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
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Alliant Energy Corporate Services
Legal Department
319-786-4236 – Phone
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Samantha C. Norris
Senior Attorney

May 9, 2014

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

RE: Interstate Power and Light Company and Minnesota Energy Resources Corporation
Docket No. G001,G011/PA-14-107
Reply Comments

Dear Dr. Haar:

Enclosed for e-filing with the Minnesota Public Utilities Commission please find Interstate Power and Light Company and Minnesota Energy Resources Corporation's Reply Comments in the above-referenced docket.

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/trb
Enclosures

cc: Service List

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

IN THE MATTER OF A REQUEST FOR APPROVAL OF THE ASSET PURCHASE AND SALE AGREEMENT BETWEEN INTERSTATE POWER AND LIGHT COMPANY AND MINNESOTA ENERGY RESOURCES CORPORATION	**DOCKET NO. G001,G011/PA-14-107**

AFFIDAVIT OF SERVICE

STATE OF IOWA)
) ss.
COUNTY OF LINN)

Thomas R. Balster, being first duly sworn on oath, deposes and states:

That on the 9th day of May, 2014, copies of the foregoing Affidavit of Service, together with Interstate Power and Light Company and Minnesota Energy Resources Corporation's Reply Comments, 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/ Thomas R. Balster*_____
Thomas R. Balster

Subscribed and Sworn to Before Me
this 9th day of May, 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
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Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_14-107_PA-14-107
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_14-107_PA-14-107
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_14-107_PA-14-107
Rick	Bartz	rbartz@ibewlocal949.org	IBEW Local Union 949	12908 Nicollet Avenue South Burnsville, MN 55337	Electronic Service	No	OFF_SL_14-107_PA-14-107
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City	Clerk	sschulte@ci.albertlea.org	City of Albert Lea	221 E Clark St Albert Lea, MN 56007	Electronic Service	No	OFF_SL_14-107_PA-14-107
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David	Grover	dgrover@itctransco.com	ITC Midwest	901 Marquette Avenue Suite 1950 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-107_PA-14-107
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_14-107_PA-14-107
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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_14-107_PA-14-107
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	90 South 7th Street Suite #4800 Minneapolis, MN 554024129	Electronic Service	No	OFF_SL_14-107_PA-14-107
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	SPL_SL_14-107_Potentially Interested Parties
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	SPL_SL_14-107_Potentially Interested Parties
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William A.	Blazar	bblazar@mnchamber.com	Minnesota Chamber Of Commerce	Suite 1500 400 Robert Street North St. Paul, MN 55101	Electronic Service	No	SPL_SL_14-107_Potentially Interested Parties

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Bradley	mike.bradley@lawmoss.com	Moss & Barnett	Suite 4800 90 S 7th St Minneapolis, MN 55402-4129	Electronic Service	No	SPL_SL_14-107_Potentially Interested Parties
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City	Clerk	N/A	City of Adams	303 West Main St. Adams, MN 55909	Paper Service	No	SPL_SL_14-107_Potentially Interested Parties
City	Clerk	N/A	City of Lyle	City Hall 109 Grove Street Lyle, MN 55953	Paper Service	No	SPL_SL_14-107_Potentially Interested Parties
City	Clerk	N/A	City of Conger	City Hall 51 School St, Alden, MN 56009	Paper Service	No	SPL_SL_14-107_Potentially Interested Parties
City	Clerk	N/A	City of Clarks Grove	City Hall 101 Independence Ave N Clarks Grove, MN 56016	Paper Service	No	SPL_SL_14-107_Potentially Interested Parties
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City	Clerk	N/A	City of Le Roy	City Hall 122 W Main St. Le Roy, MN 55951	Paper Service	No	SPL_SL_14-107_Potentially Interested Parties

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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City	Clerk	N/A	City of Wykoff	City Hall 217 Gold St N Wykoff, MN 55990	Paper Service	No	SPL_SL_14-107_Potentially Interested Parties
City	Clerk	N/A	City of Glenville	City Hall 221 W Main Street Glenville, MN 56036	Paper Service	No	SPL_SL_14-107_Potentially Interested Parties
City	Clerk	N/A	City of Rose Creek	City Hall 105 Maple Street Rose Creek, MN 55970	Paper Service	No	SPL_SL_14-107_Potentially Interested Parties
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Amber	Lee	alee@briggs.com	Briggs and Morgan	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	SPL_SL_14-107_Potentially Interested Parties
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Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	SPL_SL_14-107_Potentially Interested Parties
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Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	SPL_SL_14-107_Potentially Interested Parties
Carl	Nelson	cnelson@mncee.org	Center for Energy and Environment	212 3rd Ave N Ste 560 Minneapolis, MN 55401	Electronic Service	No	SPL_SL_14-107_Potentially Interested Parties

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Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	12 S 6th St Ste 1137 Minneapolis, MN 55402	Electronic Service	No	SPL_SL_14-107_Potentially Interested Parties
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Ron	Spangler, Jr.	rlspangler@otpco.com	Otter Tail Power Company	215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	SPL_SL_14-107_Potentially Interested Parties

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STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

IN THE MATTER OF A REQUEST FOR APPROVAL OF THE ASSET PURCHASE AND SALE AGREEMENT BETWEEN INTERSTATE POWER AND LIGHT COMPANY AND MINNESOTA ENERGY RESOURCES CORPORATION	**DOCKET NO. G001,G011/PA-14-107**

REPLY COMMENTS

On February 4, 2014, Interstate Power and Light Company (IPL) and Minnesota Energy Resources Corporation (MERC) (collectively Joint Petitioners or Petitioners), filed a Petition with the Minnesota Public Utilities Commission (the Commission) for approval of the sale of IPL's Minnesota gas distribution system and assets and transfer of service rights and obligations in Minnesota to MERC (the Transaction) under the Asset Purchase and Sale Agreement dated September 3, 2013 (the Agreement). On April 7, 2014 the Minnesota Department of Commerce, Division of Energy Resources (Department) and the Office of the Attorney General, Antitrust and Utilities Division (OAG) filed comments in response to the Petition. These Reply Comments are submitted on behalf of the Joint Petitioners in response to the Department's and OAG's April 7, 2014 Comments.

The Department, in its comments, concluded that the Petition met all of the necessary filing requirements, including the requirements under Minn. Stat.

§216B.50 and Minnesota Rules 7825.1600-1800.[1] The Department requested the Joint Petitioners provide additional information before making its final recommendation, but made the following conclusions and made preliminary recommendations with respect to the Petition:

- The proposed Agreement would have no significant impact on MERC's operation of its distribution system and on its gas supply.
- IPL's rates are generally lower than MERC's proposed rates; however this conclusion applies to MERC's interim rates which are likely significantly higher than the final rates to be approved by the Commission.
- IPL's current rates are significantly lower than IPL's current cost of service. Therefore, IPL could not remain financially viable under its existing rates.
- IPL's rates, based on IPL's current revenue requirements, may be higher or lower than MERC's final rates depending on the Commission's final decision in MERC's current rate case. However, based on the Commission's decision in MERC's most recently completed rate case and based on the Department's recommendations in MERC's current rate case, IPL's updated rates are likely to be higher than MERC's final approved rates.
- The Agreement should be modified to exclude certain provisions for treatment of the environmental costs associated with the Former Manufactured Gas Plant (FMGP) sites.[2]

The Joint Petitioners appreciate the Department's thoughtful review and agree with many of the Department's conclusions. These Reply Comments explain why the provisions for FMGP cost recovery are consistent with Commission policy and the public interest provide further foundation for the transition of IPL customers to MERC rates.

The OAG Comments recommend that, if the Commission approves the Transaction, it do so only with certain conditions. Specifically, the OAG

[1] Comments of the Minnesota Department of Commerce, Division of Energy Resources, Docket No. G001,G011/PA-14-107, at 12 (April 7, 2014) ("Department Comments").

[2] Department Comments at 12.

recommends that the Commission:

1. Maintain the current rates for IPL's gas customers until a rate case is filed authorizing the change in rates;

2. Separately identify the costs associated with setting rates between IPL's former customers and MERC's current customers for at least five years;

3. Maintain IPL's current obligation to remediate contaminated manufactured gas plants located in Minnesota and deny the Petitioners' request to transfer the obligation to MERC;

4. Incorporate the level of deferred taxes currently reflected in IPL's Minnesota jurisdictional reports into the rates for former IPL customers by amortizing it over a period of five years; and

5. Conduct public hearings in IPL's service territory to allow ratepayers to meaningfully participate in the process. [3]

Except for the recommendation to conduct public hearings, the OAG recommendations should be rejected, as explained in these Reply Comments.

I. INTRODUCTION AND SUMMARY

As explained in the Petition, the Transaction will provide the following public interest benefits:

- Combining the IPL customers into MERC's utility operations is expected to produce a continuation of good service at reasonable prices to current IPL customers as well as incremental long-term benefits for all MERC customers.

- The acquisition of IPL's gas business adds over 10,000 customers to MERC's Minnesota gas business, achieving modest economies of scale to the benefit of all of MERC's current and future customers.

- The ability of MERC to integrate and expand service to IPL gas customers (a less than 5 percent addition) should enable a seamless transition with no degradation of service quality or safety.

[3] Comments of the Office of the Attorney General, Antitrust and Utilities Division, Docket No. G001, G011/PA-14-107 at 22-23 (April 7, 2014) ("OAG Comments").

- The modest total acquisition cost also enables financing from internally generated funds and assures that financing costs will be as low as possible to the benefit of the customers.
- The integration of IPL gas business into MERC will also provide a greater variety of tariffed services to former IPL customers.

