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Docket No. RPU-2010-0001

FILED WITH
Executive Secretary

January 31, 2013

IOWA UTILITIES BOARD

Ms. Joan Conrad
Executive Secretary
Iowa Utilities Board
1375 East Court Avenue
Des Moines, IA 50319-0069

RE: ITC Midwest LLC Response to Compliance Transmission Report Filed on December 21, 2012, by Interstate Power and Light Company in Docket No. RPU-2010-0001

Dear Secretary Conrad:

ITC Midwest LLC (ITC Midwest) is filing a response to a report filed by Interstate Power and Light Company (IPL) on December 21, 2012, concerning IPL's transmission related activities. IPL's report was filed in compliance with the Iowa Utilities Board's January 10, 2011, Final Decision and Order in Docket No. RPU-2010-0001.

Sincerely,

/s/ Lisa Stump

Lisa Stump
Manager - Regulatory
lstump@itctransco.com

Enclosures

ITC Midwest LLC Response to Interstate Power and Light Company's Semi-Annual Report of Its Transmission Related Activities

Introduction

On December 21, 2012, Interstate Power and Light Company ("IPL") filed a "Compliance Filing – Transmission Report" in Docket No. RPU-2010-001 ("IPL Report" or "Report"). IPL's filing was made in response to the Iowa Utilities Board's ("IUB") January 10, 2011, Final Decision and Order in the above referenced docket. In reviewing the IPL Report, ITC Midwest LLC ("ITCMW") discovered some inaccuracies and omissions in IPL's portrayal of ITCMW's rates, project proposals, and reliability results. As such, ITCMW is filing this response to the IPL Report to correct these inaccuracies and to provide additional information on specific projects ITCMW has submitted to MISO for inclusion in Appendix A of MTEP13 and a more complete picture of ITCMW's accomplishments in improving reliability on the former-IPL transmission system. This response focuses on ITCMW's major concerns with the IPL Report. Silence on a particular section of the IPL Report should not be interpreted as acquiescence to its conclusions.

Executive Summary

This response focuses on differences ITCMW has with representations IPL makes in sections 3 through 7 of its Report as summarized below.

Section 3: Section 3 of the IPL Report focuses on IPL's engagement in transmission regulatory activity including four FERC dockets: FERC's Investigation into MISO Attachment O (Docket No. EL12-35-000); FERC Audit of ITC Holdings (Docket No. PA10-13-000); IPL's Complaint on ITCMW Attachment FF (Docket No. EL12-104-000; and the ITC/Entergy Transaction (pending in Docket Nos. EC12-145, ER12-2681 and EL12-107). ITCMW strongly disagrees with the positions taken by IPL in these FERC dockets, as characterized in its Report, but has chosen not to debate these issues in this response. ITCMW's comments and filings are readily available on the FERC website for review.

Section 4: The IPL report indicates opposition to $148 million of the projects ITCMW submitted for inclusion in Appendix A of the MTEP13. The $148 million reflects IPL's initial comments filed on November 12, 2012, with MISO. IPL's initial comments were based on faulty assumptions and missing project justifications. On November 26, 2012, IPL filed revised comments with MISO opposing no more than $37.6mm of ITCMW's proposed projects, of which $19mm is attributable to Smart Grid ($4.8mm a

year for 4 years) and $8mm is attributable to a customer interconnection blanket ($2mm per year over 4 years). Although IPL filed revised comments on November 26, 2012, the IPL Report (filed on December 21, 2012) continues to indicate opposition to $148mm of ITCMW's proposed projects, many of which (due to MISO error) are not even ITCMW projects. IPL personnel also referenced the $148mm number at the November 28, 2012, IPL transmission stakeholder meeting, two days after it filed revised comments with MISO.

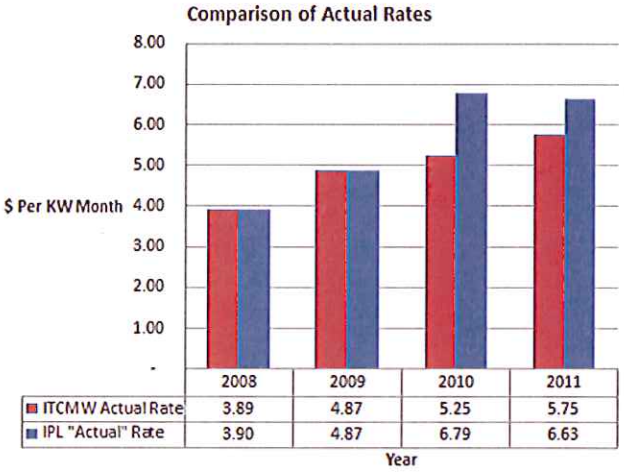
Of the projects IPL continues to oppose in its revised comments, ITCMW contends that the customer interconnection blanket is necessary for customer interconnections (mostly on IPL's system) that have short turn-around times and an estimated cost of less than $1mm. The MISO MTEP process takes approximately 1.5 years to complete and is not timely enough for these interconnections.[1] The Smart Grid project is needed to improve operations and outage response times as detailed in the body of this report. Of the $10.6mm of individual projects opposed by IPL, approximately $9.3mm relate to rebuilds of old 69 kV lines due to poor condition and $2.27mm is for a 34.5 kV to 69 kV rebuild which benefits Lovell REC and does not directly benefit IPL. ITCMW's assessment of the need to rebuild these 69 kV lines is based upon field inspections and recommendations from ITCMW's Asset Management Group (which is responsible for maintaining the system). A rebuild is necessary when the condition of the line is such that incremental maintenance would not be sufficient to ensure reliable operations. Further, Lovell REC is a network customer of ITCMW, paying the same $/KW/month network transmission rate as IPL and is entitled to the same quality of service as IPL.

Section 5: IPL complains that ITCMW fails to provide detailed plans for all ITCMW projects. This is true. As an independent transmission provider, ITCMW does not provide detailed plans to IPL for projects that do not directly affect IPL facilities. Likewise, ITCMW does not provide CIPCO, Corn Belt, or any other network customer with detailed plans of projects that do not directly impact their facilities. IPL also indicates a desire for ITCMW to quantify the benefits resulting from ITCMW's investment in transmission facilities. Even if this overall quantification of benefits could be accomplished, it would entail extensive modeling and analysis, which would be an expensive exercise, with the costs ultimately charged to IPL's customers. Further, all of the investment ITCMW has undertaken or proposed to-date has been needed to meet NERC reliability planning criteria and has not been justified to MISO based exclusively on economic criteria. ITCMW has no immediate plans to complete a costly analysis to

[1] MISO can perform an out-of-cycle MTEP review process, which takes approximately four months, but this process would not be efficient for projects estimated to cost less than $1mm.

quantify the benefits of the investment it has made on ITCMW's system. However, ITCMW is open to discussing with the IUB and its staff the need for and the cost of conducting such a study if so desired. The body of this response provides an example of the economic benefits that can be achieved through transmission investment as quantified by MISO for the multi-value project ("MVP") portfolio.

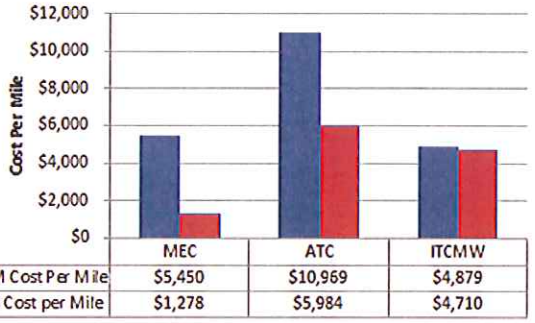
Section 6: IPL provides two charts on pages 7, 26 and 27 of its Report that overstate ITCMW's actual rates (defined as ITCMW's actual net revenue requirements divided by actual load) for the years 2008 through 2011. ITCMW would have over-collected approximately $77mm in revenue requirements if it had charged the rates reflected in IPL's charts. The chart to the right compares the two sets of rates.



