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, 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 Board accept the attached documents in compliance with the requirements of the aforementioned docket.

Dated this 22nd day of December, 2015.

Respectfully submitted,

Interstate Power and Light Company

BY: */s/ Samantha C. Norris*

Samantha C. Norris
Senior Attorney
Alliant Energy Corporate Services, Inc.
200 First Street S.E.
P.O. Box 351
Cedar Rapids, IA 52406-0351
Phone: (319) 786-4236
samanthanorris@alliantenergy.com

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

Table of Contents

Executive Summary

Interstate Power and Light Company (IPL) continues managing the processes and relationship with ITC Midwest, LLC (ITC-M) and 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 June 30, 2015 (June 2015 Report).

This Executive Summary highlights only the most notable activity and results since the June 2015 Report.

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

ITC-M Relationship Management

Numerous 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. In addition, IPL has access to and periodic contact with ITC-M executive leadership to discuss current and future operational performance and customer cost issues. The companies continue to coordinate well on operations and planning issues and view the relationship as a partnership.

FERC Transmission Activity, IPL Engagement

A. **Cost Increase Resulting from ITC-M Bonus Depreciation Tax Treatment Opt Out** (Docket Nos. ER16-206-000, ER16-208-000, ER15-1250)

Results and Activity:

IPL learned that ITC Holdings Corp. has not taken bonus depreciation available to it under federal Internal Revenue Service (IRS) regulation since 2009. This election to opt out of bonus depreciation results in additional revenue requirement in the Attachment O Rates for ITC-M, increasing customer rates.

Formal Challenge:

- **IPL initiated an Information Exchange and issued an Informal Challenge under the MISO Formula Rate Protocols regarding the ITC-M handling of available bonus depreciation.**
- **IPL prepared a Formal Challenge under the MISO Formula Rate Protocols challenging the "prudence of actual costs and expenditures" in the Attachment O rate. It was filed at FERC on**

December 18, 2015. Interested parties may file comments to the Formal Challenge at FERC.

- IPL has estimated that ITC-M's 2015 revenue requirement is roughly $18 million higher than it would have been had ITC-M not opted out of bonus depreciation in the years since 2009. ITC-M's opt out results in approximately 5% higher ITC-M transmission rates, unnecessarily increasing costs to ITC-M's customers -- including IPL and its customers. As a result of ITC-M's decision, IPL's cost to its customers increases by about 1%, given that transmission costs make up roughly 20% of IPL's cost.

WPL Bent Tree Wind Farm Facilities Services Agreement:

- MISO filed at FERC the ITC-M and Wisconsin Power and Light Company (WPL, Alliant Energy's Wisconsin utility) Facilities Service Agreement (FSA) for the WPL Bent Tree Wind Farm Network Upgrades. The FSA was filed unexecuted due to ITC-M refusing to acknowledge in the agreement that it would use bonus depreciation, if available, to reduce the cost of the transmission system network upgrades associated with the WPL Bent Tree Wind Farm.
- WPL filed at FERC a Protest to the ITC-M and WPL FSA for Bent Tree due to ITC-M's refusal to acknowledge the availability of bonus depreciation.
- IPL filed at FERC comments supporting WPL's position on the FSA for Bent Tree.
- ITC-M filed an Answer to the WPL Protest at FERC.
- WPL filed a response to ITC-M's Answer at FERC.
- If this issue is not resolved and ITC-M refuses to acknowledge the availability of bonus depreciation for the network upgrades at IPL's Marshalltown Generating Station (MGS), it will likely impact the FSA for the MGS transmission upgrades, resulting in a higher cost for these upgrades to IPL.

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

Updated Results and Activity:

- On November 10, 2015, FERC issued an order in response to NextEra's rehearing request. FERC denied the rehearing request and affirmed its earlier decision that the cost allocation approach in place at the time a provisional GIA is amended shall be used. This is consistent with IPL's position on this issue and will provide greater savings to IPL customers through a more rapid transition to the new cost allocation approach adopted by FERC in which the interconnecting customers, instead of ITC-M transmission customers, pay for the cost of network upgrades. IPL believes this FERC proceeding is now complete.
- Projected annual revenue from generators interconnecting to ITC-M's system under the revised Attachment FF policy for ITC-M increased from about $1.2 million in 2015 to $5.9M in 2016. These

revenue credits represent on-going ITC-M transmission customer savings resulting from the revised Attachment FF policy for ITC-M which we expect to continue to grow.

C. Developments on transmission owner (TO) return on equity issues.

Updated Results and Activity:

- **First MISO Industrial Customer Complaint against MISO TO ROE, Capital Structure and ROE Adders** (Docket No. EL14-12-000)
  - **FERC sent the complaint to settlement and hearing procedures, with a refund period covering the 15 month from the date of the complaint on November 12, 2013 to February 11, 2015.**
  - **The Initial Decision was to be issued by the ALJ by November 30, 2015. The decision deadline has been extended to December 23, 2015. IPL will provide an update in the June 2016 Report.**

<u>MISO Activity, IPL Engagement</u>

Planning Associated with Marshalltown Generation Station (MGS)

Network Upgrade Cost Reductions

- IPL continues to anticipate a significant cost decrease for the network upgrades associated with the interconnection of MGS. The interconnection cost is estimated to be decreased by over $200 million from the $255 million initially estimated in the 2011 MISO System Planning and Analysis (SPA) Study, to approximately $21 million currently. This reduction of over $200 million in capital cost was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.

Generator Interconnection Agreement (GIA)

- **A conditional GIA is anticipated to be completed with MISO by December 31, 2015. It will need to be executed by IPL and ITC-M within 60 days following (beginning of March 2016). A MGS FSA will need to be completed within 30 days after the GIA (near end of March 2016). Similar to the WPL Bent Tree Wind Farm FSA, there is potential for the FSA for the MGS network upgrades to be filed at FERC unexecuted, due to IPL and ITC-M disagreement on bonus depreciation. However, the status of the FSA is not expected to impact the MGS GIA, network upgrade construction schedule or accreditation of MGS.**

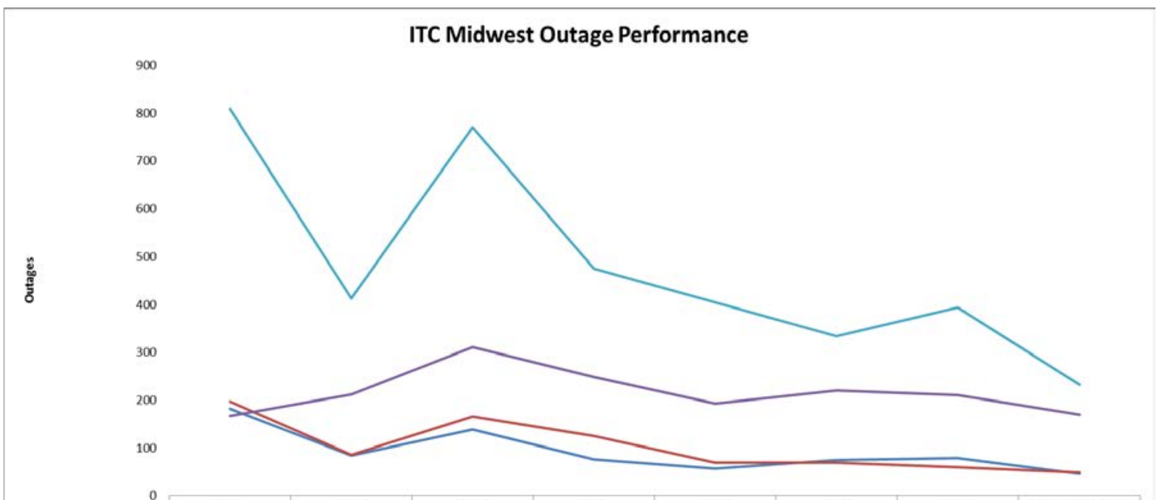
Planning associated with MGS has prompted additional engagement by IPL at MISO regarding MISO interconnection, capacity accreditation, resource adequacy and stakeholder processes. IPL continues to advocate at MISO and with other stakeholders for changes to these processes.

IPL Analysis of ITC-M and MISO Rates

- **ITC-M posted the 2016 Projected Attachment O Rate on its MISO OASIS website at http://www.oasis.oati.com/ITCM/, item number 105 on August 31, 2015. The posted information indicates customers of ITC-M will be charged $9.798/kW-Mo for 2016, up $0.53 from $9.265/kW-Mo for 2015, or 5.75%.**
    - **The increase is due to more invested capital and additional operating expenses.**
- **IPL asked ITC-M questions regarding the 2014 Attachment O True-Up posting, the ITC-M Partners in Business Meetings in May and October 2015, and the 2016 Proposed Attachment O Rate.**
- **IPL reviewed ITC-M's responses and found them satisfactory.**
- **As a result of the pending MISO transmission ROE dockets at FERC and actions to date, IPL expects that transmission ROE will very likely decrease. An ITC-M total ROE decrease of 1 to 2 % is plausible.**
    - **Refunds may begin as early as 2017, and are anticipated to flow through ITC-M Attachment O Rates and True-Ups. Prompt flow-through to IPL customers is anticipated through the RTS Rider.**

Transmission Outage Performance and Operations Coordination

- Transmission reliability and asset performance metrics have been updated with October 2015 year-to-date data in Figures 1, 2 and 3 below and illustrate a continued, significant and maintained trend of fewer sustained and momentary transmission outages, as well as shorter durations.



	2008	2009	2010	2011	2012	2013	2014	2015 through Oct
Sustained 69kV+	182	84	138	76	57	75	79	46
Sustained 34.5kV	196	85	166	125	69	69	60	48
Momentary 69kV+	167	212	310	248	192	219	210	170
Momentary 34.5kV	808	413	770	475	404	333	393	232

Figure 1 – ITC-M Outage Performance

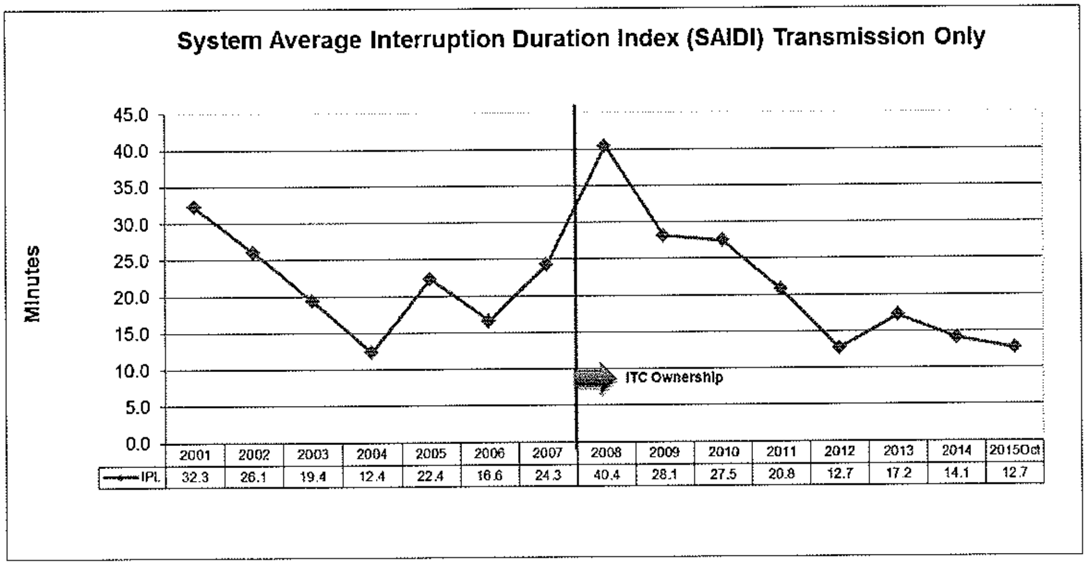


Figure 2 – Transmission Reliability, SAIDI (System Average Interruption Duration Index) - Average length in minutes of outages for all customers.

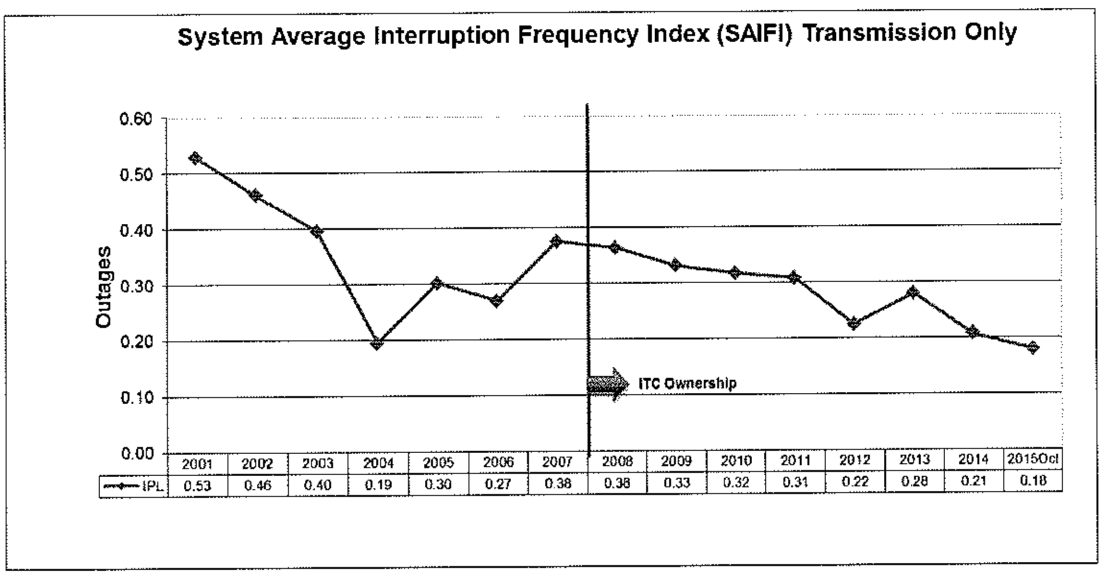


Figure 3 – Transmission Reliability, SAIFI (System Average Interruption Frequency Index) - Average number of outages experienced by all customers.

Transmission Stakeholder Meetings

On December 2, 2015, IPL held its tenth semi-annual Transmission Stakeholder meeting in Cedar Rapids.

During the Open Q&A Panel and Collaboration session a number of cost, efficiency and transmission rate comparison issues were discussed amongst transmission stakeholders and IPL representatives. In particular, topics of interest that generated the most interest and discussion with stakeholders during the overall meeting were:

- Base assumptions associated with future IPL resource planning, in conjunction with transmission planning
- ITC-M bonus depreciation opt out
- Energy Price Outlook

Conclusions

The activities and results detailed in this Report continue to demonstrate that IPL's actions and advocacy have a positive influence in managing the relationship with ITC-M and with IPL's customers to provide reliable and cost-effective service.

IPL and ITC-M continue to coordinate well on operations and planning issues and view their relationship as a partnership.

IPL recognizes and acknowledges that ITC-M is making needed investments in the transmission system, including system rebuilds, conversion and new facility construction. As a result, transmission system reliability has improved and is being maintained.

Aspects of customer savings noted in this and prior Reports from IPL advocacy and ITC-M investments include:

- Engagement with ITC-M and at FERC on the bonus depreciation opt out issue.
- As a result of IPL challenging the ITC-M Attachment FF policy, the ITC-M self-funding of $39 million of network upgrades for the WPL Bent Tree Wind Farm in Minnesota will be borne by WPL and its customers rather than all customers of ITC-M, which would have included IPL and its customers. This is only one example. When IPL initiated the complaint against the ITC-M Attachment FF policy, IPL estimated that as much as $170 million in ITC-M generator interconnection costs would have been absorbed by ITC-M network transmission customers over the period 2008-2016 under the policy, thus increasing ITC-M transmission customer rates.
- An anticipated significant cost decrease for the network upgrades associated with the interconnection of MGS. The interconnection cost is estimated to be decreased by over $200 million from the $255 million initially estimated in the 2011 MISO System Planning and Analysis (SPA) Study, to approximately $21 million currently. This reduction of over $200 million in capital cost was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.
- An IPL study in early 2015 of the ITC-M Salem-Hazelton 345kV line that went in service in 2013 showed the line enables a lower market cost to serve IPL load. Looking at just the IPL load control area and using a 2019 MISO study base case as a proxy to examine, IPL estimated the line provides approximately $8 million savings annually from serving IPL load from MISO market resources and increasing IPL generation margins from selling its

resources into the MISO market. ITC-M has previously indicated that prior studies estimated the Salem-Hazleton Project provided approximately $108 million per year in lower *regional* (larger impact than just IPL load area) energy costs across MISO due to lower congestion costs and removal of key transmission constraints.

- Customer outage reduction cost savings estimated in the range of $168-498 million, over the life of the assets (in 2013 dollars), from a joint IPL and ITC-M study analyzing savings resulting from the improved current and future reliability from ITC-M's transmission ownership and investment in years 2008-2013.

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

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 (Regional Transmission System (RTS) Rider). 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 June 30, 2015 (June 2015 Report):

1. ITC-M Relationship Management;
2. Review, Analysis of and Response to ITC-M Dockets at the Board;
3. Federal Energy Regulatory Commission (FERC) Transmission Activity and IPL Engagement;
4. Midcontinent Independent System Operator, Inc. (MISO) Activity and IPL Engagement;
5. IPL and ITC-M's Joint Project Planning Process;
6. IPL 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 addresses the most significant new and continued issues, actions and results affecting transmission service and cost since the June 2015 Report. The Report does not necessarily address *all* activity or previously reported items without new developments. **However; some background information from prior reports is selectively retained in this Report in order to provide continuity and context. Updates and significant results are generally in bold text and/or proceeded by "Updated Results and/or Activity" at the beginning of the major sections.**

IPL is continuing to include in this Report analysis on changes to ITC-M rates, their drivers and reasonableness in the context of value for IPL's customers.

IPL's strategy continues to be customer-centric by influencing the balance between the cost and benefits of transmission service provided to IPL customers through its advocacy for customer interests with ITC-M, MISO, and FERC including active engagement with large customers, interveners, the Iowa Office of Consumer Advocate (OCA) and Board in stakeholder meetings and other forums.

IPL's strategy is further driven by the "IPL Transmission Management Approach":

Goal: Provide access to a reliable, cost effective electric transmission system that creates long-term value for IPL customers

- Provide benefits to IPL customers through effective and purposeful planning of and investment in the transmission system
- Advocate for appropriate transmission costs to IPL customers that align with benefits provided
- Engage and inform stakeholders regarding transmission management approach and implementation
- Maintain effective management oversight of and engagement in transmission activities, including regional and federal regulatory and policy venues to address key transmission issues

Notable, Updated Results and Activity discussed in this Report include:

- **ITC-M opting out of use of bonus depreciation, related customer cost impacts, and resulting IPL and Wisconsin Power and Light Company's (WPL, Alliant Energy's Wisconsin utility) actions.**
- **IPL's Complaint on ITC-M Attachment FF and related funding of network upgrades.**
- **Developments on transmission owner (TO) return on equity issues.**

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.

Numerous 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.

