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June 28, 2013

FILED WITH
Executive Secretary

June 28, 2013

IOWA UTILITIES BOARD

Ms. Joan Conrad, Executive Secretary
Iowa Utilities Board
1375 East Court Avenue, Room 69
Des Moines, IA 50319-0069

RE: Interstate Power and Light Company
Docket No. RPU-2010-0001
Compliance Filing - Transmission Report

Dear Secretary Conrad:

Pursuant to the Iowa Utilities Board's *Final Decision and Order* issued January 10, 2011, enclosed please find Interstate Power and Light Company's semi-annual report of its transmission-related activities in the above-referenced docket, as filed today on EFS.

Very truly yours,

/s/ Kent M. Ragsdale
Kent M. Ragsdale
Managing Attorney - Regulatory

KMR/kjf
Enclosures

FILED WITH
Executive Secretary
June 28, 2013
IOWA UTILITIES BOARD

STATE OF IOWA

BEFORE THE IOWA UTILITIES BOARD

IN RE: **INTERSTATE POWER AND LIGHT COMPANY**	**DOCKET NO. RPU-2010-0001**

COMPLIANCE FILING

COMES NOW, Interstate Power and Light Company (IPL) and, pursuant to the Iowa Utilities Board (Board) Final Decision and Order of January 10, 2011, in Docket No. RPU-2010-0001, respectively, submits the following report detailing: (i) IPL's actions relating to the transmission planning process; and (ii) IPL's collaborations with other stakeholders on managing its relationship with ITC Midwest, LLC:

1. Pursuant to the Board's January 10, 2011, order in Docket No. RPU-2010-0001, page 142, IPL was required to provide the following:

> 5. IPL will be required to file semi-annual reports, with the first report being due June 30, 2011, and subsequent reports every six months thereafter, detailing its review, suggestions, and input to such things as ITC Midwest's transmission planning and budgeting processes and any FERC interventions or proceedings, including an evaluation of the long-term impact of those transmission plans on IPL and its ratepayers, as detailed in the body of this order. The report shall include what impact, if any, IPL's input has had on the transmission planning process.
>
> 6. IPL shall file a report of its semi-annual collaborations with other parties on how IPL can better manage its processes and relationships with ITC Midwest and FERC, with the first report

being due June 30, 2011, and subsequent reports every six months thereafter.

As with its initial June 30, 2011, filing in response to these requirements, IPL has combined the content for each requirement into this filing.

2. IPL hereby provides to the Board in this instant filing its semi-annual updates, included as Attachment A, as required by Docket No. RPU-2010-0001.

3. IPL is willing to provide additional information or meet with Board staff to provide clarification or further discussion on this status report of its transmission-related activities.

WHEREFORE, IPL respectfully requests the Iowa Utilities Board accept the attached documents in compliance with the requirements of the aforementioned docket.

Dated this 28th day of June, 2013.

Respectfully submitted,

Interstate Power and Light Company

BY: *__/s/ Kent M. Ragsdale_____*

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Executive Secretary
June 28, 2013
IOWA UTILITIES BOARD

Interstate Power and Light Company
Semi-annual Report to the Iowa Utilities Board Regarding Transmission-Related Activities

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Executive Summary

Interstate Power and Light Company (IPL) continues managing the processes and relationship with ITC Midwest, LLC (ITC-M), influencing transmission benefits, service levels and cost impacts to IPL customers. This Report focuses on the most significant new and continued issues, actions, and results since the last Report filed with the Iowa Utilities Board (Board) on December 21, 2012 (December 2012 Report).

The Report does not necessarily address *all* activity or previously reported items. **Updates are signified in bold text and/or preceded by "Update".**

IPL's strategy continues to be customer centric by influencing the balance between the cost and benefits provided IPL customers by transmission service through advocacy with ITC-M, MISO, and FERC and through engagement in regulatory policy at the local, regional and federal level.

1. ITC-M Relationship Management

IPL has an internal management structure with groups and individuals designated to interface with ITC-M and manage the overall relationship and coordination activities with ITC-M.

Update: In 2013, changes in Alliant Energy and IPL executive staffing have occurred, of which the most notable are:

- Linda Mattes, Vice President of Energy Delivery Operations has assumed the executive responsibility of the ITC-M relationship.
- Randy Bauer, Director – System Planning; reporting to Ms. Mattes, assumes responsibility for distribution planning and coordination with ITC-M involving transmission planning and operations.
- Krista Tanner, Director – Regulatory Policy leads Federal and regional policy activity, reporting to Joel Schmidt, Vice President of Regulatory Affairs.
- Eric Guelker, Director – Regional and Federal Policy; reporting to Ms. Tanner, leads various regulatory issue, policy, and advocacy activities, including those involving transmission.

The IPL and ITCM CEOs and executive teams will be meeting in the near future to discuss various items and plan to continue meeting periodically.

While IPL and ITC-M may hold differing positions on certain cost allocation, rate increase, and capital investment pace issues, the companies continue to coordinate well on operations and planning issues and view the relationship as a partnership.

2. Review, Analysis of and Response to ITC-M Dockets in State Jurisdictions

A summary of *ITC-M initiated* dockets IPL has reviewed since December 21, 2012, and the formal action IPL has taken in those dockets, if any, is listed in Table 1.

Table 1 - Summary of New ITC-M Dockets in State Jurisdictions Reviewed by IPL and Actions Taken
December 21 – June 17, 2013

Jurisdiction	Number of Dockets Reviewed	Number of Dockets Supported	Number of Dockets with No Action	Number of Dockets Objected to or with Comments	Dockets Still Under Review
IUB	17	15	2	0	0
MPUC	1	0	1*	0	0

*Compliance filing by ITC-Midwest

3. Transmission Regulatory Activity, IPL Engagement

Since the December 2012 Report, IPL notes the following most significant Board, MPUC and FERC activity; and IPL's engagement.

A. ITC-M Response to IPL's December 2012 Report, filed with the Board on January 31, 2013.

ITC-M highlighted what it considers some inaccuracies and omissions in IPL's December 2012 Report, and provides additional information to clarify their positions. ITC-M's Response to IPL's December 2012 Report is attached as Appendix 1.

IPL and ITC-M, through various interactions, have discussed the issues ITC-M raised in its Response. The most significant issues and their outcomes are:

- ITC-M assertion regarding IPL's opposition to ITC-M's projects submitted in MTEP13 were based on faulty assumptions and missing information.
  Update: IPL believes its comments were misinterpreted. Subsequent discussion between ITC-M and IPL has yielded additional clarity on ITC-M project plans and substantially less IPL opposition.

- ITC-M disagreed with IPL's complaints about transparency of all ITC-M project plans and lack of quantified benefits of ITC-M investments.
  Result: IPL and ITC-M are currently working together to quantify customer savings associated with reliability improvements.

- ITC-M asserted that IPL's December 2012 Report does not adequately reflect improvements in reliability that ITC-M has achieved, in particular on its higher voltage systems.
  Update: IPL does not dispute ITC-M data showing reliability improvements at various voltage levels benchmarked to peers, or the improvements experienced in the higher voltage assets. IPL has focused on metrics that reflect improved reliability trends at all transmission voltage levels in terms of the *customer outage experience* instead of only asset performance. IPL notes with

appreciation that ITC-M now also presents the same transmission SAIDI and SAIFI data to its stakeholders at its Partners in Business meetings.

B. FERC Investigation into MISO Attachment O

FERC previously initiated investigation of the MISO formula rate protocols, noting concerns of:

- Scope of participation;
- Transparency of the information; and
- Ability to challenge.

Results:

- IPL submitted comments to FERC on June 22, 2012. In its comments, IPL suggested improvements in the above-noted areas of concern.
- **Update: On May 16, 2013, FERC issued an order which found that MISO's and individual company formula rate protocols are insufficient. Many of the concerns of IPL and other parties were recognized and addressed. FERC directed MISO and the impacted transmission owners (TOs), which includes ITC-M, to make certain changes to their formula rate protocols within 60 days of the order. MISO and various TOs made a request to FERC that an additional 60 days be given to complete the required compliance filing. FERC accepted the extension request with the compliance filing now due September 13, 2013. It is not currently known when or specifically how the MISO Formula Rate Protocols will change as a result of FERC's order or MISO's compliance filing, nor exactly how the outcome will impact IPL's visibility into ITC-M details on its Attachment O rate development. IPL will be discussing with ITC-M how IPL and ITC-M might collaborate on input to MISO's compliance filing, in the interest of IPL customers.**

C. FERC Audit of ITC Holdings

In 2011, FERC conducted an audit of ITC Holding's compliance with FERC's regulations and the conditions established in the 2007 FERC order approving the acquisition of IPL's transmission assets. The results and subsequent activity largely reflected a difference in opinion regarding the accounting treatment for tax effects of amortized goodwill related to the acquisition of the transmission assets and an over-accrual of AFUDC.

Results:

- On February 13, 2012, IPL filed comments that, in summary, emphasized that any conflict between ITC-M and FERC accounting policies must be resolved in favor of customers. Others, including the Board and the Office of Consumer Advocate, also filed comments in support of FERC's findings.
- **Update: FERC accepted the ITC Holdings Refund Report on January 30, 2013. ITC-M will reduce the 2012 True-Up Adjustment of the 2014 rate by $2.7 million, which includes principal and interest, in order to**

accomplish the refund. This refund will be flowed through to IPL customers, as part of ITC-M's Attachment O charges, via IPL's transmission rider.

D. IPL's Complaint on ITC-M Attachment FF

As noted in prior Reports, IPL communicated its concerns to ITC-M regarding its implementation of the MISO Attachment FF. In this tariff, the costs of network upgrades related to generator interconnections are reimbursed to generators and, thus, passed on to IPL customers through ITC-M's rates.

Results:

- IPL filed at FERC on September 14, 2012, seeking change to ITC-M's Attachment FF implementation and indicating:
    - IPL customers are significantly and unfairly disadvantaged;
    - IPL calculates a $170 million cost shift to IPL customers 2008-2016; and
    - Interconnection customers should fund 100% of upgrades rated below 345kV and 90% for those rated above 345kV.
- Numerous supporting comments were filed from various stakeholders, other transmission dependent utilities, state commissions and others including the Board and Office of Consumer Advocate.
- **Update: No new information is available since the December 2012 Report - it is not known when or specifically how FERC will respond to IPL's complaint on this docket.**

E. ITC – Entergy Transaction

In 2011 ITC Holdings and Entergy announced the intent for ITC Holdings to acquire Entergy's transmission assets. ITC Holdings and Entergy filed an application at FERC on September 24, 2012, for approval of the transaction and rate treatment. IPL had noted a few concerns from the application:

- The cost allocation across ITC Holding operating companies;
- Impact of the transaction to ITC-M rates; and
- Potential diversion of management attention from ITC-M.

Results:

- IPL raised concerns with ITC-M and ITC-M responded.
- IPL filed comments at FERC on December 7, 2012, expressing its concerns, and acknowledging the IPL and ITC-M communications.
- **Update: The ITC-Entergy transaction remains in the process of review in various jurisdictions. On February 22, 2013, ITC filed a response to comments in the docket including those by IPL. ITC's response to IPL's concerns provided general reassurances but did not provide any formal commitments. On June 20, 2013, FERC issued an order approving the transaction. The transaction must also be approved by regulators in Texas, Missouri, Arkansas, Louisiana, Mississippi and the City of New Orleans. Recent activity in the state proceedings related to the merger indicates concerns by regulators as to the benefits that may be seen from the transaction.**

ITC has recently proposed approximately $200M in bill credits for ratepayers in Texas, Louisiana and Arkansas to help alleviate stakeholder concerns regarding the benefits of a merger. ITC expects the transaction to close by the end of 2013.

4. MISO Activity, IPL Participation

IPL reviews the projects resulting from the MISO planning process and provides feedback to MISO on all projects potentially impacting the transmission service and cost to IPL customers.

MISO released its pre-plan MTEP 13 project list in September 2012. IPL provided feedback to ITC-M and MISO.

Results:

- IPL initially supported approximately $92 million of ITC-M projects of the approximately $250 million total over 2013-2018 that would improve reliability to IPL customers.
- IPL initially opposed approximately $148 million of ITC-M projects on the basis of insufficient support justification or excessive cost in IPL's judgment.
- IPL expected that the number of ITC-M proposed projects and their associated cost that IPL is opposed to, would be reduced if ITC-M can make satisfactory additional cost and justification information available.
- **Update: Planning representatives with each company have continued to discuss IPL's questions and concerns. IPL now has significantly less opposition to ITC-Ms proposed projects as more information has been made available.**
    - **IPL now supports all 69kV projects.**
    - **IPL continues to work with ITC-M on the capital maintenance project concerns.**
    - **IPL continues to work with ITC-M to coordinate transmission and distribution work to maximize reliability improvements and minimize each other's costs.**

The results of these discussions between IPL and ITC-M are summarized in Figure 1.

Prior to meeting with ITCM

		Summary of Costs
Total	$	250,347,978
Support	$	91,871,000
Oppose	$	147,665,000
No opinion	$	10,811,978

Following meeting with ITCM

		Summary of Costs
Total	$	233,247,978
Support	$	150,086,000
Oppose	$	72,350,000
No opinion	$	10,811,978

Figure 1 – Results of IPL and ITC-M Planning discussions regarding ITC-M's MTEP 13 projects

5. IPL and ITC-M's Joint Project Planning Process

Results

- **Update: As noted earlier, changes in Alliant Energy and IPL executive staffing have occurred. Most notably, the IPL Planning organization has been brought under Randy Bauer, Director – System Planning. This has been done in part to bring additional focus and closer coordination of project and budget planning activities between IPL distribution and ITC-M transmission work to provide customer value.**

6. IPL Projections and Analysis of ITC-M and MISO Rates

In earlier Reports, IPL had included a forecast of ITC-M Rates based on revenue requirement projections provided by ITC-M.

Updates:

- **IPL has periodically asked ITC-M for any available updated revenue requirement projections, most recently in June 2013. ITC-M has indicated that no updates are available beyond that which was provided in March 2012, nor is it known when updates will be available. Therefore, IPL has not updated any of its projections of ITC-M rates for future years.**

- **In early 2013, IPL shared its pricing outlook for overall industrial customer rates, including transmission, through various customer communications and interactions. IPL plans to conduct a pricing outlook webinar in September, which will reflect ITC-M's 2014 Attachment O rate posted in September 1, and IPL's projections of the Regional Transmission Service (RTS) factors in IPL's rates for 2014.**

- **ITC-M 2012 True-Up Adjustment: On May 31, 2013, ITC-M posted its 2012 True-Up Adjustment.**

  Customers of ITC-M will receive an approximately $5.6 million discount or refund to be applied to ITC's 2014 rates. $2.9 million results from the difference between 2012 actual net revenue requirement and 2012 actual network revenues.

  Another $2.7M refund results from the FERC Audit Order, as earlier noted.

7. Transmission Outage Performance and Operations Coordination

Results:

- Transmission reliability continues to improve, in large part due to ITC-M maintenance, rebuilds, conversion, and new facility construction.
- **Update: Reliability and asset performance metrics have been updated with full-year data from 2012 showing improvements and are shown in Figures 2, 3, and 4.**

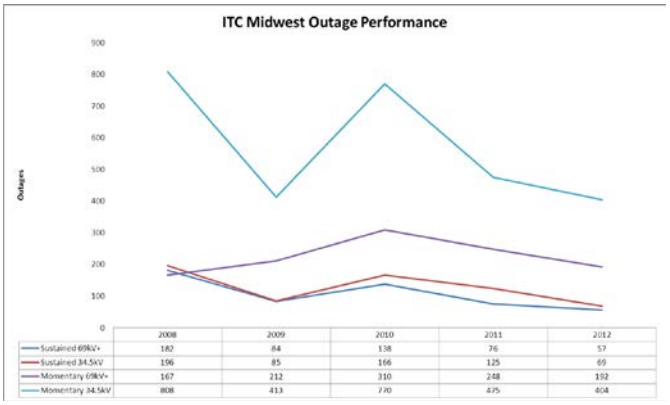


Figure 2 – ITC-M Outage Performance

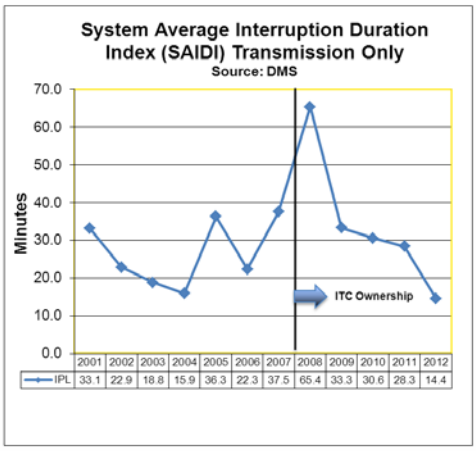


Figure 3 – Transmission Reliability, SAIDI

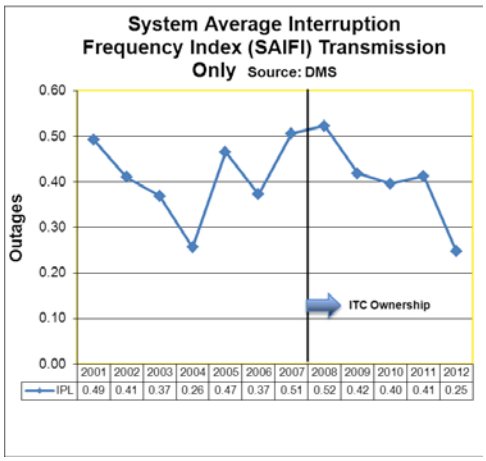


Figure 4 – Transmission Reliability, SAIFI

- **Update: In May 2013, IPL staffed a newly-created position of Senior Transmission Specialist that is part of IPL's Delivery System Planning department. This position was created to facilitate coordination of details around planned ITC-M transmission outages needed to support ITC-M maintenance, rebuilds, conversion and new facility construction, farther in advance. This position and the development of new and updated processes and procedures by IPL have been well received by ITC-M.**

- **IPL and ITC-M have experienced a few significant severe weather events thus far during the first half of 2013. In each event, IPL notes that ITC-M responded appropriately and coordinated well with IPL on the restoration of IPL customers.**

8. Transmission Stakeholder Meetings

On April 3, 2013, IPL conducted an "interim" conference call with Transmission Stakeholders. Such a call was suggested at the November 28, 2012 Transmission Stakeholder meeting as a way for IPL to provide updates in between the semi-annual, in person meetings.

The conference call presentation is attached to this Report as Appendix 3, and follow-up materials as Appendix 4.

On June 3, 2013, IPL held its fifth semi-annual Transmission Stakeholder meeting in Cedar Rapids.

The agenda included a guest speaker from Quanta Technologies on the economic benefits of transmission investment. Since the meeting, **IPL, ITC-M and Quanta Technology have further collaborated on how IPL and ITC-M might further quantify the value of reliability improvements for the ITC-M transmission system.**

The meeting presentation is attached to this Report as Appendix 5.

9. Timetable of Events Influencing Transmission Rates & Service

A timetable of events in 2013 which have influence on transmission rates and project planning is listed in Table 2.

Table 2 – Timetable of transmission events influencing transmission rates & service

2013 Month	Description
January - December	• On-going IPL / ITC Planning, Project, Operations, and Executive meetings • On-going IPL evaluation and analysis of any new information that may impact ITC-M Attachment O rates
June	ITC-M 2012 True-up amount posted
September	ITC-M 2014 Attachment O (MISO Schedule 9) rates posted
September – December	• IPL analysis and evaluation of ITC-M Attachment O rate for 2014 • IPL evaluation and feedback on ITC-M projects in MTEP 2014
November	IPL 2014 Transmission Rider Factors submitted to the Board
December	• IPL 2014 Transmission Rider Factors approval normally anticipated by the Board • MISO Board of Directors consideration for approval of MTEP 2013 projects

10. Conclusions

IPL believes the results detailed in this Report demonstrate that its actions have had a positive influence in managing the relationship with ITC-M and with IPL's customers toward reliable and cost-effective service.

While IPL and ITC-M may hold differing positions on certain cost allocation, rate increase and capital investment pace issues, the companies continue to coordinate well on operations and planning issues and view the relationship as a partnership.

IPL recognizes and acknowledges that ITC-M is making needed investments in the transmission system. As recent notable examples in the spring of 2013, ITC-M completed the long-planned 80 mile Salem-Hazelton 345kV line and completed the rebuild and conversion from 115kV to 161kV of 50 miles line from Nuthatch to Marshalltown. In addition, since the purchase of the transmission system, ITC-M has completed approximately 173 miles of rebuild on the 34.5kV system to 69kV standards, and much of that has been converted to 69kV. In part from these projects and other ITC-M work, transmission system reliability is improving.

IPL further recognizes that some transmission investment cost is-- and will continue to be driven by-- an aging system, integration of renewable resources and evolving regulation on planning, cost allocation and environmental compliance.

With the results noted in this Report, IPL has demonstrated that it has and will continue to engage regulatory policy, MISO processes and ITC-M directly through appropriate venues with the objective of reliable and cost-effective electric service to IPL customers.

While the benefits of these efforts are difficult to quantify, IPL believes its efforts are in the right direction. IPL believes its advocacy on behalf of customers has helped ITC-M increase its sensitivity to cost concerns and the need to provide justification for, and articulation of the benefits from, ITC-M's transmission system investments.

Detailed Report - Introduction

Interstate Power and Light Company (IPL) submits this semi-annual Report of its transmission-related activities, pursuant to the requirements of the Iowa Utilities Board's (Board) January 10, 2011, Final Decision and Order in Docket No. RPU-2010-0001, which conditionally allowed IPL to implement an automatic recovery mechanism for transmission costs. This Report provides details of IPL's activities in and results from managing its processes and relationship with ITC-Midwest (ITC-M) and influencing the transmission service levels and cost impacts to IPL customers. This report focuses on the following areas, with particular emphasis on activities and results since IPL's last semi-annual transmission Report filed December 21, 2012 (December 2012 Report):

1. ITC-M Relationship Management;
2. Review, Analysis of and Response to ITC-M Dockets;
3. Transmission Regulatory Activity, IPL Engagement;
4. Midcontinent Independent System Operator, Inc. (MISO) Activity and IPL Participation;
5. IPL and ITC-M's Joint Project Planning Process;
6. IPL Projections and Analysis of ITC-M and MISO Rates;
7. Transmission Outage Performance and Operations Coordination;
8. Stakeholder Informational Meeting; and
9. Timetable of Events Influencing Transmission Rates & Service.

With this and prior Reports, IPL is specifically responding to the Board expectations that IPL "…improve its processes and relationships with ITC Midwest…" and "…to provide semi-annual Reports detailing its review, analysis, suggestions, and input to such things as ITC Midwest's transmission planning and budgeting process and any FERC interventions or proceedings, and what impact IPL's input has had."