In order to understand the cost drivers for ITCMW's Attachment O rates, it is important to accurately calculate actual rates. The primary rate driver is actual load, not growth in expenses or ratebase. There is close to a one for one correlation between a percentage change in load and a percentage change in Attachment O rates. Whereas, a one dollar increase in ratebase translates into a 15 cent increase in net revenue requirements (all else equal) using ITCMW's Attachment O template for 2013 projected rates and a change in expenses equals an equal dollar change in net revenue requirements.

In Section 6 of its Report, IPL also seeks to compare ITCMW's rates with those of American Transmission Company ("ATC") and MidAmerican Energy Company ("MEC"). This rate comparison is grossly misleading given the differences in pricing zones, business structure, transmission system conditions, and delineation of transmission assets. The chart to the right demonstrates that ITCMW's costs (when compared per mile of transmission) compare favorably to those of ATC and MEC.

Projected 2013 Costs Per Mile of Transmission



Note: MEC's A&G cost per mile is calculated based on 6% of MEC's total A&G costs.

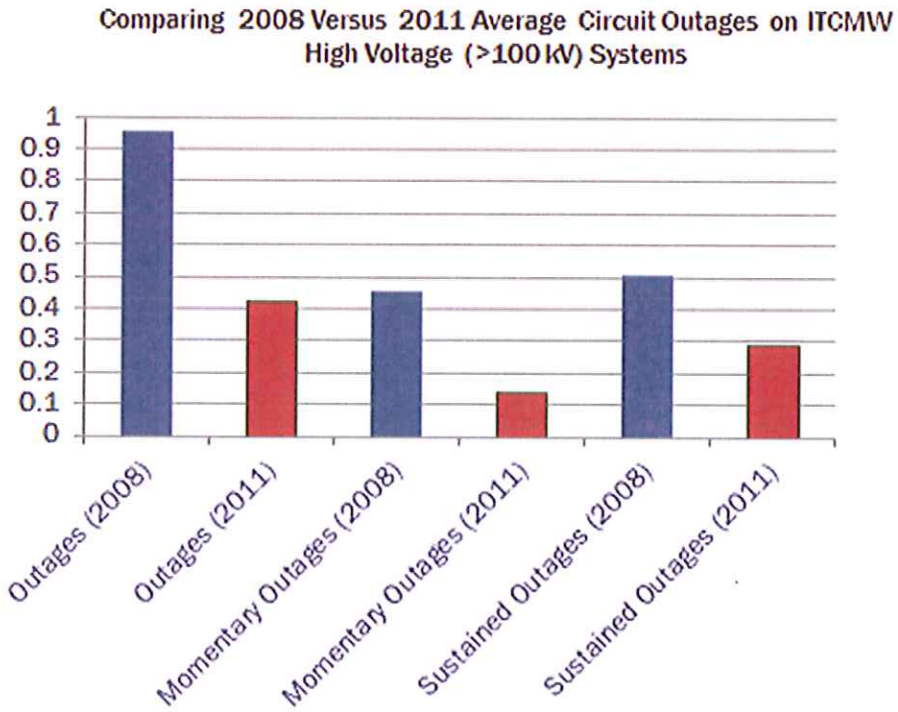
The rate projections put forward by IPL in Section 6 of its Report are (in part) based on the gross revenue requirements forecast provided to IPL by ITCMW. ITCMW's gross revenue requirements forecast assumes implementation of the capital expenditure plan put forward to ITC investors the end of February 2012. ITCMW accepts responsibility for the gross revenue requirement forecast, but cannot speak to the accuracy of the rate forecast put forward by IPL. It should be noted that the projected increase in ITCMW's 2013 Attachment O rates is driven in large part by the in-service date of the Salem-Hazleton Line. The Eastern Iowa Study conducted by MISO found that the construction of the Salem-Hazleton Project would reduce annual load and production costs by approximately $108 million. As such, while transmission rates will increase as a result of the in-service date of the Salem-Hazleton Project, annual load and production costs should decrease if MISO's modeling holds true. These cost savings should flow-through to IPL's customers through Iowa's energy cost adjustment.

Section 7: ITCMW agrees with IPL's assessment that reliability is improving on its lower voltage transmission system, but questions why IPL neglects to bring forward in its reports and to its stakeholders the significant improvements ITCMW has achieved on the higher voltage facilities.

According to the 2011 SGS Statistical Services Transmission Reliability Benchmarking Study (SGS Study), ITCMW's high voltage system (>100kV) compared favorably to its peers in 2011:

- ITCMW's 115 kV, 161 kV, and 345 kV systems achieved top decile performance in 2011 for momentary outages.
- ITCMW's 115 kV, 161 kV, and 345 kV systems achieved second quartile performance in 2011 for sustained outages.
- ITCMW's 115 kV, 161 kV, and 345 kV systems achieved first quartile performance in 2011 for average circuit outages.
- ITCMW is within the second quartile for average circuit outage duration, achieving average circuit outage duration of 116 minutes compared to an average of 202 minutes for its peers in 2011.
- ITCMW's 345 kV facilities had no momentary outages during 2011 based on internal data collected.

Average circuit outages on ITCMW's high voltage systems are significantly less today than they were in 2008 (the last year IPL maintained and operated the high voltage systems) as shown in the following chart. Since these facilities impact the largest number of customers, it was appropriate for ITCMW to focus its efforts on improving the reliability of these systems.



In conclusion, ITCMW has honored the wishes of IPL to serve as a conduit between IPL's customers and ITCMW (even those customers directly connected to ITCMW's facilities). This approach has not been successful as evidenced by the comments ITCMW and IPL received at the November 28, 2012, stakeholder meeting (as summarized on page 37 of the IPL Report) and the misleading and incomplete characterizations of ITCMW's rates and proposed projects in the IPL Report which necessitated this response. ITCMW personnel will be working to improve communications with IPL's largest customers to ensure they understand the projects being proposed, the rates being charged, and the positive impact improved reliability and system performance can have for their businesses.

Main Report

ITCMW's Response to Section 3 of the IPL Report:

ITCMW does not dispute IPL's representation of its transmission regulatory activity. ITCMW does, however, take issue with IPL's characterization of the various FERC dockets in which IPL has participated

or initiated. Rather than argue the merits of IPL's claims in this response, ITCMW welcomes stakeholders to review ITCMW's comments filed in the following FERC dockets:

FERC Investigation into MISO Attachment O: FERC Docket No. EL12-35-000

FERC Audit of ITCMW: FERC Docket No. PA10-13-000

ITC-Entergy Transaction: Pending in FERC Docket Nos. EC12-145-000, ER12-2681-000, and EL12-107-000

ITCMW's Attachment FF Complaint – FERC Docket No. EL12-104-000

ITCMW's Response to Section 4 of the IPL Report:

In Section 4 of its Report, IPL indicates support for approximately $92 million of the projects ITCMW submitted to MISO for inclusion in Appendix A of MTEP13 and opposition to $148 million of ITCMW's project submittals. While it is true that IPL initially opposed the majority of ITCMW's proposed projects in its initial response to MISO, IPL's opposition was primarily based on faulty or missing information.

ITCMW honors the MISO stakeholder process and encourages its customers, regulators, and stakeholders to review the projects it submits into the MTEP. ITCMW personnel are always willing to provide additional detail on submitted projects that affect a customer's facilities. Further, ITCMW will work with customers, stakeholders, regulators, and MISO to resolve any concerns with the projects it submits into the MTEP. IPL's initial objection was appropriate and consistent with the existing stakeholder process. What ITCMW finds objectionable and requiring a response is that IPL submitted revised comments to MISO on November 26, 2012, (indicating opposition to $37.6mm of ITCMW's proposed projects, including $10.6mm of individual projects) and yet a report filed with the IUB on December 21, 2012, continues to reference the numbers from IPL's initial comments. The following timeline of events is instructive in explaining IPL's initial and revised comments to MISO:

September 2012: ITCMW planners submit justifications to MISO for projects recommended for inclusion in Appendix A of MTEP13. MISO fails to post the justifications for stakeholder review.