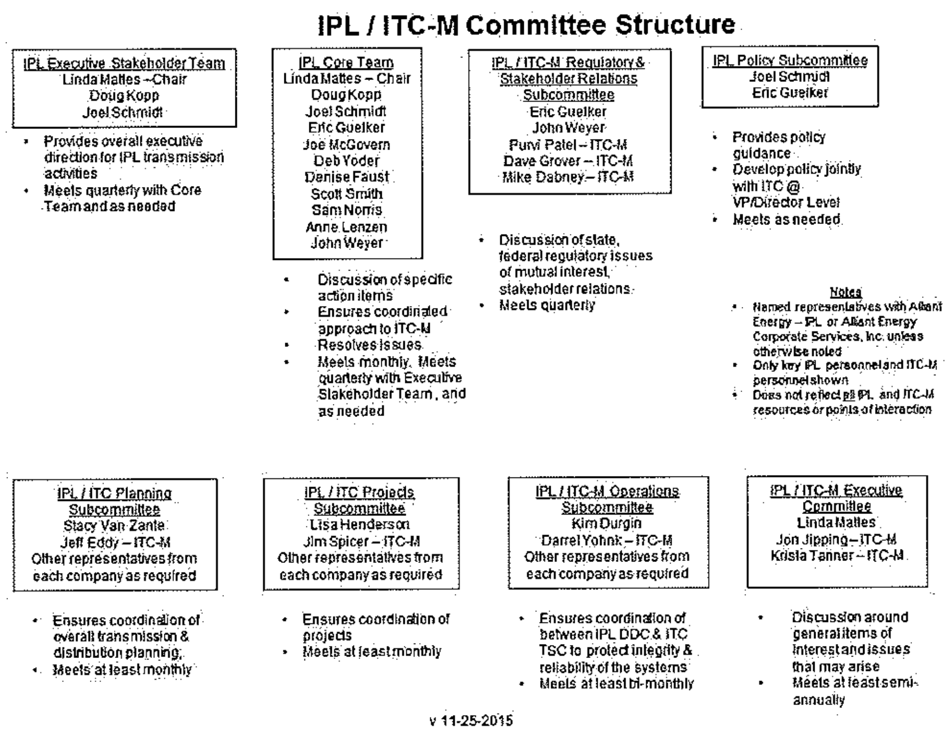
In addition, IPL has access to and periodic contacts with ITC-M executive leadership to discuss current and future operational performance and customer cost issues. A variety of financial, planning, operational and regulatory topics are discussed, with additional support from appropriate representatives of each company. For example, these meetings have resulted closer coordination on distributed generation that connects to IPL distribution and can have transmission impacts, and closer coordination on ITC-M transmission planning associated with IPL generation resource planning.

The companies continue to coordinate well on operations and planning issues and view the relationship as a partnership.

The committee structure with ITC-M is represented in Figure 4. No notable changes in personnel assignments have occurred since the June 2015 Report.

The IPL Executive Stakeholder Team continued to meet internally 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, and
- Board



(While the committee structures appear very formal, they are in reality very flexible in the composition of members and meeting frequency in order to maximize efficiency and effectiveness in addressing issues in the interests of customer costs and service levels.)

Figure 4 – IPL / ITC-M Committee Structure

2. Review, Analysis of and Response to ITC-M Dockets at the Board

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 to the Board.

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 Transmission Planning, Delivery System Planning departments 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. IPL's Delivery 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 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 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 be successful with influencing a project in the desired direction.

Since IPL's June 2015 Report, IPL has reviewed 9 new dockets filed by ITC-M with the Board, and provided letters of support to the Board for all 9. A summary of IPL's review of new ITC-M filings to the Board is provided in Table 1.

Table 1 – New ITC-M Filings with Iowa Utilities Board Reviewed by IPL
June 15, 2015 – December 11, 2015

Week Of	Docket No.	Short Description	IPL Action Taken	Reason
07/05/2015	E-22219	Fairfield to Denmark 161kV	Support	Franchise Renewal
07/19/2015	E-22211	Hanlontown to manly 69kV line	Support	Franchise Renewal
07/26/2015	E-22223	Douds Substation to Highway 17 69kV	Support	Conversion
08/23/2015	E-22227	Wapello County to Jefferson 69kV	Support	Franchise Renewal
08/29/2015	E-22240	Monticello North to County Line 69kV, Wyoming East Double Circuit 69kV, Wyoming to Onslow 69kV lines	Support	Conversion
08/29/2015	E-22241	Lovell to CIPCO 69kV, Monticello IND. To MVEC Lovell Sub 69kV, Monticello to Amber 69kV, Amber to Center JCT 69kV Lines	Support	Franchise Renewal
10/18/2015	E-22243	Coulter Sub Tab 69kV	Support	Franchise Renewal
11/01/2015	E-22246	Denmark to BGS 161kV Lines	Support	Franchise Renewal
11/01/2015	E-22247	Denmark to BGS 161kV Lines	Support	Franchise Renewal

<u>Supported</u> generally means the filings are for projects IPL views in the best interests of IPL customers, such as franchise renewals, rebuilt facilities, certain new facilities, North American Electric Reliability Corporation (NERC) compliance, or the MISO Multi Value Portfolio.
<u>No Action</u> generally applies to filings of no consequence to IPL customers.
<u>Objected to or With Comments</u> generally applies to projects unnecessary for IPL customer reliability or inappropriate cost allocations to IPL customers.

3. FERC Transmission Activity, IPL Engagement

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

Specifically in its advocacy for customer cost interests at FERC, IPL supports transmission investment that provides benefits to customers through effective and purposeful planning along with the proper alignment of costs and benefits.

IPL does not object to FERC's policy of providing transmission owners with incentives to encourage particular practices and to meet specific policy goals where and when needed. However, in its FERC engagement, IPL has proffered that the most efficient and effective way to achieve such policy is for FERC to take a holistic approach to its transmission investment policy in general and ROE treatment in particular.

Since the June 2015 Report, IPL notes the following most significant FERC activity, and IPL's engagement.

A. **Cost Increase Resulting from ITC-M and Bonus Depreciation Tax Treatment Opt Out** (Docket Nos. ER16-206-000, ER16-208-000, ER15-1250)

Results and Activity:

IPL learned that ITC Holdings Corp. has not taken bonus depreciation available to it under federal Internal Revenue Service (IRS) regulation since 2009. This election to opt out of bonus depreciation results in additional revenue requirement in the Attachment O Rates for ITC-M, increasing customer rates.

- **IPL initiated an Information Exchange and issued an Informal Challenge under the MISO Formula Rate Protocols regarding the ITC-M handling of available bonus depreciation (Attached as Appendix 1).**
- **MISO filed the ITC-M and WPL Facilities Service Agreement (FSA) for the WPL Bent Tree Wind Farm Network Upgrades, unexecuted at FERC, and a revision (Attached as Appendix 2).**
- **WPL filed a Protest at FERC to the ITC-M and WPL FSA for Bent Tree, and an updated Amendment (Attached as Appendix 3).**
- **IPL filed Comments at FERC to the ITC-M and WPL FSA for Bent Tree (Attached as Appendix 4).**
- **ITC-M filed an Answer at FERC to the WPL Protest (Attached as Appendix 5).**
- **WPL filed a response at FERC to ITC-M's Answer (Attached as Appendix 6).**
- **IPL prepared a Formal Challenge under the MISO Formula Rate Protocols challenging the "prudence of actual costs and expenditures" in the Attachment O rate. It was filed at FERC on December 18, 2015 and is attached as Appendix 7.**

Background

Bonus depreciation has been in effect since 2008 and is the result of provisions in the federal tax laws that allow a corporation to deduct either 50 percent or 100 percent of the qualifying capital investments in the first year an investment is placed in-service for tax purposes.

Congress is currently looking at the potential of extending many of the tax provisions in the Internal Revenue Code that expired at the end of 2014 including a five year extension for bonus tax depreciation under which expenditures through December 2019 would qualify for bonus depreciation. This extension of bonus depreciation is part of the "Protecting Americans from Tax Hikes Act of 2015" and has been passed by the House of Representatives. Alliant Energy expects, similar to prior years, that the tax extenders will be signed into law sometime before the end of 2015 and will apply to facilities placed into service from 2015 through 2019.

Bonus depreciation significantly increases deferred tax liabilities. For utilities, the deferred tax liabilities associated with bonus depreciation are required to be included in rate base, which has the effect of reducing rate base and lowering customer costs.

The default presumption is that companies will not elect out of using bonus depreciation. However, the U.S. Treasury Department has provided taxpayers with an opportunity to opt out of taking bonus depreciation.

This opt out election is useful when failure to do so might cause a permanent loss of tax benefits. As bonus depreciation works to reduce rate base and thus customer rates, it would be imprudent for a company to elect out of bonus depreciation if it is paying current taxes and is not protecting any permanent tax benefits. Notably, if a company chooses to elect out of bonus depreciation it may later request to revoke the election by obtaining IRS consent through a private letter ruling.

IPL has determined that a significant majority of all utilities have taken bonus depreciation to the fullest extent possible.

Results:

IPL Engagement with ITC-M through MISO Formula Rate Protocols

IPL initiated in June 2015 the Information Exchange and Challenge process with ITC-M under the MISO Formula Rate Protocols. ITC-M did not agree with IPL's requests for ITC-M to effectively reverse its decision, particularly with respect to ITC-M's 2014 Attachment O True-Up to be applied to ITC-M's 2016 Attachment O projected rate. ITC-M's responses did not offer to IPL an appropriate and acceptable rationale for its decision. Further, ITC-M has indicated that it believes IPL's challenge is invalid and that it does not intend to reverse its decision.

IPL prepared a Formal Challenge under the MISO Formula Rate Protocols challenging the "prudence of actual costs and expenditures" with respect to the 2014 ITC-M Attachment O True-Up (that reflects the added revenue required from not taking bonus depreciation) and its application to the projected 2016 ITC-M Attachment O rates. It was filed at FERC on December 18, 2015 and is attached as Appendix 7. It was filed in FERC Docket No. ER15-1250, which is the annual ITC-M transmission rate Informational Filing under the MISO Formula Rate Protocols. There is opportunity for interested parties to file comments at FERC.

If the result of a Formal Challenge under the Protocols is deemed unsatisfactory, then IPL will consider filing a Section 206 complaint against ITC-M at FERC. If a Section 206 complaint is filed, it will also be an opportunity for interested parties to file comments.

If this issue is not resolved and ITC-M refuses to acknowledge ITC-M will use bonus depreciation, if available, for the network upgrades at IPL's Marshalltown Generating Station (MGS), it will likely impact the FSA being developed for the network upgrades for the MGS transmission upgrades, resulting in a higher cost for these upgrades to IPL.

Importantly, when bonus depreciation is utilized it is done so on all capital investments within a given class of assets in a given year, not selected projects, so ITC-M's choice to not utilize bonus depreciation will not affect only the Bent Tree or MGS network upgrades, but will affect all capital investments in the asset class, including those elsewhere in the ITC-M transmission system, resulting in higher customer costs. These asset cost impacts directly affect IPL's customer's cost of transmission services.

IPL has estimated that ITC-M's 2015 requirement is roughly $18 million higher than it would have been had ITC-M not opted out of bonus depreciation in the years since 2009. ITC-M's opt out results in approximately 5% higher ITC-M transmission rates, unnecessarily increasing costs to ITC-M's customers -- including IPL and its customers. As a result of ITC-M's decision, IPL's cost to its customers increases by about 1%, given that transmission costs make up roughly 20% of IPL's cost.

Consumers Energy, the principal utility subsidiary of CMS Energy (CMS) and DTE Electric, a utility subsidiary of DTE Energy (DTE) are both utility customers of ITC Holdings transmission company subsidiaries in Michigan, METC and ITC Transmission, respectively. IPL informed both CMS and DTE of the decision of ITC and its operating companies to elect out of bonus depreciation. Both CMS and DTE have since engaged with their respective ITC companies on this same issue. They have similar interests regarding ITC's decision and IPL is actively discussing this issue with them.

WPL Bent Tree Wind Farm FSA Unexecuted with ITC-M

In addition, a WPL and ITC-M disagreement on the ITC-M handling of bonus depreciation has resulted in the WPL Bent Tree FSA with ITC-M being filed at FERC unexecuted in October 2015. The FSA was filed unexecuted due to ITC-M refusing to acknowledge in the agreement that it would use bonus depreciation, if available, to reduce the cost of the transmission system network upgrades associated with the WPL Bent Tree Wind Farm project. In response, WPL has filed a Protest. The Large Energy Group (LEG) provided WPL a letter of support for its Protest, concerned that the MGS FSA costs to IPL could also be increased because of the bonus depreciation issue. IPL and other interveners (e.g. Board, Office of Consumer Advocate (OCA), and Iowa Consumers Coalition (ICC)) have filed supportive comments. ITC-M filed an Answer to the WPL Protest. WPL filed a response to ITC-M's Answer.

Approximately $38 million of the required Bent Tree network upgrades are being self-funded by ITC-M under Attachment X of the MISO Tariff. However, WPL as the generator and its customers are responsible for those costs. The FSA specifies the payments from WPL to ITC-M for the required Bent Tree network upgrades, amortized over the life of the project. If the project qualifies for bonus depreciation and if ITC-M does not utilize bonus depreciation, the impact to this project may exceed $12 million in additional

transmission service costs to WPL and its customers over the 25 year life of the FSA.

B. **FERC Investigation into MISO Attachment O Formula Rates** (Docket Nos. EL12-35-000, ER13-2379-000)

Updated Results and Activity:

- **IPL has continued to engage in the processes through the updated protocols resulting from the proceeding, allowing additional review of Attachment O rates with ITC-M to gain clarity on projected rates, as well as the bonus depreciation issue discussed above in Section 3. A.**
- **With no further activity in this docket, IPL believes this FERC proceeding is now complete.**

Background

Following complaints regarding MISO transmission formula rates, FERC initiated an investigation in 2012, noting that the current structure may be unjust, unreasonable, unduly discriminatory, preferential or otherwise unlawful. Areas of concern where FERC requested comments from interested parties included the scope of participation, transparency of the information and ability to challenge. Ability to engage the prudency and details of formula rates is essential to IPL's advocacy for customer cost interests.

Results:

- IPL submitted comments to FERC in June 2012. 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 sought 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 rapid rise in ITC-M rates.
- In May 2013, FERC issued an order which found that MISO's and individual company formula rate protocols are insufficient. FERC directed MISO and the impacted TOs, which includes ITC-M, to make certain changes to their formula rate protocols. Changes were 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 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.

- IPL provided verbal suggestions to ITC-M in August 2013 regarding additional information IPL would find helpful in ITC-M's projected Attachment O rate presentations, including more detail on Administrative and General (A&G), Operations and Maintenance (O&M) costs, correlation of projects to the annual MISO Transmission Expansion Plan (MTEP) and more breakout of capital on multi-year projects. IPL suggested that these considerations might also factor into ITC-M's participation with other MISO TOs in the development of the formula rate protocol compliance filing with FERC. ITC-M indicated that it was not expected that the compliance filing would reflect much change to the existing Attachment O protocols for projected rates, but they indicated appreciation of the suggestions and that they would take them into consideration.
- MISO and the TOs, including ITC-M, collaborated on their compliance filing and filed at FERC on September 13, 2013. Among other provisions In their filing, MISO and the TOs highlighted:
    - Request that the revisions to the MISO tariff be effective January 1, 2014.
    - Have definitive timelines for interested parties and TOs to have Information Exchanges, Informal Challenges, and Formal Challenges to TOs' annual net revenue requirement and True-Up Adjustments.
    - Agree to comply with the requirement to provide additional information, including supporting documents and work papers for data that is not available in the FERC Form 1 or other applicable data source documents, that includes sufficient information to enable interested Parties to replicate the calculation of the formula results and identify any changes to the formula references.
    - Agree to make required annual informational filings to FERC that include:
        - Input data to formula rates are properly recorded in any underlying work papers;
        - that the Transmission Owner has properly applied the formula rate and the procedures in the protocols
        - 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
        - the extent of accounting changes that affect formula rate inputs, and
        - the reasonableness of projected costs included in the projected capital addition expenditures
    - Provided illustrative examples of the revised protocols and red-lined versions of the MISO Attachment O to comply with the FERC order.
    - Indicated that due to the expected time for FERC to act on the compliance filing, MISO and the TOs do not expect that the

revised procedures and timelines will be applied until June 1, 2014.

- On October 18, 2013, Alliant Energy Corporate Services, Inc. (AECS) on behalf of its affiliate utilities IPL and WPL, filed comments at FERC on the compliance filing. AECS's comments explain that while the company is supportive of the steps being taken, the filing is deficient in that changes to protocols are being focused on True-Up procedures and are not being applied to projected rates such as those used by ITC-M and the American Transmission Company (ATC). AECS stressed the importance of thoroughly understanding projected rates and their basis, and the need for the new protocols to be applied to projected rates and not just True-Up procedures. Further, AECS noted that in order to be in a sufficient position to fully evaluate and influence projected rates on behalf of customers, greater understanding of the reasonableness, prudency, and anticipated benefits of the projected rates is needed.
- Various entities with MISO interests filed comments to the compliance filing regarding the details of the timing and specific information made available in the review of actual revenue requirements and the True-Up adjustments. A few, including the OMS made similar comments to AECS regarding the needed application of the protocols to projected rates.
- On March 20, 2014, FERC conditionally accepted the September 2013 compliance filing and denied a rehearing request on its 2013 order for changes in MISO's Attachment O tariff protocols. FERC has recognized the comments made by AECS, OMS and others that new protocols filed by the MISO and the TOs focused on the processes and timelines to review and challenge the after-the-fact rates. The new protocols did not clearly provide any additional mechanisms for review and challenge of the projected rates for the following year, such as those IPL is subject to from ITC-M. FERC indicated in the March 2014 order that the May 2013 order was meant to apply to projected revenue requirements as well. Along with other revisions, MISO and the TOs are required to revise the compliance filing to reflect the process and timelines for customers to review the reasonableness of projected rates.
- On April 18, 2014, OMS requested a rehearing and clarification of the March 20 order, asserting that FERC failed to make clear that the proposed protocols apply to the initial establishment of a formula rate revenue requirement by a MISO TO, and that FERC erred when it allowed the revised formula rate protocols to become effective on January 1, 2014, rather than the refund effective date of May 23, 2012, established in the May 2013 order.
- MISO and the TOs filed a revised compliance filing on May 19, 2014. The compliance filing does make the protocol changes to include application to the projected net revenue requirements as used by ITC-M. The timeline is clearer and tied to specific dates, rather than elapsed time as it was before. The timeline is also somewhat longer, allowing Interested Parties such as IPL more time to review the Annual True-Up, projected revenue requirement, etc. and to initiate Information Exchanges, Informal Challenges or Formal Challenges. Also on May 19, FERC issued a tolling order on OMS' rehearing request.

- On June 9, 2014, a group of Arkansas and Mississippi cooperative and municipal utilities (Joint Customers) filed a Protest at FERC against the MISO and the TOs on procedural, timeline and calculation issues.
- On June 12, 2014, the OMS filed a Motion to File Comments Out of Time and Comments of OMS regarding procedural issues.
- On January 22, 2015, FERC conditionally accepted MISO and the TO's May 2014 compliance filing subject to a further compliance filing, denied the Organization of MISO States (OMS) rehearing and clarification request, and affirmed the protocols to be effective January 1, 2014. The revised compliance filing required adjustments to the scope of participation in the challenge and review procedures, transparency of the information exchange process and the ability of customers to challenge transmission owners' implementation of the formula rate.
- MISO and the TOs filed a revised compliance filing on February 13, 2015.
- FERC has taken no further action thus far in the dockets.
- IPL has continued to engage in the processes through the updated protocols resulting from the proceeding, allowing additional review of Attachment O rates with ITC-M to gain clarity on projected rates, as well as the bonus depreciation issue discussed above in Section 3. A.
- With no further activity in this docket, IPL believes this FERC proceeding is now complete.