The Transaction also includes the collection of the future clean-up costs for the Austin FMGP site plus approximately $2.6 million of previously incurred and paid FMGP clean-up costs. Collection of these FMGP clean-up costs is completely consistent with the public interest because ratepayers will pay no more than the FMGP clean-up costs that have been and will be incurred. The rate of collection is proposed to remain at the same level that has been included in rates since 1996.

Currently, the IPL gas customer base is paying $494,017 per year for FMGP clean-up costs for the Albert Lea, Owatonna, New Ulm, Austin and Rochester FMGP sites.[4] It is proposed that, after approval of the Transaction, the $494,017 per year FMGP rate element being collected from only IPL customers would be transferred to MERC and become a common obligation of all MERC customers.

[4] The $494,017 was originally approved by the Commission in its Findings of Fact, Conclusions of Law, and Order in IPL's last general rate case, Docket No. G-001/GR-95-406. In that Order, the Commission allowed IPL to recover $4,940,173, the amount of the costs deferred for the Rochester and Albert Lea FMGP sites, amortized over ten years. The Austin, Owatonna, and Albert Lea sites were not included in the calculation of that recovery amount. In 2007, IPL was allowed to continue recovery at the rate of $494,017 as long as it had deferred MGP clean-up costs, including prior and future costs, including costs related to other sites.

See also In the Matter of a Request for a Declaratory Ruling for Accounting Treatment of the Recovery of Former Manufactured Gas Plant Clean-Up Costs, *Order Allowing Recovery of Deferred Former Manufactured Gas Plant Clean-Up Costs*, Docket No. G-001/M-06-1166 (March 9, 2007) ("2007 IPL FMGP Cost Recovery Order"); *In The Matter Of Interstate Power And Light Company's Annual Filing Related To Deferral Of And Recovery Of Expenses Associated With Former Manufactured Gas Plants*, Docket Nos. G001/M-94-633, G001/M-95-687. G001/GR-95-406. G001/M-06-1166, filed April 30, 2014 ("2014 FMGP Annual Report").

The Petitioners' FMGP cost recovery proposal provides that: (i) MERC would first recover its future Austin FMGP site clean-up costs (amounts up to $3 million + half of any amounts over $3 million); and (ii) IPL would recover thereafter a portion of its previously incurred FMGP clean-up costs ($2.6 million) + half of any Austin site FMGP clean-up costs over $3 million. The future FMGP clean-up costs of the Austin site are estimated at between $2.665 million and $4.1 million.[5] This FMGP cost recovery element would continue only until cost recovery of those amounts.

Further, the rate transition proposed by MERC is also consistent with the public interest. The IPL gas customers in Minnesota have enjoyed a unique "rate freeze" for many years. In fact, the rate freeze has caused the current IPL rates to be significantly below the cost of providing service. As the Department Comments correctly noted:

> IPL's last rate case in Minnesota was in 1996. Since that year, IPL has not changed its customer charges and distribution charges for its Minnesota customers. Therefore, it is very likely that IPL's current cost of service is much higher than is reflected in IPL's rates.[6]

MERC proposes to transfer the IPL customers to MERC's rates and tariffs in effect as of the time of closing of the Transaction. The reasonableness of a transfer of IPL gas customers to MERC rates and tariffs upon approval of the Transaction are explained in these Reply Comments, including: (1) the anomaly that has caused IPL's current rates to be far below the cost of service; and (2) the reality that the sooner IPL gas customers are transitioned to MERC rates, the easier the rate

[5] The range given represents the amount IPL estimates it has yet to spend on remediation activities at Austin consistent with its MPCA-approved plan as of year-end 2013, and the estimate MERC has received based on its remediation plan. *See also* IPL response to Department IR No. 7.

[6] Department Comments at 8.

transition will be for current IPL customers. In an era of increasing costs, further delay will only amplify any rate transition issues.

For the reasons noted above and explained in these Reply Comments, the Transaction is consistent with the public interest and should be approved by the Commission.

II. REPLY COMMENTS

This section of the Reply Comments addresses issues pertaining to FMGP costs, the OAG's arguments pertaining to the proposed MERC rate transition and deferred taxes, and provides answers to the Department's questions with respect to the Conservation Cost Recovery Adjustment (CCRA), Gas Affordability Program (GAP), and natural gas costs.

A. The Petitioners' FMGP Cost Recovery Proposal Is Consistent With The Commission's Environmental Policy, Meets Commission Standards, And Continues The Commission-Approved Cost Recovery And Tracking Process.

The Department has preliminarily recommended modification of the FMGP provisions of the Agreement, although the Department has reserved its final recommendation pending more information. The OAG recommends that the Petitioners' FMGP cost recovery mechanism be eliminated. For the reasons set forth below, the Commission should approve the recovery of FMGP clean-up costs as proposed by the Joint Petitioners, as a condition of approval of the Transaction.

1. The Petitioners' FMGP Cost Recovery Proposal Continues FMGP Cost Recovery Approved For IPL And Is Consistent With Commission Standards.

The Department, in its comments, raises two primary concerns with the Agreement's provisions regarding FMGP costs. First, the Department asserts that

"the record lacks support for the $494,017 used in the calculation of the FMGP Adjustment Annual Payment."[7] The $494,017 recovery amount approved in IPL's last rate case was originally based on past costs for clean-up at the Rochester and Albert Lea FMGP Sites.[8] The Austin site was not included in the calculation of that recovery amount in IPL's last rate case.[9] However, as shown in these Reply Comments, in 2007, the Commission continued this payment level, originally established in 1996, for recovery of IPL's future FMGP costs as long as it had deferred FMGP clean-up costs.[10] Because past and ongoing remediation costs are significantly higher than the annual approved recovery amount, continuation of this level of cost recovery would be appropriate following the Transaction.

Second, the Department asserts that because MERC's pending rate case does not include the Austin FMGP mitigation costs, MERC should not be able to recover $494,017 per year for these costs.[11] However, the continuation of future FMGP cost recovery approved by the Commission in 2007 also occurred outside of a rate case, and the tracking and accounting procedure recommended in these Reply Comments will address any concerns regarding Commission review of costs.

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[7] Department Comments at 11.

[8] *In the Matter of the Request of Interstate Power Company for Authority to Change Its Rates for Gas Service in Minnesota*, Findings of Fact, Conclusions of Law, and Order, Docket No. G-001/GR-95-406, at 16-17 167 P.U.R. 4th 409 (February 29, 1996) ("1996 IPL Rate Case Order").

[9] The Commission granted IPL authority for deferred accounting of FMGP investigation and remediation costs for the New Ulm, Owatonna, and Austin FMGP sites in *In the Matter of a Request by Interstate Power Company for Deferral of Expenses Associated with Former Manufactured Gas Plants*, Docket No. G-001/M-95-687 (April 2, 1996).

[10] 2007 IPL FMGP Cost Recovery Order.

[11] Department Comments at 11.

The Department Comments also state that:

> "The Department disagrees with this proposed treatment because it would require MERC's ratepayers to pay IPL for costs that were already fully paid for by IPL."[12]

To the contrary, the prior payment of these costs by IPL does not eliminate the ratepayers' obligation to repay IPL for these costs. Further, the distinction between the responsibilities of IPL ratepayers and MERC ratepayers is eliminated if the Commission approves the Transaction. Further, treating IPL customers differently for a single cost is inconsistent and would be contrary to the public interest.[13] As summarized in greater detail in Section II.B.1. of these Reply Comments, immediate transition of IPL customers to MERC's rates is consistent with the public interest, including transition of responsibility for previously incurred and yet unrecovered FMGP clean-up costs.

The Petitioners' proposed FMGP cost recovery process is also consistent with the Commission's fundamental and long-held standards, which should provide the basis for determination of this issue. More specifically, approving Petitioners' proposal for FMGP cost recovery is consistent with the Commission's environmental cost recovery policy, which recognizes that reasonable and prudent FMGP clean-up costs should be recovered by all gas utilities on a consistent basis.

The sale of IPL's Minnesota gas utility business to MERC would not change this fact nor would it eliminate the need for consistency and support for

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[12] Department Comments at 11.

[13] Minn. Stat. §216B.07 ("No public utility shall, as to rates or service, make or grant any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage."); *see also*, Minn. Stat. § 216B.03 ("Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in application to a class of customers").

environmental cost recovery that the Commission has recognized. Moreover, as explained below, the proposed FMGP cost recovery process would simply continue the cost tracking and recovery process that has been used since 1996, providing ongoing assurance that ratepayers will pay no more than the reasonable and prudent clean-up costs that have been, and will be, incurred. Including MERC in this process will not impair these protections or alter the fully transparent recovery of and accounting for remediation costs.

Further, the transfer of the FMGP rate element currently being collected by IPL as part of the approval of this transaction is consistent with the public interest. IPL and MERC customers will receive an incremental benefit from the addition of the IPL customers to MERCs system by added efficiencies of scale as well as a broader customer base for the sharing of common costs. Over the long term, these efficiencies will offset the minimal costs associated with incorporating the existing IPL FMGP rate recovery mechanism.

2. The Petitioners' FMGP Cost Recovery Proposal Is Consistent With The Commission's Environmental Policy.

The Petitioners' FMGP cost recovery proposal is consistent with the Commission's environmental policy, which has long recognized both the public policy benefits of environmental clean-up of FMGP sites and that utilities should not be discouraged or financially penalized for taking reasonable and prudent steps to remediate FMGP sites. A sale of gas utility assets from one provider to another does not diminish these considerations. Rather, the Commission has recognized that support for environmental clean-up is appropriate even if the utility no longer owns the polluted sites.