November 12, 2012: IPL personnel notify ITCMW that they were not able to view ITCMW's project justifications which accompanied ITCMW's list of projects recommended for inclusion in Appendix A of MTEP13.

November 12, 2012: IPL files comments with MISO opposing over $140mm of the projects submitted by ITCMW for inclusion in MTEP13 Appendix A. IPL's opposition is based, in part, on the lack of justification for the recommended projects. In its initial objection, IPL opposed $28mm of conceptual projects submitted by MidAmerican Energy Company which it mistakenly took for ITCMW projects. In addition, IPL objected to what it likely believed was a very expensive installation of a 69 kV tap at an approximate cost of $17mm. The cost estimate resulted from a MISO database error in which the $17mm encompasses the estimated cost of four ITCMW projects, not one 69 kV tap.

November 15, 2012: MISO posts the justifications for ITCMW's proposed projects for inclusion in Appendix A of the MTEP13 after being informed by ITCMW staff that the justifications had not been posted.

November 26, 2012: IPL files revised comments with MISO. In IPL's revised comments, IPL appears to be opposing approximately $37.6m of ITCMW's proposed projects, of which $19m is attributable to Smart Grid ($4.8mm a year for 4 years) and $8mm is attributable to a customer interconnection blanket ($2mm per year over 4 years). After excluding IPL's opposition to the Smart Grid and customer interconnection blanket, IPL opposes approximately $10.6mm of specific projects. ITCMW believes this number will go down as ITCMW provides more project detail to IPL.

MTEP13

ITCMW has submitted the following proposed projects for inclusion in Appendix A of MTEP13. These projects were presented to ITCMW's customers (as well as IUB and OCA staff) at its fall 2013 Partners in Business meeting. The projected in-service year is indicated below for some projects. The dates and schedules, and even the projects themselves, represent ITCMW's best estimates for projects to be initiated. Please be aware that many factors could alter these schedules, including regulatory approvals, construction resources, availability of materials, weather, and other unforeseen events. To the best of ITCMW's knowledge, projects in red type are being opposed by IPL through MISO's MTEP stakeholder process.

MTEP13 Submitted Projects

(Projects in red are being opposed by IPL with a total approximate cost of $37.6 million.)

Customer Interconnections Blanket: $2 million per year through 2016 (interconnections with short lead times encompassing smaller projects under $1 million)
New Peosta West 69 kV Tap
New Garnivillo North 69 kV Tap

Customer Interconnections >$1 million
New Deer Run 161 kV Sub & Tap
Dubuque 69 kV River Crossing & Sandridge Sub Upgrades

69 kV Line Rebuilds
MISO 4104 Lansing-Monona 69 kV Line Rebuild-2016
MISO 4105 Decorah-Waukon Rebuild–2017
MISO 4106 West Union-Richfield 69kV Rebuild–2016
MISO 4099 Albert Lea Westside-South Broadway 69 kV Line Rebuild-2016
MISO 4101 Montgomery-Waseca Jct. Rebuild–2017
MISO 4107 Ellendale-West Owatonna 69kV Rebuild–2016
MISO 4108 Emery-Lehigh 69 kV Rebuild-2014
MISO 4100 Chariton-Lucas 69kV Line 4.3 mi. Rebuild – 2016
MISO 4102 Columbus Jct.-Newport 69kV Rebuild - 2016
MISO 4103 Burlington North-Mediapolis 69kV Rebuild - 2014

System Capacity Projects
MISO 4111 Albany Transformer Terminal Equipment-2014
MISO 4112 Dyersville Terminal Equipment-2014
MISO 4113 Hayward Terminal Equipment–2014
MISO 4114 Triboji Terminal Equipment-2014

34.5 kV to 69 kV Upgrade Projects Submitted to MISO
Marshalltown, Ames to Boone, Grand Jct. Study Projects
Timber Creek 161/69kV Substation
Grand Junction-Jefferson WCC Rebuild
New Fletcher 161/69kV Sub & Line Taps-2014
Eastern Central Iowa Study
MISO 4117 DBL CKT Marion – Anamosa & Hiawatha – Coggon Rebuild-2013
MISO 4117 Mt. Vernon – Linn TWP REC New Line-2013
MISO 4117 Linn TWP REC – Cornell New Line-2016
MISO 4117 Springville – Amber Rebuild-2014
MISO 4117 Lovell REC Tap – Monticello Industrial Rebuild-2015
MISO 4117 Hiawatha – Echo Hill REC 69 kV Conversion-2014

Blanket Projects (expected to be in-service in 2014)

Misc. Line Equipment Replacement Program - $4 million/year
Breaker Replacement Program - $9.6 million/year
Fiber Optic Static Wire Additions -$720,000/year
PCB Equipment Replacement - $1.8 million/year

Pole Top Switch Replacement Program - $960,000/year
Relay Betterment Program - $2.5 million/year
Smart Grid Project - $4.8 million/year for four years
Wood Pole Replacement Program $6 million/year

NERC Alert Projects (MTEP13 NERC Alert Projects moving to Appendix A will be completed in 2013 and 2014)

In addition, ITCMW has submitted the following two projects for inclusion in Appendix A of MTEP13, the scopes of which were not finalized at the time of the fall Partners in Business meeting.

- Sale Substation – This project is needed because of IPL's plan to retire the Dubuque 8th Street generating plant. In order for IPL to retire the Dubuque Plant, ITCMW needs to convert and utilize a portion of an existing 69kV line (will become a new 161kV circuit between Salem-8th Street). To provide a source to the remaining 69kV circuit, IPL, CIPCO, and ITC developed a plan to build Sale Sub on the Salem-Maquoketa 161kV line and tie it into the remaining 69kV line as well as other lines that will be converted from 34kV to 69kV (part of the Eastern Iowa 34kV rebuild study).
- 6th St. to Arnold reconductor – As part of a NERC alert, ITCMW discovered a 1 mile section of line that was built with smaller conductor. The plan is to reconductor this section with conductor that matches the rest of the line.

To view ITCMW's project descriptions and justifications, click on the following link: https://www.midwestiso.org/Library/Repository/Meeting%20Material/Stakeholder/SPM/20121210%20WSPM/20121210%20WSPM%20Item%2007c%20MTEP13%20Project%20Review%20DPC_ITCM_MEC_MPW_NWE_XEL.pdf

Following are explanations of the various projects opposed by IPL for inclusion in Appendix A of MTEP13.

Customer Interconnection Blanket ($2mm per year for 4 years): The customer interconnection blanket is needed to respond to specific customer interconnection requests that have short turn-around times, especially on ITCMW's 69 kV system. Anything over a $1mm estimated cost is submitted to MISO and goes through the MTEP process, which takes 1.5 years at a minimum. IPL's customers will undoubtedly make up the majority of these customer interconnection requests.

Smart Grid ($4.8mm per year for 4 years): The overall objective of the Smart Grid project is to:

- *Provide a clean separation of assets from an operations perspective between ITCMW and Alliant Energy – IPL.* This is a major project driver and is especially necessary where the Supervisory Control and Data Acquisition (SCADA) Remote Terminal Unit (RTU) is a shared asset between ITC Midwest and Alliant Energy- IPL. The separation allows for better

management of the specific owned assets from both an operations and maintenance responsibility. This project also allows for the delineation of these shared substations. Separating the assets improves efficiency by eliminating multiple call outs for the same alarm.