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

Updated Results and Activity:

- **On November 10, 2015, FERC issued an order (Attached as Appendix 8) in response to NextEra's rehearing request. FERC denied the rehearing request and affirmed its earlier decision that the cost allocation approach in place at the time a provisional GIA is amended shall be used. This is consistent with IPL's position on this issue and will provide greater savings to IPL customers through a more rapid transition to the new cost allocation approach adopted by FERC in which the interconnecting customers, instead of ITC-M transmission customers, pay for the cost of network upgrades. IPL believes this FERC proceeding is now complete.**
- **Projected annual revenue from generators interconnecting to ITC-M's system under the revised Attachment FF policy for ITC-M increased from about $1.2 million in 2015 to $5.9 million in 2016. These revenue credits represent on-going ITC-M transmission customer savings resulting from the revised Attachment FF policy for ITC-M.**

<u>Background</u>

Results:

In ITC-M's implementation of the tariff, the costs of network upgrades related to generator interconnections were reimbursed to generators and thus passed on to IPL customers through ITC-M's rates. IPL had previously communicated its concerns to ITC-M regarding its implementation of the MISO Attachment FF. IPL contended 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 declined to make such a change, instead noting the professed benefits of the 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 was 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.

- IPL developed a Section 206 complaint and filed at FERC on September 14, 2012, seeking change to ITC-M's Attachment FF generator interconnection cost allocation policy, indicating:
    - IPL customers were significantly and unfairly disadvantaged by ITC-M's policy which inappropriately allocated generator interconnection cost to network customers, rather than the connecting generator itself;
    - Using ITC-M's historical and forecasted capital expenditures for generator interconnections, IPL calculated a cost shift to IPL customers totaling $170 million would have occurred over the period 2008-2016 under the then-current ITC-M Attachment FF implementation, versus an Attachment FF implementation consistent with the majority of MISO.
    - 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 OCA.
- 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.
- On July 18, 2013, FERC issued an order granting IPL's complaint and directed MISO on behalf of ITC-M to make revisions to Attachment FF so that ITC-M's reimbursement policy is consistent with the other MISO zones. Changes were effective as of the date of the order. Customers who had Generator Interconnection Agreements (GIAs) executed or filed with the FERC prior to the date of the order use the former reimbursement policy. GIAs executed or filed with the FERC prior to the date of the order but that are amended to add additional network upgrades will be addressed on a case-by-case basis.
- On August 14, 2013, MISO filed at FERC a compliance filing with the applicable MISO tariff sections edited to reflect the July 18, 2013 FERC order.
- On August 16, 2013, ITC-M filed a rehearing request and in the alternative, a clarification. The rehearing request argued that FERC:

- Neglected to articulate a rational connection between the facts and its decision
- Failed to justify its departure from prior decisions
- Erred by ignoring its own cost causation policies
- Erred by agreeing with the complaint without holding a hearing and finding that IPL met its burden of proof without an adequate record evidence upon which to make such a finding
- Deprived ITC Midwest of meaningful FPA Section 205 rights
- Erred by instituting rates for the ITC-M zone that discourages new generation

As an alternative to a rehearing, ITC-M also asked for a clarification on the effective date of FERC's ordered changes and requested that customers with provisional GIAs as of July 18, 2013 will continue to be subject to the policy where ITC-M provided 100% reimbursement and that customers that have made M2 milestone payments as of July 18, 2013 will be subject to the 100% reimbursement policy formerly in place.

- On August 19, 2013, IPL also filed a request for clarification which sought to clarify that FERC's directed changes apply to existing GIAs that are amended after the date of the July 18, 2013 order. As stated above, the order indicated FERC would handle these situations on a case-by-case basis. NextEra Energy Resources, Inc. filed a response to IPL's clarification objecting and requesting that that the new policy not apply to all amendments of GIAs following July 18, 2013, and in particular not to new network upgrades in such GIAs that are required because of the completion of interconnection studies required by the existing GIA.
- On September 16, 2013, FERC issued a tolling order related to the rehearing and clarification requests filed which gave FERC an open ended amount of time to consider the requests. In the meantime, the order of July 18, 2013 remained in effect as issued.
- On December 13, 2013, Alliant Energy Corporation (AEC, parent of IPL and WPL) and its subsidiary IPL filed a Form 8-K with the Securities and Exchange Commission (SEC). In this filing, AEC and IPL noted that IPL had expected to fund capital transmission upgrades for its planned MGS based on the July 18, 2013 FERC order on ITC-M's Attachment FF and assumed such upgrades in its capital expenditure guidance issued on November 7, 2013. IPL has been informally notified that ITC-M intends to pursue an option under the terms of the MISO Generator Interconnection Procedures to self-fund the transmission upgrades associated with MGS. This self-fund option is under Attachment X of the MISO tariff, separate from Attachment FF. Under this option, IPL anticipates a direct assignment facility expense for the network upgrades after the upgrades are placed into service. IPL does not believe that the cost cap included in the Board's Proposed Decision and Order of November 9, 2013 would be affected if ITC-M were to ultimately self-fund the transmission upgrade.
- On February 20, 2014, FERC issued an order denying ITC-M's request for rehearing, granting in part and deny in part ITC-M and

IPL's respective requests for clarification, and accepting MISO's compliance filing.

- Denies ITC-M's request for rehearing – Among the points FERC noted:
  - A "fundamental flaw" in the prior ITC-M policy in that it did not provide adequate contribution to the costs of network upgrades required to interconnect a generator from either the generator or a transmission customer taking service when the generator exports to another MISO pricing zone;
  - The July 18, 2013 order is consistent with prior FERC precedent, which has sought to properly incentivize network upgrade benefits while protecting native load from improperly subsidizing generator interconnection;
  - In a prior order approving the existing MISO policy, FERC explicitly affirmed that the policy 'remains just and reasonable,' and still is;
  - The order does not create a subsidy in favor of existing transmission customers; and
  - The order does not discourage renewable generation.
- Grants in part and denies in part ITC-M's request for clarification:
  - Upgrades identified in a provisional GIA that was executed or filed unexecuted prior to July 18, 2013, will be governed by the prior ITC-M policy. However, upgrades that are subsequently identified and incorporated into an amended and restated GIA, which may or may not be considered provisional at the time of amendment, and which were not included in a provisional GIA that was executed or filed unexecuted prior to July 18, 2013, will be governed by the new MISO policy in effect in the ITC-M zone after July 18, 2013.
  - Interconnection customers who had reached the MISO M2 milestone in the generator interconnection queue process prior to the July 18, 2013 order will not remain eligible for reimbursement under the ITC-M policy, consistent with the finding in the order that customers that have executed a GIA or filed an unexecuted GIA prior to July 18, 2013 remain eligible for reimbursement under the ITC-M Policy. If customers posted the M2 milestone and now wish to withdraw from the queue because of the changes ordered, and the MISO Tariff does not provide an opportunity for them to recoup their M2 milestone payment, those customers may file a request for waiver with FERC and present their case for recovery.
- Grants in part and denies in part IPL's requests for clarification:
  - As discussed above, upgrades that are subsequently identified and incorporated into an amended and

restated GIA, which may or may not be considered provisional at the time of the amendment, and which were not included in the provisional GIA that was executed or filed unexecuted prior to July 18, 2013, will be governed by the MISO policy in effect in the ITC-M zone after July 18, 2013.

   - However, as stated in the July 18, 2013 order, FERC believes that amendments to non-provisional GIAs, i.e. permanent GIA's which may have additional upgrade responsibility due to re-study caused by projects dropping out of the queue, are more appropriately addressed on a case-by-case basis to give consideration to the situation giving rise to the amendments.

- The February 20, 2014 FERC order substantially affirmed the July 18, 2013 order where IPL prevailed in its complaint. Like the July 18, 2013 order, the February 20, 2014 order is overwhelmingly a positive for IPL and its customers.
- On March 24, 2014, NextEra Energy Resources, LLC (NextEra) filed at FERC a request for rehearing on the February 20 order. NextEra asked for rehearing because two of its wind projects (Crystal Lake II and III) have provisional, executed GIAs filed in 2008 and 2009. MISO did not complete the system impact studies for these projects until March 2013. MISO has not yet amended the GIAs to include any additional network upgrades. Therefore, as a result of the February 20, 2014 order, NextEra argues it will be responsible for any additional network upgrade costs since the GIAs will be amended after the date of the original July 18, 2013 order. NextEra argues that this is due to no fault of its own, but rather due to the delays of MISO studies and GIA amendments. NextEra had previously made a similar argument in a response to IPL's clarification request to the July 18, 2013 order.
- On April 23, 2014, FERC issued a Tolling Order on NextEra's rehearing request. The tolling order affords FERC additional time for consideration of the rehearing request and will address it in a future order.
- As a result of IPL challenging the ITC-M Attachment FF policy, the ITC-M self-funding of $39 million of network upgrades for the WPL Bent Tree Wind Farm in Minnesota will be borne by WPL and its customers through a FSA between ITC-M and WPL. Under the prior ITC-M Attachment FF policy, those costs would have been borne by all customers of ITC-M, of which IPL customers constitute 88% of the load and corresponding cost. WPL's Bent Tree Wind Farm is only one example—IPL customers will benefit from future interconnecting generators being responsible for network upgrade costs, not customers of ITC-M.
- ITC-M's first use of the self-funding arrangement was exhibited in early 2015 with FSA submitted to FERC (Docket No. ER15-884-000) by MidAmerican Energy (MEC) and ITC-M for a wind farm project in Grundy County Iowa that will necessitate network upgrades.

Specifically, the costs for the Wellsburg 161/69 kV transformer will be borne by MEC through the FSA instead of all customers of ITC-M, as would have been done through the prior Attachment FF policy. IPL expects ITC-M to handle the future cost allocation for generator interconnection network upgrades similarly as a result of the change in Attachment FF policy prompted by IPL through FERC.

- Likewise, as a result of the change in ITC-M Attachment FF policy, the ITC-M self-funding of network upgrades for MGS will be borne by IPL and its customers through a FSA between ITC-M and IPL. Although under the prior ITC-M Attachment FF policy those costs would have been borne by customers of ITC-M of which IPL constitutes only 88% of the load and corresponding cost, the self-fund arrangement is overall more fair and cost advantageous to IPL and IPL customers. In addition, the cost allocation is in keeping with IPL's policy objective that costs and benefits be aligned. As noted in the Follow-up Questions and Responses from the December 3, 2014 IPL Transmission Stakeholder Meeting and attached to the December 2014 Report, IPL's analysis concluded that ITC-M's election to use the self-fund option for the MGS network upgrades is in the best interest of IPL and IPL customers from the lower cost compared to IPL providing the up-front funding for those upgrades to ITC-M. The analysis showed that the lower IPL weighted average cost of capital is more than offset by the impacts of the requirement to gross-up any up-front payment to ITC-M for the construction costs to account for the impact of taxes required to be paid for ITC-M.
- On November 10, 2015, FERC issued an order (Attached as Appendix 8) in response to NextEra's rehearing request. FERC denied the rehearing request and affirmed its earlier decision that the cost allocation approach in place at the time a provisional GIA is amended shall be used. This is consistent with IPL's position on this issue and will provide greater savings to IPL customers through a more rapid transition to the new cost allocation approach adopted by FERC in which the interconnecting customers, instead of ITC-M transmission customers, pay for the cost of network upgrades. IPL believes this FERC proceeding is now complete.
- Projected annual revenue from generators interconnecting to ITC-M's system under the revised Attachment FF policy for ITC-M increased from about $1.2 million in 2015 to $5.9 million in 2016. These revenue credits represent on-going ITC-M transmission customer savings resulting from the revised Attachment FF policy for ITC-M.

D. **Otter Tail Power Company (OTP) Complaint against MISO Self-Funding Policy for Network Upgrades** (Docket No. EL15-36).

Activity and Results:

- **In a matter related to IPL's Complaint on ITC-M Attachment FF and FERC's resulting orders, OTP filed a complaint (Attached as Appendix 9) on January 12, 2015 regarding the inability in the MISO tariff for an Affected System Operator to self-fund network upgrades** required for a generator interconnection. An Affected System Operator is a TO whose system will also incur required network upgrades, but is not directly-interconnected to the interconnection customer.

- FERC's June 18, 2015 order on Docket Nos. ER14-2464-002 and EL15-36-000 (Attached as Appendix 10) granted OTP's complaint in part and found that Affected System Operator TOs should also have the right to self-fund their network upgrades. In addition, FERC instituted a proceeding in Docket No. EL15-68-000 finding that it may be unjust and unreasonable for TOs to have the *unilateral* right to fund network upgrades. As an alternative, FERC offered that MISO's Tariff could be revised to provide that the transmission owner or Affected System Operator may only elect to provide the initial funding for network upgrades if the interconnection customer agrees to such election; otherwise, the interconnection customer must fund the network upgrades associated with its interconnection request through other means.
- FERC ordered MISO within 60 days to indicate if it would make the needed changes in its tariff, or explain why not.
- On July 20, 2015, the MISO TOs filed a rehearing request on the basis that the FERC order of June 18 is inconsistent with precedent (Attached as Appendix 11)
- On August 17, 2015, MISO filed an informational report indicating that it would propose tariff changes when FERC has addressed the comments, protests and rehearing requests in the docket and related dockets (Attached as Appendix 12).
- On August 19, 2015, FERC issued an order granting rehearing for further consideration (Attached as Appendix 13).
- On September 30, 2015, AECS filed comments supportive of the FERC investigation into the MISO network upgrade funding rules initiated in Docket No. EL15-68 noted above. The comments of AECS support an approach to determining who will fund network upgrades based on considerations of costs to customers (Attached as Appendix 14).
- IPL continues to monitor the proceedings.

E. **First MISO Industrial Customer Complaint against MISO TO ROE, Capital Structure and ROE Adders** (Docket No. EL14-12-000)

Updated Results and Activity:

- In FERC orders issued in January and February 2015, FERC appointed an ALJ and sent the complaint to settlement and hearing procedures, with a refund period covering 15 months from the date of the complaint on November 12, 2013 to February 11, 2015.
- **The Initial Decision was to be issued by the ALJ by November 30, 2015. The decision deadline has been extended to December 23, 2015. IPL will provide an update in the June 2016 Report.**

Background

On November 12, 2013, a group of industrial customer organizations in MISO filed a complaint at FERC seeking reduction of the base ROE (12.38%) used by the MISO TOs (including ITC-M) transmission rates to 9.15%, instituting a capital structure in which the assumed equity component does not exceed 50%, and eliminating the ROE adders currently approved for the other ITC Holdings operating companies in Michigan (ITCTransmission and METC) for being a member of a Regional Transmission Organization (RTO) and for being an independent transmission owner (Docket No. EL14-12-000).

A lower transmission ROE in the ITC-M Attachment O formula rates will result in lower transmission rates to customers of IPL.

The standard transmission ROE in MISO is 12.38%. ITC Midwest's rate is 12.38%, other ITC operating company rates range up to 13.88%.

Until the November 12, 2013 complaint against the MISO transmission owners, the primary ROE complaint of industry interest had been the 2011 complaint of the Massachusetts Attorney General and others against the ISO New England Inc. (ISO-NE) transmission owners' ROE (Docket No. EL11-66-000).

Results:

- AECS filed an intervention without comments in Docket No. EL14-12-000 on December 10, 2013 on behalf of IPL and WPL as interested parties. (Until December 20, 2014, IPL was prohibited from filing a challenge to the ITC-M initial rate or rate construct.)
- On June 19, 2014, FERC issued an order (Opinion No. 531) in response to the 2011 complaint (Docket No. EL11-66-000) of the Massachusetts Attorney General and others against the ISO-NE transmission owners' ROE. FERC made the following determinations:
  - ISO-NE TOs' ROE are lowered from 11.14% to 10.57%. This is higher than the 9.7% recommended by the ALJ previously and the 8.7% sought in the complaint.
  - The methodology for determining ROE is revised using a 2-step discounted cash flow analysis that incorporates a long-term growth estimate. FERC indicated that this methodology is to be used going forward for ROE determinations.
  - Base ROEs are set at halfway point between the midpoint and top end of the zone of reasonableness. This is higher than the previous practice of using the midpoint of the zone of reasonable comparisons, but continues to provide needed incentives for transmission and effectively caps a narrower range for the zone of reasonableness.
  - The revised methodology is consistent with that used in natural gas and oil pipeline ROE determination.
  - FERC will no longer make more current market adjustments to ROE after the close of record.
  - A paper hearing was set to determine the long-term growth rate estimate to be used in the final ISO-NE ROE determination.

- On October 16, 2014, FERC issued an order on the MISO TO ROE complaint (Docket No. EL14-12-000):
    - Established hearing and settlement judge procedures on the ROE element of the complaint, and setting a refund date of November 12, 2013, the date of the complaint.
    - Denied the request to limit the capital structure of MISO TOs to 50% equity.
    - Denied the request to eliminate the ROE incentive adders of ITC Transmission and METC; ITC Holdings companies operating in Michigan.
    - Dismissed the portion of the complaint that includes MISO as a party.
- Also on October 16, 2014, FERC affirmed the June 19, 2014 order that the ROE for ISO-NE TOs be reduced to 10.57% (from 11.14%) using Gross Domestic Product (GDP) as the long-term growth rate projection in the two-step Discounted Cash Flow (DCF) methodology established in the same order's Opinion No. 531 ROE determination guidelines.
- FERC's October 16, 2014 action on the MISO TO ROE complaint did not establish a specific, lower ROE value for the MISO TOs, as the ISO-NE case did. The MISO base ROE will result from the settlement and/or hearing procedures, with FERC's expectation that the parties will use the Opinion No. 531 ROE determination guidelines.
- Settlement discussions on the MISO TO ROE complaint were initiated on November 13, 2014. The parties last met on December 16, 2014 but were not able to continue progress toward an appropriate base ROE. The settlement judge declared an impasse and filed a report on December 17, 2014 recommending the matter be scheduled for evidentiary hearing.
- In FERC orders issued in January and February 2015, FERC appointed a Presiding Administrative Law Judge (ALJ) and established a pre-hearing conference and the hearing procedural schedule.
- Complainants, Interveners, Respondents and FERC Trial Staff have all submitted their direct and answering testimony and exhibits.
- The Initial Decision was to be issued by the ALJ by November 30, 2015. On November 24, 2015, the ALJ extended the Initial Decision deadline to December 15, 2015.
- A final decision by the FERC is not expected until the middle of 2016.
- General industry indications based on submitted testimony in this docket and other ROE activity in other regions is that the MISO base ROE will decrease as a result of the complaint, and reflected in the analysis methodology FERC established in its Opinion No. 531.
    - IPL has estimated that each 1 percentage point (100 basis points) change in ROE changes the ITC-M Attachment O Transmission Rate by about 5-6% which equates to roughly a 1% decrease in total IPL customer rates, based on testimony submitted thus far and other recent ROE orders.
    - **ITC Holdings Corp., the parent company of ITC-M and other operating companies in MISO indicated in its 3rd**

Quarter 2015 Form 10Q report filed with the U.S. Securities and Exchange Commission (SEC) dated November 5, 2015 that they believe it is reasonably probable that the MISO base ROE proceedings will result in customer rate refunds. ITC Holdings has established an $88.0 million regulatory liability for the period November 12, 2013 through September 30, 2015. ITC Holdings SEC filings can be found on the ITC Holdings Corp. website at http://investor.itc-holdings.com/financials.cfm.

- IPL anticipates any refunds will flow through the ITC-M Attachment O True-Up and IPL Regional Transmission Service (RTS) Rider mechanisms. The amount and timing of any refunds is uncertain.

- The Initial Decision was to be issued by the ALJ by November 30, 2015. On November 24, 2015, the ALJ extended the Initial Decision deadline to December 15, 2015.
- IPL continues to monitor the proceedings.

F. **Second Complaint against MISO TO ROE** (Docket No. EL15-45-000)

Updated Results and Activity:

- **A pre-hearing conference was held on July 9, 2015.**
- **Rehearing Requests were filed at FERC by both Xcel Energy Services, Inc. and the MISO Transmission Owners on July 20, 2015.**
- **FERC issued an order on August 19, 2015 granting rehearing for further consideration.**
- **Direct Testimony and Exhibits of the parties and FERC Trial Staff was submitted September through November 2015.**
- **IPL continues to monitor the proceedings.**

Background

On February 12, 2015, a group of cooperative and municipal utilities in MISO filed a second complaint at FERC seeking reduction of the base ROE (12.38%) used by the MISO TOs (including ITC-M) transmission rates to 8.67% (Docket No. EL15-45-000).