The Commission has consistently allowed collection of reasonable and prudent FMGP costs.[14] The Commission acknowledged that the same considerations are applicable to IPL in IPL's most recent rate case, in which the Commission rejected arguments against allowing IPL cost recovery for its FMGP clean-up efforts:

> Along with the logic and precedent which guide the Commission's decision, there are strong policy reasons for finding that Interstate's MGP costs are recoverable in this case.
>
> Remediation of MGP environmental contamination is a generally accepted societal good. It would be poor public policy to discourage environmental cleanup by disallowing these prudent and reasonable costs of the process.
>
> Remediation of former MGP sites is an issue which impacts the entire gas utility industry. It is a unique issue, with finite parameters, which must be addressed consistently, on an industry wide basis.[15]

These same policy considerations support the Petitioners' FMGP cost recovery proposal. Transfers of ownership, even transfers of ownership outside of utility ownership do not negate this policy, nor do they undermine the Commission's

[14] *See In the Matter of the Petition of Northern States Power Company for Authority to Change Its Schedule of Rates for Gas Utility Service for Customers in the State of Minnesota*, Findings of Fact, Conclusions of Law, and Order, Docket Nos. G-002/GR-86-160 and G-002/M-86-165, 87 Minn. PUC LEXIS 79 (January 27, 1987) ("In the absence of negligence or misconduct, the investor should be entitled to recovery of the expenses mandated by the MPCA."); *In the Matter of the Petition of Northern States Power Company for Authority to Change Its Schedule of Gas Rates for Retail Customers Within the State of Minnesota*, Findings of Fact, Conclusion, and Order, Docket No. G-002/GR-85-108, 73 P.U.R. 4th 395 (December 30, 1985) ("Environmental laws have been toughened markedly over the past two decades. Therefore, in the absence of gross negligence or willful misconduct, these costs are properly treated as necessary, on-going business expenses. Moreover, it is in the public interest that the utility cooperates to clean up hazardous wastes."); *In the Matter of the Application of Minnegasco for Authority to Increase Its Rates for Natural Gas Service in the State of Minnesota*, Order After Reconsideration, Docket No. G-008/GR-93-1090 (April 4, 1995); *In the Matter of the Application of Peoples Natural Gas Company for Authority to Increase Its Rates for Natural Gas Service in the State of Minnesota*, Findings of Fact, Conclusions of Law and Order, Docket No. G-011/GR-92-132 (February 22, 1993) ("There are valid state and federal statutes placing clean-up responsibilities on current landowners, whether or not they owned the land when the pollution requiring remediation occurred. These responsibilities flow from land ownership alone. To treat remediation costs differently from other costs related to current land ownership would be result driven and contrary to general ratemaking principles.").

[15] 1996 IPL Rate Case Order at 25.

recognition that recovery of FMGP clean-up costs is appropriate. There is no basis for the Commission to reverse its strong and consistent environmental policy, one which ultimately provides significant benefits to residents of Minnesota.

3. The Petitioners' FMGP Cost Recovery Proposal Meets Commission Standards for Cost Recovery.

The Petitioners' FMGP cost recovery proposal meets the Commission's standards and criteria for FMGP clean-up cost recovery, and the sale of assets to MERC will not negate that fact. The Commission has consistently based its FMGP cost recovery decisions on precedent and bedrock principles, which include: (i) utilities are allowed to recover the reasonable costs of providing utility service; (ii) the connection of FMGP sites to providing utility service; and (iii) the public benefits resulting from supporting environmental clean-up of FMGP sites:

> The Commission has been applying its standards for recovery consistently, and will continue to do so: the expenses must be prudent and reasonable, required by the MPCA, and the property must be used and useful in the provision of utility service. The Commission's used and useful standard allows the Commission to examine the utility's provision of utility service to determine if the property was used and useful at the time of pollution or is used and useful in the current provision of utility service. The consistent application of this standard is entirely compatible with the Commission's general policy of allowing prudent and reasonable costs of the provision of utility service.[16]

The Commission recognized that IPL did not own the Austin, New Ulm, Owatonna, or Rochester FMGP sites at the time the clean-up costs were required to be incurred but nonetheless approved IPL's recovery for the remediation of those sites.[17] Accordingly, transfer of ownership does not eliminate the right to recover

[16] 1996 IPL Rate Case Order at 25.

[17] *In the Matter of a Request by Interstate Power Company for Deferral of Expenses Associated with Former Manufactured Gas Plants*, Docket No. G-001/M-95-687 at 2 (April 2, 1996) ("1996 IPL Deferral Order"); 1996 IPL Rate Case Order at 16-17.

FMGP clean-up costs.

The Commission also recognized that neither the change in technology from manufactured to natural gas[18] nor the time in which manufactured gas was produced provide any basis to deny recovery.[19] These determinations with respect to IPL were fully consistent with Commission precedent and practice. Further, all prior FGMP clean-up costs have been expended pursuant to plans approved by the Minnesota Pollution Control Agency and all future remediation of the Austin FMGP site will likely be similarly approved.

The sale of gas assets from IPL to MERC would do nothing to change the fact that the FMGP sites meet the Commission's criteria and standards for cost recovery. Additionally, the Commission has recognized the importance of both avoiding inconsistency and allowing utilities to recover the reasonable and prudent costs of environmental clean-up of FMGP sites:

> Disallowing Interstate's prudent and reasonable MGP cleanup costs would be inconsistent with the Commission's ratemaking standard and could improperly risk the financial integrity of the utility. The Commission has a duty to prudent and well-managed utilities as well as to their ratepayers. Disallowing these significant costs in an attempt to reduce rates would be unjustified, in light of the fact that the utility has fulfilled the Commission's criteria for cost recovery.[20]

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[18] The Commission approved IPL's recovery and rejected arguments that attempted to establish providing manufactured gas service was not the same as providing natural gas service:

> "The Commission agrees with the ALJ that '[t]his argument must be rejected because it is contrary to Commission precedent and the common sense upon which the Commission precedent is based." 1996 IPL Rate Case Order at 24.

[19] The Commission approved IPL's recovery and rejected arguments that attempted to deny recovery of current clean-up costs based on the timing of MGP service:

> "This line of reasoning produces inequitable and illogical results." … As the Commission previously clarified in the Peoples decision, the correct used and useful analysis allows recoverability if property was used and useful for the provision of utility service at the time of pollution (or for current ratepayers)." 1996 IPL Rate Case Order at 23.

[20] 1996 IPL Rate Case Order at 26.

If the Transaction is approved the same will remain true following the transfer of gas assets to MERC, and this case should be based on the Commission's fundamental standards for recovery of FMGP clean-up costs.

4. The Petitioners' FMGP Cost Recovery Proposal Continues The Current Commission-Approved Cost Recovery and Tracking Process.

The Petitioners' FMGP cost recovery proposal reflects a recovery and cost tracking process that is fundamentally a continuation of the FMGP cost recovery process used since 1996. That process has allowed an orderly and consistent recovery and accounting of clean-up costs incurred prior to 1996 and those incurred since 1996.

As previously noted, in 2007, the Commission extended the FMGP cost recovery of $494,017 approved in 1996, which included both FMGP costs incurred since IPL's last rate case and those to be incurred in the future, thus maintaining orderly and consistent FMGP cost recovery.[21] As further explained below, that process also anticipated it would be used to collect FMGP clean-up costs incurred in the future. Under this process, IPL continues to file Annual Reports of FMGP costs, including annual and cumulative tracking of FMGP clean-up costs incurred and FMGP clean-up costs recovered both from other sources (third parties and insurance) and costs recovered in rates. As also further explained below, the Petitioners propose that a comparable tracking system be continued in the future.

The Petitioners' FMGP cost recovery proposal is consistent with the process outlined in the Commission's prior FMGP cost recovery orders. The proposal

[21] 2007 IPL FMGP Cost Recovery Order at page 3.

would maintain the same rate of recovery ($494,017 per year) and would provide for recovery of both future FMGP clean-up costs and previously incurred clean-up costs. It would maintain tracking and assure that ratepayers would pay for only prudent and reasonable clean-up costs without any double recovery. The only change is the order of FMGP cost recovery to first provide for recovery of MERC's future Austin FMGP site clean-up costs, with recovery of the remaining balance of IPL's previous clean-up costs and future Austin FMGP clean-up costs to follow.

a. The current FMGP cost recovery and tracking process has been used since 1996 and includes both prior and current costs.

The Commission established a tracking process in IPL's last rate case, adopting a pragmatic approach that balanced the need for a practical procedure to address FMGP costs with ongoing monitoring to protect ratepayers:

> Because future insurance and third party recoveries will offset MGP rate recoveries, the Commission will establish a system for regular monitoring of future recoveries. The Commission will require Interstate to file on an annual basis the amount of its MGP expenditures for the year and its cumulative expenditures to date for MGP costs. The annual reporting of these costs shall explain and show the types of costs that were incurred and what monies were recovered from insurance companies and other parties.[22]

The Commission maintained the same pragmatic approach when it extended the FMGP cost recovery process in its 2007 IPL FMGP Cost Recovery Order, allowing recovery of both the FMGP costs incurred since the 1996 rate case and the FMGP costs to be incurred in the future:

> The Company now seeks approval to continue to amortize the same level of former manufactured gas plant costs that was set in its last general rate case, but to account for it as an offset against the deferred former manufactured gas plant clean-up costs incurred since its last rate case.

[22] 1996 IPL Rate Case Order at 28.