Further, the Board required "…IPL to collaborate with other interested parties on at least a semi-annual basis. The IUB envisions these collaborations to be an opportunity for other parties to offer suggestions to IPL on how it can better manage its processes and relationships with ITC Midwest…"

In this Report, IPL continues to emphasize results it has achieved on behalf of its customers. This Report only addresses the most significant new and continued issues, actions and results affecting transmission service and cost since the last Report. The Report does not necessarily address *all* activity or previously reported items without new developments. **Much of the background information from the December 2012 Report is retained in this Report in order to provide continuity and context. Updates are frequently signified in bold text and/or preceded by "Update".**

IPL is continuing to include in this Report analysis on changes to ITC-M rates, their drivers and reasonableness.

IPL's strategy continues to be customer centric by influencing the balance between the cost and benefits provided IPL customers by transmission service through advocacy with ITC-M, MISO, and FERC and through engagement in regulatory policy at the local, regional, and federal level.

1. ITC-M Relationship Management

IPL has an internal management structure with groups and individuals designated to interface with ITC-M and manage the overall relationship and coordination activities with ITC-M.

Update: In 2013, changes in Alliant Energy and IPL executive staffing have occurred, of which the most notable are:

- Linda Mattes, Vice President of Energy Delivery Operations has assumed the executive responsibility of the ITC-M relationship.
- Randy Bauer, Director – System Planning; reporting to Ms. Mattes, assumes responsibility for distribution planning and coordination with ITC-M involving transmission planning and operations.
- Krista Tanner, Director – Regulatory Policy leads Federal and regional policy activity, reporting to Joel Schmidt, Vice President of Regulatory Affairs.
- Eric Guelker, Director – Regional and Federal Policy; reporting to Ms. Tanner, leads various regulatory issue, policy, and advocacy activities, including those involving transmission.

The committee structure addressing transmission issues and interfacing with ITC-M has been reworked and simplified, reflecting the personnel noted above. The new structure is represented in Figure 5 below.

The IPL Executive Stakeholder Team, now chaired by Ms. Mattes, meets monthly with staff to review status of various IPL-related transmission issues and provides oversight and direction to IPL's overall transmission strategy and relationship management with ITC-M. This includes monitoring developments with, and directing responses to the following entities regarding events, issues, processes and regulatory policies that impact ITC-M rates and ultimately the cost to IPL customers:

- ITC-M;
- FERC;
- MISO;
- Board; and
- The Minnesota Public Utilities Commission (MPUC).

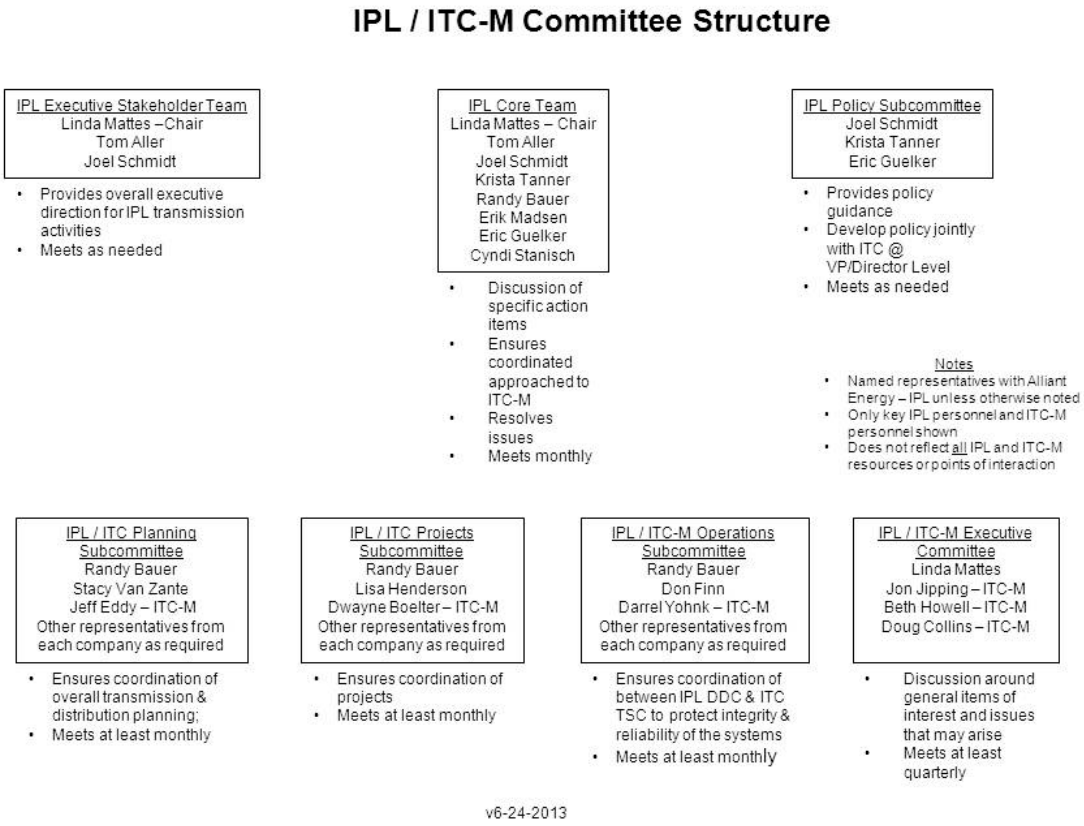


Figure 5 – IPL / ITC-M Committee Structure

Numerous informal interactions occur at all levels within IPL and between IPL and ITC-M on daily and weekly frequencies to support activities such as planned transmission outage coordination, transmission and distribution construction and maintenance, planning for future work, outage investigation, and coordination and communication with IPL customers.

The IPL and ITCM CEOs and executive teams will be meeting in the near future to discuss various items and plan to continue meeting periodically.

While IPL and ITC-M each hold differing positions on certain cost allocation, rate increase, and capital investment pace issues, the companies continue to coordinate well on operations and planning issues and view the relationship as a partnership.

2. Review, Analysis of and Response to ITC-M Dockets in State Jurisdictions

IPL's strategy includes maintaining active and vocal engagement with ITC-M's regulatory activity that could potentially affect transmission related benefits as well as rates, and therefore, costs to IPL customers.

IPL continuously monitors filings made on a routine basis by ITC-M within the following regulatory jurisdictions:

- Board;
- MPUC; and
- FERC.

IPL makes a determination on a case-by-case basis regarding whether any response by IPL to an ITC-M filing is necessary and whether other filings in these venues could have an impact on IPL customer transmission costs or service.

Through its System Planning department and other resource areas, IPL performs a daily and weekly review of all new filings by ITC-M through the Board's Electronic Filing System, the MPUC's eDockets system, and the FERC Online systems. IPL's System Planning department, and others as appropriate, review any new docket related to ITC-M. IPL has developed criteria to determine what, if any, actions it should pursue. The criteria for participation, whether in support of or opposition to a particular project, are listed below. Please note these criteria are general in nature; IPL may decide to take different actions depending on the specifics of a particular docket.

IPL's response to an ITC-M docket can include one of the following actions, as supported by the corresponding general criteria for each action:

- Support:
    - ITC-M requests franchise renewals;
    - ITC-M proposes a conversion project related to IPL long-term plans;
    - ITC-M proposes new IPL substation connections;
    - ITC-M plans projects to satisfy North American Electric Reliability Corporation (NERC) compliance; or
    - ITC-M's proposal supports reliability and aging infrastructure projects identified by IPL.

- Oppose:
    - The proposed generation interconnection projects shift costs from generators to IPL customers;
    - The proposed project does not materially improve reliability; or
    - The proposed project would make IPL customers responsible for a disproportionate amount of the costs.

- No Action:
    - ITC-M's project supports customers other than IPL;
    - ITC-M's filing is a routine reporting filing;
    - The docket is not related to a specific project;
    - The project is driven by regulatory policy, unless justification is not aligned with the needs of IPL's customers; or
    - A project identified at the time of the transmission system sale does not fall into the support criteria.

IPL reviews all projects, starting at the planning level, with ITC-M and continues to review these projects throughout the various MISO and regulatory processes. IPL takes advantage of multiple opportunities to provide input and feedback to influence the

reliability, efficiency and/or cost impact of these projects. Ultimately, IPL has the ability to intervene in the appropriate state regulatory process should it not prevail at prior steps in the review and approval process. While IPL considers this to be a last-step action, the state regulatory intervention process affords IPL the ability to provide its position in multiple venues. Analysis of some of these projects originated when IPL owned the transmission assets, so duplicate analysis is avoided.

Since IPL's December 2012 Report, IPL has reviewed 17 new dockets filed by ITC-M with the Board, and has provided responses as needed in the appropriate forums for 15. A summary of IPL's review of new ITC-M filings to the Board is provided in Table 3.

Table 3 – New ITC-M Filings with Iowa Utilities Board Reviewed by IPL
December 21, 2012 – June 17, 2013

Week Of	Docket No.	Short Description	IPL Action Taken	Reason
12/9/12	E-20994	Ely-Linn Co REC, 34-69kV	No Action	Docket withdrawn by ITC
12/16/12	E-20886	Grand Jct-Grand Jct North, 34-69kV	Support	34kV to 69kV Conversion Plans
12/16/12	E-20886	Ely-Linn Co REC, 34-69kV	Support	34kV to 69kV Conversion Plans
1/13/13	E-22112	Prairie Creek Ckt 0350	No Action	Third Party driving work
2/10/13	E-20994	Lafayette Sub to Midway, 34-69kV	Support	34kV to 69kV Conversion Plans
2/10/13	E-20994	Center Point to Midway, 34-69kV	Support	34kV to 69kV Conversion Plans
2/10/13	E-20994	Midway to Troy Mills, 34-69kV	Support	34kV to 69kV Conversion Plans
3/10/13	E-22116	MN/IA State Line to Kossuth, 345kV	Support	Part of 2011 Candidate MVP Portfolio
3/17/13	E-22117	Moravia-Centerville, 69kV	Support	Reliability
3/31/13	E-21894	Colby to Killdeer, 345kV	Support	Part of 2011 Candidate MVP Portfolio
4/7/13	E-20994	HIA-Coggon & DC to Anamosa, 34-69kV	Support	34kV to 69kV Conversion Plans
4/14/13	E-22119	Pleasant Plain to Coppock, 69kV	Support	Franchise Renewal
4/14/13	E-22120	Pleasant Plain to Wayland, 69kV	Support	Franchise Renewal
5/5/13	E-21393	Chariton to Corydon Rebuild 69kV	Support	Reliability
5/12/13	E-22121	Mt Vernon – Linn Co REC, 34-69kV	Support	34kV to 69kV Conversion Plans
5/19/13	E-22122	Turkey River to DPC Connection, 161kV	Support	Franchise Renewal
6/2/13	E-21395	Chariton to Corydon, 69kV	Support	Reliability

Other, on-going dockets involving or potentially affecting ITC-M, but not necessarily initiated by ITC-M in the various jurisdictions are also reviewed on a regular basis. Any IPL involvement in those proceedings is described in *Section 3. Transmission Regulatory Activity, IPL Engagement*, below.

3. Transmission Regulatory Activity, IPL Engagement

IPL's strategy includes maintaining active and vocal engagement with regulatory policy activity that potentially impacts transmission rates, including those of ITC-M, and that ultimately impact the costs to IPL customers.

Since the December 2012 Report, IPL notes the following most significant Board and FERC activity, and IPL's engagement.

A. ITC-M Response to IPL's December 2012 Report, filed with the Board on January 31, 2013. (Docket No. RPU-2010-0001)

In this response, ITC-M highlighted what it considers some inaccuracies and omissions in IPL's December 2012 Report, and provides additional information to clarify their positions. ITC-M's Response to IPL's December 2012 Report is attached as Appendix 1.

In summary, ITC-M:

- Reiterated disagreement with the positions IPL has taken in various FERC dockets. ITC-M refers to the filings themselves for additional information, with no further commentary.

- Asserted that IPL's opposition to ITC-M's projects submitted to the MISO MTEP13 project planning process were based on faulty assumptions and missing information, and that the current status was not properly reflected at the time of the November Stakeholder meeting or December 2012 Report filing.

  Result: IPL believes its comments were misinterpreted. Subsequent discussion between ITC-M and IPL has yielded additional clarity on ITC-M project plans and substantially less IPL opposition, as described in *Section 4. MISO Activity, IPL Participation* **of this Report.**

- Disagreed with IPL's complaints about transparency of all ITC-M project plans and lack of quantified benefits of ITC-M investments. ITC-M notes they are an independent transmission company and can only provide detailed project plans to network customers impacted by particular project plans, not all customers. ITC-M notes quantification of benefits can be accomplished only with costly modeling and analysis, an expense which would ultimately cost IPL customers. ITC-M is open to discussing with the Board if deemed necessary.

  Result: Although challenging to quantify, IPL believes that the value of benefits resulting from transmission investment can be further articulated and is currently working with ITC-M to quantify customer savings associated with reliability improvement.

- Asserted that IPL in its analysis and forecast of ITC-M rates overstate actual rates for years 2010-2011. IPL used the effective rates based on ITC-M postings after-the-fact which include the true-up from an earlier year added to actual revenue requirements, while ITC-M illustrates the rates for those historical years on the revenue requirements for that year alone, without the true-up from a prior year added.

  Result: Upon further analysis, IPL concurs with ITC-M's assertion and has adjusted its historical rate data for the years 2010 and 2011 accordingly.

- Asserted that IPL's comparison of ITC-M rates to the American Transmission Company (ATC) and MidAmerican (MEC) do not adequately recognize differences. ITC-M shows ITC-M's O&M and A&G costs compare favorably to ATC and MEC.

  Result: IPL notes that the comparisons in its 2012 meetings and December 2012 Report were provided at the request of stakeholders. IPL believes it has adequately acknowledged and cautioned on the use of the differences in system loads, line miles, voltages and asset base of the various transmission owners in its prior Reports and again in its April 3, 2013 Transmission Stakeholder Call and follow up materials as shown in Appendices 3 and 4 of this Report.

- Asserted that IPL's December 2012 Report does not adequately reflect improvements in reliability that ITC-M has achieved, in particular on its higher voltage systems.

  Result: IPL does not dispute ITC-M data showing reliability improvements at various voltage levels benchmarked to peers, or the improvements experienced in the higher voltage assets. Rather, based on customer feedback, IPL has focused on metrics that reflect improved reliability trends at all transmission voltage levels in terms of the *customer outage experience* instead of only asset performance. Thus the emphasis on IPL's data for transmission SAIDI and SAIFI, in addition to the number of transmission events data (asset performance) provided by ITC-M. IPL notes with appreciation that ITC-M now also presents the same transmission SAIDI and SAIFI data to its stakeholders at its Partners in Business meetings.

- Indicates desire to have more communications with IPL industrial customers.

  Result: By mutual agreement with ITC-M, IPL has managed communications with individual IPL customers regarding transmission issues so that it is done jointly by IPL and ITC-M. ITC-M expressed frustration at IPL's November Stakeholder meeting that IPL customers were not invited to ITC-M's semi-

annual Partners in Business Meetings. (IPL and ITC-M had earlier agreed to this approach.) Some customers expressed interest in attending the ITC-M meetings. IPL subsequently communicated its openness to having IPL customers attend ITC-M's Partners in Business meetings and worked with ITC-M to extend those invitations for ITC-M's May 15-16, 2013 meetings. The Iowa Consumers Coalition (ICC) on behalf of its clients indicated to IPL that it appreciated the invitation, however they and their clients would not plan to attend the ITC-M Partners in Business meetings at this time and would continue to look to IPL to represent IPL customer interests in that venue. Two IPL industrial customers attended the May 15, 2013 meeting in Cedar Rapids. These customers are members of the Large Energy Group (LEG).

ITC-M's presentation from this meeting can be found on its MISO OASIS site at: http://www.oasis.oati.com/woa/docs/ITCM/ITCMdocs/2013_ITC_Midwest_PIB_Spring_Presentation_Iowa_Revised_5-31-13_(2)_[Read-Only].pdf.

IPL will continue to work with ITC-M so that IPL customers are invited to future ITC-M Partners in Business meetings.

IPL and ITC-M through various interactions have discussed the issues ITC-M raised in its Response. The outcomes of those discussions are noted in the issue descriptions above and elsewhere in this Report. IPL has not filed any formal response to ITC-M's Response, nor does it plan to do so.

B. FERC Investigation into MISO Attachment O (Docket No. EL12-35-000)

Following complaints regarding transmission formula rates, FERC initiated this investigation noting that the current structure may be unjust, unreasonable, unduly discriminatory or preferential or otherwise unlawful. Areas of concern where FERC requested comments from interested parties include:

- Scope of participation;
- Transparency of the information; and
- Ability to challenge.

Results:

- IPL submitted comments to FERC on June 22, 2012. In its comments, IPL suggested improvements in the above-noted areas of concern. A copy of IPL's comments was provided in the June 2012 Report. IPL comments noted that, with IPL's transmission service substantially delivered through the ITC-M system, 85 to 90 percent of IPL's total transmission costs are a direct result of ITC-M rates. Further, these costs are transparent to IPL end-use retail customers as a separate line item on their IPL bills. IPL's analysis and projections of ITC-M rates revealed that IPL's forecasted increases are largely driven by increases in ITC-M rate

base. Those rate base increases, in turn, are driven by continued capital expenses forecast by ITC-M. IPL seeks greater detail and transparency from both ITC-M and MISO in the determination of Attachment O rates. Specifically, more information should be provided regarding the need for, quantifiable benefits of, priority of and reasonableness of each of the components, especially individual project capital cost. The need for such detail and transparency have been expressed and emphasized in feedback from IPL customers in view of the historical and IPL forecast of continued rapid rise in ITC-M rates.

- ITC comments reflected their position where they consider the current protocols sufficiently transparent and emphasize the information regarding their formula rates and components made available at its semi-annual Partners in Business meetings, through the Attachment O rate postings on their OASIS site and that they welcome and respond to all questions raised by stakeholders.
- IPL has noted an increased effort on the part of ITC-M to provide additional information and transparency since this docket's origination. IPL has continued to submit questions when necessary to ITC-M about rate components, trends and justification following posted updates to the Attachment O True-Up and the next year's Attachment O Rates. ITC-M has continued to answer each question within its stated 21 day response timeframe. IPL observes that while ITC-M does indeed answer all questions, the quality and depth of the answers do not always meet IPL or IPL stakeholder needs to provide sufficient justification for, and articulation of, the benefits of ITC-M's transmission system investments.

- **Update: On May 16, 2013 FERC issued an order which found that MISO's and individual company formula rate protocols are insufficient. Many of the concerns of IPL and other parties were recognized and addressed.**

  FERC directed MISO and the impacted transmission owners (TOs), which includes ITC-M, to make certain changes to their formula rate protocols within 60 days of the order. Changes to the formula rate protocols are being directed to assist in making certain interested parties have the information and processes in place to help ensure just and reasonable rates. The new protocols will require TOs to provide more support for information included in formula rates as well as have a well-defined challenge process which places the burden of demonstrating the correctness of information on the TO. Parties seeking to challenge the prudence of a TO's expenditures will still need to first create a serious doubt as to the prudence of those expenditures before the burden of proof shifts to the transmission owner. MISO has not yet indicated what process they will use to create their compliance filing. **MISO and the TOs have made a request to FERC that an additional 60 days be given to complete the required compliance filing. New due date would be September 13, 2013. FERC's order is attached to this Report as Appendix 2.**

  It is not currently known when or specifically how the MISO Formula Rate Protocols will change as a result of FERC's order or MISO's

compliance filing, nor exactly how the outcome will impact IPL's visibility into ITC-M details on its Attachment O rate development. IPL will be discussing with ITC-M how IPL and ITC-M might collaborate on input to MISO's compliance filing, in the interest of IPL customers.

C. FERC Audit of ITC Holdings (Docket No. PA10-13-000)

In 2011, FERC conducted an audit of ITC Holding's compliance with FERC's regulations and the conditions established in the 2007 FERC order approving the acquisition of IPL's transmission assets. On September 30, 2011, FERC issued an order that identified certain findings and recommendations regarding the accounting treatment for the acquisition of IPL's transmission assets. The issues largely reflected a difference in opinion regarding the accounting treatment for tax effects of amortized goodwill related to the acquisition of the transmission assets and an over-accrual of AFUDC. The order instructed ITC-M to cease the recording of the tax effects of amortized goodwill, make correcting entries for the over-accrual of AFUDC and to adjust formula rate billings for both. On October 31, 2011, ITC Holdings and ITC-M (collectively "ITC") filed a request for FERC review of certain contested issues. ITC did indicate it would cease recording of the tax effects of amortized goodwill, but contested certain other items from the order. On December 29, 2011, FERC issued its Notice of Paper Hearing Procedure.

Results:

- On February 13, 2012, IPL filed comments that, in summary, emphasized that any conflict between ITC-M and FERC accounting policies must be resolved in favor of customers. A copy of IPL's filed comments were included with the June 2012 Report. Others, including the Board and the Office of Consumer Advocate, also filed comments in support of FERC's findings.
- FERC's Order continued to be contested by ITC Holdings. FERC ultimately upheld its original Order, and an implementation plan was subsequently filed by ITC Holdings and accepted by FERC. ITC Holdings filed a Refund Report at FERC on September 28, 2012.

- **Update: FERC accepted the ITC Holdings Refund Report on January 30, 2013.**

  ITC-M will reduce the 2012 True-Up Adjustment of the 2014 rate by $2.7 million, which includes principal and interest, in order to accomplish the refund. ITC-M has reflected the refund in its 2012 True-Up Adjustment posted on its MISO OASIS (Open Access, Same Time Information System) website on May 31, 2013 at http://www.oasis.oati.com/woa/docs/ITCM/ITCMdocs/ITCMW_2012_Actl_Attmnt_O_1_051313.pdf.

  Since the refund will be part of ITC-M's formula rate in 2014, it will be flowed through to IPL customers via IPL's transmission rider. IPL customers represent 80 to 90 percent of the load served by ITC-M

transmission through ITC-M's Attachment O rate, therefore IPL customers will benefit from a corresponding amount of the total refund. ITC-M's full 2014 rate will become known when posted to its MISO OASIS site in September 2013.

D. IPL's Complaint on ITC-M Attachment FF (Docket No. EL12-104-000)

As noted in the June 2012 and December 2012 Reports, IPL communicated its concerns to ITC-M regarding its implementation of the MISO Attachment FF. In this tariff, the costs of network upgrades related to generator interconnections are reimbursed to generators and, thus, passed on to IPL customers through ITC-M's rates. IPL contends that IPL customers are significantly and unfairly disadvantaged. IPL requested ITC-M to consider changing this policy to be consistent with the majority of MISO, where a generator interconnection customer pays for 100% of the cost of network upgrades rated below 345kV and 90% for those rated above 345kV needed to connect to the transmission system. ITC-M has declined to make such a change, instead noting the professed benefits of the current ITC-M policy to IPL and its customers through support of regional wind generation development and overall economic development, and stating that the reimbursement policy is consistent with FERC policy. IPL then engaged the MISO stakeholder process through its various committees. MISO ultimately advised IPL that MISO could not address the disputed issue between IPL and ITC-M, or provide relief through their tariff administration.