- AECS filed an intervention without comments in Docket No. EL15-45-000 on February 20, 2015 on behalf of IPL and WPL as interested parties.
- On June 18, 2015, FERC issued an order on the Second MISO TO ROE complaint. FERC established hearing procedures, leaving the requested consolidation with Docket No. EL14-12-000 to the discretion of the Chief Administrative Law Judge. A refund date of February 12, 2015 was set, the date of the complaint.
- On June 24, 2015, the Chief Administrative Law Judge denied consolidation with Docket No. EL14-12-000. FERC indicated it expects the presiding judge should be able to render a decision within 12 months of the commencement of hearing procedures, or by June

30, 2016. Thus, absent any settlement, FERC estimates it would be able to issue a final decision by May 31, 2017.

- A pre-hearing conference was held on July 9, 2015.
- Rehearing Requests were filed at FERC by both Xcel Energy Services, Inc. and the MISO Transmission Owners on July 20, 2015.
- FERC issued an order on August 19, 2015 granting rehearing for further consideration.
- Direct Testimony and Exhibits of the parties and FERC Trial Staff was submitted September through November 2015.
- IPL continues to monitor the proceedings.

G. **MISO Transmission Owner Request to Implement a 50 Basis Point RTO Adder to Each TO's ROE for Participation in MISO** (Docket No. ER15-358-000)

Updated Results and Activity:

- **On June 30, 2015, FERC issued an order granting clarifications and denying a rehearing request (Attached as Appendix 15).**
- **FERC clarified that non-public utility transmission owners in MISO under the MISO Tariff may rely upon MISO to make filings on their behalf requesting addition of 50 basis point adder for RTO participation. In addition, FERC denied a request for rehearing, affirming its earlier decision indicating that MISO TOs meet the requirements for the RTO incentive adder and need not provide additional justification for the RTO incentive. Further, MISO TOs need not provide cost support for a just and reasonable ROE, since that issue is being addressed in the First MISO ROE Complaint proceeding (Docket No. EL14-12-000). Finally, FERC affirmed its earlier decision that there is no minimum period of RTO membership that is required.**
- **IPL believes this FERC proceeding is now complete. ITC-M application of the 50 basis point RTO incentive adder remains pending the outcome of the First MISO ROE Complaint (Docket No. EL14-12-000) and will be subject to capping at the upper end of the zone of reasonableness established in that proceeding.**

Background

On November 6, 2014, a group of MISO TOs, including ITC-M, filed a request at FERC to implement a 50 basis point RTO incentive adder to each TOs ROE for participation in MISO.

An effective date of November 7, 2014 was requested, however, collection of the RTO adder was requested to be deferred until after the issuance of a final order addressing the pending MISO base ROE complaint (Docket No. EL14-12-000). The TOs acknowledge that the requested adder would be added to the base ROE for each TO only to the extent that the addition of the adder results in a total ROE within the range of reasonable returns established by FERC.

A higher ROE in the ITC-M Attachment O formula rate resulting from any ROE incentive adders such as the RTO adders will result in higher transmission rates to customers of IPL.

Results:

- On November 26, 2014, AECS filed comments on the MISO TO request for a 50 basis point RTO incentive. AECS filed comments highlighting certain information related to transmission development in MISO to aid FERC's decision making process; specifically that the historical transmission investment in the MISO footprint has been robust and that MISO currently employs a number of risk mitigation measures that affect the investment environment of the MISO TOs and should be considered by the FERC, such as forward-looking rates. AECS also noted general support for prudent transmission investment that balances reliability needs with customer cost impacts.
- Numerous other parties filed protests and comments, including Resale Power Group of Iowa (RPGI), and the Joint Consumer Advocates of which the OCA is a member.
- On January 5, 2015, FERC issued an order accepting the MISO TO request to implement a 50 basis point RTO incentive adder to each TOs ROE for participation in MISO. The RTO incentive adder is to become effective January 6, 2015, subject to refund, and subject to the outcome of the MISO base ROE proceeding in Docket No. EL14-12-000 which will establish the MISO base ROE and cap implementation of any ROE incentive adders to the upper end of the zone of reasonableness. Collection of the RTO incentive adder is also deferred pending the outcome of the MISO base ROE proceeding. Various rehearing requests were filed.
- On March 4, 2015, FERC issued a tolling order to allow further time for it to consider the rehearing requests.
- On June 30, 2015, FERC issued an order denying rehearing requests.
- FERC clarified that non-public utility transmission owners in MISO under the MISO Tariff may rely upon MISO to make filings on their behalf requesting addition of 50 basis point adder for RTO participation. In addition, FERC denied a request for rehearing, affirming its earlier decision indicating that MISO TOs meet the requirements for the RTO incentive adder and need not provide additional justification for the RTO incentive. Further, MISO TOs need not provide cost support for a just and reasonable ROE, since that issue is being addressed in the First MISO ROE Complaint proceeding (Docket No. EL14-12-000). Finally, FERC affirmed its earlier decision that there is no minimum period of RTO membership that is required.
- IPL believes this FERC proceeding is now complete. ITC-M application of the 50 basis point RTO incentive adder remains pending the outcome of the First MISO ROE Complaint (Docket No. EL14-12-000) and will be subject to capping at the upper end of the zone of reasonableness established in that proceeding.

H. **ITC-M and Affiliates' (ITC) Request for Modifications to the Attachment O Formula Rate Templates** (Docket No. ER16-208-000)

Updated Results and Activity:

- **On October 30, 2015, ITC filed a request at FERC for certain requested modifications to the Attachment O Formula Rate Templates applicable to each company (Attached as Appendix 16).**
- **On November 20, 2015, AECS on behalf of IPL and WPL filed comments at FERC on ITC's Attachment O modifications (Attached as Appendix 17).**

Background

The ITC filing seeks to:

- **Recover income tax expense associated with permanent book/tax differences, the effects of after-tax accounting for deferred taxes associated with the equity component of the Allowance for Funds Used During Construction (AFUDC equity), and excess/deficient deferred income taxes resulting from tax law or rate changes;**
- **Exclude deferred income tax balances from the calculation of rate base when the associated income tax consequences have been paid by others;**
- **Explain how [the ITC companies] will implement Internal Revenue Service (IRS) guidance on tax normalization issues;**
- **Propose changes in the allocators for materials and supplies (M&S) and Regulatory Commission expenses; and**
- **The use of a 2% amortization rate for intangible plant.**

The AECS comments:

- **Are supportive of ITC's proposed changes related to the treatment of Contributions in Aid of Construction (CIAC) as the changes will result in proper accounting of Accumulated Deferred Income Taxes (ADIT) associated with these transactions, but requests that FERC require ITC to provide further information to allow parties to completely understand and interpret the requested Attachment O changes, and**
- **Request further clarification regarding ITC's proposed changes to the recovery of income taxes on permanent differences and the effects of after-tax accounting for deferred taxes associated with AFUDC equity.**

The Board also filed a doc-less intervention on November 17, 2015.

IPL anticipates that FERC will approve the ITC filing.

The filing, if approved as ITC requested, will result in refunds to customers of ITC-M of approximately $6.6 million in 2016, and approximately $1.7 million in 2017. ITC-M anticipates re-posting the

2016 projected Attachment O rates once the filing is approved, in order to facilitate the 2016 refund. The 2016 refund anticipated is already included into the 2016 IPL RTS Rider factors proposed to the Board. The 2017 refund is expected to be accomplished through the 2015 Attachment O True-up to be applied to the 2017 projected Attachment O rate and would flow through the 2017 IPL RTS Rider.

4. MISO Activity, IPL Engagement

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 of 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 (IPTF), Planning Subcommittee (PSC), Interregional Planning Stakeholder Advisory Committee (IPSAC) and the West Sub-Regional Planning Meeting (West SPM). IPL has also been an active participant and voting stakeholder in the Regional Expansion Criteria Benefits Task Force (RECBTF) that is charged with shaping cost allocation policy.

A summary chart of the various MISO committees IPL participates in is provided in Figure 5. A few minor changes to the individuals representing IPL on the various committees have occurred and Figure 5 has been updated from the prior Report.

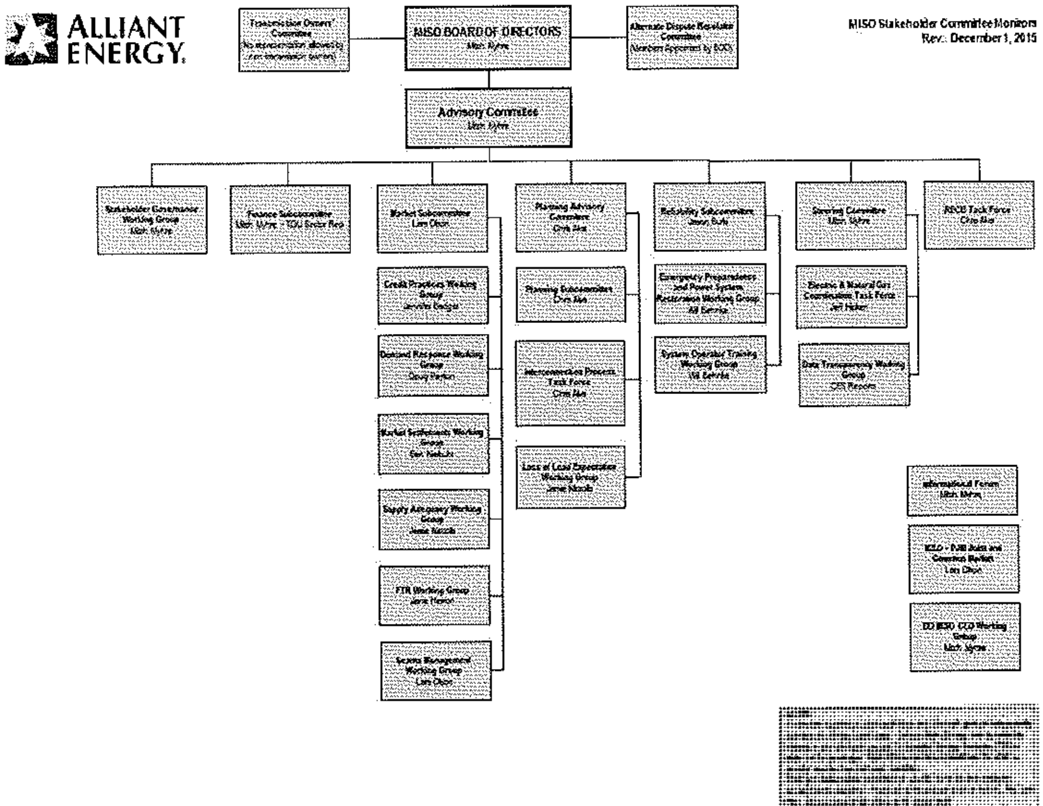


Figure 5 – IPL involvement at MISO

Since the June 2015 Report, IPL notes the following most significant MISO activity, and IPL's engagement:

A. Planning Associated with Marshalltown Generation Station (MGS)

Network Upgrade Cost Reductions

- IPL continues to anticipate a significant cost decrease for the network upgrades associated with the interconnection of MGS. The interconnection cost is estimated to be decreased by over $200 million from the $255 million initially estimated in the 2011 MISO System Planning and Analysis (SPA) Study, to approximately $21 million currently. This reduction of over $200 million in capital cost was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.

Generator Interconnection Agreement (GIA)

- **As noted earlier, a conditional GIA is anticipated to be completed with MISO by December 31, 2015. It will need to be executed by IPL and ITC-M within 60 days following (beginning of March 2016). A MGS FSA will need to be completed within 30 days after the GIA (near end of March 2016). Similar to the WPL Bent Tree Wind Farm FSA, there is potential for the FSA for the MGS network upgrades to be filed at FERC unexecuted, due to IPL and ITC-M disagreement on bonus depreciation. However, the status of the FSA is not expected to impact the MGS GIA, network upgrade construction schedule or accreditation of MGS.**

Planning associated with MGS has prompted additional engagement by IPL at MISO regarding MISO interconnection, capacity accreditation, resource adequacy and stakeholder processes. IPL continues to advocate at MISO and with other stakeholders for changes to these processes.

<u>Background</u>

MGS is a 650 MW natural gas / combined cycle generation station planned at Marshalltown, Iowa, adjacent to existing generation facilities. MGS is planned to be in-service in 2017. Planning the transmission interconnection for MGS requires very close and frequent coordination between IPL, ITC-M and MISO.

- Network Upgrades, Generator Interconnection Agreements (GIAs) and Capacity Accreditation
    - The original MISO System Planning and Analysis (SPA) Study for the MGS transmission interconnection and network upgrades in 2011 indicated a 345kV solution at a cost of approximately $255 million. The most recent MISO Definitive Planning Phase (DPP) Restudy from May 2015 indicates a 161kV solution at approximately $21 million. This reduction of over $200 million in capital costs was achieved in part as a

result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.

- This progress has led to an executed provisional GIA for MGS between IPL, ITC-M and MISO that was filed at FERC for approval on May 14, 2015.
- A conditional GIA is anticipated to be completed with MISO by December 31, 2015. It will need to be executed by IPL and ITC-M within 60 days following (beginning of March 2016). A MGS FSA will need to be completed within 30 days after the GIA (near end of March 2016). Similar to the WPL Bent Tree Wind Farm FSA, there is potential for the FSA for the MGS network upgrades to be filed at FERC unexecuted, due to IPL and ITC-M disagreement on bonus depreciation. However, the status of the FSA is not expected to impact the MGS GIA, network upgrade construction schedule or accreditation of MGS.
- IPL continues to closely coordinate with MISO and ITC-M on progress.
- IPL's advocacy has triggered a number of changes within the MISO IPTF committee study processes, and IPL continues to collaborate with several MISO stakeholder groups to further improve the overall processes associated with obtaining generator interconnections.
- IPL has also been working with MISO on MISO process changes to secure accredited capacity from MGS without an unconditional GIA during the interim period between completion of MGS and the in-service dates of all required network upgrades. MISO has identified and offered viable options to accredit part or all of the MGS capacity.

B. Resource Adequacy Construct

Alliant Energy and IPL continue working with MISO on MISO process changes to move from an annual resource adequacy construct to a seasonal construct. Alliant Energy supports using a seasonal construct as a way to provide additional flexibility and efficiency with how resources can be used. For example, a seasonal construct would better recognize seasonal capacity differences of various types of resource changes such as unit retirements and Purchased Power Agreements (PPAs) that expire at times other than the end of the MISO Planning Year. This would avoid potentially expensive replacement capacity and thus minimize costs to customers. MISO is currently targeting to file tariff changes needed to implement a seasonal construct in March 2016, to be effective for the 2017/2018 MISO Planning Year.

C. MISO Stakeholder Process

Updated Results and Activity:

- **MISO issued a straw man redesign proposal in June 2015.**
  - **Four workshops were held between August and November and were facilitated by outside consultant.**

- **Final recommendations for improvement were developed and then approved by the Advisory Committee at the December 2015 meeting.**

Background

MISO had indicated a focus on revising the stakeholder process for 2015 – a position for which IPL and others have been advocating. IPL has been actively involved and has had discussions with other stakeholders regarding collaboration on the efficiency of MISO's stakeholder process. In particular, such discussions have included senior executives of IPL, Alliant Energy and MISO on the need for improved MISO interconnection, capacity accreditation, resource adequacy and stakeholder processes.

During August-November, four workshops took place where MISO, stakeholders and an independent facilitator reviewed and discussed the current stakeholder process. In December proposed process changes resulting from the workshops were approved by the MISO Advisory Committee. The approved changes focus on the following areas: (1) Stakeholder Committee Structure, where some stakeholder groups are being eliminated or combined with another group, (2) Issue Prioritization, where more review and agreement on what issues should be addressed is to take place and (3) Issue Management, which focuses on improving how issues are managed and how the process is enforced. These changes will be implemented by MISO and stakeholders in 2016 and should help create a more efficient and effective stakeholder process.

D. MISO Transmission Expansion Plan (MTEP)

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, MISO calculates the benefits 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, MISO performs a cost-benefit analysis on a per-project basis. These non-MVP projects 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 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 dockets.

In summary:

- IPL generally does not take a position on projects unrelated to IPL, including those of ITC-M. Such projects include those of other TOs 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 supports projects that would improve reliability to IPL customers or the interconnected system, including those of ITC-M.
- IPL generally supports 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 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.

5. <u>IPL and ITC-M's Joint Project Planning Process</u>

Results:

In a planning-related activity, in early 2015 IPL conducted a study to evaluate energy market benefits from a recent large ITC-M project, the 81 mile long Salem-Hazelton 345kV line in northeast Iowa that went into service in April of 2013 at a total project cost of $161.7 million.

The Salem-Hazelton line was built primarily for regional reliability benefits. To evaluate energy market economic benefits, a MISO "Business as Usual" 2019 base case was used as it most closely matches today's market. The model includes all market generation, load and transmission, and performs the same dispatch as the actual market. The total energy costs with and without the line in service were modeled—the difference represents the energy market benefit.

The study results showed the line enables a lower market cost to serve IPL load. Looking at just the IPL load control area, the line provides approximately $4.5 million savings annually from serving IPL load from MISO market resources. The line also enables IPL to increase generation margins approximately $3.5 million from selling its resources into the MISO market. Since those generation margins directly offset production (fuel) costs with the benefits flowing to IPL customers, the combined energy market benefits savings to IPL customers is approximately $8 million annually.

ITC-M has previously indicated that prior studies showed "The Salem-Hazleton Project alone has been estimated to lower energy costs across MISO by approximately $108 million per year due to lower congestion costs and removal of key transmission constraints" (ITC-M, December 2011 presentation). IPL notes the $108 million is a *regional* level benefit, compared to the $8 million annual *IPL load area only* energy market benefit. In addition, the $8 million annual IPL area energy market benefit over the life of the project compares favorably to the original project cost.

ITC-M reviewed IPL's energy market benefit analysis and had no objections to the approach or results. IPL intends to continue working with ITC-M on future energy market benefit evaluations of ITC-M transmission investments to augment its earlier work to evaluate reliability benefits.

Background

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 4), 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:

- 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 observe that it is on track or ahead to meet the 18-year conversion schedule and that ITC-M is on track or ahead 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.
- Internal to IPL and Alliant Energy, a holistic approach to transmission planning is taken, in coordination with resource planning which considers resources using

various fuels, generation additions and retirements, load forecasting, and distributed generation. In addition, distribution planning must be considered in concert with transmission planning.