> The Department supported the Company's proposal to continue charging for deferred manufactured gas plant costs because there are $2,364,453 of former manufactured gas plant costs unrecovered from ratepayers and a projected additional $12,264,000 of costs yet to be incurred.
>
> ***
>
> The Commission agrees that the Company's proposal is an appropriate means by which to deal with the former manufactured gas plant clean-up costs currently being deferred.[23]

The Commission balanced the need for recovery of FMGP costs incurred since IPL's last rate case in 1996 and to be incurred in the future with continuation of customer protections, including transparency, cost-effectiveness, easy tracking to prevent any possible double recovery, and the ability to conduct a future review to verify prudence:

> The proposal is cost-effective for the Company customers because it continues to track and remove former manufactured gas plant clean-up cost from its books in a transparent manner. In addition, the Company will continue to incur former manufactured gas plant clean-up costs for those sites where clean-up has not yet been completed.
>
> Further, the Company's request will make it easier to track the deferred costs in its next rate case, and its ratepayers will get the benefit of having some costs already recovered, thereby avoiding any possible double recovery of former manufactured gas plant clean-up costs.
>
> While the Commission believes that the Company's proposal is the right course of action to address the former manufactured gas plant clean-up costs being deferred, the Commission also believes that certain conditions should attach. The Commission will reserve the right to determine the prudence and reasonableness of the deferred costs as well as the appropriate treatment of the legal costs of pursuing third party recovery of former manufactured gas plant clean-up costs in future rate cases.[24]

The Commission should adopt the same pragmatic approach in this case that it used in the IPL's last rate case and in the 2007 IPL FMGP Cost Recovery Order in

[23] 2007 IPL FMGP Cost Recovery Order at 2.

[24] 2007 IPL FMGP Cost Recovery Order at 2-3.

connection with both MERC's future FMGP clean-up costs and IPL's previously incurred FMGP clean-up costs (which, under the terms of the Agreement, MERC will pay to IPL from any rate recovery in excess of MERC's future FMGP costs).

b. The Petitioners' proposal would extend the current FMGP process, preserving tracking, transparency, and other customer protections.

The Petitioners' FMGP cost recovery proposal promotes transparency and consistency with regulatory principles and prior Commission decisions. As shown in IPL's 2014 FMGP Annual Report,[25] the current FMGP process has allowed recovery of approximately $8.6 million in FMGP clean-up costs from ratepayers since 1996. Approximately $2.665 million to $4.1 million in remediation costs remain to be expended with respect to the Austin FMGP site.[26]

The Petitioners' proposed FMGP clean-up cost recovery will include $2.6 million for IPL's previously incurred and unrecovered FMGP costs. In addition, the Transaction contemplates that the future clean-up costs for the Austin FMGP site will be collected. MERC will collect its share of those costs (costs up to $3.0 million plus 50 percent of the costs over $3.0 million). IPL would also recover its share of future Austin site FMGP costs (50 percent of costs in excess of $3.0 million).

MERC has received a $4.1 million estimate of future Austin FMGP site clean-up costs.[27] If that estimate proves to be correct, MERC would recover $3.55 million and IPL would recover $3.15 million ($2.6 million + $0.55 million). The

[25] 2014 Annual FMGP Filing, Schedule 3.

[26] The range given represents the amount IPL estimates it has yet to spend on remediation activities at Austin consistent with its MPCA-approved plan as of year-end 2013, and the estimate MERC has received based on its remediation plan. *See also* IPL response to Department IR No. 7.

[27] Response to Department IR No. 7.

recovery of FMGP costs from ratepayers and the order of payment (under which MERC will recover its future FMGP costs before any further cost recovery by IPL) are reflected in Table 1 below:

Table 1

	Total IPL FMGP Expenditures Outstanding To Be Recovered*	Total MERC FMGP Expenditures Outstanding To Be Recovered**	Total FMGP Expenditures Outstanding To Be Recovered	IPL Recoveries	MERC Recoveries	Customer Payments
Total	**$ 3,134,997**	**$ 3,550,000**	**$ 6,684,997**			
Post Sale Years						
Year 1	$ 3,134,997	$ 3,550,000	$ 6,684,997			$ (494,017)
Year 2	$ 3,134,997	$ 3,055,983	$ 6,190,980	$ -	$ (494,017)	$ (494,017)
Year 3	$ 3,134,997	$ 2,561,966	$ 5,696,963	$ -	$ (494,017)	$ (494,017)
Year 4	$ 3,134,997	$ 2,067,949	$ 5,202,946	$ -	$ (494,017)	$ (494,017)
Year 5	$ 3,134,997	$ 1,573,932	$ 4,708,929	$ -	$ (494,017)	$ (494,017)
Year 6	$ 3,134,997	$ 1,079,915	$ 4,214,912	$ -	$ (494,017)	$ (494,017)
Year 7	$ 3,134,997	$ 585,898	$ 3,720,895	$ -	$ (494,017)	$ (494,017)
Year 8	$ 3,134,997	$ 91,881	$ 3,226,878	$ -	$ (494,017)	$ (494,017)
Year 9	$ 2,732,861		$ 2,732,861	$ (402,136)	$ (91,881)	$ (494,017)
Year 10	$ 2,238,844		$ 2,238,844	$ (494,017)	$ -	$ (494,017)
Year 11	$ 1,744,827		$ 1,744,827	$ (494,017)	$ -	$ (494,017)
Year 12	$ 1,250,810		$ 1,250,810	$ (494,017)	$ -	$ (494,017)
Year 13	$ 756,793		$ 756,793	$ (494,017)	$ -	$ (494,017)
Year 14	$ 262,776		$ 262,776	$ (494,017)	$ -	$ (262,776)
Year 15	$ -		$ -	$ (262,776)	$ -	
Total				**$ (3,134,997)**	**$ (3,550,000)**	**$ (6,684,997)**

* Includes the unrecovered balance for prior expeditures + estimated future payments for Austin. Does not include estimate future FMGP payments for other FMGP sites which will be absorbed by IPL.

** Estimated future payments by MERC for Austin.

Clearly, there is no risk of over-collection of previously incurred and unrecovered FMGP clean-up costs, which meets the Commission's standard.[28]

The order of payment (MERC's costs first, then IPL's costs) does not affect

[28] In the 1996 IPL Rate Case Order at page 26, the Commission stated: "Shareholders will not receive a windfall because ratepayers will pay no more nor no less than the utilities prudently incurred costs."

the appropriateness of recovery of all costs. As shown in Table 1, above, the order of recovery will not increase the total amount of costs recovered from customers. All of the FMGP clean-up costs (including both costs previously incurred by IPL and future costs to be incurred by MERC) are in the category of FMGP costs that have been recognized as being reasonable by the Commission. The Commission will retain the same ability to monitor and review the level of FMGP costs incurred to assure that only prudent costs are recovered.

Thus, the recovery of FMGP costs by MERC and then by IPL will be transparent and will be fully tracked. As a result, ratepayers will be fully protected from any over-payment or double recovery. The Petitioners' proposed FMGP cost recovery mechanism similarly preserves the opportunity for the Commission to review and determine the prudency of the level of costs that are incurred. For all these reasons, the Petitioners' proposal for FMGP cost recovery is consistent with Commission precedent and policy, is in the public interest, and should be approved.

5. The Commission Should Reject The OAG's Recommendation To Require IPL To Pay Future Austin FMGP Site Clean-up Costs.

The OAG Comments object to the Petitioners' proposed treatment of FMGP clean-up cost recovery, recommending that MERC assume no FMGP clean-up costs and that IPL retain responsibility for all FMGP costs with no recovery at all, including retaining all of the Austin site liability.[29] These recommendations are unreasonable and would amount to a significant financial penalty for IPL for which

[29] OAG Comments at 13, 22.

there is no justification. More specifically, the OAG recommendation must be rejected because it would impose a completely unwarranted penalty on IPL, and would deny IPL the opportunity to recover a substantial amount of reasonable and prudently incurred FMGP clean-up costs, contrary to basic regulatory principles and several prior Commission decisions. The extremity of the OAG's recommendation is clear and should be rejected by the Commission.

The OAG bases its argument on the assertion that MERC ratepayers have obtained no benefit from the Austin FMGP site and should not be required to pay for the related FMGP cleanup costs. The OAG has made essentially the same argument several times in prior cases in an effort to deny FMGP clean-up cost recovery to IPL. The Commission has consistently rejected the OAG's argument in prior cases involving IPL and other utilities.[30] The Commission should reject this argument again in this case.

The OAG has unsuccessfully opposed IPL's previous requests to defer FMGP costs as well as IPL's subsequent request in its last rate case to recover those costs. In IPL's last rate case, the OAG argued that IPL's current ratepayers did not benefit from manufactured gas service which had been converted to natural gas service many years before. The ALJ and the Commission rejected the OAG's argument:

> The Commission does not accept the limitations to the used and useful standard – either by the timing of the service of by the gas product used to serve ratepayers – argued by the Department and the RUD-OAG.[31]

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[30] 1996 IPL Rate Case Order at 19-20, 23-25.

[31] 1996 IPL Rate Case Order at 23.