Using ITC-M's historical and forecasted capital expenditures for generator interconnections, IPL calculates a cost shift to IPL customers totaling $170 million will have occurred over the period 2008-2016 under the current ITC-M's current Attachment FF implementation, versus an Attachment FF implementation consistent with the majority of MISO described above.

Results:

- IPL developed a Section 206 complaint and filed at FERC on September 14, 2012, seeking change to ITC-M's Attachment FF implementation and indicating:
    - IPL customers are significantly and unfairly disadvantaged;
    - IPL calculates a $170 million cost shift to IPL customers 2008-2016; and
    - Interconnection customers should fund 100% of upgrades rated below 345kV and 90% for those rated above 345kV.
- Numerous supporting comments were filed from various stakeholders, other transmission dependent utilities, state commissions and others including the Board and Office of Consumer Advocate.
- ITC-M filed comments, defending their implementation of Attachment FF. IPL filed response comments. ITC-M filed an additional set of comments, defending its position.

- **Update: No new information is available since the December 2012 Report - it is not known when or specifically how FERC will respond to IPL's complaint on this docket.**

E. ITC – Entergy Transaction (Docket Nos. EC12-145-000, ER12-2681-000 and EL12-107-000)

Entergy previously announced its intent in 2011 to join MISO. ITC Holdings and Entergy announced the intent in 2012 for ITC Holdings to acquire Entergy's transmission assets. The required regulatory approval applications have substantially been made and are in process. The transaction is expected to close in 2013. ITC Holdings and Entergy filed an application at FERC on September 24, 2012, for approval of the transaction and rate treatment.

IPL has noted a few concerns from the application:

- The cost allocation across ITC Holding operating companies;
- Impact of the transaction to ITC-M rates; and
- Potential diversion of management attention from ITC-M.

Results:

- IPL raised concerns with ITC-M and ITC-M responded by organizing a conference call to address IPL's concerns. ITC-M also responded to IPL's concerns expressed via a submitted question following the ITC-M Fall 2012 Partners in Business meeting, as shown in the December 2012 Report. In general, ITC-M gave reassurances that expenses associated with the ITC-Entergy transaction would not be allocated to ITC-M rates. Further, ITC-M indicated that the allocation of administrative and general (A&G) expenses via the existing Modified Massachusetts Formula was expected to result in a reduction of these allocated costs to ITC-M. ITC-M also indicated that it should benefit from the storm response expertise of the Entergy system and that resources would be placed to manage the Entergy system assets exclusively, while retaining those managing ITC-M without change.

- IPL filed comments at FERC on December 7, 2012, expressing its concerns, acknowledging the IPL and ITC-M communications about IPL's concerns. IPL indicated it expects such concerns to be addressed through commitments to the customers of the existing ITC operating companies, including IPL, in the ITC and Entergy application to FERC for transaction approval. In particular, IPL noted its desire to maintain the working relationship it has developed with ITC-M that facilitates maintaining and improving service levels to IPL customers and the importance of preserving that through sufficient management attention from ITC-M.

- **Update: The ITC-Entergy transaction remains in the process of review in various jurisdictions. On February 22, 2013, ITC filed a response to comments in the docket including those by IPL. ITC's response to IPL's concerns provided general reassurances but did not provide any formal commitments. On June 20, 2013, FERC issued an order approving the transaction. The transaction must also be approved by regulators in Texas, Missouri, Arkansas,**

Louisiana, Mississippi and the City of New Orleans. Recent activity in the state proceedings related to the merger indicates concerns by regulators as to the benefits that may be seen from the transaction. ITC has recently proposed approximately $200M in bill credits for ratepayers in Texas, Louisiana and Arkansas to help alleviate stakeholder concerns regarding the benefits of a merger. ITC expects the transaction to close by the end of 2013.

4. MISO Activity, IPL Participation

IPL's strategy includes maintaining active and vocal engagement with the related MISO processes that impact transmission rate components, including those of ITC-M, which may ultimately impact the costs to IPL customers.

IPL participates in various committees and meetings at MISO pertaining to transmission topics. Specifically, IPL is an active participant and voting stakeholder in the Regional Expansion Criteria Benefits (RECB) Task Force that is charged with shaping cost allocation policy. IPL is also an active and voting member on the Planning Advisory Committee (PAC) as a representative of the Transmission Dependent Utility (TDU) sector. Other groups where IPL has representation include the Interconnection Process Task Force and the West Sub-Regional Planning Meeting (West SPM).

A summary chart of the various MISO committees IPL participates in is provided in Figure 6. A few minor changes to the individuals representing Alliant Energy and IPL on the various committees have occurred and Figure 6 has been updated.

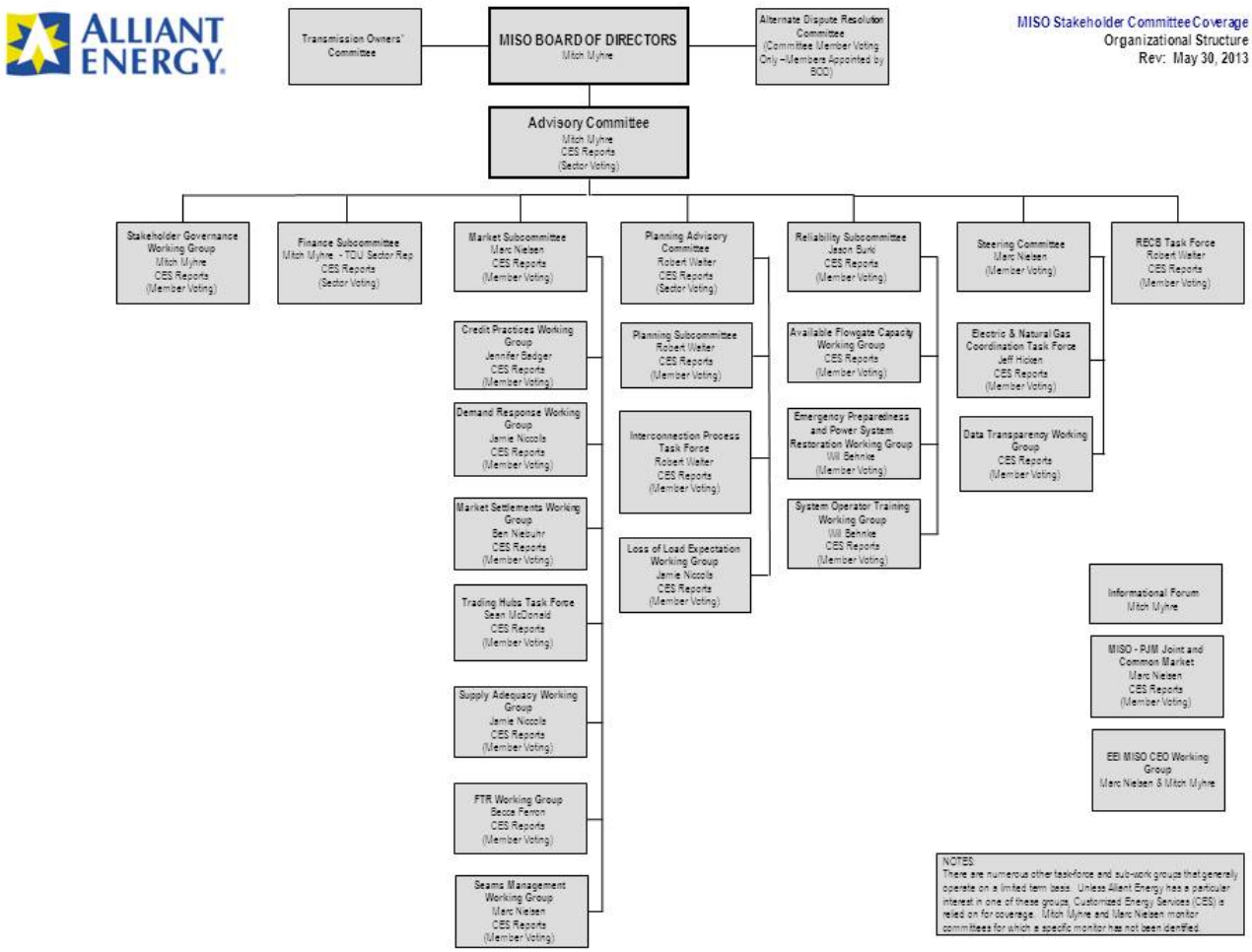


Figure 6 – Alliant Energy involvement at MISO

A significant annual activity that IPL participates in is the MISO Transmission Expansion Plan (MTEP) process.

IPL continues to be supportive of MISO's current cost allocation methodologies to the extent that those cost allocation methodologies ensure that IPL customers only pay the share of costs that provide benefit, and that all transmission expansion plans impacting the MISO system should be fully vetted through a regional and an inter-regional planning process.

Due to the scope and complexity of regional transmission planning, IPL does not perform independent cost-benefit analysis of the MTEP project portfolio, MVPs or individual ITC-M projects. For the MVPs in particular, due to the large interdependencies of the projects, the benefits are calculated on the portfolio as a whole, consistent with FERC direction, rather than for individual projects. For all other non-MVP projects, such as market efficiency projects, a cost-benefit analysis is performed on a per-project basis and must meet certain cost-benefit criteria to be approved by MISO. This scale of planning and cost-benefit analysis is best done at the regional level through

a collaborative process. Therefore, IPL actively participates in the MISO planning processes through the various participant and stakeholder committees it is represented on.

IPL reviews the projects resulting from the MISO planning process and provides feedback to MISO on all projects potentially impacting the transmission service and cost to IPL customers, including those of ITC-M. IPL's criterion for the review of these planned projects follows the same general guidelines as the IPL criteria for intervention on Board, MPUC and FERC dockets.

Consistent with its annual planning process, MISO released its pre-plan MTEP 13 project list in September 2012. IPL performed a review of the MTEP 2013 projects proposed, including those of ITC-M, through its participation in the MTEP process and provided feedback to ITC-M and MISO.

In the pre-plan MTEP 13 Appendix A project list, there were 256 projects identified totaling roughly $3.7 billion, of which 42 were ITC-M projects totaling approximately $250 million over 2013-2018.

The MTEP 13 details can be found on MISO's website at: midwestiso.org. These include projects proposed by ITC-M as noted in the ITC-M 2012 Fall Partners in Business Meeting Presentation, publicly available at:
http://www.oasis.oati.com/woa/docs/ITCM/ITCMdocs/2012_Fall_Partners_In_Business_Planning_and_Attachment_O_Presentation_FINAL_10-9-12.pdf.

Results:

- In November 2012, IPL reviewed those projects proposed for MTEP 13 and provided comments to MISO and ITC-M:
    - IPL generally did not take a position on projects unrelated to IPL, including those of ITC-M. Such projects include those of other Transmission Owners whose costs are not passed on to IPL as well as those projects by ITC-M that support their other customers but do not necessarily provide a direct benefit to IPL or its customers.
    - IPL generally supported projects that would improve reliability to IPL customers or the interconnected system, including those of ITC-M.
    - IPL generally supported ITC-M projects related to the conversion of the 34.5kV and 115kV systems. These conversion plans were begun by IPL and ITC-M continues the efforts to complete that work, which IPL supports in the interests of improved system reliability for customers.
    - IPL has initially opposed approximately $148 million of ITC-M projects of the approximately $250 million total over 2013-2018, on the basis of insufficient support justification or excessive cost in IPL's judgment.
    - IPL has initially supported approximately $92 million of ITC-M projects of the approximately $250 million total over 2013-2018. IPL supported these projects because they align with IPL's support criteria as noted in *Section 2, Review, Analysis of and Response to ITC-M Dockets.*
    - IPL shared all comments on proposed MTEP13 projects directly with ITC-M and proposed meeting with ITC-M for further discussion on the MTEP13 projects.

- IPL expected that some number of ITC-M proposed projects and their associated cost that IPL is opposed to, would be reduced if ITC-M made satisfactory additional cost and justification information available.

- **Update: Planning representatives with each company have continued to discuss IPL's questions and concerns. Specifically, IPL's concerns have primarily been its opposition to certain 69kV projects due to a lack of information regarding priority, and opposition to ITC-M's multi-year approach to capital maintenance dollars and the level of funding for such work.**

  IPL now has significantly less opposition to ITC-Ms proposed projects as more information has been made available.
  - **IPL now supports all 69kV projects based on the additional information provided by ITC-M that show these assets to be aging and requiring more maintenance dollars to maintain.**
  - **IPL continues to work with ITC-M on the capital maintenance project concerns.**
  - **IPL continues to work with ITC-M to coordinate transmission and distribution work to maximize reliability improvements and minimize each other's costs.**

  The results of these discussions between IPL and ITC-M are summarized in Figure 7. The lower total cost in the summary following IPL's meeting with ITC is due to correcting an error of identifying the cost estimate associated with a line tap project. MISO showed the costs to be $17M more than what ITC-M had projected.

Prior to meeting with ITCM

		Summary of Costs
Total	$	250,347,978
Support	$	91,871,000
Oppose	$	147,665,000
No opinion	$	10,811,978

Following meeting with ITCM

		Summary of Costs
Total	$	233,247,978
Support	$	150,086,000
Oppose	$	72,350,000
No opinion	$	10,811,978

Figure 7 – Results of IPL and ITC-M Planning discussions regarding ITC-M's MTEP 13 projects

IPL will continue to be actively involved at MISO as the MTEP 2013 project list continues to be studied and refined.

The MTEP 13 process will continue through the normal process to be finalized and presented to the MISO Board of Directors for approval in December 2013. MISO has not identified a new portfolio of Candidate MVP projects for MTEP 13. IPL continues to monitor initiation and progress of the MTEP 11 MVPs.

5. IPL and ITC-M's Joint Project Planning Process

IPL personnel from various levels of authority routinely meet with ITC-M, from the executive level to engineering and operations, to discuss issues pertaining to project planning. These projects involve large capital projects, capital maintenance and routine operations and maintenance (O&M) projects.

IPL's engagement with ITC-M's project planning efforts is intended to:

- Ensure improvement of system reliability for IPL's customers;
- Influence demonstrated need, scope, design, timing and cost effectiveness in providing transmission service to IPL's customers;
- Coordinate and plan the IPL distribution projects impacted by or needed to support ITC-M projects; and
- Facilitate "constructability" meetings to align project timing for budgeting purposes, but also from a reliability perspective so as to minimize impacts to IPL customers.

Operating as the Planning Subcommittee (Figure 5), IPL's System Planning department meets monthly with ITC-M's Planning department. The two companies meet to coordinate conceptual planning, studies and work scope development.

Results:

- As noted in prior Reports, IPL and ITC-M had both participated in a Lean Six Sigma (LSS) process to improve planning coordination. Such coordination between IPL and ITC-M predominately involves ITC-M's continued rebuild and conversion of the 34.5kV system to 69kV. The results of this LSS project continue to help ensure:
    - Formal communication with notices of receipt that will promote both companies working from the most recent information.
    - Alignment on work plans through integration of ITC-M project information into IPL's project database.
    - Engineering alignment through earlier release of projects by IPL to match with ITC-M design schedules.
    - Budget alignment on multi-year plans through monthly meetings.
    - Cost savings from improved efficiency

  Support of ITC-M's 12-year rebuild plan continues to be a priority for IPL and ITC-M. Likewise, IPL desires to continue support of the 18-year conversion schedule for the reliability and operational benefits associated with conversion to 69kV. However, supporting the rebuild and conversion schedule continues to require close coordination on the need, priority, and budget alignment. IPL continues to believe that it is on track to meet the 18-year conversion schedule and that ITC-M is on track to meet the 12-year rebuild schedule and the 18-year conversion schedule.

In general, for those projects that IPL and ITC-M collaborate closely on due to joint facilities, direct impact to IPL customers, proximity of work to IPL facilities, etc., IPL does not perform independent cost-benefit analysis of individual ITC-M projects. Such analysis is typically not done because many projects at this level are needed to provide reliable service to IPL customers. Rather, when IPL, through its experience and

judgment, has observed what it considers excessive ITC-M costs, IPL has voiced those concerns to ITC-M. This has at times resulted in a change in scope, project sequence or duration by ITC-M that yields more cost-effective transmission and distribution service and reliability to IPL customers. These instances of project challenges by IPL have most occurred in the joint planning process, particularly on 34.5 to 69kV rebuild and conversion, and substation projects where IPL distribution facilities are directly impacted.

Update: In *Section 1. ITC-M Relationship Management*, it was noted that changes in Alliant Energy and IPL executive staffing have occurred. Most notably, the IPL Planning organization has been brought under Randy Bauer, Director – System Planning, and is now part of the Energy Delivery business unit, led by Linda Mattes, Vice President of Energy Delivery Operations. This has been done in part to bring additional focus to the coordination of planning activities between IPL and ITC-M. It is anticipated that this will result in more coordinated project and budget planning for both IPL distribution and ITC-M transmission work. IPL will continue:

- **Close coordination with ITC-M on planned projects and costs to influence the prudency, priority, expected benefits, cost efficiency and pace of new capital investment;**
- **Active engagement with the MTEP process at MISO on projects to challenge and influence project costs and justification as needed; and**

6. <u>IPL Projections and Analysis of ITC- M and MISO Rates</u>

The June and December 2012 Reports included the results of IPL's projections of ITC-M and MISO regional project rates at the request of stakeholders.

IPL had previously developed an internal model to forecast and illustrate the ITC-M rate formula components over time. IPL used publicly available information from ITC-M's published Attachment O rates, true-ups, investor presentations, and IPL's own forecast of load and offsets to ITC-M revenue requirements.

ITC-M then provided its revenue requirements projections to IPL in March 2012 and subsequently posted them publicly on the ITC-M OASIS system at MISO. Based on this information, IPL updated its rate forecast modeling of ITC-M rates.

Results & Updates:

- **IPL has periodically asked ITC-M for any available updated revenue requirement projections, most recently in June 2013. ITC-M has indicated that no updates are available beyond that which was provided in March 2012, nor is it known when updates will be available. IPL will continue to periodically request updates from ITC-M and monitor publically available information including Securities and Exchange Commission (SEC) and FERC filings for additional insight to ITC-M financial plans, including revenue requirements or capital expenditure projections. Therefore, IPL has not updated any of its projections of ITC-M rates for future years. IPL will update its projections of ITC-M rates for future years when ITC-M makes available any new revenue requirements projections or other data**

that would facilitate IPL generating an update to its projections of ITC-M rates.

- **In early 2013, IPL shared its pricing outlook for overall industrial customer rates, including transmission, through various customer communications and interactions. These included a webinar in January, Customer Leadership Symposium in March, and Energy Summit in April. IPL plans to conduct another pricing outlook webinar in September, which will reflect ITC-M's 2014 Attachment O rate posted in September 1, and IPL's projections of the Regional Transmission Service (RTS) factors in IPL's rates for 2014.**

- **As noted in *Section 3. Transmission Regulatory Activity, IPL Engagement* above, summarizing ITC-M's Response to IPL's December 2012 Report, ITC-M asserted that IPL in its analysis and forecast of ITC-M rates overstated actual rates for years 2010-2011.** IPL had used the effective rates based on ITC-M postings after-the-fact which include the true-up from an earlier year added to actual revenue requirements, while ITC-M illustrates the rates for those historical years on the revenue requirements for that year alone, without the true-up from a prior year added.

  Upon further analysis, IPL concurs with ITC-M's assertion and has adjusted its historical rate data for the years 2010 and 2011 accordingly.

- At the IPL Summer 2012 Transmission Stakeholder Informational Meeting and the IPL Transmission Stakeholder Meeting held on November 28, 2012, various questions were asked regarding comparisons of ITC-M rates to other transmission owners and the characteristics of their respective transmission systems that impact relative rates. IPL addressed those questions in its December 2012 Report and additionally, in its April 3, 2013, Transmission Stakeholder call presentation and follow-up materials. The April 3 presentation and follow-up materials are attached to this Report as Appendices 3 and 4.

- **<u>ITC-M 2012 True-Up Adjustment:</u> On May 31, 2013, ITC-M posted its 2012 True-Up Adjustment on its MISO OASIS website at <u>http://www.oasis.oati.com/ITCM/index.html</u>.**

  IPL has reviewed the posted True-Up information which indicates customers of ITC-M will receive an approximately $5.6 million discount or refund to be applied to ITC's 2014 rates.

  $2.9 million results from difference between 2012 actual net revenue requirement and 2012 actual network revenues. This compares to a $1.7M proxy that appeared earlier in ITC's SEC form 10K for 2012. From IPL's review of ITC's annual SEC 10K filing, note is made of certain regulatory asset account balances for ITC-M, which serves as a proxy for the later posted True-Up.

IPL observes that the main reasons for the $2.9M refund appear to be:

- **Lower actual gross plant beginning balance, lower 2012 additions to plant in-service, and higher plant retirements**
- **Lower allowed return due to lower WACC**
- **Partially offset by higher O&M**

Another $2.7M refund results from the FERC Audit Order, as was previously expected, and discussed in *Section 3. Transmission Regulatory Activity, IPL Engagement* of this Report.

IPL continues to find that ITC-M explanations for changes in various components of the formula rate are mostly reasonable.

- **IPL reaffirms its conclusions from the December 2012 Report that the level of ITC-M rates and increases are primarily related to the following factors:**
  1. **The continued rate of increase in ITC-M rates is primarily driven by the substantial amount of new capital investments each year which rapidly adds to rate base. In other words, the *pace* of ITC-M new capital investment is a key driver of rates.**
  2. **ITC-M has made and continues to make substantial investments in the transmission system to improve reliability in the early years following the acquisition from IPL.**
  3. **In particular, significant amount of ITC-M rate base is comprised of 34.5kV and 69kV assets compared to others, and this part of ITC-M's asset base is experiencing significant investment related to the rebuild and conversion initiative.**
  4. **Load in the ITC-M Rate Zone is small in comparison to others. This limits the ability to spread the costs, thus increasing ITC-M's rate. For example, as shown in Appendix 4 – Follow-up to April 3, 2013, IPL Transmission Stakeholder Conference Call, the average MW load per mile of transmission line for ITC-M is less than half that for comparable regional transmission owners.**

  IPL recognizes and acknowledges that ITC-M is making needed investments in the transmission system, and that transmission reliability is improving as a result. IPL further recognizes that some transmission investment cost is-- and will continue to be driven by-- an aging system, integration of renewable resources and evolving regulation on planning, cost allocation and environmental compliance.