- *Set consistent monitored points across ITC Holdings (ITC) operating platform.* This portion of the project provides the system operators with consistent monitoring and controls of the field devices since these operators are responsible for operational control across all of the ITC Holdings Company assets. By providing more efficient communications between the control center and field staff, this project should improve response times when addressing operational issues. The project also helps to reduce the number of off-hour callouts based on more consistent prioritization of alarms.

- *Move to a common communications platform from the field-end devices (substations) to the central operations control centers in Novi and Ann Arbor Michigan.*

- *Enhance engineering remote access support.* This portion of the project supports system reliability and outage response by providing relay engineers with a more direct access path to protective relays for operations analysis. This more direct dial-up access allows the engineer to identify fault location information quicker, thus aiding the field staff in responding to and restoring unplanned outages.

MISO 4107 Ellendale-West Owatonna 69kV Rebuild ($5.6mm in 2016): This 13.21 mile line section has been evaluated by ITCMW's Asset Management Group, and the determination has been made that the line section is approaching its end of life. The line section is old and in poor condition with rotting poles and crossarms. In addition, operational concerns in the area can be alleviated by increasing the capacity of this line section.

MISO 4103 Burlington North-Mediapolis 69kV Rebuild ($2.7mm in 2014): ITCMW's assessment for rebuild is based upon field inspections and recommendations from ITCMW's Asset Management Group. The condition of this line is such that incremental maintenance would not be sufficient to ensure reliable operation. ITCMW's Planning and Asset Management Groups annually reviews and prioritizes the rebuild of 69 kV lines to ensure there is a balanced approach in prioritizing these lines based upon condition and performance.

MISO 4117 Lovell REC Tap – Monticello Industrial 34.5 kV to 69 kV Rebuild ($2.27mm in 2014): IPL opposes this project, because it is being built for the benefit of Lovell REC. ITCMW contends that Lovell REC is a network customer of ITCMW and is entitled to service comparable to IPL's service. The proposed line will connect to IPL's Monticello Industrial Substation.

MISO 4112 Dyersville Terminal Equipment ($30,000 in 2014) & MISO 4113 Hayward Terminal Equipment ($15,000 in 2014) & MISO 4114 Triboji Terminal Equipment ($20,000 in 2014): The current transformer rating at these stations is an exception to ITCMW's equipment thermal loading methodology. ITCMW's practice has been to replace this equipment over time.

ITCMW's Response to Section 5 of the IPL Report:

In Section 5 of IPL's Report, IPL complains that it does not receive detailed plans from ITCMW regarding proposed projects that do not directly involve IPL facilities. While ITCMW is in close collaboration with IPL, CIPCO and its other customers on projects that directly affect their facilities, ITCMW (as an independent transmission company) does not believe it is appropriate to provide market participants planning documents on projects that do not directly impact their facilities. As such, ITCMW does not intend to change its policy regarding the sharing of planning documents with IPL or any other of its customers that do not directly impact their facilities.

IPL also indicates it wants to work with ITCMW to justify capital expenditures by "articulating the benefits of ITCMW's invested capital." IPL personnel have been critical of ITCMW's reluctance to quantify the economic benefits of transmission investment, particularly in regards to production cost savings resulting from congestion relief. The benefits of transmission investment are well-known but not easily quantified. Use of regional transmission models, such as those maintained by MISO for its regional footprint, is the preferred approach for calculating the benefits of transmission investment. For example, using its models, MISO calculated the economic benefits, in 2011 dollars, of the multi-value project portfolio to be between $15,572 million and $49,318 million, resulting in net economic benefits of $6,755 million to $32,859 million.[2] The economic benefits quantified by MISO include:

1. Congestion and Fuel Savings ($12,404 million to $40,949 million): Addition of the MVP Portfolio allows for a more efficient dispatch of existing generation and reduced transmission congestion costs.
2. Reduced Operation Reserves ($28 million to $87 million): Addition of the MVP Portfolio reduces operating reserve costs by decreasing system congestion and thus reducing the need for key areas to hold additional reserves.

[2] The range of benefits calculated by MISO is very wide, because the modeling is extremely sensitive to key assumptions such as future energy prices, time span (20 to 40 years) from the portfolio's in-service date, discount rate (3% to 8.2%), natural gas prices, and wind turbine capital cost.

3. Reduced Planning Reserves ($1,023 million to $5,093 million): Addition of the MVP Portfolio reduces the amount of generating capacity that must be built to meet a 1 day in 10 year loss of load expectation.

4. Reduced Transmission Line Losses ($111 million to $396 million): Addition of the MVP Portfolio reduces system losses, resulting in less generation being needed to serve peak load.

5. Impact on Wind Turbine Investment ($1,354 million to $2,503 million): Addition of the MVP Portfolio results in fewer wind turbines being needed to meet renewable mandates in the MISO footprint.

6. Transmission Investment ($258 million to $906 million): Addition of the MVP Portfolio relieves transmission constraints under shoulder peak conditions and, as a result, will eliminate future baseline reliability upgrades.

Other qualitative and societal benefits of the MVP Portfolio identified (but not quantified) by MISO include:

1. Enhanced Generation Policy Flexibility (MTEP11 Draft, Page 65): Although MISO's MVP Portfolio was evaluated based on its ability to deliver energy based on individual state renewable mandates, addition of the MVP Portfolio will support a variety of generation needs and policies.

2. Increased System Robustness (MTEP11 Draft, Page 66): Addition of the MVP Portfolio will create a more robust, regional transmission system which decreases the likelihood of future blackouts.

3. Decreased Natural Gas Risk (MTEP11 Draft, Page 67): Addition of MVP Portfolio will offset some of the risk of widely fluctuating natural gas prices.

4. Decreased Wind Generation Volatility (MTEP11 Draft, Page 69): Addition of MVP Portfolio will increase the geographic diversity of wind resources that can be delivered, increasing the average output available at any given time.

5. Local Investment and Job Creation (MTEP11 Draft, Page 70): MVPs support the creation of between 17,000 and 39,600 local jobs, as well as $1.2 to $9.3 billion in local investment.

6. Carbon Reductions (MTEP11 Draft, Page 70): Addition of the MVP Portfolio will allow for the more efficient dispatch of low- or no-carbon resources, such as wind generation.

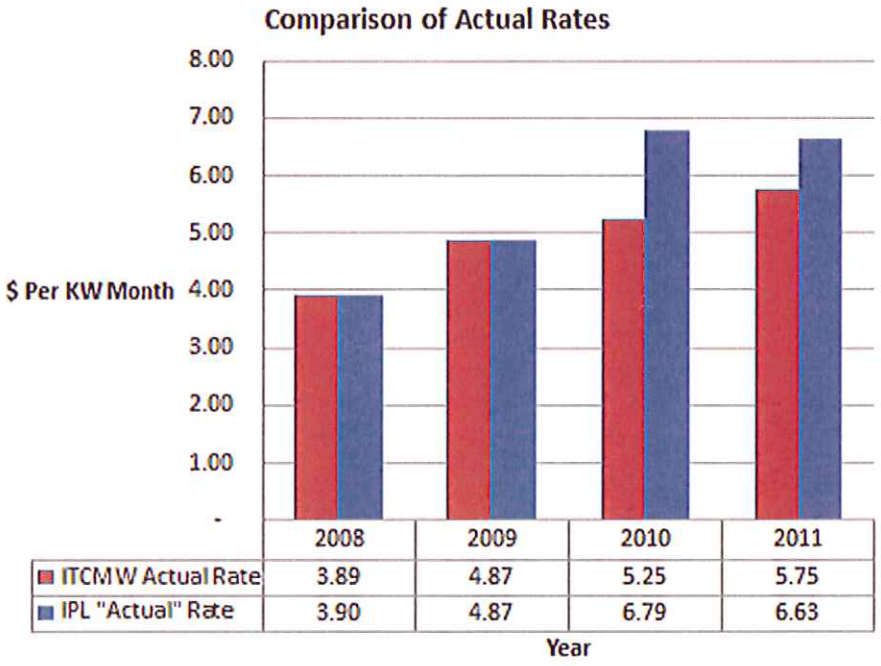
When necessary, companies such as ITCMW will engage experienced contractors to simulate regional power flows in an effort to calculate the production cost savings resulting from congestion relief through transmission investment. These studies are very costly and, for that reason, ITC will only engage a contractor to perform these studies if it is needed to support a particular project or transaction. For example, ITC recently hired the Brattle group to quantify the benefits of an illustrative example of strategic projects in support of the ITC/Entergy transaction.