The OAG Comments argue that the responsibility to pay the costs of providing utility service, including FMGP costs, is limited to the IPL ratepayers. The OAG made fundamentally the same argument in IPL's last rate case. Contrary to that argument, the Commission recognized that the responsibility is not limited to ratepayers in the immediate area, but is rather the responsibility of all ratepayers, saying:

> If the utility can prove that its cost was a normal, reasonable and prudent expense of conducting utility business, it can recover the cost from the general base of utility ratepayers, no matter where the cost arose. Costs of nuclear decommissioning, for example, are not exacted against nearby ratepayers, but are rather assigned to all utility ratepayers. The Commission has not stated that costs must bring a benefit to the current, surrounding class of ratepayers in order to be recoverable.[32]

If the Commission approves the transfer of IPL gas distribution assets to MERC in this case, the same principle must apply. If the Transaction is approved, all of the former IPL customers will become MERC customers, and all of the reasonable and prudently incurred costs of providing service to those customers, including the FMGP clean-up costs that arose from prior utility service, are appropriately recoverable from all MERC customers. The transfer resulting from the Transaction cannot be recognized for some purposes and not for others. Basic principles of consistency require that, if the Transaction is approved and recognized for purposes of transferring gas service responsibility to MERC, the transfer of Austin FMGP site clean-up costs to MERC must also be recognized.

[32] 1996 IPL Rate Case Order at 24. (Emphasis added.)

Accordingly, the Commission should reject the OAG's recommendations relating to FMGP cost recovery, including the OAG recommendation to deny any recovery of future Austin FMGP site clean-up costs.

B. Response To The OAG's Additional Comments

The OAG recommended that if the Commission decides to approve the transaction, it do so only with conditions "to protect the interests of ratepayers." Specifically, the OAG has recommended that the Commission: (1) maintain current rates for IPL's gas customers until a rate case is filed; (2) separately identify the costs associated with setting rates between IPL's former customers and MERC's current customers for at least five years; (3) deny the request to transfer IPL's obligation to remediate contaminated former manufactured gas plant liabilities to MERC; (4) incorporate current deferred taxes into rates for former IPL customers; and (5) conduct public hearings to allow ratepayers to participate in the process. The Joint Petitioners responded to the recommendation on the FMGP liabilities above, and respond to the remaining recommendations as follows:

1. A Rate Case Is Not Necessary For The Commission To Find That The Immediate Transition Of IPL Customers To MERC's Rates Is In The Public Interest.

The OAG asserts that a rate case is necessary before IPL customers may be transferred to MERC rates and that transferring IPL customers to MERC rates outside a full rate case would not be in the public interest. Contrary to the OAG's assertions, transition of IPL customers to MERC's rates as a condition of approval in this docket would be consistent with the public interest and is well within the Commission's authority. After 18 years of being shielded from rate increases, to further delay a transition of IPL customers to contemporary rates would not be in

the public interest. Further delay and a separate rate case will merely increase costs and exacerbate the spread between current, sustainable rates (MERC's) and IPL's legacy rates. Additionally, requiring MERC to keep IPL customers on their existing rates would require MERC to program all of the IPL rates into its existing billing system as well as into the new billing system that will be implemented in 2015. This is a significant and unjustified burden which would magnify the difficulty of bringing 10,000 customers into an era of sustainable rates.

Prior Commission precedent in property acquisition dockets supports rate transitions for the acquired customers as a condition of approval.[33] Contrary to the position of the OAG, Minn. Stat. §216B.06 does not require a full rate case filing before the Commission may approve transition of customers within a new service territory into existing utility rates. The Commission has significant discretion to regulate the affairs of public utilities. The Legislature has directed the Commission to ensure that rates for regulated utility service are just, reasonable, and not unduly discriminatory, *see* Minn. Stat. §§ 216B.03, 216B.07, and has authorized the Commission to establish the appropriate rates to apply. In approving a property transfer under Minn. Stat. § 216B.50, the Commission has broad authority to

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[33] *See, e.g.*, *In the Matter of the Joint Petition for the Approval of Minnesota Power and Light Company's Purchase and Bigfork Valley Electric Service Company's Sale of Utility Property*, Order Approving Transfer of Utility Property and Service Area, Docket No. E-014,013/PA-88-34 (June 9, 1988). *In the Matter of Joint Petition of Minnesota Power & Light Company and Rainy River Improvement Company requesting an Order Authorizing the Purchase of All the Electric Utility Property of Rainy River by Minnesota Power & Light*, Order Concerning A Phase-In of Rates for Customers of Rainy River Improvement Company, Docket No. E-018, 015/SA-78-1032 (Apr. 17, 1979). Although the OAG correctly points out that MP&L had included the Rainy River assets in its ongoing general rate case, contrary to OAG's assertion, the Commission *did* take steps to immediately transition Rainy River customers to MP&L rates. The acquisition was approved as of December 31, 1980, by an Order issued August 19, 1980, and the first rate adjustment took effect January 1, 1981.

approve rate changes as a component of the transaction being approved where it finds such approval to be "consistent with the public interest."

As the OAG acknowledges in its comments, the Commission has previously approved immediate rate transitions as part of acquisition approvals. Minn. Stat. §216B.06 provides in relevant part "No public utility shall directly or indirectly, by any device whatsoever, or in any manner, charge, demand, collect, or receive from any person a greater or less compensation for any service rendered or to be rendered by the utility than that prescribed in the schedules of rates. . ." MERC does not propose to charge a rate different than that approved in its schedule of rates. Rather, MERC proposes to transition IPL's customers to MERC's rates upon approval of the Transaction and transfer of IPL's service rights and obligations to MERC.

OAG's acknowledgment of prior Commission approval of immediate rate transitions in the context of property acquisitions where there is a rate reduction contradicts the OAG's position that Minn. Stat. § 216B.06 requires a rate case under all circumstances. The language of Minn. Stat. §216B.06 applies equally to the collection of greater <u>or less</u> compensation than what is approved in the rate schedules. As the OAG acknowledges, the Commission has exercised its authority to approve immediate transition of customers to new rates as part of property acquisition approval where it determines such action to be consistent with the public interest. The applicable standard for the Commission's review is not whether a full rate case has been undertaken but rather, whether the proposal is consistent with the public interest.

Here, Joint Petitioners' proposal of immediate rate transition is consistent with the public interest and will result in significantly less negative impact on customers as compared to OAG's alternative proposal to delay transition. The Department, in its comments, recognized that IPL's current rates are significantly lower than IPL's current cost of service:

> IPL's last rate case in Minnesota was in 1996. Since that year, IPL has not changed its customer charges and distribution charges for its Minnesota customers. Therefore, it is very likely that IPL's current cost of service is much higher than is reflected in IPL's rates."[34]

The Department also concluded that the differential between IPL costs and rates undermines the financial viability of its Minnesota gas operations, noting: "Therefore, IPL could not remain financially viable under its existing rates."[35]

To establish a proper frame of reference, the Department's analysis appropriately focused on the level of rates necessary to support a current revenue requirement for IPL rather than 18 year old legacy rates. As set forth in the Department's analysis, a transition to MERC's final rates to be set in Docket No. G-011/GR-13-617 may or may not result in a rate increase above what IPL's rates should be to achieve its revenue requirement.[36] As requested, the Joint Petitioners are providing further information to allow the Department to complete its analysis and make recommendations.

The OAG, in its comments, asserts that immediate transition of IPL customers to MERC rates would not be consistent with the public interest and raises a series of objections in support of delay and a separate MERC rate case

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[34] Department Comments at page 12.

[35] *Id.*

[36] *See* Department Comments at pages 10, 12.

before there is any adjustment of current IPL rates. In advocating leaving rates unchanged until a subsequent rate case is filed, the OAG acknowledges that such delay "will creat[e] the likelihood of rate shock at that time."[37] The OAG's admission on this point is reason enough for the Commission to promptly transition to sustainable rates in this proceeding.

This recognition also leads the OAG to recommend to the Commission a solution for a *future* MERC rate case which includes the IPL customers. The OAG suggests the Commission limit any rate increases to no more than three percent annually for five years following a rate case filing until IPL customer rates meet MERC's allowed rates. However, limiting IPL customer rate-increases to 3% annually would not account for cost increases that have occurred, leading to ongoing under-recovery of costs as recognized by the Department that should properly be allocated to those customers.[38] Under Minn. Stat. § 216B.07, "No public utility shall, as to rates or service, make or grant any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage."[39] The OAG's proposal would require MERC to provide unreasonably preferential rates to IPL customers.

The OAG also claims that immediate transition of IPL customers to MERC rates would result in rate design changes which, according to the OAG, would be

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[37] OAG Comments at page 18.

[38] Additionally, because MERC rates will continue to rise, the disparities between IPL's current rates and MERC rates will only continue to grow. This will increase the likelihood of rate shock for IPL customers under the OAG's proposal should they ever be fully transitioned to MERC rates or require perpetual separate rate treatment.

[39] *See also* Minn. Stat. § 216B.03 ("Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in application to a class of customers").

inconsistent with the public interest. Since IPL and MERC have different tariffs and rate structures, the transfer of IPL customers to MERC's tariffs and rates will result in relatively minor but unavoidable rate design changes. The OAG's exaggerated illustrations of rate differences and the inquiry into class cost shifts resulting from the proposed transaction miss the point. The focus of the public interest analysis should not dwell on cost allocation issues associated with IPL's 18-year-old rate structure. Instead, the public interest analysis should acknowledge the Department's observation that the current IPL rates are unsustainable.[40] The Joint Petitioners look forward to further input from the Department and discussions on how to transition IPL customers to MERC's sustainable rates as soon as possible.

Joint Petitioners strongly urge the Commission to reject the OAG's requests for delay and a separate rate case. The opportunity to minimize any possibility of rate shock for IPL customers can and should be addressed as soon as possible. This can be accomplished through a rate transition to MERC rates as part of this proceeding. Joint Petitioners will await the further analysis and recommendation of the Department. At that time, the Parties to this case can collaborate on a process and procedure going forward. As stated below, Joint Petitioners would have no objection to a public hearing as part of the next steps in the consideration of this Petition.