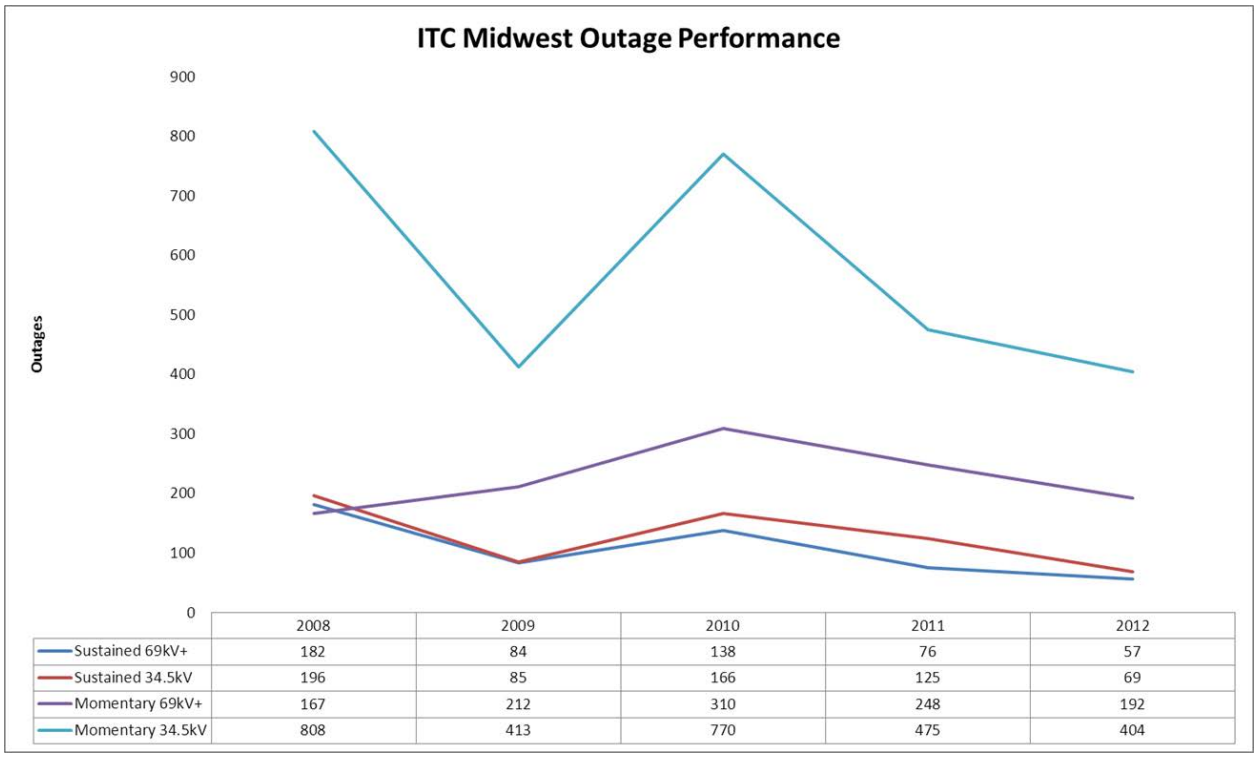
- For the June 2012 and December 2012 Reports, IPL also summarized MISO's Schedule 26 and 26A rate forecasts for large projects cost shared across the MISO footprint. MISO forecasts have not changed substantially for these cost shared projects; therefore IPL has not provided an update in this Report. IPL continues to monitor MISO Schedule 26 and 26A forecasts for any significant changes and will include analysis in future Reports as needed.

7. Transmission Outage Performance and Operations Coordination

As part of the joint IPL/ITC-M Operations Committee, representatives of IPL's Distribution Dispatch Center meet monthly with their counterparts from ITC-M's field operations and Operations Control Room to discuss outage history, reliability metrics and other operations-related topics.

Update: Reliability and asset performance metrics have been updated with full-year data from 2012 and are shown in Figures 8, 9, and 10.

From the asset performance data provided by ITC-M representing the number of transmission line outages, IPL has updated the graph shown below in Figure 8. This data has been updated by ITC-M using consistent criteria across all years shown. Through 2012, the data supports a continued improvement trend of fewer sustained and momentary outages since the transmission asset sale by IPL and purchase by ITC-M. The years 2008 and 2010 data are considered abnormal due to the number and severity of weather events. Data for this particular metric is only available back to 2008 when ITC-M acquired the transmission system, since IPL tracked outage statistics in a different way prior to 2008.

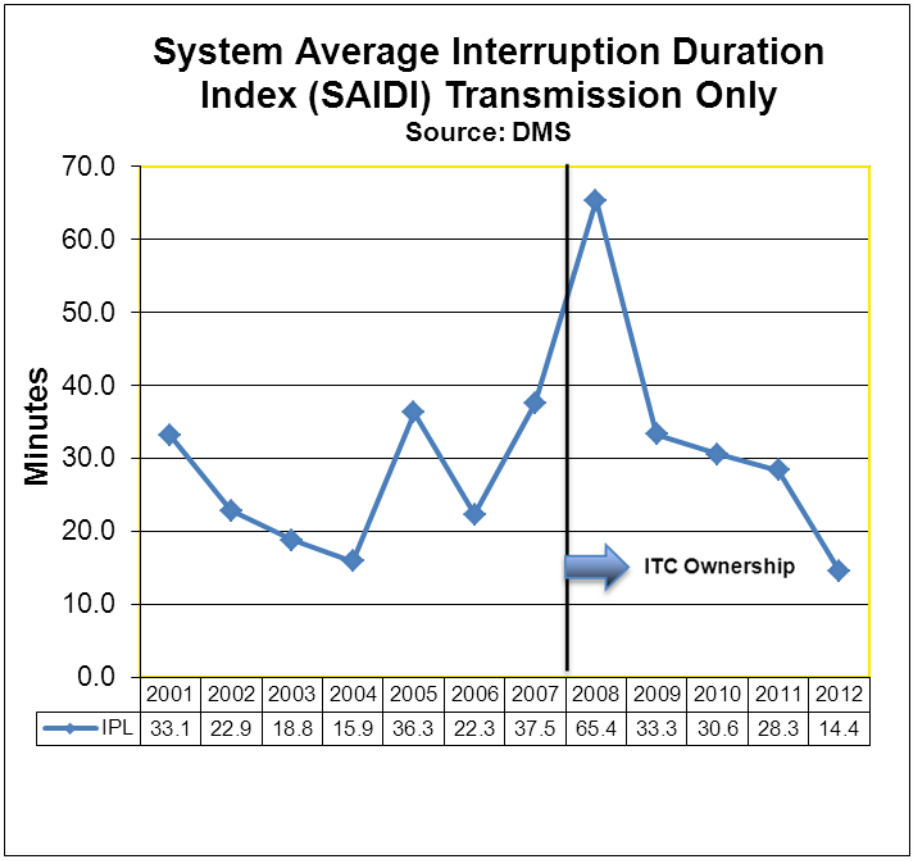


	2008	2009	2010	2011	2012
Sustained 69kV+	182	84	138	76	57
Sustained 34.5kV	196	85	166	125	69
Momentary 69kV+	167	212	310	248	192
Momentary 34.5kV	808	413	770	475	404

Figure 8 – ITC-M Outage Performance

Industry standard measures of the customer outage experience (SAIDI and SAIFI; transmission only) are shown again in Figures 5 and 6, updated by IPL for 2012. These metrics provide a long term comparison of both reliability and restoration performance, since the data have been consistently collected by IPL before and after the transmission

system sale to ITC-M. The data illustrates the customer reliability performance in terms of transmission only for the 10-year period 2001–2012. While weather events can also greatly impact these measures, "major" events such as the 2007 ice storm and 2008 floods have been excluded using Board criteria. Consistent with the ITC-M Outage Performance data, IPL's transmission SAIDI and SAIFI data supports a continued improvement trend of fewer and shorter sustained outages attributed to improved transmission reliability since the transmission asset purchase by ITC-M.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
IPL	33.1	22.9	18.8	15.9	36.3	22.3	37.5	65.4	33.3	30.6	28.3	14.4

Figure 9 – Transmission Reliability, SAIDI (System Average Interruption Duration Index) - Average length in minutes of outages for all customers.

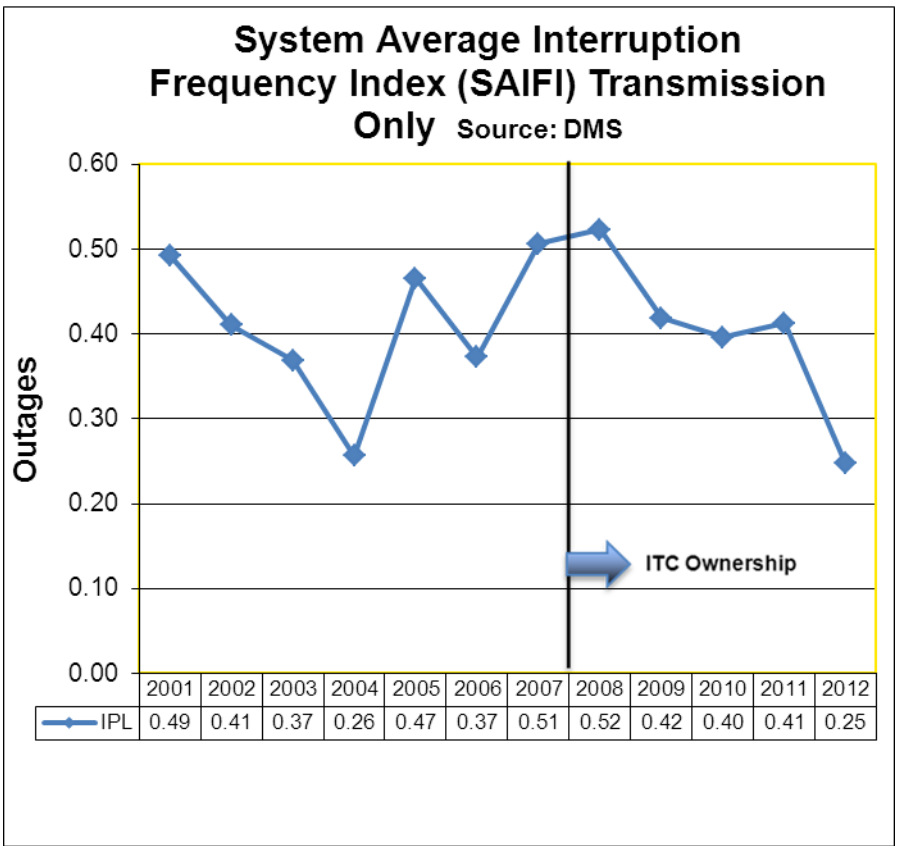


Figure 10 – Transmission Reliability, SAIFI (System Average Interruption Frequency Index) - Average number of outages experienced by all customers.

Results:

- **Transmission reliability continues to improve, in large part due to ITC-M maintenance, rebuilds, conversion, and new facility construction.** A general improvement trend in the number and duration of customer outages is observed in the metrics illustrated in the Figures 4, 5 and 6 above since the transmission assets were acquired by ITC-M. However, it is acknowledged that the number of years of experience under ITC-M ownership and operation remains relatively short and year-to-year weather volatility high.

- IPL and ITC-M have continued the efforts described in prior Reports to:
  - Minimize impacts to large industrial customers from planned outages. Through experience, both IPL and ITC-M have become more aware of the circumstances under which the unplanned outage risk is increased associated with ITC-M work. This has led to better recognition of those circumstances farther in advance, improved coordination and contingency planning. The processes and resulting coordination continue it evolve and improve.
  - Collect IPL large customer plant planned outage and maintenance schedules. This helps optimize ITC-M system maintenance scheduling and minimize inconvenience and unplanned outage risk for IPL customers.
  - Improve communications with customers by IPL and ITC-M. IPL's Account Management and ITC-M's Stakeholder Relations groups continue to

coordinate closely on communications, particularly with large, transmission-connected customers, improving service and minimize conflicting or confusing messaging.

Additional Updates:

- **With the considerable amount of transmission work being done by ITC-M, IPL has recognized the need to allocate more resources to coordination. In May 2013, IPL staffed a newly-created position of Senior Transmission Specialist that is part of IPL's Delivery System Planning department. This position was created to facilitate coordination of details around planned ITC-M transmission outages needed to support ITC-M maintenance, rebuilds, conversion and new facility construction, farther in advance. In addition, the Specialist facilitates identifying and negotiating alternatives to proposed work that optimizes schedule, priority, scope; minimizes customer risk and assists in developing contingency plans. This position and the development of new and updated processes and procedures by IPL have been well received by ITC-M.**

- **IPL and ITC-M have experienced a few significant severe weather events thus far during the first half of 2013. On April 9-10, 2013, ice and heavy snow impacted transmission and distribution in northern Iowa and southern Minnesota. Later, on May 19, 2013, severe thunderstorms caused numerous transmission and distribution outages in eastern Iowa, especially in the Cedar Rapids area. More recently, high winds and tornados impacted transmission in northern Iowa, especially in the Belmond area on June 19, 2013. In each event, IPL notes that ITC-M responded appropriately and coordinated well with IPL on the restoration of IPL customers.**

8. <u>Transmission Stakeholder Meetings</u>

On April 3, 2013, IPL conducted an "interim" conference call with Transmission Stakeholders. Such a call was suggested at the November 28, 2012, Transmission Stakeholder meeting as a way for IPL to provide updates in between the semi-annual, in person meetings.

Invitations were extended to IPL customers, customer consortium representatives, the Board staff, the Office of Consumer Advocate (OCA) staff and other stakeholders as has been done with past Transmission Stakeholder meetings. Participating in the call were six IPL customers, three customer consortium representatives (LEG and ICC), one OCA representative, and various IPL staff. IPL did not expect ITC-M to participate in this particular customer meeting; consequently they did not participate in the call. The summary agenda included:

- Update on transmission reliability metrics;
- Update on transmission and overall rates;
- Additional comparison of ITC-M rates and system characteristics to other transmission owners requested at the November 28, 2012, meeting; and

- Recent activity and regulatory update.

The conference call presentation is attached to this Report as Appendix 3.

The call generated various questions and discussion around the comparison of ITC-M rates and system characteristics to other transmission owners, the MISO MVPs, and the ITC-Entergy transaction.

IPL prepared follow-up materials to the call and distributed them to the participants. The follow-up material is attached as Appendix 4.

On June 3, 2013, IPL held its fifth semi-annual Transmission Stakeholder meeting in Cedar Rapids.

Invitations were again extended to IPL customers, customer consortium representatives, the Board staff, OCA staff and other stakeholders as has been done with past Transmission Stakeholder meetings. Participating in the meeting were five IPL customers, three customer consortium representatives (LEG and ICC), one OCA representative, three ITC-M staff and various IPL staff. The summary agenda included:

- Update on transmission reliability metrics;
- Economic benefits of transmission investment
- Transmission and overall rates;
- Recent activity, transmission policy and regulatory update; and
- ITC-M update.

The meeting presentation is attached to this Report as Appendix 5.

The discussion of economic benefits of transmission investment was led by a presentation from guest speaker Don Morrow of Quanta Technology. Don spoke at ITC-M's May Partners in Business meeting. ITC-M had invited Don to present at their meeting, in response to continued dialog between IPL and ITC-M on the value of reduced customer outages associated with transmission reliability improvements. After the ITC-M Partners in Business meeting, both IPL and at least one IPL customer in attendance thought there was some value in having a condensed version of this topic at the Transmission Stakeholder meeting. ITC-M supported and helped facilitate Don's presence at the June IPL Transmission Stakeholder meeting.

Following the meeting, IPL, ITC-M and Quanta Technology have further collaborated on how IPL and ITC-M might further quantify the value of reliability improvements for the ITC-M transmission system, which predominately serves IPL customers. Further work will be conducted and it is anticipated that an update will be provided by IPL in its next Transmission Stakeholder meeting and semi-annual Report.

9. Timetable of Events Influencing Transmission Rates & Service

A timetable of events in 2013 which have influence on transmission rates and project planning is listed in Table 4 below.

Table 4 – Timetable of transmission events influencing transmission rates & service

2013 Month	Description
January - December	• On-going IPL / ITC Planning, Project, Operations, and Executive meetings • On-going IPL evaluation and analysis of any new information that may impact ITC-M Attachment O rates
June	ITC-M 2012 True-up amount posted
September	ITC-M 2014 Attachment O (MISO Schedule 9) rates posted
September - December	• IPL analysis and evaluation of ITC-M Attachment O rate for 2014 • IPL evaluation and feedback on ITC-M projects in MTEP 2014
November	IPL 2014 Transmission Rider Factors submitted to the Board
December	• IPL 2014 Transmission Rider Factors approval normally anticipated by the Board • MISO Board of Directors consideration for approval of MTEP 2013 projects

10. Conclusions

IPL believes the results detailed in this Report demonstrate that its actions have had a positive influence in managing the relationship with ITC-M and with IPL's customers toward reliable and cost-effective service.

While IPL and ITC-M may hold differing positions on certain cost allocation, rate increase and capital investment pace issues, the companies continue to coordinate well on operations and planning issues and view the relationship as a partnership.

IPL recognizes and acknowledges that ITC-M is making needed investments in the transmission system. As recent notable examples in the spring of 2013, ITC-M completed the long-planned 80 mile Salem-Hazelton 345kV line and completed the rebuild and conversion from 115kV to 161kV of 50 miles line from Nuthatch to Marshalltown. In addition, since the purchase of the transmission system, ITC-M has completed approximately 173 miles of rebuild on the 34.5kV system to 69kV standards, and much of that has been converted to 69kV. In part from these projects and other ITC-M work, transmission system reliability is improving.

IPL further recognizes that some transmission investment cost is-- and will continue to be driven by-- an aging system, integration of renewable resources and evolving regulation on planning, cost allocation and environmental compliance. IPL will continue:

- Close coordination with ITC-M on planned projects and costs to influence the prudency, priority, expected benefits, cost efficiency and pace of new capital investment;
- Active engagement with the MTEP process at MISO on projects to challenge and influence project costs and justification as needed; and
- Active engagement at FERC on cost allocation and other transmission policy issues (such as ITC-M's Attachment FF and MISO Attachment O rate transparency filed comments).

With the results noted in this Report, IPL has demonstrated that it has and will continue to engage regulatory policy, MISO processes and ITC-M directly through appropriate venues with the objective of reliable and cost-effective electric service to IPL customers.

While the benefits of these efforts are difficult to quantify, IPL believes its efforts are in the right direction. IPL believes its advocacy on behalf of customers has helped ITC-M increase its sensitivity to cost concerns and the need to provide justification for, and articulation of the benefits from, ITC-M's transmission system investments.

Appendix 1 – ITC-M's Response to IPL's December 2012 Report (Docket No. RPU-2010-0001)

100 East Grand Ave.
Suite 230
Des Moines, IA 50309
www.itctransco.com

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

FILED WITH
Executive Secretary
January 31, 2013
IOWA UTILITIES BOARD

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.

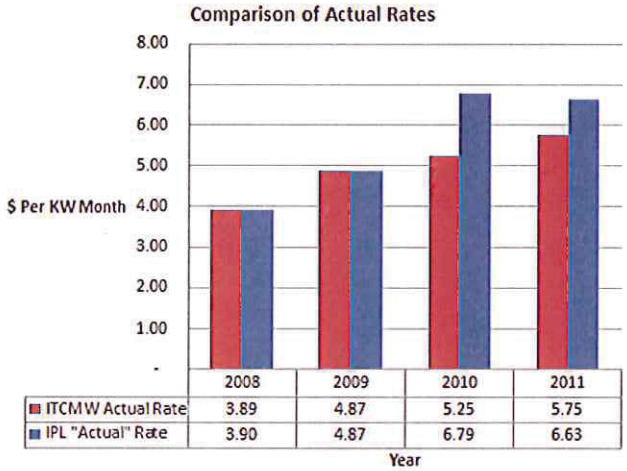
Of the projects IPL continues to oppose in its revised comments, ITCMW contends that the customer interconnection blanket is necessary for customer interconnections (mostly on IPL's system) that have short turn-around times and an estimated cost of less than $1mm. The MISO MTEP process takes approximately 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.

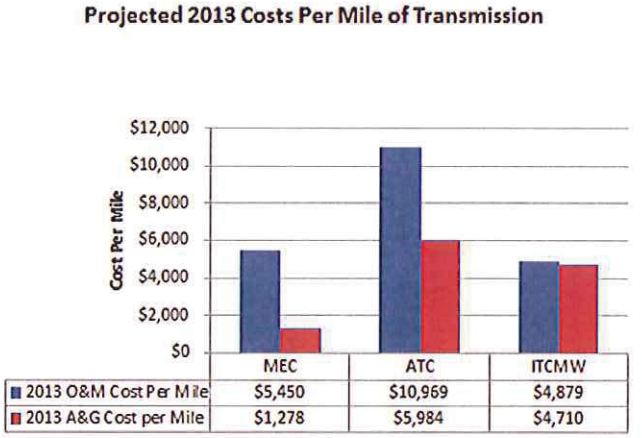
quantify the benefits of the investment it has made on ITCMW's system. However, ITCMW is open to discussing with the IUB and its staff the need for and the cost of conducting such a study if so desired. The body of this response provides an example of the economic benefits that can be achieved through 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.



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

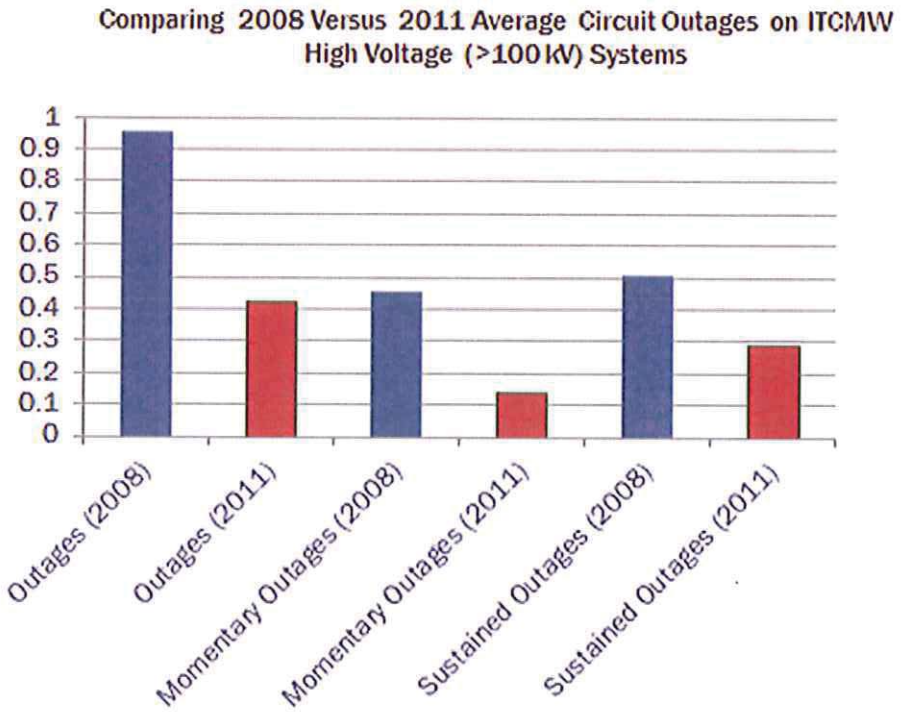
The rate projections put forward by IPL in Section 6 of its Report are (in part) based on the gross revenue requirements forecast provided to IPL by ITCMW. ITCMW's gross revenue requirements forecast assumes implementation of the capital expenditure plan put forward to ITC investors the end of February 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.