Absent a regulatory request to do so, ITCMW has no plans to hire a contractor to calculate the economic benefits resulting from its investment on the former IPL transmission system. This would be a costly exercise; the cost of which would ultimately be passed on to IPL's customers. The benefits of transmission investment have been well-documented and the projects constructed or proposed by ITCMW in the MTEP process are primarily (if not exclusively) supported by planning criteria showing a need to improve system reliability, rather than reduce congestion to lower production costs (although additional transmission investment typically results in production cost savings as well). ITCMW has never proposed a project into MTEP that was supported exclusively by economic benefits.

ITCMW's Response to Section 6 of the IPL Report:

IPL's representation of ITCMW's actual rates on pages 26 and 27 of the Report for the years 2010 and 2011 is in error. The "actual" rate put forward by IPL for 2010 in its charts reflects a $53mm true-up (plus interest) of actual net revenue requirements in 2008. The "actual" rate put forward by IPL for 2011 reflects close to a $24mm true-up (plus interest) of actual net revenue requirements in 2009. Actual Attachment O rates should reflect ITCMW's actual net revenue requirements and load for the identified year and should not reflect true-ups from prior years. Notably, IPL's actual rates for 2008 and 2009 are calculated correctly using ITCMW's actual net revenue requirements in those years versus revenue collected and ultimately trued-up in 2010 and 2011, respectively. It is worth noting that if ITCMW had charged the "actual" rates put forward by IPL on pages 26 and 27 of the IPL Report, it would have over-collected close to $77 million in revenue requirements over the four-year period from 2008 through 2011.

The following chart and table provide the data gleaned from ITCMW's true-up reports for the years 2008 through 2011 (as posted on ITCMW's OASIS site). ITCMW used these reports to calculate the actual rates in 2008, 2009, 2010 and 2011. As is evident from the chart, ITCMW's actual rates are much lower than those put forward by IPL as ITCMW's "actual rates" in these years. Please note that the ITCMW rates referenced in this section do not reflect the impact of joint zone rates, which is minimal.



Drivers of Actual Attachment O Rates

ATTACHMENT O RATES BASED ON ACTUAL NET REVENUE REQUIREMENTS ("RR")				
	2008	2009	2010	2011
Actual Net RR Plus Year-2 True-up (before rate discount)	$135,955,010	$165,881,092	$238,365,951	$230,909,821
Less: Y minus 2 True-up Under(Over) Recovery	NA	NA	$53,067,697	$23,553,608
Actual Net RR for Year (before rate discount)	$135,955,010	$165,881,090	$185,298,254	$207,356,213
Discount	NA	$4,125,000	$4,125,000	$4,125,000
Actual Net RR for Year (after rate discount)	$135,995,010	$161,756,090	$181,173,254	$203,231,213
Actual Load for Year (KWs)	2,910,833	2,768,833	2,876,667	2,943,667
Change in Actual Load from Prior Year		(4.9%)	3.9%	2.3%
Net RR for Year (after rate discount) Divided by Actual Load	$ 46.72	$ 58.42	$ 62.98	$ 69.04
Monthly Rate ($ per KW/Month)	$ 3.89	$ 4.87	$ 5.25	$ 5.75

Accurate portrayal of actual Attachment O rates, based on actual net revenue requirements and load, is important when determining the primary drivers of transmission costs and rates. The primary cost drivers when using MISO's Attachment O template are as follows:

Actual Network Load: Network load equals the sum of annual monthly coincident network peak loads. Network load has the most significant impact on actual rates with close to a one to one percentage correlation between Attachment O rate and load changes. That is, a 1% increase in load reduces rates by close to 1%, whereas a 1% decrease in load increases rates by close to 1% (all else equal).

O&M/A&G Costs: A $1.00 increase in either O&M or A&G costs will increase revenue requirements by $1.00. Likewise, a $1.00 decrease in O&M and A&G costs will lower net revenue requirements by $1.00.

Ratebase: A $1.00 increase in ratebase (using the 2013 projected rate template for ITCMW) will increase net revenue requirements by approximately 15 cents (all else equal).

The following table shows actual rates, expenses, ratebase and load for ITCMW for the years 2008 through 2011 (as well as percentage changes in these cost drivers). These data were gleaned from ITCMW's true-up reports as found on its MISO OASIS site.

Year	Actual Rate/kW Mth.	% Chg. Actual Rate/kW Month	% Chg. End-Use Bill*	Actual Load	% Chg. Actual Load	Actual O&M/A&G Costs	% Chg. O&M/ A&G	Actual RB	% Chg.
2008	**$ 3.89**	NA	NA	2,910,833	NA	$39,913,187	NA	$500,062,276	NA
2009	**$ 4.87**	25%	2.5%	2,768,833	-4.9%	$41,982,777	5.2%	$641,615,985	28.3%
2010	**$ 5.25**	7.2%	.77%	2,876,667	3.9%	$54,926,614	30.8%	$754,552,323	17.6%
2011	**$ 5.75**	9.5%	1.24%	2,943,667	2.3%	$61,826,863	12.6%	$924,672,985	22.5%

*Calculation uses IPL's Iowa retail revenue requirements as approved in Docket No. RPU-2010-0001.

The above table demonstrates that actual load is the primary cost driver of ITCMW rate changes. The most significant rate change occurred between 2008 and 2009 when actual load declined by 4.9 percent.

IPL's Projection of ITCMW's Rates

IPL projects ITCMW's rates in the graphs presented on pages 7, 26 and 27 of the IPL Report for the years 2012 through 2016. ITCMW provided IPL with the projected gross revenue requirements used to compile this forecast assuming implementation of the 5-year capital expenditure plan put forward to ITCMW's investors in late February 2012. ITCMW subsequently posted this information on its MISO

OASIS site. Gross revenue requirements are found on page 3 of 5 of the Attachment O rate template at line 29, column 7.

Projected net revenue requirements (which are used to calculate Attachment O rates) take into account revenue credits from point to point revenue, rent of property, other revenues and offsets from Attachments GG (Schedules 26, 37, &39) and Attachment MM (Schedule 26A). Projected net revenue requirements also reflect any true-up (with interest) based on over- or under-collections of actual revenue requirements occurring two years earlier. ITCMW did not provide IPL with forecasts of Attachment GG and Attachment MM revenues, because these forecasts are not reliable and would have little meaning. ITCMW's load is also highly dependent on weather, making load forecasts unreliable as well. It is ITCMW's understanding that IPL's forecast of ITCMW's rates assumes constant revenue credits, Attachment GG and Attachment MM revenues, and load over the five-year period 2012 through 2016. ITCMW has no position on the reasonableness of IPL's constant input assumption or its overall rate forecast for ITCMW.