[40] Based on the Department's analysis, it concluded that IPL ratepayers may actually have lower rates under MERC's final rates compared to IPL's adjusted rates to account for IPL's current revenue requirements. *See* Department Comments at page 10. In contrast, the OAG attempted to significantly overstate the true rate differences by ignoring the fact that IPL's current rates do not reflect IPL's current cost of service and refusing to incorporate known adjustments to MERC's rates, as agreed to in Docket No. G,011-GR-13-617. For example, despite being informed in response to information requests that MERC intended to agree to a reduced residential customer charge, the OAG declined to incorporate this adjustment into its analysis.

2. The Loss Of Deferred Tax Benefits Is Necessary Under The Internal Revenue Code And Does Not Render Approval Of The Transaction Contrary To The Public Interest.

The OAG recommends that the balance of IPL's deferred taxes in 2013 be incorporated into IPL customers' rates as part of the approval of the acquisition. The OAG further asserts that failing to account for these deferred taxes in current IPL customer rates would be "contrary to the public interest." The OAG attempts to significantly overstate the impacts of the reset of deferred taxes to support its position that the resulting detriments are significant enough to outweigh the benefits of the Transaction.[41] In doing so, the OAG fails to account for the fact that IPL will actually have to pay these deferred taxes to the applicable taxing authorities in the year of sale, and that customers will then benefit from MERC being entitled to step up its tax basis and restart accelerated tax depreciation on the acquired assets.

In addition, the OAG does not address the impact on customers that would result from a potential tax normalization violation and the resulting loss by MERC of its ability to claim accelerated tax depreciation. The Internal Revenue Service has indicated in prior rulings that the type of direct offset in future rates to compensate customers for the reset of deferred taxes and loss of deferred income tax credit (DITC) benefit as proposed by the OAG in the context of a taxable sale

[41] Specifically, the deferred tax balance for IPL's Minnesota gas assets at the expected closing date is approximately $2.66 million, which in itself is an amount significantly greater than the actual present value to customers that results from the reset of deferred taxes reset. Although the OAG acknowledges the fact that IPL's deferred taxes would be "approximately $2.7 million" for 2013, it continues to recommend that the "balance of deferred taxes in 2013 of $5 million be incorporated into the IPL customers' rates over a period of five years."

of regulatory assets would be a violation of the tax normalization rules.[42]

The relevant inquiry for the Commission is whether the proposed Transaction, taken as a whole, is "consistent with the public interest"—not whether one component, namely, the reset[43] of deferred taxes, standing alone would result in negative impacts on ratepayers. The Commission has determined that the "consistent with the public interest" standard does not require an affirmative finding of public benefit, but rather a finding that the transaction is compatible with the public interest.[44] Similarly, the Commission has stated that:

> "The statute [Minn. Stat. §216B.50] thus does not require that proposed mergers affirmatively benefit ratepayers or the public or that they otherwise promote the public interest."[45]

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[42] The National Office of the Internal Revenue Service (IRS) has provided guidance regarding normalization implications of a deemed asset purchase in the form of private letter rulings. See I.R.S. Priv. Ltr. Rul. 94-18-004 (finding that a buyer will violate the normalization requirements of section 46(f) if its cost of service is reduced for the amortization of any portion of the unamortized and unrecaptured accumulated deferred investment tax credits attributable to investment credits on public utility property claimed before the acquisition); I.R.S. Priv. Ltr. Rul. 94-47-009 (finding that for any period after the date of acquisition, a utility will violate the normalization requirements of section 168(i)(9) if its rate base is reduced for the unamortized ADFIT attributable to accelerated depreciation on public utility property claimed before the acquisition date).

[43] Structured as a sale of assets the current transaction will cause sellers (IPL's) current balance of deferred income taxes to become recognized and currently payable in the year of sale, as opposed to becoming payable over the remaining life of the underlying asset. As a result, MERC will also be entitled to step up the tax basis of these regulated assets, and be able claim additional tax depreciation deductions in the future. The step up in the tax basis and restarting of tax depreciation on these assets will entitle MERC to greater tax depreciation deductions than IPL would have been entitled to for the same assets, and will cause the balance of deferred taxes related to those assets be rebuilt over time.

Attachment 1 provides an illustration of the difference on rate basis of IPL selling the assets to MERC versus IPL retaining them. The resulting net present value to customers from the deferred taxes is approximately $1.2M. This illustration assumes everything being sold is distribution pipeline property and round the remaining book life and overall book life to 30 and 50 years, leaving the tax life for all property at 20 years.

[44] *See In the Matter of the Proposed Merger of Minnegasco, Inc. with and into ARKLA, Inc.*, Docket No. G-008/PA-90-604 (1990).

[45] *In the Matter of the Application of Northern States Power Company for Approval to Merge with New Century Energies, Inc.*, Docket No. E, G-002/PA-99-1031.

Rather, the transaction need only be compatible with the public interest, and cannot contravene the public interest.[46]

In the case of property acquisitions where the deferred taxes will be reset, the Commission has recognized the need to consider the reset of deferred taxes in weighing the detriments against the benefits of the proposed transaction.[47] While the reset of deferred income taxes associated with the Transaction are relevant to the Commission's consideration, the true impacts on IPL customers from the loss will not be significant and the benefits of the transaction as a whole will considerably outweigh the impacts associated with the loss of deferred taxes.

With respect to the impacts associated with the loss of deferred taxes, the OAG significantly overstates the magnitude of the effect. As summarized in IPL's response to OAG Information Request No. 107:

> The accumulated deferred income taxes currently on the books related to Minnesota gas assets sold will not be available after the sale. The sale itself will result in the reversal of prior accumulated deferred income taxes as IPL's tax basis will be lower than its book basis on the sale, resulting in a tax gain for which IPL will pay current income taxes on. Thus the net ADIT balances (in FERC accounts 190,281,282,283) will no longer be available to reduce rate base after the sale. The estimated rate base reduction as of 12/31/13 would be $2,662,347, resulting in a revenue requirement of $316,450 based on IPL's 7.93% WACC.
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> Remaining unamortized ITC balances allocable to Minnesota gas, which is estimated at $8,792 as of 12/31/13, will be not be returned to ratepayers under IRS rules. The underlying assets that created the ITC

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[46] *Id.; In the Matter of Great Plains Natural Gas Company for Approval to Merge Great Plains Energy Corp. and its Subsidiary, Great Plains Natural Gas Company, with MDU Resources Group, Inc.*, Docket No. G-004/PA-00-184 (2000).

[47] *See In re Minnegasco, Div. of Arkla, Inc,* Docket No. G-008, 010/PA-93-92, 1993 WL 597808, at *1 (1993).

> are being sold to a buyer who will have new tax basis in the asset and will begin depreciating the asset anew. Likewise, the buyer is not buying this ITC tax attribute (which would only be viable in a company stock acquisition, for which this is not the case). Accordingly, the related ITC on IPL's books will no longer be attached to the assets sold and will be written off after the date of sale. The annual decrease in ITC returned to customers is estimated at $1,251/year.

Offsetting the tax consequence of the sale (i.e., IPL's having to recognize and pay its deferred tax liabilities), MERC will be allowed an offsetting step up in the tax basis of the acquired assets, and will be allowed to restart tax depreciation on the total tax basis in acquired assets. Beginning in the year of sale, MERC will be entitled to greater accelerated tax depreciation deductions than IPL would have otherwise been entitled to apply. This will result in MERC rebuilding the balance of deferred taxes associated to the acquired assets in future years. Therefore, the impact on customers of resetting deferred taxes is temporary, and the present value to customers that would be associated with the reset of deferred taxes and rate base in the year of sale would be significantly less than the IPL's current balance of deferred tax of approximately $2.7 million.

Additionally, the OAG's recommendation of creating a direct refund of IPL's deferred taxes in future rates would likely violate the tax normalization rules. The consequence of this would be the loss of MERC's ability to claim accelerated tax depreciation on the acquired assets, as well as on assets MERC may acquire in the future. The loss of accelerated depreciation would likely apply to all of MERC's Minnesota-regulated natural gas distribution operations, so the impact would not just be isolated to IPL's existing gas customers, but would adversely impact all of MERC's existing customers as well.

Although the Commission has reserved the authority to deny a proposed acquisition based in the case where "tax-related losses are sufficient, either by themselves or in conjunction with other considerations, to outweigh the benefits of the exchange,"[48] the Commission has never required that ratepayers receive deferred taxes in the context of a transfer of assets like the Transaction for which Joint Petitioners seek approval. The Commission has previously considered a number of cases in which all of the assets of a utility or telephone company providing service in Minnesota were transferred to another entity.[49] Each of these cases show that deferred taxes of the selling entity were not transferred to the purchaser. Moreover, in none of those cases was flow-through of deferred taxes to ratepayers required.

The Commission has similarly rejected other comparable conditions intended to capture the benefit of lost tax benefits. For example, in approving MERC's acquisition of Aquila, Inc., the Commission rejected the OAG's recommendation that the Commission "determine the magnitude of the lost tax

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[48] *In re Minnegasco, Div. of Arkla, Inc,* Docket No. G-008, 010/PA-93-92, 1993 WL 597808, at *3 (1993).