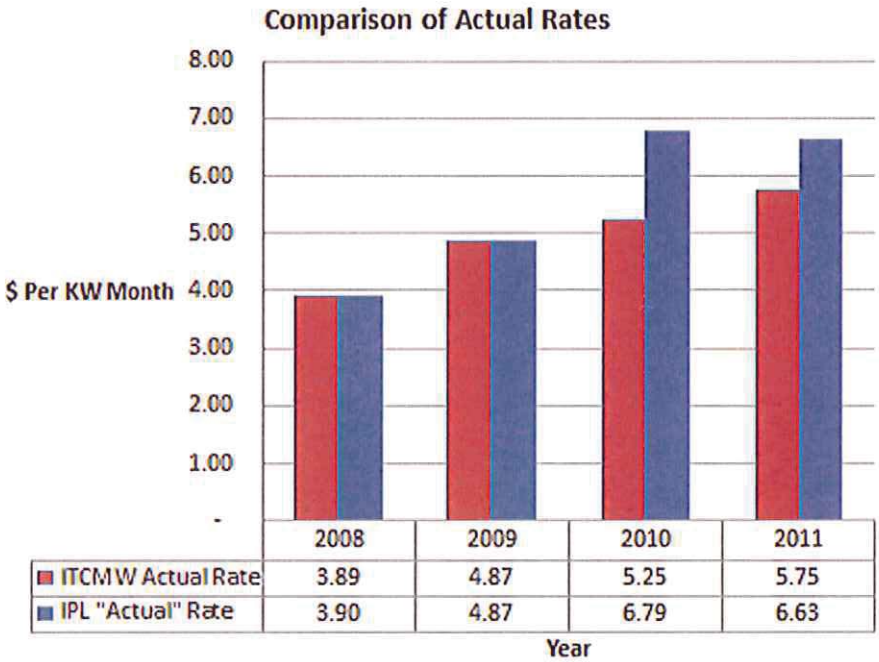
When necessary, companies such as ITCMW will engage experienced contractors to simulate regional power flows in an effort to calculate the production cost savings resulting from congestion relief through transmission investment. These studies are very costly and, for that reason, ITC will only engage 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.

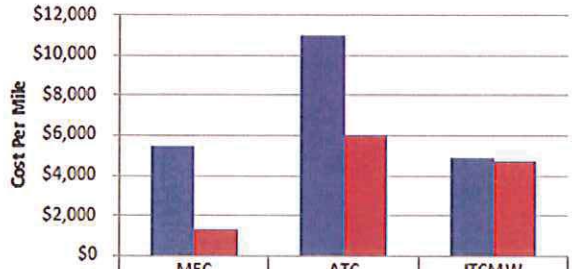
In general, MEC's and ATC's projected 2013 Attachment O rates are not comparable to ITCMW's projected 2013 Attachment O rates because:

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.

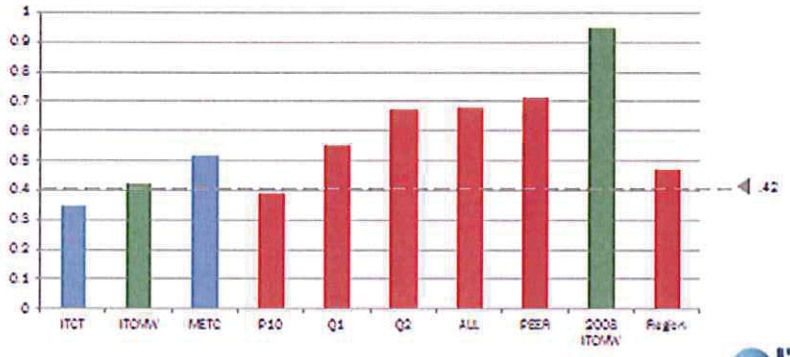
According to the 2011 SGS Statistical Services Transmission Reliability Benchmarking Study (SGS Study), ITCMW's high voltage system (>100kV) compared favorably to its peers in 2011:

- 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.

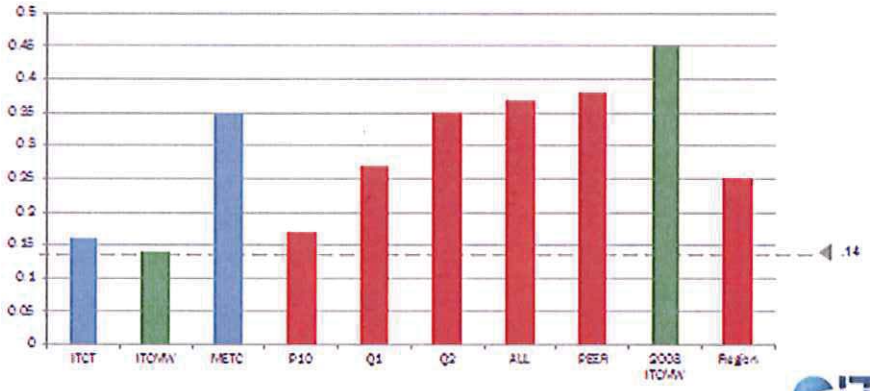
2011 Average Circuit Outages

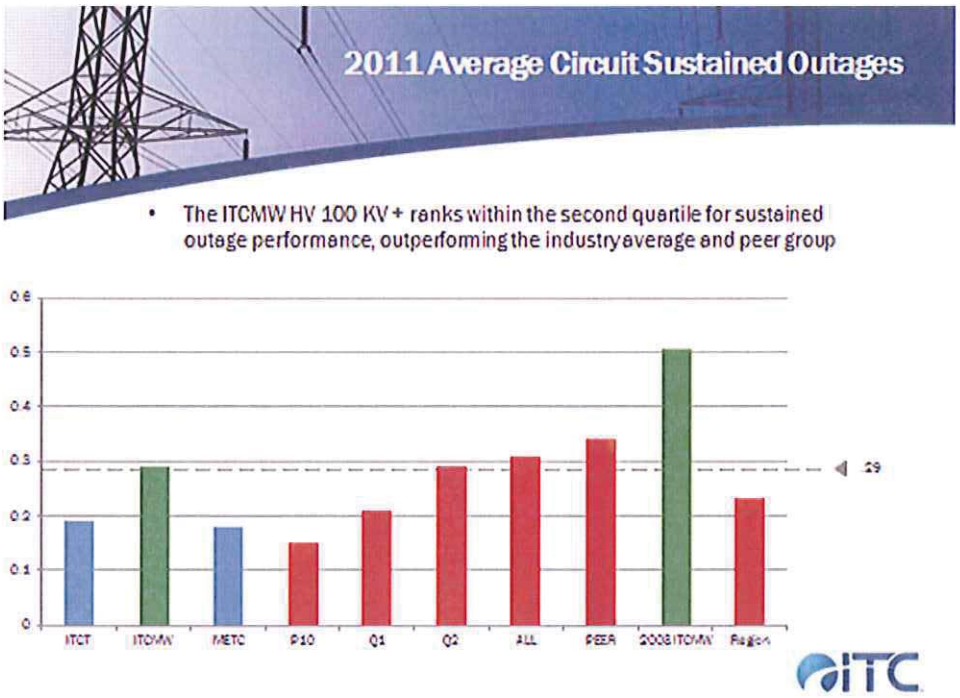
- The ITCMW HV 100 KV + is not only a Q1 performer but outperforms the METC system as well as the industry, peer and regional averages

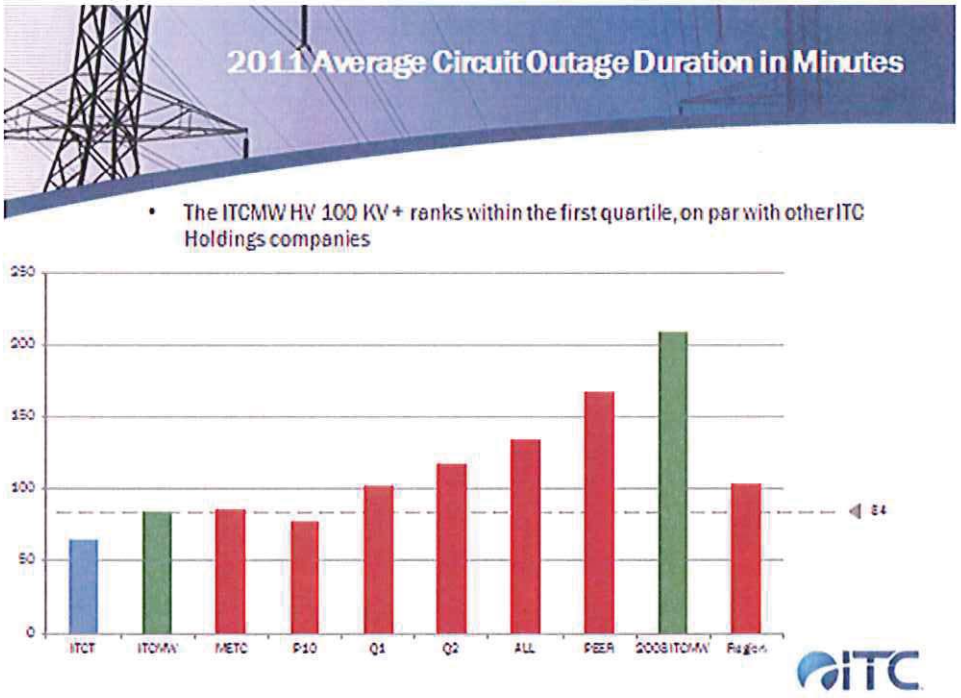


2011 Average Circuit Momentary Outages

- 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.

Appendix 2 – FERC Order regarding Investigation into MISO Attachment O (Docket No. EL12-35-000)

143 FERC ¶ 61,149
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
Cheryl A. LaFleur, and Tony Clark.

Midwest Independent Transmission System Operator, Inc.
ALLETE, Inc.
Ameren Illinois Company
Ameren Transmission Company of Illinois
American Transmission Company, LLC
Big Rivers Electric Corporation
Board of Water, Electric and Communications Trustees of the City of Muscatine, Iowa
Central Minnesota Municipal Power Agency
City of Columbia, Missouri, Water & Light Company
City Water, Light & Power (Springfield, Illinois)
Duke Energy Indiana, Inc.
Dairyland Power Cooperative
Great River Energy
Hoosier Energy Rural Electric Cooperative, Inc
Indiana Municipal Power Agency
Indianapolis Power & Light Company
International Transmission Company
ITC Midwest, LLC
Michigan Electric Transmission Company, LLC
Michigan Public Power Agency
Michigan South Central Power Agency
MidAmerican Energy Company
Missouri River Energy Services
Montana-Dakota Utilities Company
Montezuma Municipal Light & Power
Municipal Electric Utility of the City of Cedar Falls, Iowa
Muscatine Power and Water
Northern Indiana Public Service Company
Northern States Power Company, a Minnesota Corporation

Docket No. EL12-35-000

Northern States Power Company, a Wisconsin Corporation
Northwestern Wisconsin Electric Company
Otter Tail Power Company
Southern Illinois Power Cooperative
Southern Indiana Gas & Electric Company
Southern Minnesota Municipal Power Agency
Tipton Municipal Utilities
Wabash Valley Power Association, Inc.
Wolverine Power Supply Cooperative, Inc.

ORDER ON THE INVESTIGATION OF FORMULA RATE PROTOCOLS

(Issued May 16, 2013)

1. On May 17, 2012, the Commission instituted an investigation pursuant to section 206 of the Federal Power Act (FPA)[1] to determine whether the formula rate protocols under the Midwest Independent Transmission System Operator, Inc. (MISO) Open Access Transmission, Energy, and Operating Reserve Markets Tariff (Tariff) are sufficient to ensure just and reasonable rates.[2] In order to address whether MISO's *pro forma* formula rate protocols and individual MISO transmission owners' formula rate protocols on file with the Commission[3] are sufficient to ensure just and reasonable transmission rates, the Commission established paper hearing procedures. In this order, we find that the MISO and individual company formula rate protocols are insufficient to ensure just and reasonable rates and, therefore, direct MISO and the above-captioned transmission owners to file revised formula rate protocols within 60 days of the date of this order.

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[1] 16 U.S.C. § 824e (2006).

[2] *Midwest Indep. Transmission Sys. Operator, Inc.*, 139 FERC ¶ 61,127 (2012) (May 17 Order).

[3] MISO's *pro forma* formula rate protocols and individual MISO transmission owners' formula rate protocols on file with the Commission are collectively referred to as the MISO formula rate protocols.

I. Background

2. Our inquiry into the sufficiency of the MISO formula rate protocols stems from several recently issued orders involving recovery of transmission rate incentives through formula rates. Most notably, on December 30, 2011, the Commission issued orders in *MidAmerican Energy Co.*[4] and *Otter Tail Power Co.*,[5] where the Illinois Commerce Commission (Illinois Commission) and the Indiana Utility Regulatory Commission (Indiana Commission) argued that the transmission owners' formula rates were insufficient to ensure just and reasonable rates. In *MidAmerican*, MidAmerican proposed, among other things, a transition from a historical-based formula rate to a forward-looking formula rate and new formula rate protocols for the forward-looking formula rate. In *Otter Tail*, Otter Tail already had a Commission-accepted forward-looking formula rate and protocols that would provide for recovery of the requested incentives and, accordingly, had not proposed any changes to its formula rate protocols.

3. In support of its position that MidAmerican's protocols were insufficient, the Illinois Commission argued that the proposed protocols did not provide an opportunity for interested parties to evaluate and challenge the inputs or prudence of the costs to be recovered by MidAmerican. The Illinois Commission averred that it is not sufficient for MidAmerican to simply explain how it calculated its revenue requirement and the corresponding rate. Rather, the Illinois Commission argued that MidAmerican must allow an opportunity to review the inputs and calculations and to challenge the prudence of the costs that MidAmerican seeks to recover. To this end, the Illinois Commission recommended a series of prescriptive changes to the formula rate protocols. Similarly, the Indiana Commission argued in both proceedings that MidAmerican's and Otter Tail's formula rate protocols did not allow for interested parties, such as state utility commissions, that are not customers of the transmission owners, to receive information regarding the status of projects, the prudence of the costs being incurred, and the annual true-up, and it recommended that both transmission owners be required to adopt more expansive formula rate protocols.

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[4] 137 FERC ¶ 61,250 (2011) (*MidAmerican*).

[5] 137 FERC ¶ 61,255 (2011) (*Otter Tail*).

4. On February 29, 2012, the Commission addressed Ameren Transmission Company of Illinois' (Ameren Illinois) formula rate protocols where the Illinois Commission and a group of customers argued, in pertinent part, that the proposed protocols were deficient relative to other formula rate protocols on file with the Commission.[6] In *Ameren*, customers argued that Ameren Illinois' protocols did not provide customers, state regulators, or other interested parties with any real opportunity to evaluate the formula rate input data or to challenge either the correctness or reasonableness of the inputs, including the true-up, or to challenge the prudence of the costs to be recovered.[7] The Illinois Commission added that Ameren Illinois' protocols lacked the necessary transparency and other features critical to ensuring that ratepayers and other interested parties are reasonably informed of rate input changes and true-up adjustments and can adequately investigate and potentially challenge costs and formula rate inputs.

5. In each case, the Commission rejected the challenges to the transmission owners' formula rate protocols on procedural grounds, finding that the protests were more appropriately characterized as complaints than protests and therefore were inappropriately filed in those proceedings.[8]

6. Subsequently, in the May 17 Order, having reviewed MISO's *pro forma* formula rate protocols and the formula rate protocols of individual MISO transmission owners, the Commission determined that the concerns raised in the context of the prior challenges to the transmission owners' formula rate protocols in *MidAmerican*, *Otter Tail*, and *Ameren*, may have merit.[9] Specifically, the Commission identified three areas of concern with the MISO formula rate protocols: (1) scope of participation—who can participate in the information exchange; (2) the transparency of the information exchange—what is exchanged; and (3) the ability to challenge the transmission owners' implementation of

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[6] *Midwest Indep. Transmission Sys. Operator, Inc.*, 138 FERC ¶ 61,147 (2012) (*Ameren*).

[7] *Id.*

[8] *MidAmerican*, 137 FERC ¶ 61,250 at P 71; *Otter Tail*, 137 FERC ¶ 61,255 at P 23; *Ameren*, 138 FERC ¶ 61,147 at P 34.

[9] May 17 Order, 139 FERC ¶ 61,127 at P 8.

the formula rate as a result of the information exchange—how the parties may resolve their potential disputes.[10]

7. Thus, having instituted an investigation into the MISO formula rate protocols, the Commission found that a paper hearing is the appropriate procedure to resolve the matter.[11] The May 17 Order provided that any entity desiring to participate in the paper hearing must file a timely notice of intervention or a motion to intervene with the Commission. The Commission ordered that parties may file initial briefs no later than 30 days after the Commission's initiation of this section 206 proceeding, and that parties may also file reply briefs in response to parties' initial briefs, due within 21 days after the due date of initial briefs. The Commission required that all parties' briefs should separately state the facts and arguments advanced by that party and include any exhibits upon which that party relies. Here we review those briefs filed in response to the Commission's order, and find that the MISO and individual company formula rate protocols are insufficient to ensure just and reasonable rates.

II. Notice and Responsive Filings

8. Notice of initiation of this proceeding was published in the *Federal Register*, 77 Fed. Reg. 30,522 (2012), with motions to intervene and initial briefs due on or before June 22, 2012, and reply briefs due on or before July 13, 2012.

9. Timely motions to intervene and initial briefs were filed by the MISO Transmission Owners (MISO TOs);[12] Indiana Municipal Power Agency (IMPA);

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[10] The May 17 Order also established a refund effective date of the date of publication of initiation of the proceeding in the *Federal Register*, i.e., May 23, 2012.

[11] Section 206(b) of the FPA requires that, if no final decision is rendered by the conclusion of the 180-day period commencing upon initiation of the section 206 proceeding, the Commission shall state the reason why it has failed to render such a decision. *See* 16 U.S.C. § 824e(b). In this case, the volume of cases pending before the Commission since the issuance of the May 17 Order did not allow for the Commission to render an earlier decision.

[12] For the purpose of this filing, MISO TOs consist of: Ameren Services Company, as agent for Union Electric Company, d/b/a/ Ameren Missouri, Ameren Illinois Company d/b/a Ameren Illinois and Ameren Transmission Company of Illinois; American Transmission Company LLC (ATC); Big Rivers Electric Corporation; Central Minnesota Municipal Power Agency; City Water, Light & Power (Springfield, IL); Dairyland Power Cooperative; Duke Energy Corporation for Duke Energy Indiana, Inc.; Great River Energy; Indianapolis Power & Light Company; International Transmission

(continued…)

Arkansas Electric Cooperative Corporation, et al. (collectively, Arkansas Electric);[13] Interstate Power and Light Company (Interstate Power); Illinois Industrial Energy Consumers (Industrial Consumers); Jo-Carroll Energy, Inc. (Jo-Carroll); MISO;[14] ATC; Hoosier Energy Rural Electric Cooperative, Inc. and Southern Illinois Power Cooperative (collectively, Hoosier Energy); ITC Companies;[15] Southern Indiana Gas & Electric Company (Southern Indiana); Southwestern Electric Cooperative, Inc. (SWEC); and Illinois Municipal Electric Agency (IMEA). Indiana Commission filed a notice of intervention and initial brief. An initial brief was filed by Organization of MISO States (OMS). [16]

10. Illinois Commission filed a notice of intervention.

Company, Michigan Electric Transmission, LLC, and ITC Midwest, LLC (collectively, ITC Companies); Michigan Public Power Agency; MidAmerican Energy Company; Minnesota Power (and its subsidiary Superior Water, L&P); Missouri River Energy Services; Montana Dakota Utilities Co.; Northern Indiana Public Service Company; Northern States Power Company, a Minnesota corporation, and Northern States Power Company, a Wisconsin corporation, subsidiaries of Xcel Energy Inc.; Northwestern Wisconsin Electric Company; Otter Tail Power Company; Southern Minnesota

Municipal Power Agency; Wabash Valley Power Association, Inc.; and Wolverine Power Supply Cooperative, Inc.

[13] Arkansas Electric consists of: Arkansas Electric Cooperative Corporation; East Texas Electric Cooperative, Inc.; Tex-La Electric Cooperative of Texas, Inc.; Conway Corporation; West Memphis Utilities Commission; the Arkansas Cities of Prescott, Osceola and Benton; Hope Water & Light Commission; and Sam Rayburn G & T Electric Cooperative, Inc.

[14] MISO amended its initial brief on June 25, 2012.

[15] ITC Companies consist of International Transmission Company; Michigan Electric Transmission Company, LLC; and ITC Midwest, LLC.

[16] For the purpose of this proceeding, the pleadings filed by OMS are generally supported by: Illinois Commission; Indiana Commission; Iowa Utilities Board; Michigan Public Service Commission; Minnesota Public Utilities Commission; Missouri Public Service Commission; Montana Public Service Commission; North Dakota Public Service Commission; South Dakota Public Utilities Commission; and Wisconsin Public Service Commission.

11. Timely motions to intervene were filed by NextEra Energy Resources, LLC; The Detroit Edison Company; Ameren Services Company; MidAmerican Energy Company; Consumers Energy Company; Prairie Power, Inc.; Michigan Public Power Agency; Michigan South Central Power Agency; Entergy Services, Inc.; American Municipal Power, Inc.; Iowa Utilities Board; DATC Midwest Holdings, LLC; E.ON Climate & Renewables North America LLC; Dairyland Power Cooperative; Integrys Energy Group, Inc.; Transource Energy, LLC; and Missouri Joint Municipal Electric Utility Commission; Wisconsin Electric Power Company; as well as Minnesota Large Industrial Group and Wisconsin Industrial Energy Group.

12. Motions to intervene out-of-time were filed by Duke Energy Indiana, Inc. (Duke); and the Mississippi Delta Energy Agency, the Clarksdale Public Utilities, and the Public Service Commission of Yazoo, Mississippi (collectively, Mississippi Intervenors).

13. Reply briefs were filed by OMS, MISO TOs, IMEA, Jo-Carroll, Industrial Consumers, MISO, Arkansas Electric, ITC Companies, Hoosier Energy, Southern Indiana, and the Indiana Commission.

III. Discussion

A. Procedural Matters

14. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2012), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

15. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2012), the Commission will grant the late-filed motions to intervene filed by Duke and the Mississippi Intervenors given their interests in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

B. Substantive Matters

16. The Commission initially accepted the MISO formula rate protocols in 1998, among the earliest protocols filed with the Commission, addressing filings by a group of transmission owners that sought authorization to establish MISO as a new independent system operator.[17] Moreover, the Commission did so without specifically addressing the

[17] *See Midwest Indep. Transmission Sys. Operator, Inc.*, 84 FERC ¶ 61,231 (1998). While initially filed and accepted in 1998, the formula rate protocols were

(continued…)

proposed protocols. Since that time, however, various other protocols governing transmission owners' formula rates have developed to the benefit of transmission customers and other stakeholders. For instance formula rate protocols that have been accepted since 1998 generally permit a broad scope of stakeholders to participate in the applicable transmission owner's update and true-up processes and grant such stakeholders access to the information that serves as the basis of the transmission owner's revenue requirement.[18] Modern formula rate protocols also typically provide procedures by which stakeholders can challenge the transmission owner's implementation of the formula rate. As discussed further below, almost 15 years after they were initially proposed, we find that the MISO formula rate protocols have become insufficient to ensure just and reasonable rates.