MEC, ATC, AND ITCMW Rate Comparison

The rate comparison IPL provides on page 28 of its Report is pointless and misleading, implying that ITCMW's costs are out of line with those of MEC and ATC. This is not true. A comparison of the cost and load data used to determine projected 2013 rates (as found on each company's OASIS site) indicates that ITCMW's costs per mile of transmission compare very favorably to those of MEC and ATC (see data on page 18 of this response). These data also demonstrate that any comparison of ITCMW's Attachment O rates with those of MEC or ATC is pointless given the gross differences between the companies' pricing zones, business structure, transmission system conditions and delineation of transmission assets. Although a comparison of ITCMW's rates and ATC's rates has more creditability than a comparison with MEC rates (given that ATC is a transmission-only utility), ATC's pricing zone enjoys higher load density than ITCMW's pricing zone. Load (as previously discussed) is a significant driver of Attachment O rates.

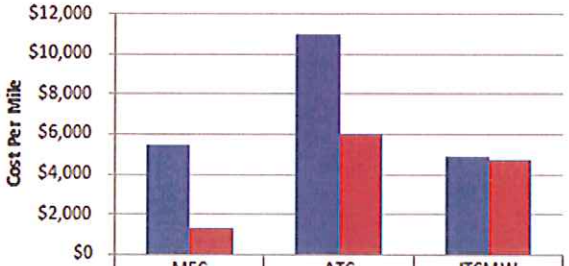
In general, MEC's and ATC's projected 2013 Attachment O rates are not comparable to ITCMW's projected 2013 Attachment O rates because:

1) MEC is a vertically-integrated utility which serves a territory with much denser load than ITCMW's pricing zone due to the fact that MEC serves most of the urban centers of Iowa. For a vertically-integrated utility, costs attributable to transmission are typically allocated based on an

arbitrary allocator. For example, as noted in the data on page 17 of this response, MEC only allocates 6% of its projected A&G costs to its 2013 Attachment O revenue requirements. ITCMW recovers 100% of its A&G costs through its Attachment O revenue requirements.

2) MEC's load density (i.e., load per mile of transmission) equals 955 kWs while ITCMW's load per mile of transmission equals 411 kWs, indicating that ITCMW's pricing zone is much less dense (i.e., more rural) than that of MEC.
3) ATC's load profile is much more dense than that of ITCMW because ATC serves the entire state of Wisconsin including urban centers. ATC's projected load in 2013 is over three times that of ITCMW and ATC's projected 2013 load per mile of transmission equals 1,056 kWs, compared to ITCMW's load per mile of transmission of 411 kWs.
4) The former IPL transmission system suffered from significant deferred maintenance and investment. This fact is evidenced by the State of the System Report which was filed in IUB Docket No. SPU-07-11 and which was compiled within a year of the IUB allowing the IPL/ITCMW transaction to move forward.
5) ITCMW's commitments to regulators to build transmission in a timely manner as part of the IPL/ITCMW Transaction: The major commitments made by ITCMW to its state regulators include:
    a. Constructing the 345 kV 80-mile Salem-Hazleton Line (construction to be completed April 2013)
    b. Rebuilding the Arnold, Vinton Hazleton Line at 161 kV (construction complete)
    c. Upgrading the 34.5 kV system in Iowa to 69 kV standards (ongoing)
6) ITCMW's delineation of transmission and distribution assets to include 34.5 kV assets. In MEC's and ATC's pricing zones, 34.5 kV facilities are delineated as distribution.

Projected 2013 Costs Per Mile of Transmission



	MEC	ATC	ITCMW
2013 O&M Cost Per Mile	$5,450	$10,969	$4,879
2013 A&G Cost per Mile	$1,278	$5,984	$4,710

Note: MEC's A&G cost per mile is calculated based on 6% of MEC's total A&G costs.

Miles of Transmission Line by Voltage			
Voltage	MEC	ATC	ITCMW
345 kV	1,180	1,503	376
230 kV	0	68	0
161 kV	1,439	3	1,540
138 kV	0	3,768	0
120 kV	0	0	0
115 kV	0	562	323
69 kV	1375	3,523	2,695
34.5 kV	NA	NA	1,670
Total	3,994	9,427	6,604

Sources: MEC: IUB Docket No. SPU-2010-0007; ATC: EOY FERC Form 1 (2011) ITC: Testimony of Jon Jipping in LPSC Docket No. U-32538

Data Comparison from 2013 Attachment O Projected Rate Filings					
	2013 Transmission Net Revenue Requirements	Projected Ratebase	Miles of Transmission	Projected Load per Mile of Trans. (KWs)	Defn. of Transmission (voltage)
MEC	$ 92,954,585	$ 494,335,272	3,994	955	Networked 69 kV & above
ATC	$ 531,152,392	$ 2,811,455,702	9,427	1,057	69 kV and above
ITCMW	$ 272,633,139	$ 1,415,985,922	6,604	441	34.5 kV and above

Data Comparison from 2013 Attachment O Projected Rate Filings								
	Att. O Rate ($/KW Month)	Projected Load KWs	O&M Recovered in Att. O Rate	Total A&G	A&G Recovered in Att. O Rate	% of A&G reflected in Att. O Rate	O&M Per Mile of Trans.	A&G Per Mile of Trans.
MEC	$ 2.03	3,814,143	$ 21,767,999	$ 84,752,585	$ 5,102,788	6.02%	$ 5,450	$ 1,278
ATC	$ 4.44	9,965,604	$ 103,402,775	$ 56,440,947	$ 56,407,148	~100%	$10,969	$ 5,984
ITCMW	$ 7.81	2,911,000	$ 32,220,000	$ 31,107,845	$ 31,107,845	100%	$ 4,879	$ 4,710

Concentric Energy Advisors (CEA) Analysis

Appendix 7 of the IPL Report provides an analysis done by CEA to assess ITCMW's transmission costs in comparison to similar utilities. The conclusions of the CEA analysis are found on page 11 of Appendix 7 and are as follows:

1) When evaluated based on dollars per mile of transmission, ITCMW's transmission O&M costs are reasonable compared to other utilities (both independent transmission companies and vertically integrated utilities with transmission assets).
    a. When compared in terms of dollars per peak megawatt, costs also appear reasonable but reflect growing investment during a period of relatively constant demand.
2) Transmission costs to IPL customers are expected to rise over time as ITCMW investment in system improvements takes place. IPL has, however, noted a marked upward trajectory in costs beginning soon after divesting its transmission assets.
3) ITC Holdings capital investment plans anticipate that approximately $1.1 billion will be invested in the ITCMW system between 2012 and 2016. These significant investments imply rising transmission service costs to IPL's customers into the future.
4) ITCMW's transmission investments will not be matched with substantial growth in IPL's customers, system demand, or service territory expansion.

ITCMW does not disagree with CEA's limited analysis and conclusions. Using the MISO Attachment O formula rate template, it is fairly simple to quantify expected rate impacts for the period 2012 through 2016 (all else equal), particularly when ITCMW provided IPL with a gross revenue requirement forecast which enables this forecast. ITCMW's rates are expected to rise during this period primarily due to increased investment in the system. The reduction in production costs resulting from this increased investment is difficult to quantify (as discussed earlier in this response), but any reduction in production costs will flow-through to IPL's customers through the energy cost adjustment.

The need for continuing investment in the system is a result of IPL's gross under-investment in the system prior to ITCMW acquiring the assets in late-2007 (as demonstrated by CEA's charts on page 7 of Appendix 7). As shown in these charts, even during a time of gross under-investment in the transmission grid by most vertically-integrated utilities, IPL managed to spend less on its system than its vertically-integrated peers. The charts on page 7 of Appendix 7 also demonstrate that ITC Holdings has a history of buying systems in need of investment, making that investment over a period of years, and

then establishing a maintenance level of capital going forward. This has been the case for ITC's other operating subsidiaries – ITC*Transmission* and METC.

Investment Reflected in ITCMW'S Projected 2013 Attachment O Rate

Following is a table presented to ITCMW's customers (as well as IUB and OCA staff) at ITCMW's 2013 fall Partners in Business meeting. This table shows forecasted plant-in-service amounts for 2013 which feed into ITCMW's expected ratebase for 2013. The table identifies expected line and substation construction projects as they are currently known. The dates and schedules, and even the projects themselves, represent our best estimates for projects to be initiated and completed. Please be aware that many factors could alter these schedules, including regulatory approvals, construction resources, availability of materials, weather, and other unforeseen events.