[49] See, *In the Matter of the Sale of Aquila, Inc.'s Minnesota Assets to Minnesota Energy Resources Corporation,* G007,011/M-05-1676, Order Approving Sale Subject To Conditions (June 1, 2006); *Re Minnegasco, a Division of Arkla, Inc.,* Docket No. G008, 010/PQ-93-92, Order, (June 29, 1993); *In the Matter of the Joint Petition of Centel Corporation, Central Telephone Company, Rochester Telephone Corporation, and Vista Telephone Company of Minnesota for Approval of Transfer of Telephone Operations and Authority to Provide Telephone Service,* Docket No. H2028,P405/PA-91-130, Order (June 26, 1991); *In the Matter of the Joint Petition of Citizens Utilities Company and GTE Corporation for Approval of Citizens Acquisition of GTE Telephone Properties,* Docket P-5316, 407/PA-99-1239 (July 24, 2000); *In the Matter of the Joint Petition of UtiliCorp United Inc. and InterNorth, Inc. for Authority to Transfer the Assets, Business, and Utility Operations of Peoples Natural Gas Company to UtiliCorp United Inc.* Docket No. G011/PA-85-681, Order (December 9, 1985); *In the Matter of a Joint Petition of UtiliCorp United Inc. and Inter-City Gas Corporation for Authority to Transfer Assets, Operations and Business of the Minnesota Utilities Division of Inter-City Gas Corporation to UtiliCorp United Inc.,* Docket No. G011,007/PA-86-315, Order (Sept. 9, 1986); *In the Matter of the Joint Petition for the Approval of Minnesota Power and Light Company's Purchase and Bigfork Valley Electric Service Company's Sale of Utility Property,* Docket E015,013/PA-88-34. Order (June 9, 1988).

benefits to ratepayers and, based on that, determine the length of the rate freeze that will be required to prevent harm to ratepayers from the proposed sale," concluding that "imposing a rate freeze could potentially require MERC to earn less than a reasonable return on its investment."[50]

For all of these reasons, the Commission should not accept the OAG recommendations with regards to deferred taxes.

3. The Commission Has Authority To Order A Public Hearing To Allow For Public Participation

The Joint Petitioners note that whether to hold a public meeting or hearing in this matter is entirely within the discretion of the Commission. If the Commission would find a public hearing to be necessary, Joint Petitioners would not object to a public meeting in the consideration of the Petition.

C. Answers to Department Requests for Further Information

In its comments, the Department provided a comparison of MERC's interim rates with IPL's Projected Rates. The Department noted, however, that better total cost comparisons could be made if the differences between IPL's and MERC's costs were better understood. Therefore, the Department recommended that, in reply comments, the Petitioners provide an explanation of the differences between IPL's and MERC's Conservation Cost Recovery Adjustment (CCRA), Gas Affordability Program (GAP), and natural gas costs.

[50] In the Matter of the Sale of Aquila, Inc.'s Minnesota Assets to Minnesota Energy Resources Corporation, G007,011/M-05-1676, Order Approving Sale Subject To Conditions (June 1, 2006).

1. **Reasons For Differences Between IPL's CCRA And MERC's CCRA.**

The CCRA factor is an annual adjustment that is intended to true-up any over- or under-spending compared to approved Conservation Improvement Program (CIP) budgets, which are amortized over a one-year timeframe. As a result, looking at the CCRA factor at any one point in time does not necessarily show the whole picture.

There are several factors that are generally relevant to explaining the differences between IPL and MERC's CCRA factors. These include IPL's and MERC's respective service territories, industrial bases, and costs of gas. However, the primary driver of the differences is related to the volatility in annual CIP spending (and related true-ups) associated with IPL's smaller CIP size. For IPL, one large project in a given calendar year can easily exceed IPL's total gas CIP budget. With a true-up occurring within the a one-year period, Tables 2 and 3 below show how this annual volatility can influence the respective CCRA factors for each utility.

Table 2 – IPL CCRA History

	Approved Factor	CIP Budget	Actual Spend	Actual Spend % of CIP Budget
2008	$ 0.0118	$ 288,211	$ 360,440	125%
2009	$ 0.0173	$ 288,211	$ 695,977	241%
2010	$ 0.0314	$ 497,245	$ 734,449	148%
2011	$ 0.0650	$ 497,245	$ 417,652	84%
2012	$ 0.0308	$ 497,245	$ 391,089	79%
2013	$ (0.0135)	$ 631,561	$ 362,089	57%

Table 3 – MERC CCRA History

	Approved Factor	CIP Budget	Actual Spend	Actual Spend % of CIP Budget
2008	$ 0.0000	$ 1,754,324	$ 2,077,613	118%
2009	$ 0.0000	$ 2,597,878	$ 2,490,089	96%
2010	$ 0.0172	$ 5,890,172	$ 6,233,269	106%
2011	$ 0.0172	$ 6,770,603	$ 6,370,777	94%
2012	$ 0.0172	$ 8,307,067	$ 7,433,833	89%
2013	$ 0.0420	$ 9,079,462	$ 8,630,239	95%

*Note: Budget and Spend for 2013 are for combined MERC-NMU and MERC-PNG.

The effect of a one-year true up can be seen in the context of an example. IPL had a budget of $497,245 in 2012 when the CCRA factor of $0.0308 per therm was calculated. However, only $391,089 was spent by the end of 2012. As a result, there was a significant change in the following year (2013) CCRA factor, moving from a positive charge of $0.0308 in 2012 to the credit of $0.0135 in 2013. In addition, IPL's CCRA factor has been significantly higher in years when larger projects drove the budget and/or IPL had higher actual spending impacts from a prior year, as also shown in Table 2 above.

For MERC, between 2010 and 2013, MERC's Demand Side Management (DSM) Incentives were pending Commission approval and MERC was not approved to adjust its CCRA factors over that timeframe. These factors resulted in impacts to MERC's tracker account balances and, ultimately, affected subsequent CCRA factor amounts. In other words, when previous CCRA factors did not follow the increased spending, that produced a current CCRA factor that is artificially higher than it otherwise would be.

Accordingly, the combination of the effects of differences between IPL and MERC and the effect of one-year true ups on CCRAs are reflected over time.

2. Reasons For Differences Between IPL's GAP And MERC's GAP.

The differences between MERC's Gas Affordability Program (GAP) factor and IPL's GAP factor are primarily due to: 1) the calculation for recovery of the volumetric surcharge by each respective utility; 2) participation levels within each utility's GAP; and 3) retention levels within each utility's GAP. MERC and IPL believe that substantial customer benefits would result from combination of their GAPs.

First, IPL bills the GAP surcharge to all tariff rates. In contrast, MERC bills the GAP surcharge to only the General Service (GS) rate. Table 4 below shows a comparison of what the surcharge would be if the Joint Petitioners each changed to the calculation method utilized by the other.

Table 4 - MERC vs. IPL Volumetric Surcharge Calculation[51]

	MERC	IPL
Tracker Balance used to Calculate GAP	$ 1,163,365	$ 50,000
GS Volume	263,765,128	13,648,550
Total Volume	829,234,770	19,248,917
Factor based on GS Volume	$ 0.00441*	$ 0.00366
Factor based on Total Volume	$ 0.00140	$ 0.00230*

* = Current GAP factor

Next, GAP participants must be enrolled in Low Income Home Energy Assistance Program (LIHEAP) in order to participate. The 2013 GAP Annual Reports (filed annually by each utility), show that MERC had an 8% LIHEAP participation rate and IPL had a 4% LIHEAP participation rate.

[51] For MERC, only firm service customers are charged the GAP Factor. The GS volume used to calculate the GAP factor is based on 2011 GS Volumes (as used to calculate the current GAP). For comparison, a GAP based on total volume is also calculated using 2013 volumes for all customers in Table 1. For IPL, all customers are charged the GAP factor. The total volume used to calculate the current GAP is based on 2008 volumes. For comparison, a GAP based on only GS volumes is also calculated using 2013 volumes for GS customers only in Table 4.

The reason for this difference in participation levels may be largely due to the effects of the Salvation Army, which MERC uses to implement its GAP. IPL had previously used the South East Minnesota Citizens Action Council (Semcac) to implement its GAP. However, in recent years, Semcac decided that with the small budget available and other priorities, it would no longer be able to implement IPL's GAP. While IPL is still getting the potential LIHEAP names from Semcac, IPL is now using internal resources to implement its GAP. Following the Transaction, the GAP in the current IPL areas would be implemented by the Salvation Army. [52]

Finally, MERC has achieved higher GAP retention rates than IPL. The 2013 GAP Annual Reports show that IPL had a retention rate of 79%, while MERC had a retention rate of 95%. Table 5 below shows how the retention rates for each utility were calculated.

Table 5 – MERC vs. IPL Retention Level

	MERC	IPL
Number Enrolled in 2013	1,248	116
Enrolled at End of 2013	1,080	92
% Retained	95%	79%

MERC and IPL's GAPs are almost identical in design. Both have percent of income and arrears forgiveness components; participants are held to identical participation rules; and they are funded by a volumetric surcharge. However, the MERC and IPL GAPs are quite different in budget, participation level, administration, and promotional activity.

[52] The Department has indicated a preference for third-party implementers, which would be achieved with implementation by the Salvation Army.

The Joint Petitioners believe that merging IPL and MERC GAPs will provide benefits to IPL customers, including greater GAP funding (thus providing opportunity for greater participation) and administration by the Salvation Army, which provides a very holistic approach to assisting MERC customers with the GAP and a variety of other support services for families and individuals with diverse needs.

3. Reasons For Differences Between IPL's Gas Costs And MERC's Gas Costs.

This section compares and explains the reasons for the differences between IPL's gas costs and MERC's gas costs. This comparison assumes that the commodity part of gas costs is similar between the two utilities. The differences that exist are due to differences in underlying demand rates.

