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March 24, 2014

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7th Place East, Suite 350  
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E,G001/AI-14-158

Dear Dr. Haar:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Interstate Power and Light Company's Petition for Approval of an Affiliated Interest Agreement.

The petition was filed on February 21, 2014 by:

Michael S. Greiveldinger  
Alliant Energy Corporate Services, Inc.  
4902 North Biltmore Lane  
Madison, WI 53718-22148

As discussed in greater detail in the attached Comments, the Department recommends that the Company either limit use of the Affiliated Interest Agreement to transactions consistent with its terms or propose modifications to the Affiliated Interest Agreement such that the Agreement is consistent with the operational information Alliant Energy Corporation provided in its annual reports in 2011 and 2012. The Department is available to answer any questions that the Minnesota Public Utilities Commission (Commission) may have.

Sincerely,

/s/ JOHN KUNDERT  
Financial Analyst

JK/lt  
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET No. E,G001/AI-14-158

**I. SUMMARY OF IPL'S FILING**

On February 21, 2014, Interstate Power and Light Company (IPL or the Company) filed with the Minnesota Public Utilities Commission (Commission) its petition for the renewal of the Commission's approval of the Master Supply Agreement (Supply Agreement)<sup>1</sup> between IPL and its affiliate, Wisconsin Power and Light Company (WPL) (together the Parties).<sup>2</sup> The Commission approved this Supply Agreement for a three-year term (2011 through 2014) in its Order dated September 26, 2011 in Docket No. E,G001/AI-11-82.

Similar to its 2011 petition, the Company submitted the Supply Agreement pursuant to Minn. Stat. §216B.48,<sup>3</sup> Minn. R. 7825.2200,<sup>4</sup> and the Commission's September 14, 1998 *Order Initiating Repeal of Rule, Granting Generic Variance, and Clarifying Internal Operating Procedures* in Docket No. E,G999/CI-98-651 (98-651). IPL states:

“The need for this Agreement arises out of the fact that, from time to time, either utility will find a surplus or need for, supplies that can easily be transferred, at cost, to the other utility.”<sup>5</sup>

The Company believes that “This Agreement is reasonable and consistent with the public interest because it allows IPL ratepayers to benefit from the economies of scale and efficiencies created with the affiliation of two utilities under one utility holding company.”<sup>6</sup>

<sup>1</sup> A copy of the Supply Agreement is included in IPL's petition as Exhibit A.

<sup>2</sup> IPL and WPL are affiliated regulated utilities, held by Alliant Energy Corporation (Alliant Energy or AEC).

<sup>3</sup> Titled “Relations with Affiliated Interest.”

<sup>4</sup> Titled “Utilities with Affiliated Interest; Filing.”

<sup>5</sup> Petition, p. 3.

<sup>6</sup> Petition, p. 3 and 7.

The Company requests Commission approval of the Supply Agreement, executed on January 22, 2014, to become effective once approved by the Commission.<sup>7</sup>

## **II. DEPARTMENT ANALYSIS**

### **A. *AFFILIATED INTEREST FILING REQUIREMENTS***

In Docket No. 98-651, the Commission provided minimum filing requirements for all affiliated interest filings that are consistent with Minn. Rule 7825.2200B. This docket also requires that within 30 days of executing a contract or arrangement with an affiliate, the utility must make a filing that includes the information in Minnesota Department of Commerce (Department) Attachment A.

Consistent with its previous filing, IPL provided the filing requirements on pages 5 through 8 of its petition. The Department reviewed IPL's petition and concludes that IPL complied with the Commission's Order in Docket No. E,G999/CI-98-651, and with the filing requirements under Minnesota Rule 7825.2200B.

### **B. *STATUTORY REQUIREMENTS***

As amended in 1993, the Minnesota "affiliated-interest" statute provides:

No contract or agreement, including any general or continuing agreement, providing for the furnishing of management, supervisory, construction, engineering, accounting, legal, financial or similar services, and no contract or arrangement for the purchase, sale, lease or exchange of any property, right, or thing, or for the furnishing of any service, property, right or thing, other than those above enumerated, made or entered into after January 1, 1975 between a public utility and any affiliated interest . . . is valid or effective unless and until the contract or arrangement has received the written approval of the commission.

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<sup>7</sup> Petition, p. 2.

Minn. Stat. §216B.48, subd. 3.

This statute provides two tests (the reasonableness and public-interest tests) for the Commission to apply to affiliated-interest contracts:

The commission shall approve the contact or arrangement . . . only if it clearly appears and is established upon investigation that it is reasonable and consistent with the public interest. . . The burden of proof to establish the reasonableness of the contract or arrangement is on the public utility.

*Id.*

As a result, IPL has the burden of proof to establish the reasonableness of the Supply Agreement, and the Commission shall renew its approval of the proposal only if the Supply Agreement continues to be reasonable and consistent with the public interest.