MISO Project ID#	Projects [1]	Projected Construction Start Date	Projected In-Service Date	Projected Plant Additions [2]
	Reliability-System Capacity Improvements			
1340	Salem Hazelton 345kV Project	Oct '11	Apr '13	$ 110,412,981
1618	Heron Lake to Lakefield 161kV Rebuild	Feb '12	Nov '13	24,687,286
1342	Lewis Fields Project	Sept '12	Jan '13	18,657,742
3637	Dubuque 8th St 161-69kV Transformers	Apr '13	Oct '13	9,407,333
2357	Fairbank Switch Station	Jul '12	Feb '13	8,558,107
3213	Hazelton Substation MVP	May '12	Dec '13	3,992,508
MTEP13	Uprate Arnold-Fairfax 161kV to 212 F	Feb '13	Dec '13	1,228,337
3629	8th Street-Salem 161kV Line	Nov '13	Dec '13	640,501
MTEP13	Uprate Bertram-PCI 161kV to 212 F	Feb '13	Dec '13	241,943
1288	Hazelton Transformer Replacement	Jun '10	Aug '13	227,939
MTEP13	Uprate Ottumwa-BP N 161kV to 212 F	Apr '13	Dec '13	181,387
3213	MISO MVP Project #4	May '12	Apr '13	61,615
3055,3058	**Reliability-Infrastructure Improvements**			
3416	34.5kV to 69kV Conversion Phase 1		Ongoing	$ 54,816,605
1640	Marshalltown-Nuthatch	Oct '11	Jan '13	31,831,580
3500	NERC Alert Rating Analysis		Ongoing	23,892,545
	Normal and Emergency Retirement Unit Changeouts		Ongoing	9,548,768
3627	Chariton-Corydon 69kV Line Rebuild	Jul '13	Dec '13	8,138,587
3651	Breaker Replacement Program		Ongoing	6,101,715
3657	Wood Pole Replacement Program		Ongoing	5,972,252
	Poor Performing Circuit Replacements		Ongoing	4,766,209
3655	SCADA Smart Grid		Ongoing	3,715,628
3635	Marshalltown Substation 161kV Expansion	Dec '11	Mar '13	2,038,280
	Control Relocations	Jan '13	Dec '13	1,928,870
3656	SPCC Compliance Upgrades		Ongoing	1,194,450
3650	ITCMW Insulator Replacement Program		Ongoing	1,193,698
3653	ITCMW Pole Top Switch Replacement		Ongoing	961,113

3650	Cross Arms Replacement Program		Ongoing		742,853
3650	Pole Guying Replacement		Ongoing	$	717,659
MTEP13	Fiber Optic Static Addition Program		Ongoing		707,979
3628	Mason City Lehigh Sub Relocation	Sep '13	Dec '13		625,205
3650	ITCMW Arrester Replacement		Ongoing		600,690
3654	ITCMW Relay Betterment Project		Ongoing		597,225
3652	ITCMW PCB Equipment Replacement		Ongoing		597,225
3500	NERC Compliance Mitigation Upgrades	Jul '12	Jan '13		174,309
	Bertram-Mt. Vernon Rebuild	Nov '11	May '13		152,619
1746	Lakefield-Jackson N-Fox Lake 161kV	Oct '11	Feb '13		72,089
3638,3639	Station Equipment Replacements	Jan '11	May '13		2,064
1289	Marshalltown-Stoney Point 115kV	Jun '11	Jun '13		1,158
	Customer Connections				
2339	G612 Network Upgrades	Jul '09	Feb '13	$	9,107,976
	G746 Generator Interconnection	Jan '13	Oct '13		5,507,247
MTEP13	Dubuque River 69kV Crossing	Jan '13	Jun '13		2,989,142
3055	Downtown Network	May '11	Jan '13		2,986,089
MTEP13	Deer Run	Feb '11	May '13		2,566,323
MTEP13	Sandridge Substation Bus Expansion	Jan '13	Jun '13		1,946,817
1147	G298 Triboji 100 MW Wind	Sep '09	Mar '13		1,735,711
3412	East Fort Madison Substation	Dec '12	Jan '13		1,616,628
3408	Boone Harrison Street Substation	Jan '13	Apr '13		585,788
MTEP13	Peosta West 69Kv tap	Jan '13	May '13		523,638
3626	Wyoming South New Substation	Feb '12	Jul '13		282,099
	General Plant/Other		Ongoing	$	8,467,059
	TOTAL 2013 Capital Plant Additions			**$**	**377,703,571**

(1) Projects are listed if one or more associated work orders are forecasted to go into service in 2013.
(2) Includes previous years' expenditures for multi-year projects.

As can be seen in the table, ITCMW's plant additions in 2013 are driven in large part by the in-service date of the Salem-Hazleton line at an estimated cost of $110 million, the in-service date of the Nuthatch to Marshalltown project (the schedule of which was driven by IPL to accommodate Alliant Energy's wind generation investment), and the 34.5 to 69 kV upgrades which are sorely needed to improve reliability in rural Iowa and are being undertaken to meet a commitment made to the IUB. The other projects that are scheduled to go into service in 2013 are driven by reliability needs, combination reliability/economic benefits, customer connections, or general plant. It is important to note that the plant-in-service dollar amount of $377.7mm does not equate to additions to ratebase plant-in-service as reflected in ITCMW's 2013 projected Attachment O rate. ITCMW uses a 13-month average of plant-in service amounts when setting projected rates.

ITCMW's Response to Section 7 of the IPL Report:

ITCMW does not dispute IPL's conclusions regarding the significant improvement in reliability that its customers are experiencing as a result of ITCMW's maintenance and investment activities. ITCMW has, however, continually questioned IPL personnel on the incomplete nature of the data presented both at the stakeholder meetings and in its semi-annual reports to the IUB. IPL's reliability statistics focus solely on the lower-voltage transmission system (34.5 kV to 69 kV) and ignore ITCMW's accomplishments in improving reliability on the higher voltage system.

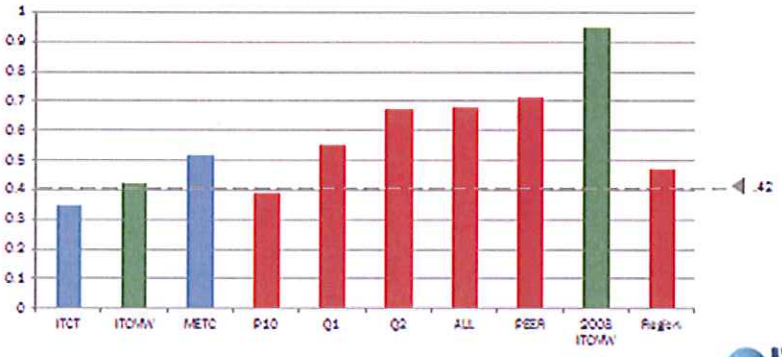
According to the 2011 SGS Statistical Services Transmission Reliability Benchmarking Study (SGS Study), ITCMW's high voltage system (>100kV) compared favorably to its peers in 2011:

- ITCMW's 115 kV, 161 kV, and 345 kV systems achieved top decile performance in 2011 for momentary outages.
- ITCMW's 115 kV, 161 kV, and 345 kV systems achieved second quartile performance in 2011 for sustained outages.
- ITCMW's 115 kV, 161 kV, and 345 kV systems achieved first quartile performance in 2011 for average circuit outages.
- ITCMW is within the second quartile for average circuit outage duration, achieving average circuit outage duration of 116 minutes compared to an average of 202 minutes for its peers in 2011.
- ITCMW's 345 kV facilities had no momentary outages during 2011 based on internal data collected.