- Transmission planning involves coordination with IPL's predominant transmission service provider, but also others such as the Central Iowa Power Cooperative (CIPCO).
- IPL continues 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;

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

Updated Results and Activity:

- **IPL has continued to inquire of ITC-M if any new revenue requirements and capital expenditure projections are available since those last published in May 2014. ITC-M has indicated that no new updates are available.**
- ITC-M posted the 2014 True-Up Adjustment on its MISO OASIS website at http://www.oasis.oati.com/ITCM/, item number 101. The posted True-Up information indicates customers of ITC-M will receive an approximately $4.4 million refund to be applied to ITC-M's 2016 rates. The refund is due mainly to higher offsets/credits and load than anticipated.
- **ITC-M held a 2014 Attachment O True-Up Meeting review on July 8, 2015. IPL attended.**
- **ITC-M posted the 2016 Projected Attachment O Rate on its MISO OASIS website at http://www.oasis.oati.com/ITCM/, item number 105 on August 31, 2015. The posted information indicates customers of ITC-M will be charged $9.798/kW-Mo for 2016, up $0.53 from $9.265/kW-Mo for 2015, or 5.75%**
  - **The increase is due to higher invested capital and additional operating expenses.**
- **IPL prepared questions regarding the 2014 Attachment O True-Up posting, the ITC-M Partners in Business Meetings in May and October 2015, and the 2016 Proposed Attachment O Rate. The questions and responses were prepared in accordance with the MISO Formula Rate Protocols process. Those questions and responses are attached as Appendices 18, 19, 20 and 21.**
  - **IPL reviewed the responses and found them satisfactory.**
- **ITC-M and other TOs in MISO held a Joint Regional Cost Sharing Informational Meeting on November 2, 2015. The presentation can be found at: https://www.misoenergy.org/Library/Repository/Meeting%20Material/Stakeholder/Workshops%20and%20Special%20Meetings/2015/20151102%20Joint%20Informational%20Meeting%20on%20Regional%20Cost%20Shared%20Projects/20151102%20Joint%20Regional%20Cost%20Sharing%20Meeting%20Presentation.pdf.**
  - **IPL reviewed the information and had no questions or concerns.**
- IPL has continued to incorporate this data and any other information as it becomes available into its Energy Pricing Outlooks for overall industrial customer

rates that it communicates through periodic webinars and presentations at various customer forums.

- IPL will continue review any new information posted and/or made available through informational meetings and submits questions as needed to ITC-M under the updated MISO Formula Rate Protocols.
- **As a result of the pending MISO transmission ROE dockets at FERC and actions to date, IPL expects that transmission ROE will very likely decrease. An ITC-M total ROE decrease of 1-2% is plausible.**
    - **Refunds may begin as early as 2017, and are anticipated to flow through ITC-M Attachment O Rates and True-Ups. Prompt flow-through to IPL customers is anticipated through the RTS Rider.**

Background

IPL has an internal process to project transmission expenses, using anticipated MISO billings (including those for MVPs), ITC-M revenue requirements projections and capital expense projections, ITC-M Attachment O True-Up for the prior year; the ITC-M projected Attachment O rate posted for the next year, among other variables. IPL's transmission expense projections then are used to determine the annual RTS factors filed with the Board. IPL incorporates all these variables its transmission expense projections into the Energy Pricing Outlooks for overall industrial customer rates with customers, including transmission, through various customer communications and interactions. These Energy Pricing Outlooks are communicated through periodic webinars, presentations at customer forums such as the annual IPL Energy Summit and the semi-annual IPL Transmission Stakeholder meetings. These Energy Pricing Outlooks are updated as new information becomes available, such as the ITC-M Attachment O True-Up for the prior year posted in June and the ITC-M projected Attachment O rate for the next year posted by September and IPL's determination of the annual RTS factors filed with the Board each November.

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.

7. Transmission Outage Performance and Operations Coordination

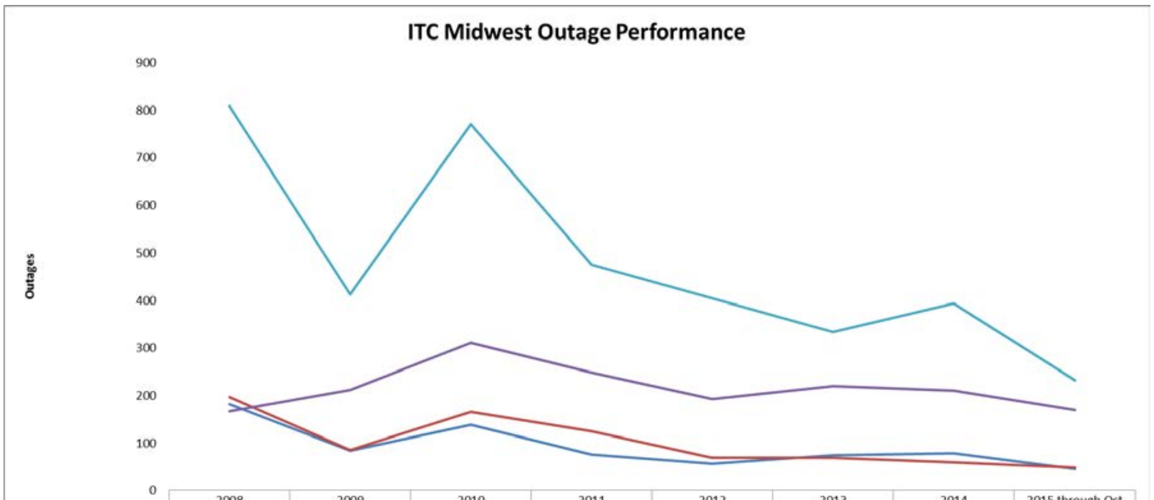
Updated Results:

- **Reliability and asset performance metrics have been updated with October 2015 year-to-date data and are shown in Figures 6, 7, and 8 and illustrate a continued, significant and maintained trend of fewer sustained and momentary transmission outages, as well as shorter durations.**

Background

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

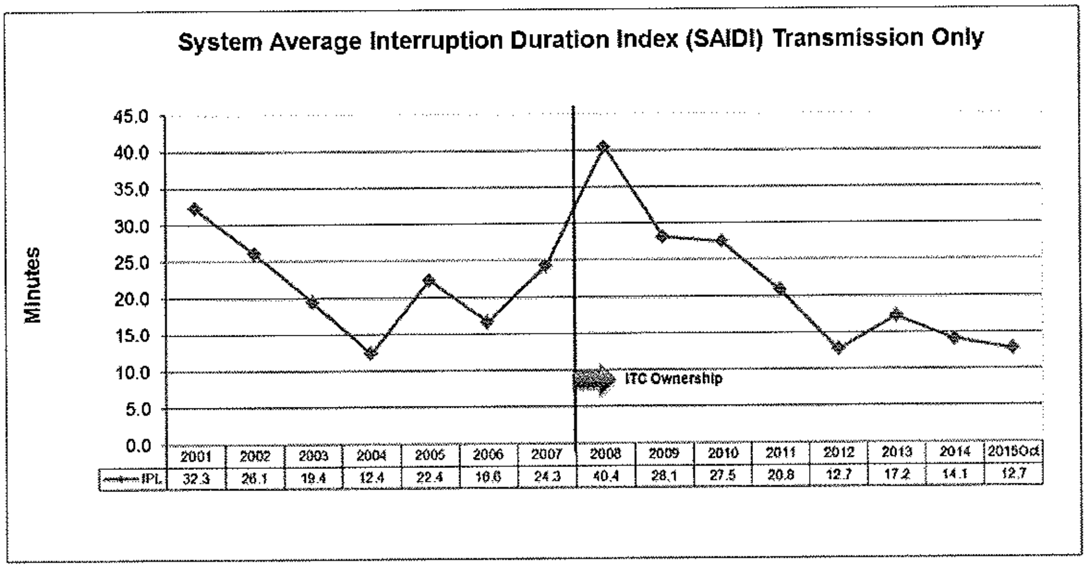
From the asset performance data provided by ITC-M representing the number of transmission line outages, IPL has updated the graph shown in Figure 6. Through October 2015, the data illustrates a continued improvement and maintained trend of fewer sustained and momentary outages since the transmission 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	2013	2014	2015 through Oct
Sustained 69kV+	182	84	138	76	57	75	79	46
Sustained 34.5kV	196	85	166	125	69	69	60	48
Momentary 69kV+	167	212	310	248	192	219	210	170
Momentary 34.5kV	808	413	770	475	404	333	393	232

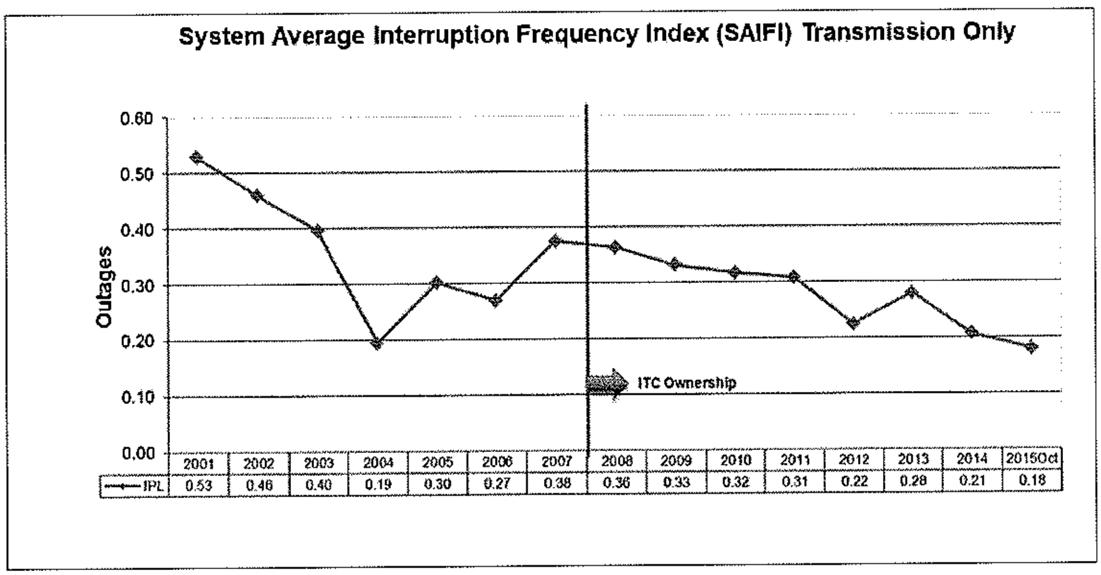
Figure 6 – ITC-M Outage Performance

Industry standard measures of the customer outage experience (SAIDI and SAIFI; transmission only) are shown again in Figures 7 and 8, updated by IPL through October 2015. 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 period 2001– October year-to-date 2015. 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 illustrates a continued improvement and maintained trend of fewer and shorter sustained outages since the transmission asset purchase by ITC-M.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015Oct
IPL	32.3	26.1	19.4	12.4	22.4	16.6	24.3	40.4	28.1	27.5	20.8	12.7	17.2	14.1	12.7

Figure 7 – Transmission Reliability, SAIDI (System Average Interruption Duration Index) - Average length in minutes of outages for all customers.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015Oct
IPL	0.53	0.46	0.40	0.19	0.30	0.27	0.38	0.36	0.33	0.32	0.31	0.22	0.28	0.21	0.18

Figure 8 – 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 maintained level of the number and duration of customer outages is observed in the metrics illustrated in the Figures 6, 7 and 8 above since the transmission assets were acquired by ITC-M.

- 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. As noted in prior reports, the position of Senior Transmission Specialist was created and staffed in May 2013. 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 observes that the creation of this position and the development of new and updated processes and procedures have resulted in much more efficient joint outage planning and better ability to plan work farther in advance. Much less short term reactionary planning is occurring, resulting in more efficient use of IPL and ITC-M resources and better coordination involving key IPL industrial customers, farther in advance.
  - 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.
  - Realize customer outage reduction cost savings. In 2013, IPL and ITC-M worked together using the US Department of Energy ICE (Interruption Cost Estimate) Calculator (ICE Calculator) to estimate the potential outage cost savings resulting from the improved reliability resulting thus far since ITC-M assumed ownership and operation of the transmission system. Based on ITC-M's transmission ownership, investment and improved reliability in years 2008-2013, the estimated outage cost savings to customers are likely in the range of $168-498 million, over the life of the assets (in 2013 dollars).

8. Transmission Stakeholder Meetings

On December 2, 2015, IPL held its tenth semi-annual Transmission Stakeholder meeting in Cedar Rapids.

Invitations were extended to IPL customers, customer consortium representatives, the Board staff, OCA staff and other stakeholders as has been done in the past. With similar attendance to prior meetings; participating in-person or by phone were 10 IPL industrial customers, 3 customer consortium representatives, 2 Board staff, 2 OCA representatives, 3 ITC-M staff and various IPL staff. Similar to past meetings, the summary agenda included reviews of:

- Planning, Projects and Engineering Update
- Transmission Policy & Regulatory Update
- Energy Price Outlook
- Open Q&A Panel, Collaboration w/ IPL
- Transmission Reliability Update
- ITC-M Rate Update

Results:

The agenda again included an Open Q&A Panel and Collaboration session to facilitate more discussion. During the Open Q&A Panel and Collaboration session a number of cost, efficiency and transmission rate comparison issues were discussed amongst transmission stakeholders and IPL representatives. Based on stakeholder feedback, this approach was well-received. IPL intends to repeat a similar format at future meetings.

The agenda and meeting presentations are attached to this Report as Appendix 22.

In particular, topics of interest that generated the most interest and discussion with stakeholders during the overall meeting were:

- Base assumptions associated with future IPL resource planning, in conjunction with transmission planning.
- ITC-M bonus depreciation opt out
- Energy Price Outlook

9. Timetable of Events Influencing Transmission Rates & Service

A timetable of upcoming selected events in 2015 and 2016 influencing transmission rates and project planning is listed in Table 2.

Table 2 – Timetable of events influencing transmission rates & service

2015 - 2016	Description
December	• IPL 2016 Transmission Rider Factors approval anticipated by the Board.
January	• IPL 2016 Transmission Rider Factors anticipated being in effect.
January - December	• On-going IPL / ITC-M Planning, Project, Operations, and Executive meetings. • On-going IPL evaluation and analysis of any new information that may impact ITC-M Attachment O rates. • IPL Transmission Stakeholders meeting to be scheduled for late May or early June.
June	• ITC-M 2015 True-Up amount posted.
July	• ITC-M True-Up Review Meeting anticipated.
September - December	• IPL analysis and evaluation of ITC-M Attachment O rate for 2017. • Initial IPL evaluation and feedback on ITC-M projects in MTEP 2016. • ITC-M and others to hold Joint Transmission Owner meeting on regional projects such as MVPs by November 1. • IPL Transmission Stakeholder meeting in late November or early December.
September	• ITC-M 2017 Attachment O rates posted by September 1.
November	• IPL 2017 RTS Rider Factors submitted to the Board.
December	• IPL 2017 Transmission Rider Factors approval by the Board normally anticipated. • MISO Board of Directors consideration for approval of MTEP 2016 projects.

10. <u>Conclusions</u>

Updated Results discussed in this Report include:

- **ITC-M opting out of use of bonus depreciation, related customer cost impacts, and resulting IPL and WPL actions.**
- **IPL's Complaint on ITC-M Attachment FF and related funding of network upgrades.**
- **Developments on transmission owner (TO) return on equity issues.**

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

IPL and ITC-M continue to coordinate well on operations and planning issues and view their relationship as a partnership.

IPL recognizes and acknowledges that ITC-M is making needed investments in the transmission system. Considerable investment in transmission system rebuilds, conversion and new facility construction continues. Transmission system reliability has improved and is being maintained.

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 to influence project costs and justification as needed; and
- Active engagement at FERC on cost allocation and other transmission policy issues as it deems appropriate

Aspects of customer savings noted in this and prior Reports from IPL advocacy and ITC-M investments include:

- As a result of IPL challenging the ITC-M Attachment FF policy, the ITC-M self-funding of $39 million of network upgrades for the WPL Bent Tree Wind Farm in Minnesota will be borne by WPL and its customers rather than all customers of ITC-M, which would have included IPL and its customers. This is only one example—using ITC-M's historical and forecasted capital expenditures for generator interconnections at the time IPL initiated its complaint, IPL calculated a cost shift to IPL customers totaling $170 million would have occurred over the period 2008-2016 under the then-current ITC-M Attachment FF implementation.
- A significant cost decrease for the network upgrades associated with the interconnection of MGS, down over $200 million from $255 million initially estimated in the 2011 MISO System Planning and Analysis (SPA) Study, to approximately $21 million currently. This reduction of over $200 million in capital cost was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.

- An IPL study of the ITC-M Salem-Hazelton 345kV line that went in service in 2013 showed the line enables a lower market cost to serve IPL load. Looking at just the IPL load control area and using a 2019 MISO study case as a proxy, the line provides approximately \$8 million savings annually from serving IPL load from MISO market resources and increasing IPL generation margins from selling its resources into the MISO market. ITC-M has previously indicated that prior studies estimated the Salem-Hazleton Project provided approximately \$108 million per year in lower regional energy costs across MISO due to lower congestion costs and removal of key transmission constraints.
- Customer outage reduction cost savings estimated in the range of \$168-498 million, over the life of the assets (in 2013 dollars), from a joint IPL and ITC-M study analyzing savings resulting from the improved reliability thus far from ITC-M's transmission ownership and investment in years 2008-2013.

With the results noted in this Report, IPL has demonstrated that it has and will continue to engage and influence 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 overall benefits of these collective efforts are sometimes 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 – IPL and ITC-M Bonus Depreciation Information Exchange and Informal Challenge

November 4, 2015

Mr. John Weyer
Manager – Transmission Services
Alliant Energy Corporate Services, Inc.
Alliant Energy
200 First Street SE
P. O. Box 351
Cedar Rapids, IA 52401-0351

RE: Response to Informal Challenge

Dear Mr. Weyer:

ITC Midwest LLC ("ITC Midwest") has received the Alliant Energy-Interstate Power and Light Company (IPL) ("IPL") October 6, 2015 Informal Challenge ("Informal Challenge") related to ITC Midwest's 2014 Attachment O True-Up, as posted on OASIS on May 29, 2015. In accordance with Section IV.B of the ITC Midwest Annual True-Up, Information Exchange and Challenge Procedures ("Protocols"), ITC Midwest responds as follows:

1. This challenge relates to decisions of ITC Holdings Corp.'s ("ITC Holdings") management with respect to a discretionary tax matter rather than to any input, allocation, calculation, application or implementation of ITC Midwest's Attachment O formula rate. Accordingly, the decision challenged by IPL here is not within the scope of ITC Midwest's Attachment O Annual True-Up, Information Exchange, and Challenge Procedures.[1]

2. This challenge also relates to decisions made by ITC Holdings' management for time periods preceding 2014. Efforts to revisit these pre-2014 decisions constitute impermissible retroactive ratemaking. The protocol process provides for challenges to a single year's formula rate update. In approving the Midcontinent Independent Transmission System Operator, Inc. ("MISO") Transmission Owners' ("TOs") protocols compliance filings, the Federal Energy Regulatory Commission ("FERC") rejected

[1] Section IV.D. of the ITC Midwest Formula Rate Protocols states: "Informal and Formal Challenges shall be limited to all issues that may be necessary to determine: (1) the extent or effect of an Accounting Change; (2) whether the Annual Update fails to include data properly recorded in accordance with these protocols; (3) the proper application of the formula rate and procedures in these protocols; (4) the accuracy of data and consistency with the formula rate of the charges shown in the Annual Update; (5) the prudence of actual costs and expenditures; (6) the effect of any change to the underlying Uniform System of Accounts or the Applicable Form; or (7) any other information that may reasonably have substantive effect on the calculation of the charge pursuant to the formula."

requests to make the protocols applicable for periods prior to January 1, 2014, declining to authorize what the Commission termed "belated challenges."[2]

3. The remedies requested by IPL are infeasible and illustrate that this challenge does not relate to the accurate calculation, implementation or application of ITC Midwest's Attachment O formula rate for 2014.

First, "IPL requests [ITC Midwest] to request a Private Letter Ruling from the IRS to revoke its decisions for 2014 and all available prior years to elect out of bonus depreciation." (p. 3.)