For purposes of that demand rate comparison, the demand rates in MERC and IPL's most recent purchased gas adjustment (PGA) filings are slightly different. MERC's November 2013 demand rate for General Service (GS) customers was $0.17177 per therm while IPL's November 2013 demand rate for Rate 10 customers was $0.12378 per therm. MERC's demand costs and subsequent per therm demand rate for General Service customers is greater than IPL's General Service customers (Rate 10) for several reasons.

First, a significant portion of the demand rate differential is due to the fact that MERC has contracted for Firm transportation service with Bison Pipeline LLC /Northern Border Pipeline Company (NBPL) under higher demand contract

costs.[53] MERC contracted for capacity on Bison Pipeline LLC for 50,000 Dth/day which went into effect when the new Bison pipeline went into service.[54] The Bison/NBPL contract costs account for approximately $0.0659 of the total $0.17177 per therm MERC demand rate.

In addition, some of the rate differential between IPL and MERC is due to the method used to recover Firm Deferred Delivery (FDD) storage contract costs. MERC's demand rate is currently designed to recover FDD storage costs. In contrast, IPL recovers FDD storage costs via the commodity rate, making IPL's demand rate lower than MERC's and IPL's commodity rate higher than MERC's (when all costs are equal). MERC's November 2013 demand rate for GS customers without the FDD storage contract costs was $0.15220 per therm. The Department has recommended, and MERC agrees, to recover storage gas costs through the commodity portion of the PGA, rather than the demand portion in the future. In summary, the differences that exist are due to differences in underlying demand rates, including MERC's contract with Bison Pipeline LLC and MERC's inclusion of FDD storage costs in demand rates.

4. FERC Filing.

The Department also requested additional information regarding IPL's filings with the Federal Energy Regulatory Commission (FERC). IPL filed with FERC its Application for a limited jurisdiction blanket Certificate Of Public Convenience And Necessity with FERC, under 18 CFR 284.224, on April 24, 2014. IPL has

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[53] *See In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval to Contract for Capacity on the Bison Pipeline Range*, Docket No. G-007,011/M-08-698.

[54] The term of this contract is through January 2021.

requested that FERC act on the Application by June 30, 2014. Pursuant to the terms of the Agreement, the Transaction will not close absent required FERC authorization. As a result, MERC will not serve IPL's customers prior to FERC authorization.

III. CONCLUSION

WHEREFORE, IPL respectfully requests the Commission give Joint Petitioners' Reply Comments due consideration.

Dated this 9th day of May, 2014.

Respectfully submitted,

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MERC Acquistion of IPL MN Gas Assets
Illustration of How Reset of Deferred Taxes Impacts Customers

Book Life	50	years	2.00%
Remaining Book Life	30	years	
Tax Life	20	years	

Deferred Taxes	(2,700,000)
Tax Rate	41.90%
Cumulate Difference	(6,443,914)

	IPL Retains Assets					MERC Aquires Assets							
Year	Beginning Book Tax Difference	Reversal of Book Tax Difference	Ending Book Tax Difference	Average Book Tax Difference	Average Deffered Taxes	Beginning Book Tax Difference	Reversal of Book Tax Difference	Ending Book Tax Difference	Average Book Tax Difference	Average Deffered Taxes	Average Rate Base Difference	Revenue Requirement Difference	20 Year MACRS
1	(6,443,914)	214,797	(6,229,117)	(6,336,516)	(2,655,000)	-	(177,208)	(177,208)	(88,604)	(37,125)	2,617,875	261,788	3.75%
2	(6,229,117)	214,797	(6,014,320)	(6,121,718)	(2,565,000)	(177,208)	(336,308)	(513,516)	(345,362)	(144,707)	2,420,294	242,029	7.22%
3	(6,014,320)	214,797	(5,799,523)	(5,906,921)	(2,475,000)	(513,516)	(301,382)	(814,897)	(664,206)	(278,303)	2,196,698	219,670	6.68%
4	(5,799,523)	214,797	(5,584,726)	(5,692,124)	(2,385,000)	(814,897)	(269,162)	(1,084,060)	(949,479)	(397,832)	1,987,169	198,717	6.18%
5	(5,584,726)	214,797	(5,369,928)	(5,477,327)	(2,295,000)	(1,084,060)	(239,263)	(1,323,322)	(1,203,691)	(504,347)	1,790,654	179,065	5.71%
6	(5,369,928)	214,797	(5,155,131)	(5,262,530)	(2,205,000)	(1,323,322)	(211,683)	(1,535,005)	(1,429,163)	(598,820)	1,606,181	160,618	5.29%
7	(5,155,131)	214,797	(4,940,334)	(5,047,733)	(2,115,000)	(1,535,005)	(186,100)	(1,721,105)	(1,628,055)	(682,155)	1,432,845	143,285	4.89%
8	(4,940,334)	214,797	(4,725,537)	(4,832,936)	(2,025,000)	(1,721,105)	(162,516)	(1,883,621)	(1,802,363)	(755,190)	1,269,810	126,981	4.52%
9	(4,725,537)	214,797	(4,510,740)	(4,618,138)	(1,935,000)	(1,883,621)	(158,649)	(2,042,270)	(1,962,945)	(822,474)	1,112,526	111,253	4.46%
10	(4,510,740)	214,797	(4,295,943)	(4,403,341)	(1,845,000)	(2,042,270)	(158,585)	(2,200,854)	(2,121,562)	(888,935)	956,066	95,607	4.46%
11	(4,295,943)	214,797	(4,081,146)	(4,188,544)	(1,755,000)	(2,200,854)	(158,649)	(2,359,504)	(2,280,179)	(955,395)	799,605	79,961	4.46%
12	(4,081,146)	214,797	(3,866,348)	(3,973,747)	(1,665,000)	(2,359,504)	(158,585)	(2,518,088)	(2,438,796)	(1,021,856)	643,145	64,314	4.46%
13	(3,866,348)	214,797	(3,651,551)	(3,758,950)	(1,575,000)	(2,518,088)	(158,649)	(2,676,737)	(2,597,413)	(1,088,316)	486,684	48,668	4.46%
14	(3,651,551)	214,797	(3,436,754)	(3,544,153)	(1,485,000)	(2,676,737)	(158,585)	(2,835,322)	(2,756,030)	(1,154,777)	330,224	33,022	4.46%
15	(3,436,754)	214,797	(3,221,957)	(3,329,356)	(1,395,000)	(2,835,322)	(158,649)	(2,993,971)	(2,914,647)	(1,221,237)	173,763	17,376	4.46%
16	(3,221,957)	214,797	(3,007,160)	(3,114,558)	(1,305,000)	(2,993,971)	(158,585)	(3,152,556)	(3,073,264)	(1,287,698)	17,303	1,730	4.46%
17	(3,007,160)	214,797	(2,792,363)	(2,899,761)	(1,215,000)	(3,152,556)	(158,649)	(3,311,205)	(3,231,881)	(1,354,158)	(139,158)	(13,916)	4.46%
18	(2,792,363)	214,797	(2,577,566)	(2,684,964)	(1,125,000)	(3,311,205)	(158,585)	(3,469,790)	(3,390,498)	(1,420,619)	(295,618)	(29,562)	4.46%
19	(2,577,566)	214,797	(2,362,768)	(2,470,167)	(1,035,000)	(3,469,790)	(158,649)	(3,628,439)	(3,549,115)	(1,487,079)	(452,079)	(45,208)	4.46%
20	(2,362,768)	214,797	(2,147,971)	(2,255,370)	(945,000)	(3,628,439)	(158,585)	(3,787,024)	(3,707,732)	(1,553,540)	(608,539)	(60,854)	4.46%
21	(2,147,971)	214,797	(1,933,174)	(2,040,573)	(855,000)	(3,787,024)	(14,885)	(3,801,909)	(3,794,467)	(1,589,882)	(734,881)	(73,488)	2.23%
22	(1,933,174)	214,797	(1,718,377)	(1,825,776)	(765,000)	(3,801,909)	128,878	(3,673,031)	(3,737,470)	(1,566,000)	(801,000)	(80,100)	0
23	(1,718,377)	214,797	(1,503,580)	(1,610,979)	(675,000)	(3,673,031)	128,878	(3,544,153)	(3,608,592)	(1,512,000)	(837,000)	(83,700)	0
24	(1,503,580)	214,797	(1,288,783)	(1,396,181)	(585,000)	(3,544,153)	128,878	(3,415,274)	(3,479,714)	(1,458,000)	(873,000)	(87,300)	0
25	(1,288,783)	214,797	(1,073,986)	(1,181,384)	(495,000)	(3,415,274)	128,878	(3,286,396)	(3,350,835)	(1,404,000)	(909,000)	(90,900)	0
26	(1,073,986)	214,797	(859,189)	(966,587)	(405,000)	(3,286,396)	128,878	(3,157,518)	(3,221,957)	(1,350,000)	(945,000)	(94,500)	0
27	(859,189)	214,797	(644,391)	(751,790)	(315,000)	(3,157,518)	128,878	(3,028,640)	(3,093,079)	(1,296,000)	(981,000)	(98,100)	0
28	(644,391)	214,797	(429,594)	(536,993)	(225,000)	(3,028,640)	128,878	(2,899,761)	(2,964,200)	(1,242,000)	(1,017,000)	(101,700)	0
29	(429,594)	214,797	(214,797)	(322,196)	(135,000)	(2,899,761)	128,878	(2,770,883)	(2,835,322)	(1,188,000)	(1,053,000)	(105,300)	0
30	(214,797)	214,797	(0)	(107,399)	(45,000)	(2,770,883)	128,878	(2,642,005)	(2,706,444)	(1,134,000)	(1,089,000)	(108,900)	0
											NPV	1,127,065	