compensation paid by municipal utilities for the acquisition of another utility's electric service territory within the municipality.<sup>69</sup> However, compensation for service territory acquisitions under Minn. Stat. § 216B.44 and Minn. Stat. § 216B.47 has no relevance whatever for the Transaction. Municipal service territory acquisitions are legally forced sales of property for which specific statutory compensation must be paid. Those statutes have no application for other transactions. Furthermore, service territory acquisitions are for only a small part of the acquired utility's entire system. This partial acquisition imposes significant residual costs on the remaining customers of the utility system for which compensation must be paid. Also, it is clear that MMUA has no legitimate interest in the purchase price between SMEC and IPL.

MMUA's reliance on Minn. Stat. § 216B.39, subd. 4 is totally misplaced because that statute applied during the period of 1974-1975, when the Commission was assigning exclusive service territories to Minnesota electric utilities. Commission approval of contracts pertaining to the initial establishment of service territories has nothing to do with this Transaction.

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<sup>68</sup> MMUA Reply Comments, p. 8

<sup>69</sup> MMUA Reply Comments, p. 8

**C. Conclusion as to MMUA.**

MMUA's purpose for participating in this proceeding appears to be directed to gathering information or concessions for use in unrelated service territory acquisition cases. MMUA has provided no justification for a contested case hearing.

**V. CONCLUSION**

For the reasons explained in the Petitioners' September 4 Comments and in these Initial Comments, the Commission should approve the Transaction without further conditions or requirements because it is consistent with the public interest under Minn. Stat. § 216B.50.

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INTERSTATE POWER AND LIGHT  
COMPANY

By: /s/ Samantha C. Norris  
Samantha C. Norris  
Senior Attorney

INTERSTATE POWER AND LIGHT  
COMPANY  
P.O. Box 351  
Cedar Rapids, IA 52406  
Telephone: (319) 786-4236

Richard J. Johnson  
Valerie M. Means

MOSS & BARNETT  
A Professional Association  
4800 Wells Fargo Center  
Minneapolis, MN 55402-4129  
Telephone: (612) 877-5000

Attorneys on Behalf of Interstate Power  
and Light Company

SOUTHERN MINNESOTA ENERGY  
COOPERATIVE

By: /s/ Harold P. LeVander, Jr.  
Harold P. LeVander, Jr.

FELHABER LARSON FENLON & VOGT PA  
444 Cedar Street, Suite 2100  
St. Paul, MN 55101  
Telephone: (651) 222-6321

Attorney for Southern Minnesota Energy  
Cooperative