ITC Midwest itself is not a taxpayer, but rather is part of a holding company system in which ITC Holdings is the taxpayer for IRS purposes. ITC Holdings' decisions with respect to bonus depreciation for the years 2010-2011 are final and irrevocable. ITC Holdings' tax years 2012-2014 are technically still "open" with respect to IRS review. However, assuming for purposes of argument that ITC Midwest, who is not itself a taxpayer, could request a Private Letter Ruling ("PLR") from the IRS with respect to ITC Holdings' bonus depreciation decisions, any effort to reverse or revise ITC Holdings' decisions on bonus depreciation with respect to years 2012-2013 would amount to an impermissible retroactive application of this 2014 true-up challenge procedure. With respect to ITC Holdings' bonus depreciation decision for 2014, we are unaware that FERC ever has ordered a public utility to seek a PLR for any reason and question FERC's ability to do so, let alone to reverse a decision entrusted by the Internal Revenue Code to the discretion of ITC Holdings' management. We note that even if ITC Holdings submits such a PLR, the IRS need not grant it.

Second, "IPL requests [ITC Midwest] to adjust its Attachment O formula rate for billing purposes to begin January 1, 2016, to reflect the increase in Accumulated Deferred Income Taxes that would result from a successful Private Letter Ruling, and refund to customers the impacts of such revisions in prior years (to the extent not a normalization violation)." (p. 3.)

IPL effectively is demanding here that ITC Midwest adjust its rates retroactively to assume that bonus depreciation had been elected for tax years 2010 through 2014, and that ITC Midwest refund to its customers the rate reductions that would result from such a fictional taking of bonus depreciation in those past years. As described above, because 2014 is the only year subject to this 2014 true-up challenge procedure, "a successful Private Letter Ruling" at most could only be applied to 2014, and even that is uncertain. As IPL seems to acknowledge, forcing ITC Midwest to make refunds, and to calculate its rates prospectively, as if bonus depreciation had been taken when it could not be and was not taken, would be a normalization violation and cannot be done.

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[2] *Midcontinent Independent System Operator, Inc.*, Order on Compliance Filings, 146 FERC ¶ 61,212, P 128 (2014); *Midcontinent Independent System Operator, Inc.*, Order on Rehearing, 150 FERC ¶ 61,024, P 12 (2015).

Third, "IPL requests that [ITC Midwest] not elect out of bonus depreciation in future years without clear justification and documentation of the benefits to customers from doing so. If [ITC Midwest] proposes to elect out of bonus depreciation in future years, IPL also requests that [ITC Midwest] make such documentation and justification available on OASIS, including pro forma rate calculations that quantify the benefits from doing so." (p. 4.)

Again, IPL is challenging possible future decisions that may be made by ITC Holdings, not decisions that will be made by ITC Midwest. Congress gave every eligible taxpayer the right to choose whether or not to take bonus depreciation based on its own specific circumstances. Any attempt to require ITC Holdings to take bonus depreciation under any circumstances would intrude on management's appropriate discretion and would override an election right provided by Congress to the taxpayer. Moreover, bonus depreciation expired at the end of 2014. Thus, the relief requested by IPL here is entirely hypothetical at this point and, in any case, is irrelevant to ITC Midwest's 2014 Attachment O True-Up that defines the scope of this Informal Challenge.

Pursuant to Section IV.B of the Protocols, I am the appointed senior representative of ITC Midwest designated to work with IPL toward resolution of this informal challenge. I am available to discuss this matter with you at any mutually convenient time.

Sincerely,

Krista Tanner
President, ITC Midwest LLC

100 East Grand Avenue
Suite 230
Des Moines, IA 50309
(515) 282-5300 x 454
ktanner@itctransco.com

cc: Eric Guelker

ALLIANT ENERGY.

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

1-800-ALLIANT (1-800-255-4268)
alliantenergy.com

October 6, 2015

RE: ITCM-Annual True-up, Information Exchange, and Challenge Procedures—Informal Challenge

To: misoformularates@itctransco.com

Informal Challenge

Alliant Energy – Interstate Power and Light Company (IPL) submits this Informal Challenge pursuant to Section IV of the ITC Midwest LLC (ITCM) Attachment O Annual True-Up, Information Exchange, and Challenge Procedures published as part of the Midcontinent Independent System Operator, Inc. (MISO) Tariff. The following Informal Challenge relates to the ITCM 2014 Attachment O True-Up Reporting package posted on ITCM's OASIS (http://www.oasis.oati.com/ITCM/) under item 101 on May 29, 2015 ("Publication Date"), the ITCM 2014 Attachment O True-Up Presentation under item number 103 on July 8, 2015, and the ITC_Midwest_Response_to_Alliant_Questions, 09112015 on September 11, 2015 under item number 107.

The challenge raised by IPL in this instance concerns the prudence of ITCM's decision to elect out of taking federal bonus depreciation for income tax purposes for the years 2010-2013 and its communicated intent to elect out of taking federal bonus depreciation in 2014. Based on ITCM's responses to IPL's information exchange requests (attached), the intent and effect of this decision is to increase ITCM's rate base and increase revenue requirements.

ITCM justifies its decision based on its arguments that:

1. Bonus depreciation is a disincentive to transmission investment as it lowers ITCM's rate base and revenue requirement, and thus runs counter to FERC's policy objectives to stimulate transmission investment, which makes electing out of bonus depreciation in the best interests of IPL and all other stakeholders.
2. Bonus depreciation is detrimental to cash flow as it results in lower revenue requirements.
3. There is some risk of a normalization violation if taking bonus depreciation results in a net operating loss, citing the presence of Private Letter Rulings from the Internal Revenue Service (IRS) as evidence that other entities are also concerned about this risk.

Such arguments are specious. In fact, ITCM's decisions to elect out of bonus depreciation are imprudent. Such decisions have had and continue to have a demonstrable and significant negative impact on customers by increasing their rates without any corresponding benefit. IPL believes a decision which results in increased customer costs for the benefit of equity investors, with no corresponding customer benefit, is imprudent.

Impact of ITCM Decision to Elect Out of Use of Bonus Depreciation

As reported in ITCM's FERC Form 1s, between 2011 and 2014, ITCM charged $141 million in federal income taxes on its income statement and made federal cash tax payments of $135 million. If it had not elected out of bonus depreciation, ITCM would not have had any federal tax liability for the years 2011 through 2014. Due to the inter-deductibility of federal income taxes for Iowa state income tax purposes, IPL estimates that ITCM would have paid $127 million less in federal cash tax payments between 2011 and 2014 if it had not elected out of bonus depreciation. This amount is the net effect bonus depreciation would have had on ITCM's FERC Accounts 281 (Accumulated Deferred Income Taxes—Accelerated Amortization Property) and 190 (Accumulated Deferred Income Taxes). These amounts could have been used to lower the rate base of ITCM, and ultimately the Attachment O, GG and MM rates paid by ITCM's customers, including IPL. Based upon ITCM's currently authorized ROE, ITCM's decision results in an increase in the ITCM annual revenue requirement of approximately $18 million as of year-end 2014[1].

In this Informal Challenge, IPL objects to the increase in ITCM's 2014 projected and actual revenue requirements, the increase in ITCM's 2015 and 2016 projected revenue requirements, and the increase in ITCM's 2016 Attachment O rates, as a result of its decision to elect out of using bonus depreciation when calculating its federal income tax liability.

Discussion of ITCM Arguments

1. **FERC Policy Objectives and Customer Interests**

The FERC and many state regulatory agencies have typically reflected Accumulated Deferred Income Tax (ADIT) balances in the calculation of rate base on the basis that accelerated tax depreciation, including bonus depreciation, is a cost free source of financing that should benefit customers. Accelerated tax depreciation, including bonus depreciation, results in improved cash flows due to lower income tax payments and thus lowers the need for equity or debt financing costs. FERC, in summarizing[2] the tools it has to incentivize transmission investment as provided in its Order 679, highlights accelerated depreciation.[3] FERC identifies this as a tool to incentivize transmission investment whereas ITCM asserts using it runs counter to FERC transmission incentive policy. Indeed, the only reason that revenue requirements and ongoing cash flow is lower when using bonus depreciation is that there is a timing difference between recognition of bonus depreciation for book purposes and recognition of such depreciation for tax purposes. This results in revenue collected by ITCM which is not needed immediately to pay Federal income taxes. It becomes a source of cost-free capital that reduces the need to incur incremental equity and debt financing costs.

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[1] Annualized revenue requirement of approximately $18 million calculating by multiplying the $127 million of additional rate base by ITCM's 14.5% pre-tax cost of capital.

[2] http://www.ferc.gov/industries/electric/indus-act/trans-invest.asp

[3] Note that the accelerated depreciation relates to book depreciation versus tax depreciation, but both result in lower rate base and revenue requirements, objectives that ITCM claims are a disincentive to transmission investment and run counter to FERC policy objectives.

2. Lowering Rate Base and Revenue Requirement

Using the same logic as ITCM has proffered to elect out of bonus depreciation, IPL should desire and consider it prudent that ITCM inflate (i.e. pay an above market price of construction for no defendable reason) the cost of all its transmission investments, and FERC and any other stakeholders should think that such actions were prudent and to their benefit. Inflating the cost of a transmission investment would increase ITCM's rate base and revenue requirements, similar to electing out of bonus depreciation. Inflating the cost of the project would temporarily impact cash flow through increased capital expenditures, but would be more than offset by long-term improvements in the cash flow from higher revenue requirements. Does ITCM believe that doing so would be a benefit to its customers?

Of course the above example would be considered imprudent and not sustainable. Why would ITCM electing out of bonus depreciation to accomplish the same objective be deemed otherwise?

3. Risk of a Normalization Violation

IPL's research indicates that virtually every other investor-owned utility in the U.S. is without legitimate reason for electing out of bonus depreciation[4], and finds that the risk of a normalization violation is either immaterial or non-existent if they have used bonus depreciation to lower customer costs. This may be in part because FERC addressed the issue even prior to the formation of ITCM[5] and has continued to enable the use of FERC Account No. 190 (Accumulated Deferred Income Taxes) as an offset to Account No. 282 (Accumulated Deferred Income Taxes—Other Property). IPL, as ITCM's single largest customer, foresees no circumstance where it would argue that Account No. 190 should not be used as an offset to Account No. 282. The cited Private Letter Rulings all seem to relate to state utility commissions that are challenging the use of Account No. 190 as an offset, with the requesting utilities seeking to demonstrate to their respective state utility commissions that it would create a normalization violation. This risk is non-existent based on FERC rulings. If this is of concern to ITCM, ITCM can eliminate this risk with a request to the Internal Revenue Service (IRS) for a private letter ruling detailing ITCM's facts and circumstances. ITCM has requested private letter rulings in the past, so ITCM should be familiar with this process.

<u>Requested Remedies</u>

Due to ITCM's insistence to elect out of taking federal bonus depreciation for income tax purposes, which IPL believes imprudent, IPL submits this Informal Challenge and requests several remedies to mitigate the negative impact on customer rates of the actions taken to date.

1. IPL requests ITCM to request a Private Letter Ruling from the IRS to revoke its decisions for 2014 and all available prior years to elect out of bonus depreciation.
2. IPL requests ITCM to adjust its Attachment O formula rate for billing purposes to begin January 1, 2016, to reflect the increase in Accumulated Deferred Income Taxes that would result from a

[4] A legitimate reason for electing out of bonus depreciation would be to avoid the permanent loss of tax credits and/or deductions, whose loss is estimated to be greater than the value of delaying tax payments. According to its response dated August 4, 2015, there are no such permanent tax loss considerations for ITCM where it could weigh such a trade-off.

[5] Opinion No. 486 issued October 19, 2006 (Docket No. RP04-274-000)

successful Private Letter Ruling, and refund to customers the impacts of such revisions in prior years (to the extent not a normalization violation).

3. IPL requests that ITCM not elect out of bonus depreciation in future years without clear justification and documentation of the benefits to customers from doing so. If ITCM proposes to elect out of bonus depreciation in future years, IPL also requests that ITCM make such documentation and justification available on OASIS, including pro forma rate calculations that quantify the benefits from doing so.

John Weyer
Manager –Transmission Services
Alliant Energy Corporate Services, Inc.
319-786-7112
johnweyer@alliantenergy.com

ITC

**RESPONSES OF ITC MIDWEST LLC, DATED SEPTEMBER 11, 2015,
TO ALLIANT ENERGY'S SECOND SET OF INFORMATION REQUESTS, DATED AUGUST 21, 2015**

2-ITCMW--ALLIANT-1. In its August 4, 2015 response, ITCM indicated that it evaluates the costs and benefits of any regulatory or financial decision, to balance the needs of its multiple stakeholders, including customers and shareholders. ITCM further indicates that "in recent years, as it became clearer that bonus depreciation was not the temporary stimulus that had been initially intended, the detrimental effects to ITC's earnings and cash flows became more significant."

The FERC Form 1 filings for ITCM for 2010-2014 show a total current federal tax payable of approximately $141 million.

a) What stakeholders benefit from the decision to not take bonus depreciation and what are those benefits for each stakeholder?

b) What stakeholders are negatively impacted from the decision not to take bonus depreciation and what are those negative impacts for each stakeholder?

c) Given that bonus depreciation is generally viewed as a cash flow benefit that reduces the need to make federal cash tax payments (or would have eliminated the need to make federal cash tax payments in the case of ITCM), how does ITCM consider bonus depreciation a detrimental impact on cash flow?

RESPONSE:

a) Because bonus depreciation serves as a disincentive to ITC Midwest LLC ("ITCM") and therefore is in direct conflict with the policy objectives of FERC to stimulate transmission investment, ITCM believes all stakeholders benefit from ITCM's decision.

b) See response to a) above.

c) As suggested by the question, there would be an increase in cash flow produced by the accelerated tax deduction in the initial year bonus depreciation is elected. However, that initial cash flow effect is more than offset by the ongoing cash flow detriments caused by the reduction in ITCM's rate base over a several year period. This reduction in rate base directly reduces ITCM's revenue requirement, and thus its continuing cash flows.

These longer term effects of electing bonus depreciation can be more manageable when limited to a single instance. As Alliant is already aware, ITCM elected to use bonus depreciation for tax years 2008 and 2009. However, it is the cumulative long-term effects on cash flow of electing bonus depreciation on a year-over-year basis which become

RESPONSES OF ITC MIDWEST LLC, DATED SEPTEMBER 11, 2015,
TO ALLIANT ENERGY'S SECOND SET OF INFORMATION REQUESTS, DATED AUGUST 21, 2015

burdensome for the company and that has strongly influenced ITCM's determination to elect out of bonus depreciation in recent years.

RESPONSES OF ITC MIDWEST LLC, DATED SEPTEMBER 11, 2015,
TO ALLIANT ENERGY'S SECOND SET OF INFORMATION REQUESTS, DATED AUGUST 21, 2015

2-ITCMW--ALLIANT-2. In its August 4, 2015 response, ITCM indicates that the detrimental effects of taking bonus depreciation outweigh the rate benefits ITCM could provide; suggesting it has quantified these impacts, yet indicates it is not practical to estimate the effects for historical periods, including 2014, without undue effort.

How did ITCM make the business decision to opt out of electing bonus depreciation, making the determination that detrimental effects outweigh the rate benefits, without making undue effort to quantify each?

RESPONSE: ITCM's August 4, 2015 letter response regarding the detrimental effects of bonus depreciation was a qualitative statement on the impact, and was not a quantified impact as question 2 has implied. Additionally, ITCM's statement in that response that it was not practical to estimate the effects on ITCM's historical calculations for taxes, rate base and revenue requirements was in response to a detailed question that would have required ITCM to make hypothetical calculations for multiple financial measures for 2010-2014. Again then, a precise calculation of the impacts of federal bonus depreciation for several historical years, including 2014, taking into account which projects would qualify for bonus depreciation based on the timing of the project investment and the in-service date of the project, would be unduly burdensome.

Although ITCM has not attempted to precisely quantify the historical impact, the illustrative effects are as follows. For an assumed $1 million investment in plant, when electing bonus depreciation, the Accumulated Deferred Income Tax (ADIT) amount is $175,000 ($1 million x 50% first year deduction x 35% federal tax rate), resulting in a net rate base of $825,000 ($1 million less $175,000). The $175,000 reduction in rate base would reduce revenue requirement by $26,250 ($175,000 times the weighted average cost of capital plus income taxes totaling approximately 15%).

Thus, contrary to Congress' intent in adopting bonus depreciation, use of bonus depreciation is a disincentive to ITCM because it would operate to reduce ITCM's rate base and revenue requirement. Electing not to use bonus depreciation, an option that Congress provided, is therefore appropriate.

RESPONSES OF ITC MIDWEST LLC, DATED SEPTEMBER 11, 2015,
TO ALLIANT ENERGY'S SECOND SET OF INFORMATION REQUESTS, DATED AUGUST 21, 2015

2-ITCMW--ALLIANT-3. In its August 4, 2015 response, ITCM indicates that among the items considered, when making the determination to use or to elect out of bonus depreciation, is the mitigation of potential violations of IRS tax normalization rules relating to bonus depreciation and any related tax net operating losses, and avoiding the risk of permanent loss of all accelerated depreciation.

Please provide examples of situations where taking bonus depreciation on its federal income tax returns (and reflecting the impacts to Accumulated Deferred Income Tax (ADIT) account balances in the Attachment O formula rate, including the ADIT impacts of applicable net operating losses), would cause a normalization violation.

RESPONSE: The IRS has not prescribed a generally applicable safe harbor approach for handling Net Operating Losses ("NOLs") resulting from bonus depreciation under the normalization rules, so there is risk associated with that issue. The regulations indicate there is no specific mandate on methods, and provides that the IRS has discretion to determine whether a particular method satisfies the normalization requirements. The risk involving the determination of the portion of an NOL carry forward attributable to accelerated depreciation is significant enough to have caused several entities to request Private Letter Rulings ("PLRs") from the IRS. Several PLRs have been issued by the IRS (e.g. PLRs 201230012, 201418024, 201436037, 201436038, 201519021, 201438003 and 201534001) that assess the attribution of NOLs to rate base or the effects of NOLs on investment tax credit amortization in the contexts of whether the ratemaking treatment proposed violates the normalization rules. Because those PLRs are explicit in that the fact patterns addressed are specific to the filing taxpayers, and are only binding with respect to the applicable taxpayer and its operations in a specific regulatory jurisdiction, they are only partially instructive to the industry and to ITC. Risk remains, therefore, even in light of the recent IRS rulings.

RESPONSES OF ITC MIDWEST LLC, DATED SEPTEMBER 11, 2015,
TO ALLIANT ENERGY'S SECOND SET OF INFORMATION REQUESTS, DATED AUGUST 21, 2015

2-ITCMW--ALLIANT-4. In its August 4, 2015 response, ITCM indicated that it is not able to grant IPL's request to grant customers the benefits of bonus depreciation regardless of whether the deductions are taken, as this would be considered as a normalization violation.

a) If ITCM takes bonus depreciation on its 2014 federal income tax return and in the 2014 Attachment O True-Up, does ITCM believe this would be considered a normalization violation?

b) If yes, what support is offered for this conclusion?

RESPONSE:

a) For clarity, ITCM's August 4, 2015 response was addressing Alliant's request to give customers the benefits of bonus depreciation even though bonus depreciation was not deducted by ITC Holdings Corp. on its filed tax return. That would clearly be a normalization violation. Regarding this question, 4.a, there would likely be no normalization concerns if there were no NOL carryforwards that resulted from bonus depreciation. However, as noted above in the response to question 3, the amount of any NOLs to be added to rate base resulting from bonus depreciation would need to be determined and would ultimately require approval by the Internal Revenue Service to eliminate the risk (because the applicable regulations do not prescribe a computational approach, but instead indicate that the IRS has the discretion to determine whether any particular method satisfies such regulations). Risk of a normalization violation exists if any portion of the deferred tax liability attributable to accelerated depreciation reduces rate base prior to utilization of NOLs.

b) See a) above

RESPONSES OF ITC MIDWEST LLC, DATED SEPTEMBER 11, 2015,
TO ALLIANT ENERGY'S SECOND SET OF INFORMATION REQUESTS, DATED AUGUST 21, 2015

2-ITCMW--ALLIANT-5. Does ITCM prepare a pro forma federal tax return or other stand alone tax calculation for the ITC Midwest entity that is not filed with the IRS as part of the support for income tax allocations to ITCM and any resultant income tax payments from ITCM to the ITC parent? Please provide calculations and work papers that support the reported current and deferred income tax calculations and payments reported in FERC Form 1 and Attachment O protocol.