The following charts provide a graphic illustration of the reliability of the ITCMW high voltage >100 kV systems in comparison to its peer utilities and the performance of the high voltage system in 2008 (the last year IPL operated and maintained the transmission assets). As can be seen in these charts, the reliability of ITCMW's high voltage >100 kV systems compared favorably to its peers in 2011 and shows dramatic improvement over system performance in 2008. Clearly ITCMW's maintenance and investment practices are impacting the systems that impact the majority of its customers.

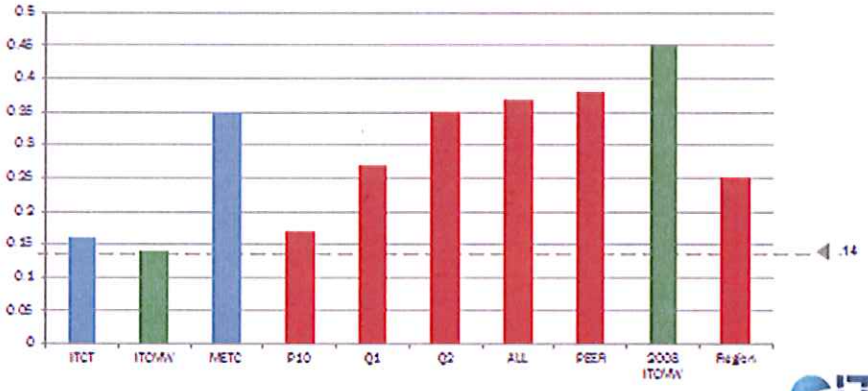
2011 Average Circuit Outages

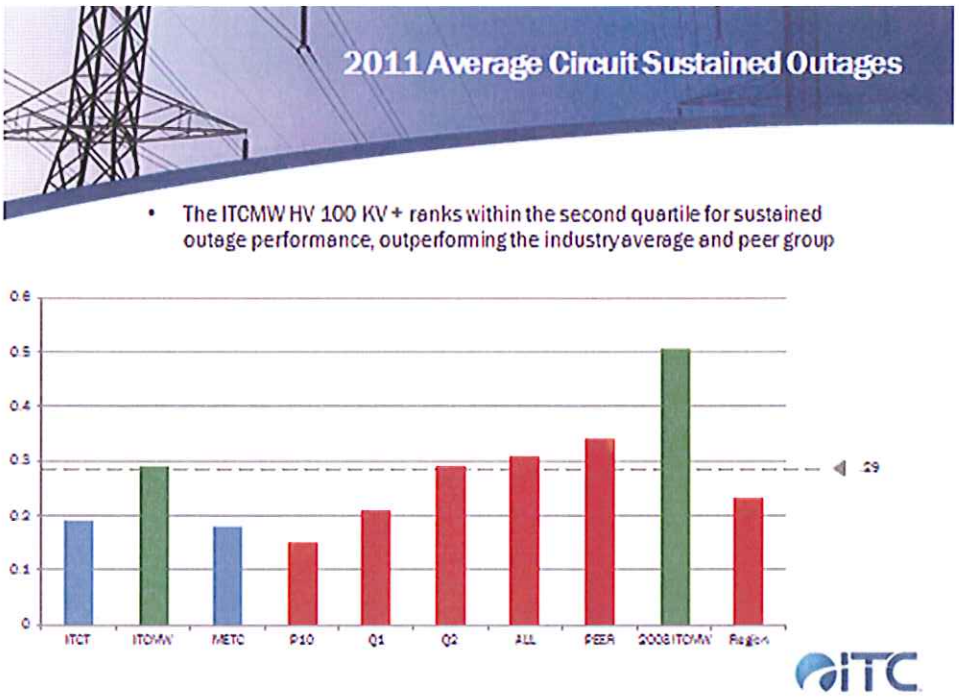
- The ITCMW HV 100 KV + is not only a Q1 performer but outperforms the METC system as well as the industry, peer and regional averages

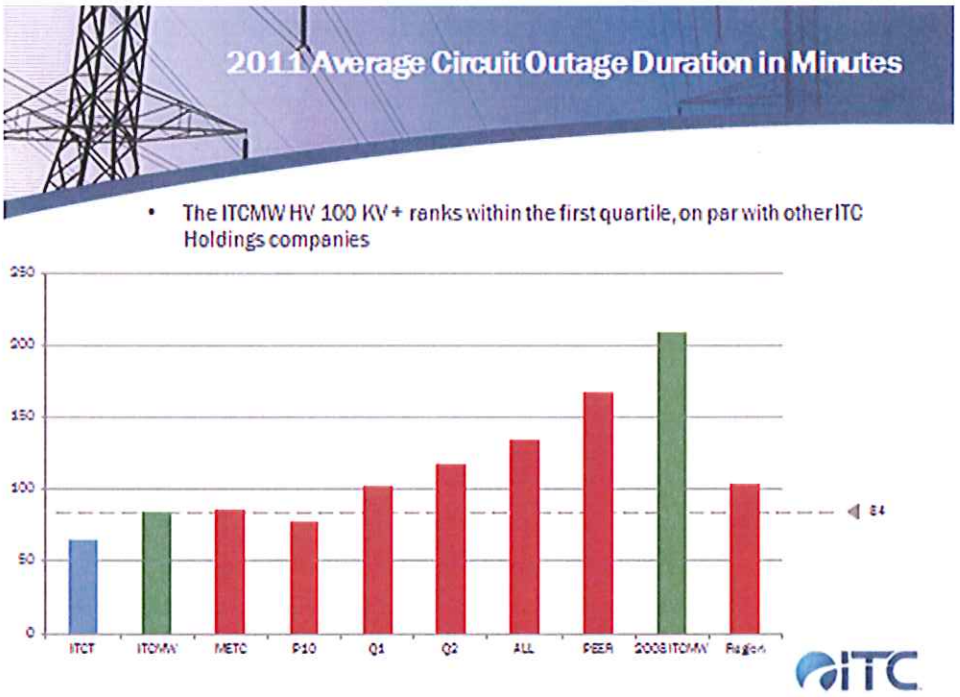


2011 Average Circuit Momentary Outages

- The ITCMW HV 100 KV + system is a top decile performer for momentary outages







ITCMW expects to see even better results in the 2012 SGS Study. Notably, 2012 was a particularly mild year for Iowa weather, which plays a significant role in the performance of ITCMW's lower voltage systems. ITCMW's maintenance and transmission investment are serving to harden the transmission system against severe weather. An internal ITCMW study, the results of which were shared with

ITCMW's customers at the fall 2012 Partners in Business meeting, indicates that the ratio of percentage of weather outages to percentage of storm events from year to year has declined each year since 2009.

Improved reliability has significant economic benefits for IPL's customers. One example of customer cost savings resulting from improved reliability is summarized on page 36 of the IPL Report in which a major customer informed ITCMW and IPL representatives that he had seriously been considering installing backup generation to cover some critical processes, but had concluded that the number of outages and their duration no longer justify the expense. The customer credited ITCMW's stewardship of the transmission system with the improved reliability.

Conclusion

ITCMW honored IPL's wishes not to invite large industrial customers to its semi-annual partners in business meetings and to avoid having direct stakeholder contact with these customers. This approach has not been successful as evidenced by the comments received at the November 28, 2012, IPL transmission stakeholder meeting (as summarized on page 37 of the IPL Report) and the misleading and incomplete information found in the IPL Report which necessitated this response. ITCMW is developing a communications plan to ensure that IPL's industrial customers know ITCMW's business plan, understand the need for proposed projects, and have an accurate portrayal of ITCMW's rates. Implementation of this plan will occur over 2013 with hopes that future stakeholder meetings are more productive.