### *C. ORIGINAL ANALYSIS OF THE AGREEMENT*

#### **1. Equipment Defined With Limitations**

The Supply Agreement states that a Party under the Supply Agreement may be in need of Equipment that the other Party has in its inventory and fixed assets, and to affect an exchange of that Equipment between the Parties, they may enter into Purchase Orders for the purchase and sale of that Equipment. The Supply Agreement defines “Equipment” as “Capitalized Equipment and Inventory Account Equipment per Schedule A.” Further, “Inventory Account Equipment” is “the quantity and costs of goods and material kept on-hand for the purpose of operation, maintenance and capital work project.” Specifically, Schedule A, part (1), provides that the Seller and Buyer will only transfer Equipment classified in the following categories and general price ranges:

- Transformer (generally priced between \$500 and \$10,000 each);
- Poles (generally priced between \$150 and \$350 each);
- Cables and Conductors (generally priced between \$0.19/ft. and \$10/ft.);
- Line Hardware (generally priced between \$9 and \$250);
- Generation inventory (generally priced between \$800 and \$15,000);
- Wind Turbine inventory (generally priced between \$5,000 and \$40,000 each);
- Switches, Switchgear, Circuit Switchers (generally priced between \$150 and \$50,000 each);
- Regulators, Reclosers, Capacitor Banks (generally priced between \$3,000 and \$10,000 each);
- Substation Circuit Breakers (generally priced between \$10 and \$300 each); and
- Environmental Control Equipment (generally priced between \$1,000 and \$15,000 each).

Schedule A, parts (2) and (3) place dollar limits on specific transactions (\$250,000) and on the annual amount of transfers (\$5,000,000).

In its original Comments in Docket No. E,G-001/AI-11-82, the Department concluded that the limit on the type of Equipment appeared to be reasonable. The Department maintains that position in the instant filing.

*D. ANALYSIS OF 2011 AND 2012 OPERATIONAL DATA*

The Commission required IPL to provide copies of the reports WPL was required to file with the Public Service Commission of Wisconsin (PSCW). IPL complied with that requirement filing reports on May 11, 2012 and May 16, 2013 respectively. The Department reviewed the transfers listed in the two reports that WPL filed with the PSCW.

These reports showed that the Parties transferred approximately \$1.6 and \$2.3 million annually in 2011 and 2012 under the Supply Agreement. Both these amounts are less than the \$5 million annual cap included in the Supply Agreement in Schedule A (3). This review also identified transactions which did not comply with the criteria listed in (1) or (2) on Schedule A in the Supply Agreement.

Beginning with (1), at least one and potentially two or more additional categories of equipment were transferred between the Parties that are not included on this list. Those are tees and various diameter pipes between the two companies' gas departments, and transformer pads and transformer poles between the two companies' electric departments. While one could argue that transformer pads and poles could be subsumed in the "Transformers" category listed in Schedule A, it is interesting to note that several of the transformer pads listed in the reports were valued at more than \$40,000 per unit. That number is 300% greater than the maximum cost listed in Schedule A for this cost category. This difference suggests that this particular item might not have been under consideration when the original agreement was drafted. As for the exchange of equipment between the two Parties gas departments, a review of the Supply Agreement found no mention of it encompassing transfers between the two Parties' respective gas departments.

In regards to (2), which lists a \$250,000 limit per transaction, WPL apparently purchased \$254,067 worth of cable from IPL in October 2011. Obviously, that transaction violated the limit on the individual transactions listed in the Supply Agreement.

Consequently, the Department requests that IPL explain in Reply Comments the internal controls it will put into place in order to ensure that all future transactions under the Supply Agreement comply with the criteria found therein. Alternatively, the Department recommends that the Commission require IPL to modify the Supply Agreement, including Schedule A, such that they are in compliance with the two Companies' operational experience to date.

The Company may also want to be mindful of the fact that IPL has a filing requirement under Minn. Stat. §216B.50 (Restrictions on Property Transfer and Merger) which requires Commission approval of a public utility's sale, purchase, lease, or rent of any plant as an operating unit or system in Minnesota in excess of \$100,000.

The Department's review found one transaction in 2011 and two transactions in 2012 that exceeded \$100,000. Technically one could argue that IPL did not comply with the Statute when it failed to notify the Commission of those specific transactions. The Department prefers not to pursue this discussion at this juncture given the apparent benefits the Supply Agreement provides to ratepayers.

## **2. Consistent With the Public Interest**

According to IPL, "As members of a single public utility holding company, IPL and WPL have the opportunity to share costs that would otherwise be greater for each utility to bear individually." Further, the Supply Agreement affords IPL and WPL to directly conduct business without going through Alliant Energy's service company subsidiary, Alliant Energy Corporate Services, Inc.