17. Finding that the MISO formula rate protocols are now insufficient to ensure just and reasonable rates, we will require MISO and the transmission owners to submit revised formula rate protocols that include all interested parties as eligible participants in formula rate information exchange and review processes. Furthermore, we will require revisions to these processes to improve transparency by making revenue requirements, inputs, calculations and other information publicly available and providing interested parties with the opportunity to review the information. We will also require MISO and the transmission owners to make an annual informational filing with the Commission.

18. We also require that the formula rate protocols afford parties the opportunity to engage in a well-defined informal challenge process. If parties engaged in this informal challenge process are further unable to consensually resolve their differences, the MISO formula rate protocols must provide a formal challenge procedure in which the transmission owner would bear the burden of demonstrating the correctness of its update or true-up. Transmission owners are obliged to demonstrate the rate resulting from the application of the formula rate complies with the directives of section 205 of the FPA, i.e., that the rate is just and reasonable, by demonstrating that it has correctly implemented the filed formula rate; however, complaining parties will still bear the burden of proof in challenging both the reasonableness of the filed formula rate itself and the prudence of particular expenses that are input to the formula rate. To this end, the Commission's determinations in this order, as discussed below, seek to provide a balance between allowing timely recovery of costs incurred to provide jurisdictional transmission service through the use of formula rates, and providing open and transparent ratemaking

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ultimately approved in 2001 through a trial staff stipulation in Opinion No. 453. *Midwest Indep. Transmission Sys. Operator, Inc.*, Opinion No. 453, 97 FERC ¶ 61,033 (2001).

[18] *See, e.g.*, *Green Power Express LP*, 135 FERC ¶ 61,141 (2011); *Xcel Energy Servs. Inc.*, 115 FERC ¶ 61,011 (2006).

to ensure that the rates ultimately charged are just and reasonable consistent with the transmission owner's filed formula rate.

19. In accordance with these directives, we will require MISO and the transmission owners captioned above to submit revised formula rate protocols in a compliance filing within 60 days of the date of this order.

1. Scope of Participation

20. In the May 17 Order, the Commission found that the exclusion of interested parties such as customers and state regulatory commissions may be unjust and unreasonable.[19] Moreover, the Commission observed that it may be necessary for MISO and the MISO transmission owners to provide the Commission with all information reasonably necessary to review and evaluate the implementation of the transmission owners' formula rates. As a result, the Commission stated that the MISO formula rate protocols may need to be revised to provide all interested parties as well as the Commission with access to information concerning transmission owners' annual updates.

a. Initial Briefs

21. Several intervenors support broadening the scope of entities which are permitted by the MISO formula rate protocols to participate in the annual update and true-up processes.[20] The Indiana Commission notes that the MISO formula rate protocols only provide notice and information to transmission owners' customers. Indiana Commission states that this may have been sufficient when only the transmission owner's customers were paying the costs of the transmission. However, when the costs of that transmission are being allocated to a broader spectrum, i.e., to all retail ratepayers in the MISO footprint, under the existing protocols those ratepayers receive no notice or information regarding the transmission costs that they are now paying.[21] Similarly, OMS asserts that the lack of provisions for interested parties to review formula rate updates is particularly relevant in the case of transmission projects that tend to span several transmission pricing

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[19] May 17 Order, 139 FERC ¶ 61,127 at P 12.

[20] *See, e.g.*, OMS Initial Brief at 9-11; SWEC Initial Brief at 3 (arguing that MISO's current review and challenge procedures in its annual update process is limited to two participants—MISO and the transmission owner itself); Arkansas Electric Initial Brief at 13-14; Hoosier Energy Initial Brief at 8-10; Industrial Consumers Initial Brief at 3-4; IMEA Initial Brief at 7; Indiana Commission Initial Brief at 11-12.

[21] Indiana Commission Initial Brief at 11.

zones or have their costs either spread across all of the MISO zones or allocated to parties outside of the MISO footprint.[22] OMS also argues that MISO's *pro forma* protocols in Attachment O provide formal notice of proposed formula rate updates to no one. OMS contends that after-the-fact posting of transmission rates on the MISO Open Access Same-Time Information System (OASIS) website does not constitute adequate notice.[23] Some intervenors support expressly permitting state utility commissions and consumer advocate organizations to participate in the annual update and true-up processes.[24] Additionally, Interstate Power recommends including retail customers in the annual update process.[25] Others support broadening the scope of participation even further to include all interested parties.[26]

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[22] OMS Initial Brief at 10.

[23] *Id*.

[24] *See, e.g.*, IMEA Initial Brief at 7; Industrial Consumers at 4; Indiana Commission Initial Brief at 12; Interstate Power Initial Brief at 5; *cf.* Southern Indiana Initial Brief at 3-4 ("[Southern Indiana] . . . has modified its formula rate protocols to add the Indiana Utility Regulatory Commission . . . as an 'Interested Party' that may participate in the annual update of [Southern Indiana's] estimated charges and true-up adjustment . . . .").

[25] Interstate Power Initial Brief at 5.

[26] *See* OMS Initial Brief 9, 11; Industrial Consumers Initial Brief at 4. Indiana Commission recommends that the Commission require any affected party to be allowed to participate in the annual update and true-up processes. Specifically, Indiana Commission supports the definition of "interested parties" contained in the protocols of Pioneer Transmission Company, L.L.C. and Green Power Express LP (Green Power). Indiana Commission Initial Brief at 12. Green Power's formula rate protocols define an interested party as "1) any Eligible Customer [as defined under the MISO Tariff] under [the Green Power tariff]; 2) a state public utility commission of a state with consumers potentially affected by the rates, terms, and conditions of [the Green Power tariff] or where [Green Power] facilities are located or proposed to be located; 3) a state consumer advocate of such state described in 2) authorized by state law to review and contest the rates for public utilities; or 4) any party with standing under section 206 of the [FPA] to bring an action against [Green Power]." *Green Power Express, LP*, 135 FERC ¶ 61,141.

22. A number of parties also point out that formal notice of proposed formula rate updates is a critical prerequisite to participation.[27] In this respect, some suggest that it is insufficient for transmission owners to hold informational meetings and post information concerning their annual updates and true-ups.[28] Rather, some parties suggest that the best means of providing such notice would be requiring transmission owners to file information regarding their annual updates with the Commission, possibly on an informational basis.[29] Arkansas Electric explains that only the Commission can provide the type of notice to the public contemplated by the FPA and provided in the Commission's regulations.[30] Similarly, Jo-Carroll argues that ITC Midwest's formula rate protocol, specifically, does not allow for adequate participation by the Commission that an annual informational filing would provide.[31]

23. Southern Indiana proffered sample formula rate protocols, in response to the May 17 Order. Specifically, Southern Indiana notes that its sample formula rate protocols include the Indiana Commission and "all of [its] customers" as interested parties.[32]

24. Nevertheless, some parties contend that the MISO Formula Rate Protocols are just and reasonable and provide for broad stakeholder participation. In general, these parties argue that the MISO formula rate protocols permit a sufficiently broad scope of entities to participate in the annual update and true-up processes, as evidenced by the fact that no

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[27] *See, e.g.*, OMS Initial Brief 10; Arkansas Electric Initial Brief at 14; Hoosier Energy Initial Brief at 8-9.

[28] OMS Initial Brief at 11; Arkansas Electric Initial Brief at 14; Hoosier Energy Brief at 9.

[29] OMS Initial Brief at 17; Arkansas Electric Initial Brief at 13-14; Hoosier Energy Initial Brief at 8-10; *cf.* Jo-Carroll Initial Brief at 9 (arguing that an informational filing is necessary to make annual cost-projection information available to Commission staff).

[30] Arkansas Electric Initial Brief at 14.

[31] Jo-Carroll Initial Brief at 9.

[32] Southern Indiana Initial Brief at 3-4. Southern Indiana states that it uses the term "Interested Parties" to collectively define all of its customers and the Indiana Commission. *Id.*

party is explicitly excluded from the process.[33] Moreover, MISO TOs point out that information related to historical and forward-looking formula rates is posted in publicly available spaces, such as MISO's website and the transmission owner's OASIS site, and consequently is available for review by any interested party.[34] Similarly, MISO TOs assert that state commissions and Commission staff are free to submit questions to MISO and individual transmission owners and to participate in transmission owners' annual meetings.[35] Further, MISO TOs explain that the Commission has "previously examined the level of participation in reviewing several . . . proposals to adopt forward-looking formula rates, and has determined that the procedures under these protocols provided sufficient opportunities for parties to participate."[36]

25. ATC defends its formula rate protocols, noting that the Commission has previously approved ATC's protocols pursuant to a settlement,[37] and, therefore is subject to the *Mobile-Sierra* public interest standard.[38] ATC argues that the Commission's concerns regarding the scope of participation are misplaced with respect to ATC's protocols.[39] Under its formula rate protocols, ATC points out that it is required to make information available to all stakeholders. ATC additionally states that all information required by the protocols is posted on MISO's OASIS and that ATC conducts meetings

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[33] *See, e.g.*, MISO TOs Initial Brief at 14-16; MISO Initial Brief at 10; ATC Initial Brief at 7-8.

[34] MISO TOs Initial Brief at 14-15; MISO Initial Brief, Gudeman Aff. at 3 (stating that populated historical rates are posted on the MISO website); MISO Initial Brief, Sem Aff. at 2 (stating that populated forward-looking rate templates with the projected net revenue requirement, load, and supporting work papers are posted on Otter Tail's page on MISO's OASIS); MISO Initial Brief at 10.

[35] MISO TOs Initial Brief at 14-15.

[36] *Id.* at 15-16 (citing *Xcel Servs., Inc.*, 121 FERC ¶ 61,284 (2007); *Mich. Elec. Transmission Co.*, 117 FERC ¶ 61,314 (2006); *Int'l Transmission Co.*, 116 FERC ¶ 61,036 (2006); *Otter Tail Power Co.*, 129 FERC ¶ 61,287 (2009); *ITC Holdings Corp.*, 121 FERC ¶ 61,229 (2007)).

[37] ATC Initial Brief at 4.

[38] *Id.* at 6 n.7 (citing *Amer. Transmission Co. LLC*, 107 FERC ¶ 61,117 (2004)).

[39] *Id.* at 7-8.

that interested parties are permitted to attend. ATC claims that no party has ever been prevented from participating in such a meeting.

26. Similarly, the ITC Companies assert that through the posting of information on OASIS, and holding annual meeting and separate "Partners in Business" stakeholder meetings,[40] their protocols already ensure that state commissions and customers can participate in the formula rate update process.[41] Furthermore, the ITC Companies note that they offer to meet separately with state commissions after posting rate projections, further enabling participation.[42]

b. <u>Reply Briefs</u>

27. MISO TOs assert that MISO's independent review does not exclude other interested parties from reviewing Attachment O formula rates or submitting questions to obtain additional information.[43] Additionally, MISO TOs state that a host of information is available on MISO's website and populated Attachment O formula rate templates and true-up calculations are publicly available on MISO's OASIS for all interested parties to view.[44] Furthermore, MISO TOs assert that nothing in the existing protocols precludes participation of the Commission's staff, which has the same access to information as other interested parties.[45]

28. In contrast, IMEA and Industrial Consumers disagree with MISO's characterization of the process as providing broad participation.[46] Industrial Consumers point out that while nothing precludes customer participation, nothing requires MISO or a transmission owner to include other parties in the annual update or true-up process.[47]

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[40] The term, "Partners in Business," refers to meetings held by ITC Companies intended to, among other things, foster a greater exchange of information and identifying challenges to their solutions. *See* ITC Companies Initial Brief at 9.

[41] *Id.* at 9, 12-13.

[42] *Id.* at 12-13.

[43] MISO TOs Reply Brief at 19-22.

[44] *Id*. at 11, 19-22.

[45] *Id*. at 21.

[46] Industrial Consumers Reply Brief at 2-3; IMEA Reply Brief at 4-6.

[47] *Id.* at 2-3.

Similarly, IMEA maintains that the formula rate protocols, as written, do not clearly define which parties are eligible to participate in the annual update process.[48]

29. IMEA contends that the MISO TOs' argument that the Commission's acceptance of certain forward-looking formula rate protocols in 2006, 2007, and 2009 removes any need to revise these protocols implies that nothing has changed since that time and that this argument cannot be supported. Additionally, IMEA argues that such logic would essentially read section 206 of the FPA out of existence by suggesting that once a provision is found just and reasonable, it will always be just and reasonable.[49]

30. Observing that pursuant to section 206 of the FPA, the Commission or complainants bear the burden of demonstrating that a rate or charge is not just and reasonable,[50] ITC Companies contend that arguments raised by several parties that the Attachment O formula rates provide insufficient participation because MISO's review of populated formula rate templates is restricted to two participants ignores the broad scope of participation provided for in ITC Companies' company specific protocols.[51] ITC Companies argue that transmission owners' protocols are part of Attachment O and must be read together with the MISO *pro forma* protocols. Thus, ITC Companies conclude that the Commission should not grant weight to overstatements about the perceived weakness of the MISO protocols that fail to acknowledge that certain company-specific protocols, such as ITC Companies', contain considerable opportunities for participation.

31. ITC Companies argue that Jo-Carroll has no standing to argue that ITC Companies' protocols are deficient because Jo-Carroll does not participate in ITC Companies' "Partners in Business" stakeholder process. ITC Companies add that it is not aware of Jo-Carroll submitting a single follow-up question or data request about any rate projection or true-up.[52]

32. Southern Indiana states that in response to comments submitted by the Indiana Commission, it has modified the sample protocols submitted in its initial brief to include

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[48] IMEA Reply Brief at 4.

[49] *Id.* at 4.

[50] ITC Companies Reply Brief at 1-4.

[51] *Id.* at 4-5.

[52] *Id.* at 16.

Indiana Office of Utility Consumer Counselor, the state consumer advocate agency, as an as an interested party that may participate in the annual update process.[53]

33. The Indiana Commission contends that arguments by MISO and transmission owners that there have not been significant complaints as of yet ignore the important fact that before MISO Transmission Expansion Plan 2011 (MTEP) and the Multi Value Project (MVP) Portfolio, the costs of very few transmission projects were allocated across multiple states. Thus, according to the Indiana Commission, there was little reason for states to be concerned about projects being built in other states. The Indiana Commission asserts that it is no longer just and reasonable to limit access and participation when costs are allocated across multiple states and zones. Indiana Commission also contends that given that MTEP 2011 and the MVP Portfolio were just recently approved, the time is ripe for the Commission's investigation and for adequate protocols to be adopted.[54]

c. Commission Determination

34. In the May 17 Order, the Commission found that the MISO historical protocols give only MISO the opportunity to participate in the exchange of information and that, while the forward-looking protocols allow greater participation, they generally exclude state commissions and other interested parties.[55] Upon review of the pleadings filed in response to the May 17 Order, we conclude that, as currently structured, the MISO formula rate protocols, in fact, inappropriately limit the ability of certain interested parties to obtain information and participate in review processes and are, thus, unjust and unreasonable. The Commission, therefore, directs MISO and the MISO transmission owners to revise the formula rate protocols to include all interested parties in information exchange and review processes, including but not exclusive to customers under the Tariff, state utility regulatory commissions, consumer advocacy agencies, and state attorney generals.[56]

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[53] Southern Indiana Reply Brief at 3.

[54] Indiana Commission Reply Brief at 3-4.

[55] May 17 Order, 139 FERC ¶ 61,127 at P 11.

[56] The annual informational filings we require below will further promote broad participation by interested parties, including the Commission, as several intervenors suggest. Such informational filings will both increase the availability of and provide a central location for necessary information.

35. While many transmission owners note that the Commission previously determined that the procedures under their formula rate protocols provide adequate participation opportunities, we note that circumstances surrounding any approved formula rate protocol have not remained fixed and that the Commission has authority under section 206 of the FPA to ensure that the protocols remain just and reasonable. Accordingly, we reject any arguments which suggest that prior Commission approval of *pro forma* or individual formula rate protocols' participation provisions *per se* exempts any MISO entity from further evaluation.[57]

36. Although ATC suggests that, because its formula rate protocols were approved pursuant to a settlement agreement, modification of those protocols is governed by the *Mobile-Sierra* public interest presumption, we find that that presumption, as defined by the Supreme Court, does not apply to ATC's formula rate protocols.[58] ATC's formula rate protocols do not establish "contract rates," but rather they establish generally-applicable tariff provisions—establishing the procedures for ATC's rate recovery for open access transmission service.[59] The Commission has recognized that, where agreements such as the ATC formula rate protocols are "incorporated into the service agreements of all present and future customers, those terms are properly classified as

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[57] *See, e.g., Pioneer Transmission, LLC*, 126 FERC ¶ 61,281, at P 112 & nn.98-101 (2009), *order granting clarification and denying reh'g*, 130 FERC ¶ 61,044 (2010); *Southern Company Servs., Inc.*, 57 FERC ¶ 61,035, at 61,125 (1991) ("The Commission . . . has a continuing obligation . . . to ensure that all rates, including all applicable terms and conditions, filed with the Commission are just and reasonable."); *Massachussetts Mun. Wholesale Elec. Co. v. Northeast. Utils. Serv. Co.*, 58 FERC ¶ 61,202, at 61,629 & n.59 (1992) ("It is well established that the Commission has the general obligation to promote and respect the sanctity of contracts. However, we cannot ignore our statutory mandate . . . to assess the continuing justness and reasonableness of existing rates"), *reh'g denied*, 63 FERC ¶ 61,217 (1993).

[58] *See Morgan Stanley Capital Grp. v. Pub. Util. Dist. No. 1 of Snohomish Cnty.*, 554 U.S. 527, 546 (2008); *NRG Power Mktg., LLC v. Me. Pub. Utils. Comm'n*, 130 S.Ct. 693, 700 (2010); *see also MidAmerican Energy Co.*, 138 FERC ¶ 61,028 (2012).

[59] *See Panhandle Eastern Pipe Line Company, LP*, 143 FERC ¶ 61,041 at P 84 (2013).

tariff rates and the *Mobile-Sierra* presumption would not apply."[60] While ATC's formula rate protocols allow for greater participation than the MISO *pro forma* formula rate protocols, we find that all MISO transmission owners' protocols do not meet the standards set forth in this order and, thus, are subject to the aforementioned directives.

37. MISO and many MISO transmission owners suggest that their protocols already allow for participation by any interested party through public posting of information and open meetings, or, alternatively, they express a willingness to answer questions from any party. As currently written, though, the MISO formula rate protocols do not provide the broad participation that we believe is necessary. Moreover, given their view that in practice these utilities already provide for broad participation, the codification of eligible participants that we order here in the utilities' information exchange and review processes should not place an undue burden on MISO or the MISO transmission owners and would correspondingly avoid the confusion noted in many of the briefs submitted by customers and state commissions. With regards to informational filings, we do not view the submission of this information to the Commission to be a burden because it is already compiled and submitted to MISO.

2. Transparency

38. In the May 17 Order, the Commission found that the MISO formula rate protocols, and the resulting rates, may not be just and reasonable because they do not provide interested parties with the information necessary to understand and evaluate the implementation of the formula rate with respect to either the correctness of the inputs and the calculations or the reasonableness and prudence of the costs to be recovered in the formula rate, which, in turn, would form the basis of any challenge.[61] Specifically, the Commission noted that the MISO formula rate protocols may need to be revised to require that, in the annual update, the transmission owners provide interested parties with information about their implementation of the formula rate in sufficient detail and with sufficient explanation to demonstrate that each input to the formula is consistent with the requirements of the formula, without requiring interested parties to serve extensive information requests to understand the transmission owner's implementation of the formula and verify its correctness. Additionally, the Commission stated that transmission

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[60] *See, e.g.*, *Carolina Gas Transmission Corp.*, 136 FERC ¶ 61,014, at P 17 (2011) (holding that the *Mobile-Sierra* presumption does not apply to a settlement agreement "[b]ecause the terms of the Settlement, if approved, will be incorporated into the service agreements of all present and future shippers"); *High Island Offshore Sys. LLC*, 135 FERC ¶ 61,105, at P 19 (2011) (same).

[61] May 17 Order, 139 FERC ¶ 61,127 at P 15.

owners may also need to identify any changes in accounting policies, practices, and procedures that took effect during the calendar year which could impact the formula rate or the resulting rates under the formula rate. Furthermore, to allow the Commission to perform its duty to ensure just and reasonable rates, such information may need to be filed with the Commission in the form of an annual informational filing. Lastly, the Commission observed that there was no formal discovery process and procedures to require the transmission owner to answer a party's reasonable information requests.

a. Initial Briefs

39. MISO TOs argue that MISO's historical and forward-looking protocols ensure adequate transparency and thus require no revision. MISO and MISO TOs state that the vast majority of formula rate inputs derive from FERC Form No. 1, which is a comprehensive financial report which major utilities are required to file.[62] MISO TOs explain that completed formula rate templates for historical formula rate protocols are publicly posted on MISO's website.[63] According to MISO and MISO TOs, FERC Form No. 1 must be completed and verified annually and include a CPA Certification Statement.[64]

40. According to MISO, in Order No. 715, the Commission explained that if companies have formula rates, but do not make regular informational filings with the Commission, they must maintain sufficient records to explain the changes to their formula rate inputs and provide that information to the Commission, state commissions, and affected customers upon request. MISO suggests that Order No. 715 was intended to better ensure a ready source of data to assist in evaluating the justness and reasonableness of rates, not to turn FERC Form No. 1 reporting requirements into a full rate case filing.[65]

41. MISO also argues that its current practices provide a transparent rate calculation.[66] MISO states that the resulting spreadsheets are publicly available and stakeholders have access to information needed to verify many of the inputs, most of which is verifiable

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[62] MISO Initial Brief at 11-12; MISO TOs Initial Brief at 17-18.

[63] MISO TOs Initial Brief at 17-18.

[64] *Id.*

[65] *Id.* at 13 (citing *Revisions to Forms, Statements and Reporting Requirements for Electric Utilities and Licensees*, Order No. 715, FERC Statutes and Regulations ¶ 31,277, at P 40 (2008)).