RESPONSE: ITCM's 2014 FERC Form No. 1 reflects the stand alone ITCM tax calculation being requested. Current federal income tax calculation appears on page 261, and the book vs. tax differences that impact ITCM's deferred tax balances are also displayed on page 261. The tax payments to ITC Holdings Corp. (the parent) are based on this stand-alone federal income tax calculation.

**RESPONSES OF ITC MIDWEST LLC, DATED SEPTEMBER 11, 2015,
TO ALLIANT ENERGY'S SECOND SET OF INFORMATION REQUESTS, DATED AUGUST 21, 2015**

2-ITCMW--ALLIANT-6. In its August 4, 2015 response, ITCM indicates that it sought and was recently granted a private letter ruling to provide for averaging of beginning and end of year deferred taxes, rather than proration in its formula rate to the benefit of customers. IPL has reviewed the three identical Private Letter Rulings (PLRs) from the Internal Revenue Service (IRS) issued on July 31, 2015, presumably for the three operating companies of ITC Holdings Corp., including ITCM. They indicate "The computation by Taxpayer of accumulated deferred income taxes for purposes of calculating average rate base without application of the rules for future test periods under §1.167(l)-1((h)(6) involving the proration formula for its projected revenue requirement does not comply with the normalization requirements of §168(i)(9)."

a) When does ITCM plan to comply with the normalization requirements and PLR by prorating its accumulated deferred income taxes for future test periods?

b) What will the impact be on the 2014 Attachment O True-Up?

c) What will the impact be on any current or future rate base and rates?

RESPONSE:

a) This was included in the ITCM 2016 projected rate posted on August 31, 2015.

b) There is no effect on the 2014 Attachment O true-up, as neither the 2014 projected or actual deferred tax balances were prorated.

c) There is no change in deferred taxes required for the calculation of actual revenue requirement (which do not require proration). Only the projected revenue requirements will be affected by the proration of deferred taxes, so it will affect the true-up adjustment all else being equal.

ALLIANT ENERGY

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

1-800-ALLIANT (1-800-255-4268)
alliantenergy.com

August 21, 2015

RE: ITCM-Annual True-up, Information Exchange, and Challenge Procedures—Information Exchange Request

To: misoformularates@itctransco.com

Alliant Energy – Interstate Power & Light Co. (IPL) initiates and submits this information request pursuant to Section III of the ITC Midwest LLC (ITCM) Attachment O Annual True-Up, Information Exchange, and Challenge Procedures published as part of the Midcontinent Independent System Operator, Inc. (MISO) Tariff. The following Information Exchange questions relate to the ITCM 2014 Attachment O True-Up – Preliminary information posted on ITCM's OASIS (http://www.oasis.oati.com/ITCM/) under item 101 dated May 29, 2015 ("Publication Date") and the ITCM 2014 Attachment O True-Up Presentation under item number 103 dated July 8, 2015.

Background

Since 2008, various legislation has provided taxpayers special depreciation allowances ("bonus depreciation") on qualified property under Section 168(k) of the Internal Revenue Code of 50% for equipment purchased after December 31, 2007 and before January 1, 2014, and 100% for equipment purchased after September 8, 2010 and before January 1, 2012 and placed into service before January 1, 2012. A corporate tax filer may make a formal election to not take advantage of the special depreciation allowances on an originally filed federal tax return.

In June 2015 discussions between IPL and ITCM, ITCM personnel indicated that ITCM has not taken bonus depreciation since 2010 by electing to opt out. In lieu of initiating the ITCM Attachment O Annual True-Up, Information Exchange, and Challenge Procedures, IPL sent a letter on June 25, 2015 to ITCM with questions regarding bonus depreciation treatment, impacts and rationale, requesting a written response by July 10, 2015. IPL's June 25, 2015 inquiry and ITCM's response of August 4, 2015 are attached for reference.

Information Exchange Questions

The following are follow-up questions to the response ITCM provided on August 4, 2015 to IPL's June 25, 2015 inquiry, and relate to the extent to which ITCM elected to use bonus depreciation in 2014, how that decision impacted the 2014 projected and actual revenue requirements and how the resulting 2014 True-Up will impact the 2016 Attachment O rates.

1. In its August 4, 2015 response, ITCM indicated that it evaluates the costs and benefits of any regulatory or financial decision, to balance the needs of its multiple stakeholders, including customers and shareholders. ITCM further indicates that "in recent years, as it became clearer that bonus

depreciation was not the temporary stimulus that had been initially intended, the detrimental effects to ITC's earnings and cash flows became more significant."

The FERC Form 1 filings for ITCM for 2010-2014 show a total current federal tax payable of approximately $141 million.

a) What stakeholders benefit from the decision to not take bonus depreciation and what are those benefits for each stakeholder?
b) What stakeholders are negatively impacted from the decision not to take bonus depreciation and what are those negative impacts for each stakeholder?
c) Given that bonus depreciation is generally viewed as a cash flow benefit that reduces the need to make federal cash tax payments (or would have eliminated the need to make federal cash tax payments in the case of ITCM), how does ITCM consider bonus depreciation a detrimental impact on cash flow?

2. In its August 4, 2015 response, ITCM indicates that the detrimental effects of taking bonus depreciation outweigh the rate benefits ITCM could provide; suggesting it has quantified these impacts, yet indicates it is not practical to estimate the effects for historical periods, including 2014, without undue effort.

   How did ITCM make the business decision to opt out of electing bonus depreciation, making the determination that detrimental effects outweigh the rate benefits, without making undue effort to quantify each?

3. In its August 4, 2015 response, ITCM indicates that among the items considered, when making the determination to use or to elect out of bonus depreciation, is the mitigation of potential violations of IRS tax normalization rules relating to bonus depreciation and any related tax net operating losses, and avoiding the risk of permanent loss of all accelerated depreciation.

   Please provide examples of situations where taking bonus depreciation on its federal income tax returns (and reflecting the impacts to Accumulated Deferred Income Tax (ADIT) account balances in the Attachment O formula rate, including the ADIT impacts of applicable net operating losses), would cause a normalization violation.

4. In its August 4, 2015 response, ITCM indicated that it is not able to grant IPL's request to grant customers the benefits of bonus depreciation regardless of whether the deductions are taken, as this would be considered as a normalization violation.

   a) If ITCM takes bonus depreciation on its 2014 federal income tax return and in the 2014 Attachment O True-Up, does ITCM believe this would be considered a normalization violation?
   b) If yes, what support is offered for this conclusion?

5. Does ITCM prepare a pro forma federal tax return or other stand alone tax calculation for the ITCM entity that is not filed with the IRS as part of the support for income tax allocations to ITCM and any resultant income tax payments from ITCM to the ITC parent? Please provide calculations and work papers that support the reported current and deferred income tax calculations and payments reported in FERC Form 1 and Attachment O protocol.

6. In its August 4, 2015 response, ITCM indicates that it sought and was recently granted a private letter ruling to provide for averaging of beginning and end of year deferred taxes, rather than proration in its formula rate to the benefit of customers. IPL has reviewed the three identical Private Letter Rulings (PLRs) from the Internal Revenue Service (IRS) issued on July 31, 2015, presumably for the three operating companies of ITC Holdings Corp., including ITCM. They indicate "The computation by Taxpayer of accumulated deferred income taxes for purposes of calculating average rate base without application of the rules for future test periods under §1.167(l)-1((h)(6) involving the proration formula for its projected revenue requirement does not comply with the normalization requirements of §168(i)(9)."

    a) When does ITCM plan to comply with the normalization requirements and PLR by prorating its accumulated deferred income taxes for future test periods?
    b) What will the impact be on the 2014 Attachment O True-Up?
    c) What will the impact be on any current or future rate base and rates?

IPL appreciates ITCM's support of its continued efforts to better understand the components of the ITCM formula rate and manage IPL's transmission expense and transmission costs for its customers. According to the ITCM Attachment O Annual True-Up, Information Exchange, and Challenge Procedures, ITCM shall make a good faith effort to respond within fifteen business days, or approximately September 11, 2015. Please post this letter in its entire, original format on the ITCM OASIS along with your response when responding. IPL looks forward to ITCM's response.

Thank you,

John Weyer
Manager –Transmission Services
Alliant Energy Corporate Services, Inc.
319-786-7112
johnweyer@alliantenergy.com

ITC MIDWEST
100 East Grand Ave, Suite 230
Des Moines, IA 50309
phone: 515-282-5300
www.itctransco.com

August 4, 2015

Mr. Joel Schmidt
Vice President, Regulatory Affairs
Interstate Power and Light Co.
Alliant Energy
200 First Street SE
P.O. Box 351
Cedar Rapids IA 52406-0351

Dear Joel:

I appreciate your interest in ITC Midwest's plans regarding bonus depreciation. I hope that this response answers your questions.

As you know, ITC, like Alliant Energy, works to balance the many needs of stakeholders, including customers and investors, to ensure the long-term success of the organization and ability to serve the needs of the constituencies that depend on the company. ITC is committed to keeping customer rates as low as practical, while ensuring adequate access to capital to make the needed investments in the system.

As just one recent example of ITC's vigilance in seeking regulatory relief to help reduce impacts on customer costs, last year ITC requested a private letter ruling with the IRS to advocate for the existing treatment of the simple averaging of beginning of year and end of year deferred taxes in its formula rate to the benefit of customers as opposed to prorating deferred tax balances as required by the IRS for certain situations involving projected test periods. In the IRS ruling received, the IRS agreed that for purposes of calculating actual revenue requirement, deferred tax balances do not need to be prorated. Some companies in the industry, including ATC to the best of our knowledge, are prorating actual deferred tax balances or advocating for the use of prorated actual balances, which results in a lower deferred tax offset to rate base, and therefore a higher rate base. ITC's approach, in contrast, results in a lower rate base. ITC estimates that its approach vs. the proration method used by other utilities has an impact of reducing ITC Midwest's rate base by approximately $10 million per year for 2014. The redacted IRS rulings were published in early August 2015.

ITC is continually looking for opportunities that will benefit its ratepayers. At the same time, ITC also has an obligation to respond to customer needs for transmission service and generator interconnection. We are committed to improved reliability within the footprint. ITC has made historically high levels of investment in the Midwest footprint, which has been the primary driver for transmission rate increases. This investment has provided demonstrated reliability

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improvements, which is reflected in both the quantitative results shown through studies like SGS, as well as the anecdotal responses from customers that I am pleased to hear on a regular basis. Those improvements in the system have the added benefit of reducing congestion costs and allowing access to a wider variety of generating sources, which I anticipate has reduced generation costs for IPL. Certainly that also benefits IPL customers.

In regard to the specific questions about bonus depreciation, ITC evaluates the costs and benefits of any regulatory or financial decision, to balance the needs of its multiple stakeholders, including customers and shareholders. In recent years, as it became clearer that bonus depreciation was not the temporary stimulus that had been initially intended, the detrimental effects to ITC's earnings and cash flows became more significant. These detrimental effects began to outweigh the rate benefits ITC could reasonably provide other stakeholders, and when considering these and other relevant factors noted throughout this response, ITC elected out of bonus depreciation as is clearly contemplated in the IRS regulations. Our responses to your specific questions should further clarify our position.

QUESTIONS/ANSWERS

Q. Please list the factors considered when making the determination to use or to opt out of federal bonus depreciation.

A. As indicated in the question, companies have the ability to elect out of bonus depreciation. Since bonus depreciation first appeared in law in 2002, the statutory rules have specifically provided that taxpayers may elect not to claim bonus depreciation. Further, Congress has specifically recognized that certain regulated utility taxpayers may wish not to claim bonus depreciation. Finally, in response to the request raised in the initial paragraph of the Alliant letter dated June 25, 2015 for ITCM to grant customers the benefits of bonus depreciation regardless of whether the deductions are taken, ITC is not able to grant this. This would clearly be a normalization violation based on 2012 legislation, which would prohibit ITC from using all forms of accelerated tax depreciation prospectively.

The items below are considered when making the determination to use or to elect out of bonus depreciation.

- Congressional intent of bonus depreciation and whether it results in an incentive for ITC to increase spending on infrastructure or conflicts with FERC intent to stimulate transmission investment.
- ITC considers the impact on customer rates, as well as the impact on earnings, cash flows and credit metrics.
- Mitigation of potential violations of IRS tax normalization rules relating to bonus depreciation and any related tax net operating losses, and avoiding the risk of permanent loss of all accelerated depreciation.

Q. For which tax years did ITCM use federal bonus depreciation incentives and for which tax years did ITCM make the election to opt out of taking federal bonus depreciation incentives?

A. ITCM elected federal bonus depreciation in 2008 and 2009. ITC elected out of federal bonus depreciation in 2010 – 2013.

Q. Does ITCM intend to use or to opt out of taking federal bonus depreciation for the tax year ending December 31, 2014?

A. ITCM intends to elect out of federal bonus depreciation for the tax year ending December 31, 2014.

Q. Did the 2014 Attachment O true-up filing include an assumption that ITCM would use federal bonus depreciation incentives or elect to opt out of federal bonus depreciation incentives available for 2014?

A. 2014 Attachment O true up filing assumes ITCM will elect out of federal bonus depreciation for 2014.

Q. If ITCM deducted federal bonus depreciation incentives to the extent possible for tax years 2010 through 2014 federal tax returns:

1. What would be the change in income taxes paid to ITC Holdings for 2010 through 2014 relative to amounts currently shown in ITCM's FERC Form 1 annual reports?
2. What would be the increase in deferred tax liabilities for ITCM for 2010-2014 (year end and 13-month average)?
3. What would be the reduction in rate base for ITCM for 2010-2014 (year end and 13-month average)?
4. What would be the reduction in net revenue requirement for ITCM for 2010-2014 and estimated for 2015?

A. It is not practical to estimate the effects for historical periods without undue effort. As noted throughout these responses, other impacts beyond the impacts requested above are considered as to whether ITC elects bonus depreciation.

Q. Does ITCM prepare a separate company tax return excluding the effects of affiliated entities within the ITC holding company?

A. No separate return is filed with the IRS for ITCM, as it is a disregarded entity (a single-member LLC) for federal income tax filing purposes. However, ITCM records income taxes for accounting purposes based on its stand-alone company tax position.

Q. Quantify the general business credits and investment tax credits with finite carry-forward periods that have been claimed by ITCM that could be lost if a decision to not elect to opt out of bonus depreciation would extend federal taxable losses into the foreseeable

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future. How would this impact ITCM's net revenue requirements, net investment rate base and the deferred tax liabilities in 2014 and 2015?

A. ITC does not have such credits; however, credits and tax loss carryforwards are not the sole determining factor for ITC's rationale for whether or not to elect bonus depreciation in any given year.

Q. What is the benefit(s) to customers of ITCM related to its management decision to either use or opt out of federal bonus depreciation incentives?

A. As noted in response to Question A, ITC considers many factors, including the effect on customer rates, when considering bonus depreciation. ITCM customers have benefitted from management's decision to elect out of bonus depreciation by ITCM making consistent investment in necessary transmission infrastructure. Given ITC's rate construct, bonus depreciation does not serve as the incentive to invest that congress intended and it actually serves as a disincentive and conflicts with FERC intent to stimulate transmission investment. Additionally, ITCM has continued to utilize accelerated tax depreciation methods (15 year MACRS for transmission investment) and expects to continue to use accelerated methods.

ITC appreciates the opportunity to respond to your questions regarding bonus depreciation. If you have additional questions after you have had an opportunity to review our response, please call me and we can discuss further.

Sincerely,

Krista K. Tanner

cc: Rejji Hayes

ALLIANT ENERGY

Joel J. Schmidt
Vice President, Regulatory Affairs
Interstate Power and Light Co.

Alliant Energy
200 First Street SE
P.O. Box 351
Cedar Rapids, IA 52406-0351
319-786-4525
joelschmidt@alliantenergy.com

June 25, 2015

Ms. Krista K. Tanner
President
ITC Midwest
100 East Grand Avenue, Suite 230
Des Moines, IA 50309

Dear Krista:

We are concerned that our customer's transmission costs may be higher than necessary if ITC Midwest (ITCM) is an industry outlier and is not taking advantage of bonus depreciation as most other utilities we are aware of do. Our initial, high level review indicates this could have a significant annual ITCM customer cost impact. We are aware of only one other utility which has not taken advantage of bonus depreciation and they returned the foregone benefit that customers would have received to customers for the single year they did not take it. We and our state regulators expect ITCM to reduce costs incurred by ITCM's customers and accordingly grant the benefits to ITCM's customers regardless of whether or not the bonus depreciation deductions are taken.

We would like to better understand ITCM's use or lack thereof of bonus depreciation and the impact of such decisions on our customers. I am providing you with some questions that I would like ITCM to address. Given the upcoming September 15, 2015 deadline for filing a 2014 tax year return, we would like to understand this issue more fully and have opportunity for further dialogue with ITCM on it before ITCM has to make final decisions regarding preparation of its 2014 return. In light of this, we would appreciate ITCM responding, in writing, to our questions no later than Friday, July 10th. We thought it would be best to have an informal exchange of information before potentially taking other, more formal actions.

As you are aware, IPL's regulators, customers and other stakeholders are very engaged with IPL in its management of its processes and relationship with ITCM that influence transmission benefits, service levels and costs to IPL customers. This issue is important to our customers and other stakeholders and we expect to share ITCM's responses to these questions with our customers and stakeholders or include them in future regulatory filings.

Questions

Since 2008, various legislation has provided taxpayers the option to elect special depreciation allowances ("bonus depreciation") on qualified property under Section 168(k) of the Internal Revenue Code of 50% for equipment purchased after December 31, 2007 and before January 1, 2014, and 100% for equipment purchased after September 8, 2010 and before January 1, 2012 and placed into service before January 1, 2012. A corporate tax filer can make a formal election to not take advantage of the special depreciation allowances on an originally filed federal tax return. Any question assuming that ITCM is a tax filer can be presumed to apply to any related company filing corporate tax returns on behalf of ITCM.

A. Please list the factors considered when making the determination to use or to opt out of federal bonus depreciation.

B. For which tax years did ITCM use federal bonus depreciation incentives and for which tax years did ITCM make the election to opt out of taking federal bonus depreciation incentives?

C. Does ITCM intend to use or to opt out of taking federal bonus depreciation for the tax year ending December 31, 2014?

D. Did the 2014 Attachment O true-up filing include an assumption that ITCM would use federal bonus depreciation incentives or elect to opt out of federal bonus depreciation incentives available for 2014?

E. If ITCM deducted federal bonus depreciation incentives to the extent possible for tax years 2010 through 2014 federal tax returns:
   1. What would be the change in income taxes paid to ITC Holdings for 2010 through 2014 relative to amounts currently shown in ITCM's FERC Form 1 annual reports?
   2. What would be the increase in deferred tax liabilities for ITCM for 2010-2014 (year end and 13-month average)?
   3. What would be the reduction in rate base for ITCM for 2010-2014 (year end and 13-month average)?
   4. What would be the reduction in net revenue requirement for ITCM for 2010-2014 and estimated for 2015?

F. Does ITCM prepare a separate company tax return excluding the effects of affiliated entities within the ITC holding company?

G. Quantify the general business credits and investment tax credits with finite carryforward periods that have been claimed by ITCM that could be lost if a decision to not elect to opt out of bonus depreciation would extend federal taxable losses into the foreseeable future. How would this impact ITCM's net revenue requirements, net investment rate base and the deferred tax liabilities in 2014 and 2015?