Consistent with its position in Docket No. E/G001/AI-11-82, the Department agrees that IPL's proposal to renew the Agreement could allow the Company to retain an efficiency gain relative to the two Companies' cost functions for sourcing material. However, as previously noted, certain transfers made under the Supply Agreement do not appear to have been consistent with the terms of the Agreement. The Department recommends that the renewal of the Supply Agreement should be conditioned upon IPL limiting the use of the Supply Agreement to those transactions consistent with its terms, or, alternatively, requiring the Parties to modify the Supply Agreement to ensure that the terms (specifically the list of eligible equipment, and the individual and annual limitations on the Equipment transfers) are consistent with Minnesota Statutes and reflect the transactions expected to be made under the Agreement.

## **3. Competitive Bidding**

Regarding competitive bidding, IPL maintains its position from the earlier filing that competitive bidding was not sought since IPL and WPL purchase the equipment from each other at cost, as defined by 18 C.F.R. 367.25, and as used for other service company or utility-to-utility transactions. The assumption here appears to be that the Parties are both minimizing their respective costs of procurement prior to having the item become part of their inventories. Consequently, any item in either company's warehouse has already passed a cost minimization test. Requiring the Parties to go through a second competitive bidding process for similar equipment would lessen the amount of the efficiency gain achieved under the Supply Agreement. Therefore, the Department concludes that the proposed at-cost transfers between Parties are appropriate.

#### **4. Length of Supply Agreement**

Regarding the length of the contract, IPL states:

Unless otherwise terminated, the Agreement shall be in effect for a period of three (3) years and shall renew for additional three (3) years with the approval of the appropriate regulatory agencies.

Petition, p. 8-9.

The Department concludes that the Agreement's 3-year term is not unreasonable given that this request represents a renewal of the agreement for another 3 years.

#### **5. Customer Information**

Similar to its previous filing, IPL states that the proposed affiliate transaction and the modifications do not allow WPL to have access to IPL's customer information. Given that these transfers apparently reside in the Companies' financial and accounting software application, this statement appears reasonable.

#### *E. REPORTING REQUIREMENTS*

In its January 22, 2014 Final Decision in Docket No. 6680-AU-114, the PSCW renewed its approval of the Supply Agreement for another 3 years. It also required WPL to submit an annual report showing the list of items that were transferred in each direction and the cost of each transaction.

The Department recommends that the Commission require that IPL file a copy of the PSCW reports to the Minnesota Commission, assuming that IPL successfully addresses the issues the Department mentioned earlier in these comments.

### **III. DEPARTMENT CONCLUSION AND RECOMMENDATIONS**

Based on the review above the Department concludes that the Supply Agreement is consistent with the public interest. However, as previously noted, certain transfers made under the Supply Agreement do not appear to have been consistent with the terms of the Agreement. The Department recommends that the renewal of the Supply Agreement should be conditioned upon IPL limiting the use of the Supply Agreement to those transactions consistent with its terms, or, alternatively, requiring the Parties to modify the Supply Agreement to ensure that the terms (specifically the list of eligible equipment, and the individual and annual limitations on the Equipment transfers) are consistent with Minnesota Statutes and reflect the transactions expected to be made under the Agreement.

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Analyst assigned: John Kundert

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The Department also concludes that IPL complied with the filing requirements contained in the Commission's Order in Docket No. E,G999/CI-98-651 and Minnesota Rule 7825.2200B. In addition, the Department recommends that the Commission continue to require that IPL file a copy of the annual reports with the Minnesota Commission that WPL is required to file with the PSCW.

/lt



## **Department Attachment A**

1. A heading that identifies the type of transaction.
2. The identity of the affiliated parties in the first sentence.
3. A general description of the nature and terms of the agreement, including the effective date of the contract or arrangement and the length of the contract or arrangement.
4. A list and the past history of all current contracts or agreements between the utility and the affiliate, the consideration received by the affiliate for such contracts or agreements, and a summary of the relevant cost records related to these ongoing transactions.
5. A descriptive summary of the pertinent facts and reasons why such contract or agreement is in the public interest.
6. The amount of compensation and, if applicable, a brief description of the cost allocation methodology or market information used to determine cost or price.
7. If the service or good acquired from an affiliate is competitively available, an explanation must be included stating whether competitive bidding was used and, if it was used, a copy of the proposal or a summary must be included. If it is not competitively bid, an explanation must be included stating why bidding was not used.
8. If the arrangement is in writing, a copy of that document must be attached.
9. Whether, as a result of the affiliate transaction, the affiliate would have access to customer information, such as customer name, address, usage or demographic information.
10. The filing must be verified.

## **CERTIFICATE OF SERVICE**

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce  
Comments**

**Docket No. E,G001/AI-14-158**

Dated this 24<sup>th</sup> day of **March 2014**

**/s/Sharon Ferguson**

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