[66] *Id.* at 13-14.

public data. In addition, MISO states that transmission owners with forward-looking formula rates meet with stakeholders. MISO argues that the vast majority of stakeholders have access through FERC Form No. 1 to publicly available, audited, and verified data that can be used to confirm the correct implementation of the formula in question. Finally, MISO states that the fact that Attachment O only expressly provides for MISO's review of the accuracy of formula rate inputs is consistent with MISO's role as the transmission provider and the reporting approach established by Order No. 715.[67]

42. MISO TOs argue that the Commission has already determined that the information sharing provisions in MISO's existing protocols provide sufficient opportunity to monitor transmission owners' implementation of their formulas, and are adequate to ensure just and reasonable rates.[68] Concerning forward-looking formula rate protocols, MISO TOs state that each transmission owner's costs and other inputs included in the projected revenue requirement and annual true-up are posted on each company's page on MISO's OASIS.[69] According to MISO TOs, this information is provided with necessary detail and in an accessible format to allow interested parties to evaluate the correctness of the inputs and calculations. In addition, MISO TOs assert that all MTEP projects are reported on a project level basis in MISO's annual MTEP reports, and that the timeline provided in Attachment O, for both historical and forward-looking formula rates, allows sufficient time for interested parties to review and evaluate the relevant information. Further, MISO TOs state that supplemental information is made available, to the extent necessary, to interested parties through public meeting or upon request.

43. ITC Companies argue that their existing protocols work well and allow for effective communication with all customers and stakeholders.[70] In addition, based on their experience with their non-MISO affiliate, ITC Great Plains, which is required to file rate updates on an informational basis, ITC Companies contend that it is not apparent that an informational filing provides stakeholders with additional information to warrant the burden on the filing utility.[71] ITC Companies warn that requiring formula rate updates to

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[67] *Id.* at 14.

[68] MISO TOs Initial Brief at 19-20 (citing *Xcel*, 121 FERC ¶ 61,284 at PP 24-28).

[69] *Id.* at 18-19.

[70] ITC Companies Initial Brief at 16.

[71] *Id.*

be filed with the Commission, even on an informational basis, could erode the efficiencies of formula rates.[72]

44. ITC Companies also argue that the Commission should not require "formal" discovery procedures on a generic basis throughout MISO.[73] ITC Companies contend that their current protocols facilitate an effective exchange of information without the trappings of litigation that could accompany a formal discovery process. ITC Companies state that such a formal process could require transmission owners and their customers to assume a permanent litigation posture that would decrease communication and erode productive relationships.

45. ATC contends that its company-specific protocols approved by the Commission address the Commission's concerns with respect to transparency, by requiring ATC to: (1) review capital budgets and pre-certification expenditures and activities in detail; (2) provide a detailed budget-to-actual review for capital expenditures and pre-certification expenditures and activities for the previous calendar year; and (3) provide a detailed budget-to-actual and forecast review of expenditures and activities for the current year.[74] In addition, ATC asserts that it has addressed the issue of transparency by holding annual meetings to discuss the annual revenue requirement and the development of the line item entries in its Attachment O. ATC also states that it posts on its webpage of the MISO OASIS its forecasted revenue requirement as well as the determination of any amounts to be refunded to customers. Further, ATC also states that its protocols were specifically approved by the Commission and concludes that ATC fulfills the Commission's concerns regarding transparency.

46. ATC states that it entertains numerous questions regarding the development of its revenue requirement and provides additional information to interested parties. In addition, ATC states that it provides a forecast of its revenue requirement for a five-year period "in a comparative manner" that allows interested parties to determine the changes from year to year over a significant period of time. ATC argues that it has addressed all questions raised by any stakeholder.

47. Hoosier Energy adds that while historic cost information that forms the basis for the calculation of formula rates was often publicly available from a transmission owner's FERC Form No. 1, a transmission owner's projection of its costs and the basis for that

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[72] *Id.* at 12.

[73] *Id.* at 17-18.

[74] ATC Initial Brief at 5-6.

projection, is not publicly available.[75] Consequently, interested parties have no means of testing whether such projections and the resultant charges are just and reasonable unless the Commission requires discovery procedures and challenge rights to be put in place. Absent such a requirement, inaccurate projections may force transmission customers to serve as an unwilling source of working capital.

48. Arkansas Electric argues that the formula rate protocols should require transmission owners to submit annual updates and true-up filings, where appropriate, in informational filings. According to Arkansas Electric, formula rate updates should be treated as analogous to changes to stated rates.[76] Arkansas Electric adds that merely having an annual update posted in MISO's website reduces the ease with which the Commission can perform its duty to ensure lawful rates. Further, in absence of a requirement to file rate adjustments and true-up filings with the Commission, interested parties are forced to assume what should be transmission owners' burden of proof in filing a complaint to obtain the Commission's scrutiny of the proposed changes. Arkansas Electric asserts that such a shift violates the basic principles of ratemaking.[77]

49. In order to provide sufficient transparency, Arkansas Electric states that the MISO formula rate protocols should contain several minimum requirements, and provides a model formula rate protocol which includes these proposals.[78] Arkansas Electric suggests that each MISO transmission owner be required to make an annual informational filing with the Commission providing the transmission owner's projected transmission revenue requirement for the next rate year.[79] Arkansas Electric states that the Commission should require transmission owners to provide the filing to its customers, all applicable state commissions, and MISO, which should be required to post the filing on its website and OASIS.

50. Arkansas Electric states that transmission owners should be required to hold public meetings with interested parties to discuss the annual update, and if applicable, a

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[75] Hoosier Energy Initial Brief at 8.

[76] Arkansas Electric Initial Brief at 13-14; *see also* Hoosier Energy Initial Brief at 8-10.

[77] Arkansas Electric Initial Brief at 14.

[78] *Id.* at 15-17; *see also* Hoosier Energy Initial Brief at 10-13.

[79] Arkansas Electric Initial Brief at 15-16.

separate meeting to discuss the necessary true-up adjustment.[80] Arkansas Electric also argues that transmission owners should be required to respond to reasonable information requests from interested parties within a specified time period, one that allows sufficient time for several rounds of discovery.[81]

51. Arkansas Electric argues that if a transmission owner determines that corrections to the annual update or true-up adjustment are necessary, the owner should be required to notify its customers and the affected regulatory commissions, to file a correction with the Commission, and to provide a copy to MISO for posting.[82] Further, Arkansas Electric states that interested parties should have the right to seek discovery regarding such corrections. Arkansas Electric also argues that the Commission should also ensure that formula rates remain just and reasonable in light of changes to the underlying predicates on which the formula rates were originally developed.[83]

52. Jo-Carroll states that current formula rate protocols are "woefully inadequate" because transmission owners provide insufficient information to customers and state regulators and the current protocols provide no discovery rights to obtain additional supporting information.[84] Jo-Carroll argues that transmission owners should be required to make separate informational filings annually containing their respective projected revenue requirements and true-up adjustments. In addition, Jo-Carroll argues that transmission owners should be required to continue holding open meetings with customers and state commissions. Jo-Carroll recommends that the Commission require transmission owners to respond to reasonable information requests by customers and state commissions within a specified time frame.

53. OMS states that MISO's review of historical formula rates is limited to a minimalist verification process.[85] Although OMS acknowledges that forward-looking formula rates generally increase transparency by adding elements such as annual customer meetings to the process, OMS avers that these minor additions to the *pro forma*

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[80] *Id.* at 16.

[81] *Id.* at 16-17.

[82] *Id.* at 17.

[83] *Id.* at 20.

[84] Jo-Carroll Initial Brief at 9-11.

[85] OMS Initial Brief at 6-8.

protocols are no longer sufficient to ensure that charges produced by these formula rates are just and reasonable.

54. OMS agrees with the May 17 Order's statements concerning the importance and requirements of transparency.[86] OMS argues that all formula rate protocols should allow interested parties to challenge transmission owners' FERC Form No. 1 data. OMS explains that FERC Form No. 1 data is the primary data source for both forward-looking and historical protocols, but it is generally accepted by the Commission as filed, but not reviewed. OMS also asserts that, in the context of forward-looking formula rates, all interested parties should have the opportunity to challenge or be included in the development of transmission owners' projections. Finally, OMS contends that the protocols should require in detail the cost data that MISO and the transmission owners should be required to collect and provide to interested parties. OMS argues that such a policy would implement a reasonable measure for controlling costs and provide a meaningful forum to assess the prudence of costs.

55. In the absence of the Commission requiring (1) detailed and comprehensive information provisions and (2) challenge and dispute resolution procedures, OMS recommends that each transmission owner be required to file its annual rate update as a section 205 filing.[87]

56. OMS also argues that the Commission's obligations under the FPA extend beyond ensuring that the formula itself is just and reasonable.[88] In particular, OMS asserts that the Commission has an obligation to ensure that the charges flowing from the formula rate are and remain just and reasonable. To fulfill this requirement, OMS states that the Commission must take additional steps.[89] First, OMS suggests that the Commission could direct its staff to participate in the annual formula rate update. Second, OMS suggests that the Commission could commit to conducting audits on each MISO transmission owner's FERC Form No. 1 submittal. Third, OMS states that the Commission could commit to conducting an after-the-fact audit on the charges produced by each transmission owner's annual formula rate update. Fourth, OMS states that the Commission could commit to conducting a thorough review of each transmission

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[86] *Id.* at 11-13.

[87] *Id.* at 17.

[88] *Id.* at 20-21.

[89] *Id.* at 21-22.

owner's annual formula rate informational filing against pre-established criteria and publishing the results of its findings.[90]

57. Industrial Consumers argue that MISO's formula rate protocols do not provide for transparent information exchange.[91] Industrial Consumers argue that stakeholders should be allowed to issue discovery requests to investigate underlying data, calculations, and methodologies supporting the proposed formula inputs. In addition, Industrial Consumers state that workshops should be used to help transmission owners and stakeholders discuss data and inputs.

58. IMEA argues that the formula rate protocols should require that a transmission owner provide all work papers used to derive the net revenue requirement, the details behind all elements of its cost-of-service, as well as a detailed explanation of the transmission owner's accounting policies and practices (which are not provided on FERC Form No. 1).[92] IMEA cites Commonwealth Edison Company's protocols as illustrative of how MISO's procedures are lacking.[93]

59. The Indiana Commission argues that the data provided in the annual update and true-up should be enhanced to facilitate analysis by interested parties.[94] Specifically, the Indiana Commission argues that MISO's formula rate protocols should be revised to include a requirement to report methods for procuring equipment, materials, rights-of-way, and labor at the lowest reasonable cost as well as cost control methodologies employed. In addition, the Indiana Commission recommends that such information be provided in the form of an Excel spreadsheet, be posted on the MISO website, and include a report describing the methods used by transmission owners to assure that the costs of the project were prudently incurred.

60. Interstate Power explains that its transmission service is substantially delivered through the transmission system of ITC Companies, and contends that it is difficult to determine the reasonableness of ITC Companies' formula rate components. Interstate Power states that it projects ITC Companies' rates to increase substantially over the next few years, and expresses concern that the benefits Interstate Power experiences as the

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[90] *Id.* at 22.

[91] Industrial Consumers Initial Brief at 4-5.

[92] IMEA Initial Brief at 7.

[93] *Id.* at 8-9.

[94] Indiana Commission Initial Brief at 12-14.

transmission customer are not commensurate with these increasing costs. Interstate Power states that more information is necessary to understand the benefits customers receive in exchange for the transmission rates they pay.[95] To increase transparency, Interstate Power recommends that transmission owners provide customers with detailed reviews and analyses of their formula rates, in addition to non-binding five-year projections of their formula rates. Interstate Power adds that transmission owners should provide an annual analysis of reliability data to determine a performance trend. Further, Interstate Power argues that independent transmission owners be subject to a management audit every two to three years to ensure that transparency goals are met.

61. IMPA argues that regardless of the outcome of this proceeding, the Attachment O formula rate protocols must continue to accommodate ownership arrangements that differ from the investor-owned utility model.[96] Specifically, IMPA argues that the protocols must continue to recognize the different sources of information used to complete the formula rate templates and not require inappropriate references to forms that are not applicable to some transmission owners.

62. SWEC argues that the current formula rate protocols' lack of transparency impairs the ability of customers to determine whether charges comport with the formula rate.[97] In particular, SWEC states that it is unclear whether MISO or the transmission owner is responsible for providing cost data to transmission customers requesting support for the annual update and rate for the upcoming year.

63. SWEC urges the Commission to impose several requirements in order to ensure greater participation of interested parties in the annual projection and true-up procedures.[98] For instance, SWEC asserts that transmission owners should be required to post annual updates on the MISO website, thereby permitting direct interaction between transmission owners and other interested parties. Further, SWEC recommends that the Commission require that transmission owners provide information concerning annual projections and true-ups and require that interested parties receive sufficient time to submit reasonable data requests.[99] Further, SWEC proposes that the Commission require

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[95] Interstate Power Initial Brief at 6-11.

[96] IMPA Initial Brief at 2-3.

[97] SWEC Initial Brief at 7-8.

[98] *Id.* at 3-6.

[99] Also, SWEC cites an instance in which it claims that a MISO transmission owner conditioned its provision of information concerning an annual update on the

(continued…)

transmission owners to submit annual updates to the Commission in the form of an informational filing. In addition, SWEC advocates requiring transmission owners to post their annual updates on the MISO website and to be responsible for the cost support for the posted rate.

64. In order to address the Commission's transparency concerns, Southern Indiana recommends that transmission owners provide interested parties with supporting information for the annual update, including a data-populated version of the formula rate template setting forth the net revenue requirement and load for the following year; supporting workpapers; an explanation of any changes in the transmission owner's accounting policies and practices, as reported in the transmission owner's SEC Form 10-Q; and supporting documentation for the true-up adjustment.[100] In addition, Southern Indiana recommends that transmission owners be required to file annual updates with the Commission on an informational basis that will not require action by the Commission. Southern Indiana also recommends the establishment of a more formal discovery process through which interested parties may request more information and seek clarification regarding the annual update, including information concerning (1) the extent and effect of material accounting changes; (2) the proper allocation of the formula rate; (3) the accuracy of data and consistency with the formula rate of the charges shown in the annual update; (4) the prudence of the transmission owner's costs and expenditures; and (5) the prudence of actual costs and expenditures.

b. <u>Reply Briefs</u>

65. MISO TOs argue that the Commission's authority pursuant to section 205 of the FPA is not ongoing or unlimited.[101] MISO TOs argue that utilities are the only parties with rights under section 205 and the Commission has no power to force a utility to file a particular rate unless it first finds that the rate is unlawful.[102] Thus, MISO TOs conclude that, after its initial review, the Commission has no authority under section 205 to review a formula rate or the formula inputs. Consequently, MISO TOs assert that many of the improvements proposed by intervenors (such as requiring informational filings, greater

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agreement of SWEC not to use the information in any challenge of the update, in effect marking every document and response it provided as confidential. *Id*., Kumar Aff. at 14.

[100] Southern Indiana Initial Brief at 4-6.

[101] MISO TOs Reply Brief at 5-8.

[102] *Id.* at 7 (citing *Atl. City Elec.*, 295 F.3d 1, 9-10 (D.C. Cir. 2002)).

staff participation and additional audits) are not valid extensions of the Commission's authority under section 205.

66. In addition, MISO TOs state that Commission precedent makes clear that informational filings do not receive the same scrutiny as section 205 filings.[103] Hence, MISO TOs state that an informational filing requirement would not trigger a section 205 proceeding, and in this regard, interested parties may only resort to a formal complaint to challenge cost data. MISO TOs add that most information relating to annual updates is posted on public websites or is otherwise available.[104]

67. Regarding OMS's proposal for the Commission to conduct audits of transmission owners' FERC Form No. 1s, MISO TOs argue that such a requirement is unnecessary.[105] MISO TOs point out that audits are already being conducted and that Attachment O requires transmission owners to have their financial statements independently audited. Additionally, MISO TOs state that the Commission already has authority to audit transmission owners' implementation of their formula rates and the resulting charges.

68. MISO explains its review of transmission owners' populated formula rate templates.[106] MISO states that it ensures that the populated Attachment O is populated in conformance with the Tariff by verifying that the amounts reported on the Attachment O correspond to the amounts reported on the FERC Form No. 1, Rural Utilities Service (RUS) Form 12 and Energy Information Administration (EIA) Form 412 financial statements. MISO states that it also verifies that any amounts not reflected in these financial statements are supported by other worksheets and will also require a transmission owner to provide supporting information in the event that there is a significant anomalous change in a line item as compared to the prior year. However, MISO states that any further review of accounting treatment of the inputs to FERC Form No. 1 is beyond the scope of MISO's review.

69. Industrial Consumers contend that MISO's review of the populated protocols is insufficient because it appears to be limited to verifying that the inputs match the relevant FERC Form No. 1. Industrial Consumers argue that this is insufficient because there

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[103] *Id.* at 8-9 (citing *Maine Pub. Serv. Co.*, 132 FERC ¶ 61,061, at PP 8, 10 & n.11 (2010)).

[104] *Id.* at 9.

[105] *Id.* at 10-11.

[106] *Id.* at 8-9.

could be questions regarding the appropriateness of booking a particular cost to a given account and regarding whether a particular cost was prudently incurred.[107]

70. Industrial Consumers argue that the issue at hand is not whether the Attachment O inputs have been completed accurately to reflect publicly available inputs, but whether the costs making up those inputs were reasonably booked to particular accounts and whether those costs were prudently incurred.[108] Industrial Consumers posit that interested parties need the opportunity to conduct reasonable discovery on information and calculations used to develop updated inputs.

71. OMS disagrees with characterizations of FERC Form No. 1 data as objective and providing significant safeguards against improper implementation and, instead, argues that the fact that FERC Form No. 1 data is publicly available does not necessarily ensure just and reasonable rates.[109] OMS states that the figures and expenditures that make up FERC Form No.1 data are not subject to challenge and are simply accepted by the Commission as filed. OMS argues that this runs counter to the Commission's previous findings that customers should have the ability to challenge the prudence of costs.[110] OMS asserts that the ability of customers to challenge the underlying figures in an update filing is critical because the population of FERC Form No. 1 is, to a degree, subject to the interpretation of the company producing the document. Specifically, the manner in which the company arrives at these company-specific figures is subject to subtleties and nuances. Though MISO reviews the populated formula rate templates, OMS contends that such review is insufficient.

72. OMS argues that while it is good that many utilities have voluntary procedures, such procedures only work when the utility is willing to provide its customers with the information.[111] Moreover, OMS adds that voluntary provisions are unlikely to address the informational needs of interested parties located outside the transmission owner's zone that are subject to regional cost allocations. Without formalized discovery procedures, OMS asserts that customers could be left relying on the goodwill of the

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[107] Industrial Consumers Reply Brief at 2-3.

[108] *Id.* at 3-4.

[109] OMS Reply Brief at 4-6.

[110] *Id.* at 4-5 (citing *Northeast Utils. Serv. Co.*, 62 FERC ¶ 61,294, at 62,906 (1993)).

[111] *Id.* at 7-10.

transmission owner to obtain necessary information, as demonstrated by the experiences of Interstate Power and SWEC.[112] In addition, OMS argues it is unreasonable to allow transmission owners to condition the release of information on commitments by customers not to use such information in any challenge of the annual update. According to OMS, all interested parties must have a right documented in a formula rate protocol to obtain information so they can determine not only that the transmission owner has properly entered in FERC Form No. 1 data in its formula rate but also that the expenditures reflected in the FERC Form No. 1 data were reasonable and prudently incurred.

73. Hoosier Energy states that while MISO may have no incentive to favor a transmission owner, it also has no incentive to protect transmission customers.[113] While MISO's review is limited to consistency with transmission owners' financial reporting forms, Hoosier Energy argues that customers have an interest in understanding the costs and calculations that comprise the financial reporting data to ensure that the recorded costs are prudent and reasonable. Further, Hoosier Energy argues that the public availability of related data is insufficient to enable customers to test the reasonableness and prudence of a transmission owner's expenditures and resulting rates. Hoosier Energy argues that transmission owners' claim that they allow customers to participate in the update and true-up processes is distinct from providing interested parties with a right to ask questions and a right to insist on receiving answers.[114]

74. IMEA states that the argument that there are sufficient opportunities for participation by customers fails on several grounds.[115] First, IMEA states that it is in MISO's and the transmission owners' interest to avoid the imposition of additional procedures, because under the current protocols, the transmission owners have wide discretion as to what information to divulge and when and how to respond to ratepayers' and other interested parties' concerns. Further, IMEA states that the public availability of data belies the point that customers need access to detailed information including the cost and accounting adjustments that support the inputs. IMEA states that the burden of proof for rate changes lies with the utility; however, the current protocols allow the transmission owners to escape most, if not all of the statutory burden. IMEA also asserts that the fact that errors can be corrected later is no solution because finding such errors is

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[112] *Id.* at 8-9.

[113] Hoosier Energy Reply Brief at 3-4.

[114] *Id.* at 2-3.

[115] IMEA Reply Brief at 5-6.

"difficult at best" and the appropriate time for identifying such errors is when the changes are made.

75. IMEA argues that MISO and the MISO transmission owners are essentially attempting to prevent the Commission and ratepayers from exercising a legally guaranteed right to closely inspect rate changes. Further, IMEA states that the regulated utilities should not be heard to argue that because there has been (as yet) no serious problem brought to light, change is not needed. According to IMEA, one reason no problem has come to light might well be that efficient means to expose and correct such problems is lacking.[116]

76. Jo-Carroll argues that more detailed protocols pose no threat to ITC Companies because such revisions would merely require ITC Companies to do what they claim to be doing voluntarily.[117] Further, Jo-Carroll states that ITC Companies offer no evidentiary support at all for their assertion that more detailed protocols would be burdensome. Finally, Jo-Carroll argues that, contrary to the assertion of ITC Companies, additional procedures would facilitate effective communication by providing as much equality of information as possible and leverage for all parties.[118]

77. Arkansas Electric argues that requiring additional protections to be provided in the formula rate protocols would not be overly burdensome.[119] Arkansas Electric contends that, contrary to ITC Companies' assertion, even requiring transmission owners to submit their annual updates in their formula rates would not create additional burdens without a corresponding improvement in transparency. Arkansas Electric argues that requiring annual updates to be submitted as informational filings is critical to ensuring that participation is not inappropriately limited. Arkansas Electric further argues that given ITC Companies' claim that it has responded to hundreds of initial and follow-up questions, it is unclear what the incremental burden of doing so under a formal process would be.[120] To avoid disputes, Arkansas Electric suggests that that the protocols be

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[116] *Id.* at 8-9.

[117] Jo-Carroll Reply Brief at 4.

[118] *Id.*

[119] Arkansas Electric Reply Brief at 2-4.

[120] *Id.* at 5.

revised to give customers the formal right and impose a corresponding obligation upon transmission owners to answer questions regarding the annual updates and true-ups.[121]

78. ITC Companies argue that those parties that propose to require transmission owners' annual updates and true-ups to be filed with the Commission on an informational basis have not adequately supported their proposed revisions.[122] ITC Companies contend that subjecting informational filings to notice, comment, and eventual adjudication by the Commission would transform those filings into the functional equivalent of full cost-of-service rate cases, which would constitute an unjustified departure from the Commission's formula rate precedent.[123] ITC Companies further assert that none of the parties advocating revision of the protocols have articulated any meaningful benefit that would be provided by an informational filing. Specifically, ITC Companies state that they are unclear how requiring annual updates and true-ups to be filed as informational filings would provide any party with information it is not otherwise able to receive under the normal course of the existing process, thereby improving the scope of participation.

79. ITC Companies argue that Jo-Carroll has no standing to argue that ITC Companies' protocols are deficient because Jo-Carroll does not participate in ITC Companies' "Partners in Business" stakeholder process, adding that it is not aware of Jo-Carroll submitting a single follow-up question or data request about any rate projection or true-up.[124] ITC Companies argue that the other changes requested by Jo-Carroll are either already provided as part of the existing protocols or are otherwise unwarranted.

80. ITC Companies argue that Interstate Power's criticism of ITC Companies' protocols represent an attempt to re-litigate a previous complaint.[125] ITC Companies add

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[121] *Id.* at 5-6.

[122] ITC Companies Reply Brief at 6-7. ITC Companies recall that, pursuant to section 206 of the FPA, the burden of demonstrating that any rate or charge is unjust and unreasonable shall be upon the Commission or the complainant. *Id.* at 1-4.

[123] *Id.* at 6-7 (citing *Maine Pub. Serv. Co.*, 132 FERC ¶ 61,061 (2010)). ITC Companies argue that the Commission has historically refused to act on or notice informational filings because formula rate protocols provide specific procedures for notice, review and challenges.

[124] *Id.* at 16.

[125] *Id.* at 12-14 (citing *Interstate Power & Light Co. v. ITC Midwest, LLC*, 135 FERC ¶ 61,162 (2011)).

that the Commission should reject estimated revenue requirements for ITC Companies provided by Interstate Power because: (1) those rate estimates are not germane to this proceeding; (2) Interstate Power's rate estimates are entirely unsupported; and (3) Interstate Power has never brought its alleged discrepancy to ITC Companies for assistance in order to gain a better understanding.

c. Commission Determination

81. We find that MISO's formula rate protocols provide insufficient transparency with respect to information about the transmission owners' costs and revenue requirements. Having reviewed and considered the various arguments raised in the briefs filed, we find that the transparency currently provided by the MISO formula rate protocols is insufficient to ensure that transmission customers pay just and reasonable rates. The Commission, therefore, directs MISO and the MISO transmission owners to revise the formula rate protocols to provide greater transparency, as discussed below.

82. MISO's protocols for its historical formula rates give only MISO the opportunity to review the transmission owner's completed formula rate template. The forward-looking formula rate protocols generally provide that the transmission owner will make available its projected net revenue requirement and the inputs in sufficient detail to identify the components of the transmission owner's net revenue requirement. Under the forward-looking protocols, the transmission owner is also generally required to hold a customer meeting explaining the formula rate projections and cost detail, and to post the true-up adjustment, frequently-asked questions, and related calculations on MISO's OASIS no later than June 1 following the submittal of the FERC Form No. 1 for the previous year.

83. Both a formula rate and its inputs must be transparent; it is essential to their being just and reasonable.[126] The formula rate's inputs, including supporting documentation and allocations, should be either taken directly from publicly available data such as the

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[126] *Cf., e.g.*, *NSTAR Elec. Co.*, 123 FERC ¶ 61,270, at P 12 & n.14 (2008) (stating that the requirement to have all sheets of a formula rate template filed, not only the summary data sheet, promotes formula rate transparency); *Midwest Indep. Transmission Sys. Operator, Inc.*, 113 FERC ¶ 61,194, at P 47 & n.36 (2005); *PJM Interconnection, L.L.C.*, 110 FERC ¶ 61,053, at P 120 & nn.104-05 (2005) (explaining that a formula is sufficiently clear when all parties can determine what costs go into the rate and how it will be calculated); *accord Illinois Power Co.*, 52 FERC ¶ 61,162, at 61,621-25 (1990) (explaining that a fuel adjustment clause, a type of formula rate, is to be strictly construed, and the costs permitted to be recovered are only those costs expressly specified; cost recovery does not encompass any cost "not patently precluded.").

FERC Form No. 1, or be reconcilable to publicly available data such as FERC Form No. 1, by the application of clearly identified and supported documentation.[127] To this end, to be just and reasonable, the MISO formula rate protocols must be revised to provide interested parties with the information necessary to understand and evaluate the implementation of the formula rate for either the correctness of inputs and calculations, or the reasonableness of the costs to be recovered in the formula rate.[128] Such revisions should enable interested parties to replicate the formula rate as implemented by the transmission owners. Regarding those entities who do not file FERC Form No. 1, we agree with IMPA that the protocols should continue to recognize, as they currently do, the different sources of information used to complete the formula rate templates and not require inappropriate references to forms that are not applicable to some transmission owners.

84. We reject the arguments made by certain parties that, after its initial review, the Commission has no authority under section 205 of the FPA to review a formula rate or the formula rate inputs, as well as the arguments that it is beyond the Commission's authority to require informational filings, additional audits, etc.[129] Transmission owners are responsible under the FPA for demonstrating that the charge produced by a formula rate complies with the requirements of section 205. Further, the Commission has discretion to prescribe the manner in which public utilities are to make available their books and records to the Commission.[130] We find that, pursuant to the FPA, and

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[127] Order No. 715, FERC Stats. & Regs.¶ 31,277 at P 34 (requiring formula rates for which no informational filing is required to provide explanatory information when formula rate inputs differ from FERC Form No. 1 reported amounts). We note that utilities that are required to make regular informational filings by their formula rates, a Commission-approved settlement, or other Commission order need not provide footnotes. *Id.* P 37.

[128] *See PPL Elec. Utils. Corp.*, 149 FERC ¶ 61,231, at PP 70-82 (2012) (finding that PPL has not fully explained or supported certain proposed annual updates to its formula rate).

[129] *See PJM Interconnection, L.L.C.*, 110 FERC ¶ 61,053 at P 120 & n.105 (explaining that although the Commission's acceptance of a formula rate authorizes a utility to use the formula rate on an ongoing basis, the costs used in applying the formula rate are not part of the rate and are subject to both challenge and review).

[130] *See, e.g.*, 16 U.S.C. §§ 825, 825h (2006) (providing that public utility books and records shall be kept as the Commission prescribes, and that the Commission shall at all times have access and the right to inspect and examine them, and also providing that the Commission may prescribe the form of all statements and reports to be filed with the

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exercising such discretion, the Commission does, in fact, have the authority to require utilities to make available detailed information regarding their formula rates and inputs.[131]

85. We also reject the arguments that the annual informational filings constitute stated rates and therefore require Commission approval. The Commission has explained that annual formula rate updates and informational filings and are not themselves rates and do not constitute changes in the underlying rate itself (that is, the formula, which is the rate) and thus are not section 205 filings that require Commission approval.[132]

86. To be just and reasonable, we find that MISO's protocols for both historical and forward-looking formula rates must require transmission owners to post their revenue requirements and relevant information, on both MISO's website and OASIS, and then hold an annual meeting open to all interested parties, where the transmission owners can explain and those parties can review and discuss the transmission owner's calculations.[133]

Commission and the information which they shall contain as well as their timing); *Repeal of the Public Utility Holding Company Act of 1935 and Enactment of the Public Utility Holding Company Act of 2005*, Order No. 667, FERC Stats. & Regs. ¶ 31,197, at P 52 (2005) (finding that Congress granted the Commission the discretion to prescribe the manner in which holding companies and their associated and affiliate companies are to "maintain" and "make available" their books and records to the Commission and to prescribe "the form or forms of all statements, declarations, applications, and reports to be filed with the Commission"), *order on reh'g*, Order No. 667-A, FERC Stats. & Regs. ¶ 31,213, *order on reh'g*, Order No. 667-B, FERC Stats. & Regs. ¶ 31,224 (2006), *order on reh'g*, Order No. 667-C, 118 FERC ¶ 61,133 (2007); *accord Financial Accounting, Reporting and Records Retention Requirements Under the Public Utility Holding Company Act of 2005*, Order No. 684, FERC Stats. & Regs. ¶ 31,229 (2006).

[131] *See Idaho Power Co.*, 115 FERC ¶ 61,281, at P 29 (2006) (requiring Idaho Power Company to provide tariff requirements for an informational filing with the Commission detailing protocols for information exchange and provide the transmission owners' customers with the ability to review and challenge the inputs to the formula, along with supporting workpapers).

[132] *See Ocean State Power II*, 69 FERC ¶ 61,146, at 61,544-545 (1994).

[133] *See Va. Elec. & Power Co.*, 123 FERC ¶ 61,098, at P 30 (2008) (stating that Virginia Electric and Power Company's process provides opportunity for (1) parties to review company-provided data relating to annual update and true-up adjustment in a timely manner, (2) parties to discuss costs during public customer meetings and

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The MISO formula rate protocols must include greater detail regarding the financial and cost information upon which a transmission owner's rates are developed.[134] Specifically, the protocols must require utilities to provide underlying data and calculations supporting all inputs that are not supported in the FERC Form No. 1 or in other Tariff schedules in formula rate annual updates and, where applicable, true-ups.[135] In addition, the protocols for forward-looking formula rates must continue to clearly specify the transmission owner's true-up procedures. Further, the annual update must provide interested parties information about the transmission owners' implementation of the formula rate in sufficient detail and with sufficient explanation to demonstrate that each input to the formula rate is consistent with the requirements of the formula rate, without forcing interested parties to make extensive information requests to understand the transmission owner's implementation of the formula rate and to verify its correctness.[136]

87. In addition, to ensure that the appropriate level of transparency regarding the financial and cost information from which the charges are developed, the Commission finds that the MISO formula rate protocols must require transmission owners to disclose any change in accounting during the rate period that affects inputs to the formula rate or the resulting charges billed under the formula rate. Specifically, a change in accounting may involve: (1) the initial implementation of an accounting standard or policy; (2) the initial implementation of accounting practices for unusual or unconventional items where

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(3) company responses to requests for further information, before challenges are made to the Commission).

[134] *See Duquesne Light Co.*, 118 FERC ¶ 61,087, at P 74 (2007) (stating that Duquesne must post on its website updates to its formula rate and provide detailed accounting of costs).

[135] For instance additional data and calculations must be provided for formula rate items, such as accumulated deferred income taxes, that require adjustments from FERC Form No. 1 data. Utilities must also provide underlying data for formula rate inputs that require greater granularity than is required in the FERC Form No. 1. For example, taxes other than income taxes and prepayments formula rate inputs may require identification of plant-and labor-related sub-amounts for application of different allocators. Similarly, greater granularity is typically required for certain administrative and general expense inputs, revenue credits, and rate divisors. Additionally, utilities must provide data underlying all thirteen-month average balances used in formula rate updates and true-ups.

[136] All populated formula templates and underlying workpapers should be provided in their native format, including all worksheets with all formulas and links intact (i.e., workable).

the Commission has not provided specific accounting direction; (3) corrections of errors and prior period adjustments; (4) the implementation of new estimation methods or policies that change prior estimates; and (5) changes to income tax elections. The formula rate protocols must also provide for identification of items included in the formula rate at an amount other than on a historical cost basis, e.g., fair value adjustments. In addition, the formula rate protocols must provide for identification of any reorganization or merger transaction and explain the effect of the accounting for such transactions on inputs to the formula rate. To the extent these accounting changes and other matters affect a transmission owner's inputs to its formula rate, the transmission owner must provide a narrative explanation of the individual impact of those items on charges billed under the formula rate.

88. The added transparency provided by enhanced formula rate protocols will assist interested parties' and the Commission's abilities to understand and evaluate the correctness of inputs and calculations, and the reasonableness of the costs to be recovered in the formula rate. We also note that Commission staff will continue to conduct FERC Form No. 1 and formula rate audits to ensure consistency with Commission rules and regulations, orders and policies, and individual companies' formula rate tariffs.[137] However, based on the experience of prior audits and the enhanced transparency that can be achieved from implementation of formula rate protocols with the elements discussed above, the Commission does not find it necessary at this time to annually audit every transmission owner's FERC Form No. 1 and formula rate within MISO as suggested by OMS.[138] In addition the Commission's staff reviews informational filings that the Commission requires be made.

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[137] *See* 16 U.S.C. § 825 (2006) (Commission may prescribe accounting requirements, and has the right to inspect and examine company accounts and records). For the past 4 years, the Commission's audit program has included audits of companies with formula rate recovery mechanisms as one of its top priorities. Currently, ongoing audits evaluating the formula rates of MISO transmission owners include audits of Ameren Illinois Company (FA13-1-000), Union Electric Company (FA13-2-000), Southern Indiana Gas and Electric Company (PA13-2-000), Southwestern Public Service Company (FA13-4-000), and Exelon Corporation (PA 13-15-000).

[138] Commission staff has completed formula rate audits of MISO transmission owners through comprehensive formula rate audits and other audits where findings of non-compliance affect formula rate billings, e.g. audits of the FERC Form No. 1, merger transactions, transmission rate incentives, and fuel adjustment clauses. Recently Commission staff has completed audits that evaluated the formula rates of Xcel Energy Services, Inc. (PA11-11-000), Interstate Power and Light Company (FA11-14-000), ITC

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89. The Commission also finds that interested parties must be afforded the opportunity to request further information regarding transmission owners' accounting practices to the extent the accounting impacts items included in the determination of the annual revenue requirement. However, we will not adopt commenter proposals that transmission owners be required to revise their formula rate protocols to require submission of detailed explanations of all of their accounting practices, in addition to disclosures currently required in the FERC Form No. 1.[139] All public utilities' accounting practices are already required to follow the Uniform System of Accounts (USofA),[140] and are subject to audit by the Commission.[141] Consequently, the need for more detailed disclosure and the ability to challenge accounting practices is limited to accounting practices that impact inputs to the formula rate, including changes in accounting practices about which transmission owners will be required to submit information pursuant to the revised formula rate protocols.

90. We will not require transmission owners to provide five-year rate projections, or provide an annual analysis of reliability data. Such requirements go beyond a review of the formula rate's inputs and thus beyond the scope of this proceeding. However, in response to Indiana Commission's concerns, we find that during the review period, interested parties must be allowed to obtain upon request information on procurement methods and cost control methodologies used by transmission owners in order to facilitate interested parties' analysis of whether the transmission owners' costs were prudently incurred.

91. We will require MISO to specify in its protocols an adequate time period for interested parties to review information following its posting on OASIS and MISO's website. During this review period, interested parties must have the right to serve reasonable information and document requests on the transmission owner, provided that they are relevant to the implementation of the formula rate. MISO must also include a

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Holdings Corp. (PA10-13-000), and American Transmission Systems, Inc. (FA11-8-000).

[139] Public utilities subject to the FERC Form No. 1 reporting requirements must disclose information on significant accounting practices and principles. *See* Instructions to the Notes to the Financial Statements, schedule pages 122 -123.

[140] 18 C.F.R. Part 101 (2012).

[141] *See Procedures for Disposition of Contested Audit Matters*, Notice of Proposed Rulemaking, FERC Stats. & Regs., Proposed Regulations 2004-2007 ¶ 32,592, at P 3 (2005) (describing the types of accounts and records subject to audit by FERC staff).

requirement that the transmission owner make a good faith effort to respond to information requests within a set, reasonable period of time. In the event that a dispute arises that cannot be resolved during the review period, parties must be allowed to initiate challenge procedures, to be discussed in the following section.

92. Further, we will require that MISO's formula rate protocols include a requirement that transmission owners make annual informational filings of their formula rate updates with the Commission.[142] This informational filing must be made following the time period allowed for parties to review the updates and for transmission owners to respond to information and document requests, and must include any corrections or adjustments made during that period. The informational filing must also make note of any aspects of the formula rate or its inputs that are the subject of an ongoing dispute under the challenge procedures. The MISO formula rate protocols must specifically provide that the informational filing include the information that is reasonably necessary to determine: (1) that input data under the formula rate are properly recorded in any underlying workpapers; (2) that the transmission owner has properly applied the formula rate and the procedures in the protocols; (3) the accuracy of data and the consistency with the formula rate of the actual revenue requirement and rates (including any true-up adjustment) under review; (4) the extent of accounting changes that affect formula rate inputs; and (5) the reasonableness of projected costs included in the projected capital addition expenditures (for forward-looking formula rates). These criteria must also apply to the information transmission owners are required to provide to customers during the review period.

3. Challenge Procedures

93. In the May 17 Order, the Commission observed that the historical and forward-looking protocols in Attachment O of the MISO Tariff do not contain specific provisions for parties to challenge a transmission owner's implementation of the formula rate.[143] Rather, customers must either utilize the generic dispute resolution procedures under Attachment HH of the Tariff or file a complaint with the Commission pursuant to section 206 of the FPA. As a result the Commission explained that, in order to be just and reasonable, the MISO formula rate protocols may need to provide specific procedures by which interested parties could challenge disputes related to a transmission

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[142] Except as provided otherwise in the utilities' tariffs or protocols, the Commission will consider these informational filings to be just that, informational. Challenges to the implementation of the formula rates or to the formula rates themselves should be made through the challenge procedures discussed below or in a separate complaint, as appropriate.

[143] May 17 Order, 139 FERC ¶ 61,127 at P 18.

owner's revenue requirement without needing to file a complaint with the Commission pursuant to section 206 of the FPA.[144]

a. Initial Briefs

94. Several intervenors observe that section 206 of the FPA and Attachment HH of the Tariff are the only procedural avenues through which customers can challenge implementation and costs reflected in a transmission owner's formula rate.[145] Industrial Customers, for example, contend that the absence of informal and formal challenge procedures in the MISO formula rate protocols calls their justness and reasonableness into question.[146]

95. Moreover, intervenors contend that neither avenue provides sufficient protection to ratepayers. For instance, OMS argues that requiring interested parties to file a complaint with the Commission in order to challenge a transmission owner's annual update or true-up imposes an "exceedingly high informational hurdle on an interested party."[147] OMS also contends that requiring interested parties to rely on section 206 complaints would improperly shift the burden of proof concerning the justness and reasonableness of the annual update from the transmission owner to the customer or pertinent interested party.[148] Similarly, Hoosier Energy and the Indiana Commission point out that section 206 complaint proceedings are both expensive and time-consuming, and thus induce an additional burden on interested parties that challenge a transmission owner's annual update.[149]

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[144] *Id.* PP 18-20.

[145] *See, e.g.*, Hoosier Energy Initial Brief at 13-15; IMEA Initial Brief at 9-10; Indiana Commission Initial Brief at 14; Jo-Carroll Initial Brief at 14; *cf.* Arkansas Electric Initial Brief at 18 (arguing that the MISO formula rate protocols include no challenge procedures).

[146] Industrial Consumers Initial Brief at 5.

[147] OMS Initial Brief at 15; *see also* Indiana Commission Initial Brief at 14; Interstate Power Initial Brief at 13.

[148] OMS Initial Brief at 15-16 (citing *PJM Interconnection, L.L.C.*, 139 FERC ¶ 61,068, at P 63 (2012)); *see* Indiana Commission Initial Brief at 14.

[149] Hoosier Energy Initial Brief at 13; Indiana Commission Initial Brief at 14.

96. OMS and the Indiana Commission additionally take issue with the dispute resolution procedures provided in Attachment HH of the Tariff.[150] Indiana Commission argues that Attachment HH appears to be designed to resolve disputes between MISO and its members or, alternatively, disputes between MISO members.[151] OMS asserts that Attachment HH appears to be designed to address unusual conflicts, requiring the use of committees and other procedural steps that are tailored to each individual dispute. OMS observes that the practicality of relying on Attachment HH to resolve disputes arising from formula rate updates is, therefore, questionable. Further, because "the rules and procedures under Attachment HH are not explicit or codified," OMS explains that the arbiter or judge charged with overseeing the process is bestowed with a great deal of discretion. As a result, OMS concludes that "a transmission owner facing multiple challenges to its formula rate update could be involved in a different process for each challenge and receive a different outcome in cases sharing the same set of facts."[152] Interstate Power adds that the process set forth in Attachment HH does not provide for challenges to be resolved in a binding manner efficiently.[153]

97. A variety of intervenors propose improvements to the challenge procedures provided in the MISO formula rate protocols. OMS, Arkansas Electric, Hoosier Energy, and Jo-Carroll all advocate the creation of a dispute resolution process overseen by the Commission or an Administrative Law Judge.[154] Further, several of the proposals combine an informal process by which interested parties could challenge a transmission owner's annual update and a formal challenge procedure before the Commission or a Commission-appointed Administrative Law Judge.[155] For instance, Interstate Power recommends that the MISO formula rate protocols require MISO and transmission owners to attempt in good faith to resolve informal challenges raised by interested parties. If, after 60 days, the dispute cannot be resolved, Interstate Power supports

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[150] OMS Initial Brief at 16-17; Indiana Commission Initial Brief at 13-14.

[151] Indiana Commission Initial Brief at 13-14.

[152] OMS Initial Brief at 16-17.

[153] Interstate Power Initial Brief at 13-14.

[154] OMS Initial Brief at 17; Arkansas Electric Initial Brief at 18; Hoosier Energy Initial Brief at 13; Jo-Carroll Initial Brief at 12-13.

[155] *See, e.g.*, Industrial Consumers Initial Brief at 5; Indiana Commission Initial Brief at 14; Interstate Power Initial Brief at 14; SWEC Initial Brief at 9; Southern Indiana Initial Brief at 6-7.

permitting the interested party to file a complaint at the Commission in which the transmission owner would bear the burden of proving that it has reasonably applied the terms of the formula rate and the true-up calculations.[156] OMS, Industrial Consumers, and Jo-Carroll all similarly support the prospect of requiring the transmission owner or MISO to bear the burden of proof in the context of formal challenge procedures.[157]

98. SWEC describes specific difficulties it has experienced in attempting to challenge costs recovered through a transmission owner's formula rate. In particular, SWEC states that it discovered errors in the transmission owner's formula rate submissions to MISO and initiated dispute resolution procedures under the Tariff. SWEC further explains that it experienced significant confusion because the applicable protocol did not specify a timeline for such a challenge. To eliminate such difficulties faced by transmission customers and other interested parties, SWEC suggests that the addition of specific procedures for challenging the costs recovered through a formula rate will spare interested parties the confusion in challenging transmission owners' annual updates.[158]

99. Southern Indiana, however, warns that interested parties may not challenge the prudence of a transmission owner's annual update as an alternative to the section 206 process.[159] According to Southern Indiana, Commission policy regarding prudence reviews provides that managers of a utility have broad discretion in incurring the costs necessary to provide services to their customers. As a result, Southern Indiana states that costs incurred by a transmission owner are presumed to be prudent unless a party raises a reasonable doubt about them.[160] Furthermore, Southern Indiana claims that the initial

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[156] Interstate Power Initial Brief at 14.

[157] OMS Initial Brief at 17; Industrial Consumers Initial Brief at 5; Jo-Carroll Initial Brief at 12-13. IMEA also supports requiring MISO or the relevant transmission owner to bear the ultimate burden of proving it has reasonably applied the terms of the formula rate and adhered to the procedures set forth in the pertinent formula rate protocols. IMEA Initial Brief at 13.

[158] SWEC Initial Brief at 9-10.

[159] Southern Indiana Initial Brief at 8.

[160] *Id.* at 8 (citing *New England Power Co.*, Opinion No. 231, 31 FERC ¶ 61,047 (1985); *Public Service Co. of Colorado*, 90 FERC ¶ 61,285, at 61,960 (2000)).