H. What is the benefit(s) to customers of ITCM related to its management decision to either use or opt out of federal bonus depreciation incentives?

Please contact me if you have questions regarding our request. I look forward to ITCM's timely response on or before July 10th.

Sincerely,

Joel Schmidt
Vice President, Regulatory Affairs

cc: Pat Kampling
Linda Mattes
Tom Hanson
Eric Guelker
Jennifer Janecek

Appendix 2 – October 30, 2015 ITC-M and WPL Bent Tree FSA (Docket No. EL16-206-000)

ITC

October 30, 2015

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: ITC Midwest LLC
Docket No. ER16-___-000

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act ("FPA")[1] and Part 35 of the Federal Energy Regulatory Commission's ("FERC") Rules of Practice and Procedure,[2] the Midcontinent Independent System Operator, Inc. ("MISO")[3], on behalf of ITC Midwest LLC ("ITC Midwest"), hereby submits for filing an unexecuted Facilities Services Agreement ("FSA") between ITC Midwest and Wisconsin Power and Light Company ("WPL"). As described further herein, the FSA provides a means for ITC Midwest to recover the cost of certain network upgrades to ITC Midwest's transmission system that are associated with the interconnection of WPL's Bent Tree Wind Farm, located in Freeborn County, Minnesota. MISO has designated the FSA as Original Service Agreement No. 2862 under MISO's FERC Electric Tariff, Fifth Revised Vol. No. 1 ("Tariff").

ITC Midwest respectfully requests that the Commission accept the FSA as attached hereto for filing with an effective date of November 1, 2015.

I. Description of ITC Midwest

ITC Midwest is a wholly-owned subsidiary of ITC Holdings Corp. ITC Midwest is an independent transmission company operating primarily in Iowa, with smaller portions of its system in Minnesota, Illinois, and Missouri. ITC Midwest owns more than 6,600 miles of transmission lines and 208 electric transmission substations in Iowa, Minnesota, Illinois and Missouri, and maintains operating locations at Dubuque, Iowa

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1 16 U.S.C. § 824d (2006).

2 18 C.F.R. Part 35 (2014).

3 As the Administrator of the MISO Tariff on file with the Commission, MISO joins in this filing, but takes no position on the substance of this filing.

City and Perry, Iowa, and Albert Lea and Lakefield, Minnesota. ITC Midwest is a transmission-owning member of MISO.

II. Description of the Agreement

A. Background

WPL is the developer of a 201 MW windfarm in Freeborn County, Minnesota ("Bent Tree Wind Farm"), which is interconnected with the transmission system of ITC Midwest. Pursuant to the Amended and Restated Generator Interconnection Agreement ("GIA") between ITC Midwest, WPL, and MISO, ITC Midwest installed certain network upgrades on the ITC Midwest transmission system consisting of the Freeborn to Winnebago 161 kV Rebuild (the "Network Upgrade") to remove a constraint caused by WPL's Bent Tree Wind Farm.[4]

ITC Midwest elected the self-fund option in Article 11.3 of the GIA for the Network Upgrade. The manner in which the Transmission Owner is allowed to recover those costs and the Interconnection Customer is responsible for paying those costs was the subject of a 2013 Commission decision interpreting Article 11.3 of the GIA.[5] Under that Article, instead of constructing network upgrades using the Interconnection Customer's up-front capital, as indicated in Attachment FF of the MISO Tariff, a Transmission Owner may elect to "self-fund" the required network upgrades and then establish a facilities charge to recover the costs from the Interconnection Customer over the term of the FSA.[6] The Commission held in the Self-Funding Order that when a Transmission Owner elects the self-funding mechanism, the Transmission Owner may recover a "return of and on" the capital costs of the network upgrades through the facilities charge. Accordingly, the enclosed FSA implements the Article 11.3 self-funding option and establishes a charge to recover the return of and on the costs of the Network Upgrade.[7]

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4 The GIA, which is dated May 11, 2015, conforms with MISO's pro forma GIA. Accordingly, it does not require Commission approval and has not been filed with the Commission.

5 *Midcontinent Independent System Operator*, 145 FERC ¶ 61,111 (2013) (the "Self Funding Order").

6 It must be noted that on June 18, 2015, in Docket No. EL15-68, the Commission commenced a Federal Power Act Section 206 proceeding proposing to modify the manner in which interconnection customers pay for network upgrades pursuant to the MISO Tariff. *Midcontinent Independent System Operator, Inc.*, 151 FERC ¶ 61,220 (2015). The GIA between WPL and ITC Midwest was effective prior to the June 18 Order and should not be impacted by the proceeding in Docket No. EL15-68.

7 Section 3(b)(ii) of Appendix A of the Amended and Restated GIA between WPL and ITC Midwest provides that: "Transmission Owner elects to fund the cost of the Winnebago to Freeborn 161 kV Rebuild Network Upgrade as allowed in Article 11.3 of the Generator Interconnection Agreement ("GIA"). Transmission Owner will recover its return on and return of the initial capital cost of the Network Upgrade from Interconnection Customer under a separate services agreement ("Service Agreement") among the Transmission Owner and Interconnection Customer."

B. Description of the FSA

1. The Facilities Charge

As noted above, the FSA contains a facilities charge that recovers the return of and on the capital costs of the Network Upgrade. Beginning with the month following the effective date of the FSA and continuing for a total of 300 months, WPL is obligated to make a payment in the amount of the Monthly Revenue Requirement. Initial payments are based on the Estimated Network Upgrade Initial Capital Cost ("ENUC" or "Initial Capital Cost") as illustrated in the table below.

Description	Amount
Estimated Network Upgrade ("ENUC" or "Initial Capital Cost")	$ 38,826,851
Levelized Fixed Charge Rate	12.745%
Annual Revenue Requirement	$5,016,240
Monthly Revenue Requirement (Payment)	$418,020

The Monthly Revenue Requirement will be re-calculated annually by updating certain inputs to the formula rate (Exhibit II of the FSA). The formula calculates a levelized fixed-charge rate based on the initial capital cost, the term of the FSA, the delay between the In Service Date of September 1, 2015 and the effective date of the FSA, and certain data from the ITC Midwest Attachment O Formula Rate under the MISO's tariff including: (i) the ITC Midwest combined tax rate, (ii) the amounts of ITC Midwest interest on long term debt, (iii) the long term debt and common equity balances, and (iv) the Commission-approved Return on Equity for ITC Midwest. Beginning June 1 of the first calendar year following the in service date, and each subsequent June 1 thereafter, the monthly payment will be updated based on the ITC Midwest Attachment O Formula Rate using data from the previous calendar year and the actual initial capital cost of the Network Upgrade. As shown in Exhibit II, calculation of the monthly facilities charge is based on recovery of only the return on and of the initial capital cost of the network upgrades. All facilities charge revenues will be included as part of the revenue credits in the ITC Midwest Attachment O Formula Rate.

In addition, there is a one-time true-up adjustment to be calculated within one year of the in-service date after the actual Network Upgrade capital costs are known.[8]

[8] The true-up adjustment will be equal to the difference between payments collected to-date based on the estimated initial capital cost and what the payments would have been calculated as using the actual initial capital cost. The true-up adjustment, as either a credit due or charges to the customer, shall be included in the next monthly bill, including interest determined in accordance with the Commission's regulations at 18 C.F.R § 35.19a.

2. Security and Default Provisions

Under the terms of the GIA, WPL has provided ITC Midwest with a guaranty in the amount of $38,826,386 for the Network Upgrade. Pursuant to the FSA, that security will be reduced ratably on an annual basis based on payments made during the prior year.

3. Additional Provisions

(a) Shared Network Upgrades

Section V provides that if the Network Upgrade under the FSA is identified as a Shared Network Upgrade, as defined in the MISO Tariff, ITC Midwest will develop agreements and payments that reflect each Interconnection Customer's responsibility for the cost of the Network Upgrade based on the effective date of that subsequent Interconnection Customer's Generator Interconnection Agreement and that subsequent Interconnection Customer's percentage cost responsibility for the Network Upgrade.

(b) Additional Network Upgrades

Section VI provides that the FSA may be amended to incorporate the cost of additional ITC Midwest network upgrades assigned to the Bent Tree Wind Farm project as a condition of the project's Interconnection Service.

(c) Assignment

Section VII provides the terms and conditions for permissible assignment of the FSA.

(d) **Transmission Service**

Nothing in the FSA conveys a right to transmission service under the MISO Tariff.

III. Unresolved Issues

The calculation of the Facilities Charge is described in Exhibits I and II to the FSA. The calculation includes a computation of the present value of ITC Midwest's future stand-alone federal and state income tax depreciation deductions associated with the Network Upgrade ("Tax Benefit"). In its stand-alone tax calculations, ITC Midwest depreciates its assets for tax purposes in accordance with the general rules of Internal Revenue Code ("IRC") Section 168(a) (commonly referred to as MACRS depreciation) and, therefore, used MACRS depreciation rates to calculate the Tax Benefit. WPL has not disputed the inclusion of the MACRS depreciation rates in the Facilities Charge, but has disputed the amount of the Tax Benefit. Specifically, WPL has asserted that the Tax Benefit should be calculated as if bonus depreciation were to be taken for eligible Network Upgrades pursuant to IRC Section 168(k) and the associated bonus depreciation rates ("BD Rates") were to be utilized. WPL does not dispute any other aspect of the calculation.

ITC Midwest disagrees with WPL's assertion that BD Rates should be used to calculate the Tax Benefit. Bonus depreciation expired at the end of 2014[9] and has not been extended. Thus, WPL is requesting that the Facilities Charge be calculated on the basis of tax treatment for which the Network Upgrade facilities do not currently qualify. If bonus depreciation were to be extended for 2015, which is entirely speculative at this point, and if ITC Holdings were to take bonus depreciation for 2015, ITC Midwest would adjust the Tax Benefit accordingly.

WPL, as the Interconnection Customer, is responsible for the costs of the Network Upgrade, and it, therefore, is only entitled to the actual Tax Benefit associated with the Network Upgrade facilities, based on the tax depreciation methodology actually being used by ITC Holdings Corp. The calculation of the Facilities Charge in the FSA submitted herewith reflects that methodology.

ITC Midwest respectfully requests that the Commission accept the FSA as filed herewith.

IV. Information Required Under 18 C.F.R. § 35.13

A. Correspondence and Service

Correspondence and service regarding this filing should be sent to the following individual, who should be placed on the official service list in this proceeding:

Amy Monopoli*
ITC Holdings Corp.
27175 Energy Way
Novi, MI 48377
Phone: 248-946-3771
Fax: 248-946-3552
amonopoli@itctransco.com

Jacob T. Krouse*
Midcontinent Independent System Operator, Inc.
P.O. Box 4202
Carmel, IN 46082-4202
Phone: 317-249-5400
jkrouse@misoenergy.org

* Persons authorized to receive service.

B. Effective Date

ITC Midwest respectfully requests that the Commission accept the FSA as attached hereto for filing with an effective date of November 1, 2015. Pursuant to section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11, ITC Midwest requests waiver of the Commission's 60-day notice requirement set forth at 18 C.F.R. § 35.3, to permit an

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9 IRC Section 168(k).

effective date of November 1, 2015, for the FSA. Consistent with Commission precedent, good cause exists for waiver in this instance because the FSA is a bilateral agreement and the parties support the requested effective date.[10]

C. Documents Submitted with this Filing

This filing consists of the following documents:

1. This transmittal letter; and
2. The unexecuted FSA with accompanying Exhibits I and II.

D. Request for Waiver

This filing substantially complies with the requirements of Part 35 applicable to filings of this kind. To the extent necessary, ITC Midwest respectfully requests waiver of any applicable requirement of Part 35 which is found not to be completely satisfied by this filing.

E. Service

ITC Midwest has served a copy of this filing electronically, including attachments, upon WPL. MISO notes that it has served a copy of this filing electronically, including attachments, upon all Tariff Customers under the Tariff, MISO Members, Member representatives of Transmission Owners and Non-Transmission Owners, MISO Advisory Committee participants, as well as all state commissions within the Region. The filing has been posted electronically on MISO's website at https://www.misoenergy.org/Library/FERCFilingsOrders/Pages/FERCFilings.aspx for other interested parties in this matter. In addition, MISO has served a copy of this filing electronically on all parties to this agreement.

10 *Central Hudson Gas & Electric Corp., et al.*, 60 FERC ¶ 61,106 (1992), *reh'g denied*, 61 FERC ¶ 61,089 (1992), and *Prior Notice and Filing Requirements Under Part II of the Federal Power Act*, 64 FERC ¶ 61,139, *clarified*, 65 FERC ¶ 61,081 (1993).

V. Conclusion

WHEREFORE, ITC Midwest respectfully requests that the Commission accept the FSA as filed.

Respectfully submitted,

/s/ Amy Monopoli

Amy Monopoli
Counsel – Regulatory & Legislative
ITC Holdings Corp.
27175 Energy Way
Novi, MI 48377
Phone: 248-946-3771
Fax: 248-946-3552

Counsel for ITC Midwest LLC

SA 2862 ITC MIDWEST – WPL FSA VERSION 31.0.0

EFFECTIVE 11/01/2015

ORIGINAL SERVICE AGREEMENT NO. 2862

Project G870

FACILITIES SERVICE AGREEMENT

entered into by and between

Wisconsin Power and Light Company,

And

ITC Midwest LLC

Facilities Service Agreement
for
Project G870

This Facilities Service Agreement ("Service Agreement") dated ______________, is entered into by and between Wisconsin Power and Light Company ("Customer") and **ITC Midwest LLC** ("ITCM" or "Owner"), to compensate the Owner for changes and additions to its transmission system ("Network Upgrades" or "Facilities") necessary for Interconnection Service for the Customer's generating facility. Customer and Owner are each referred to as "Party," and collectively as "Parties."

WHEREAS, the Parties entered into the May 11, 2015 Generator Interconnection Agreement ("GIA") together with the Midcontinent Independent System Operator, Inc. ("MISO"); and

WHEREAS, the Interconnection Service necessary for Customer's generating facility, MISO project G870, requires Owner to install Network Upgrades on Owner's transmission system consisting of the Network Upgrades in Exhibit I in order for Owner to operate and maintain the transmission system in a safe and reliable manner; and

WHEREAS, in accordance with the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("Tariff") in effect at the time the GIAs were executed, the Owner has elected the self-fund option described in Article 11.3 of the *pro forma* GIA of Attachment X of the Tariff and will recover the initial capital cost of Network Upgrades from Customer through this Service Agreement; and

WHEREAS, the Owner will fund, construct, operate and maintain the Facilities;

NOW, THEREFORE, for valuable consideration, the Parties hereby agree that Owner shall recover the return of and return on the initial capital cost of the Facilities from Customer, under the following terms and conditions:

I. Effective Date and Term

Unless terminated earlier by mutual agreement, the effective date of this Service Agreement shall be November 1, 2015, or such other date as it is permitted to become effective by the Federal Energy Regulatory Commission ("Commission" or "FERC"), whichever is later ("Effective Date"), and shall continue until twenty-five (25) years of Payments have been collected by Owner ("Term").

II. Facility Charge

Beginning with the first month following the effective date of this agreement and continuing for a total of three hundred (300) months, Customer shall make a payment to Owner each month in the amount of the Monthly Revenue Requirement ("Payment") for the Network Upgrade. Each Payment shall be due and payable by the 15th day of each month ("Due Date"), without invoice, for a total of 300 consecutive months. Initial Payment(s) shall be based on the Estimated Network Upgrade Initial Capital Cost ("ENUC" or Initial Capital Cost) as illustrated in Exhibit I.

The Monthly Revenue Requirement or Payment by Customer to Owner for the Facilities shall be re-calculated annually to be effective each June 1st by updating certain inputs to the Formula Rate ("Formula") shown in Exhibit II of this Service Agreement, and rounded to the nearest whole dollar. The monthly payment by Customer should be credited under Attachment O. The Formula calculates the Levelized, Fixed-Charge Rate and Payment based on the Initial Capital Cost, the Term of this Service Agreement in years, the delay between September 1, 2015 ("In-Service Date") and the effective date, and certain data from the ITCM Attachment O Formula Rate under the Tariff including: (i) the ITCM Combined Tax Rate, (ii) the amounts of ITCM Interest on Long Term Debt, (iii) the Long Term Debt and Common Equity balances, and (iv) the FERC approved Return on Equity for ITCM.

Beginning June 1st of the first calendar year following the In Service Date, and each subsequent June 1st thereafter, the Payment shall be updated based on the ITCM Attachment O Formula Rate using data from the previous calendar year, including the impacts of any FERC decisions related to the above items (i) through (iv) that impact billings applicable to that calendar year, and the actual Initial Capital Cost of the Network Upgrade Facilities. Beginning after the first such update, Customer shall have the option of making an annual prepayment ("Annual Payment") to Owner, due July 15, equal to the new Annual Revenue Requirement in lieu of monthly Payments.

A one-time true-up adjustment for each Network Upgrade shall be calculated within one (I) year of the In-Service Date of each Network Upgrade when the Actual Network Upgrade Initial Capital Costs ("ANUC") for each Network Upgrade is known and all costs associated with the Initial Capital Cost of the each Network Upgrade or Facilities have been accounted for. The true-up adjustment will be equal to the difference between Payments collected to-date for each Network Upgrade and what the Payments to-date for each Network Upgrade would have been calculated using the ANUC. Each true-up adjustment, as either a credit due or charges to the Customer, shall be included in the Customer's next Payment due, including interest. Interest on the true-up adjustments will begin to accrue the first day of the month following each In Service Date and will be determined based on the Commission's regulations at I8 C.F.R § 35.19a. Owner will invoice Customer upon determination of each true-up as provided herein and will also invoice Customer annually regarding changes in Payment amount as a result of annual changes to ITCM's Attachment O Formula Rate.

III. Security

a. The Customer has provided Owner with guaranty in the amount of $38,826,386("Security") for the Network Upgrade(s) in Exhibit I under the terms and conditions of the May 11th GIA. The Security provided for Network Upgrade(s) shall be reduced ratably on an annual basis based on Payments received during the prior year, per the terms and conditions of this Service Agreement.

b. In the event Customer fails to make a Payment by the Due Date, Owner, following written notice to Customer and Customer's failure to pay within ten (10) days of such notice, shall be entitled to draw on the Security posted by Customer in the amount of missed Payments as well as any accrued interest charges based on the Commission's regulations at 18 C.F.R § 35.19a. If Customer fails to make Payment by the Due Date and Security has been depleted, Customer shall provide Owner with new security, in a form acceptable to Owner ("New Security"). The amount of New Security may be up to 3 Annual Payments. Customer will provide such Security to Owner within five (5) business days of Owner's request for New Security, and the New Security will remain in place until the Owner releases the New Security to Customer.

c. Security shall remain in place until Service Agreement expiration unless Owner determines, in its sole discretion that Security should be returned to Customer prior to the expiration of this Service Agreement. Any Security provided by Customer must be kept active, must continue to meet Owner's Security requirements and must be available to Owner for the purpose of making Payments under this Service Agreement in the event that Customer fails to make such Payment. Any fees or costs associated with the provision of security are the responsibility of the Customer.

d. Customer acknowledges that the construction of the Facilities under the GIA would be subject to tax gross-up, as applicable, upon Customer's default under this Service Agreement and that the Security provided hereunder could be used to cover such obligations.

IV. Default

Customer shall be in default of this Service Agreement if Customer; (i) fails to make three (3) consecutive payments when due, or, (ii) fails to provide New Security, or (iii) terminates operation of Customer's generating facility prior to the end of the 300 months referred to above and fails to continue to make payments when due. In the event of default, Customer shall promptly pay to Owner all amounts owed for the remaining months due under this Service Agreement. In the event that Customer does not promptly pay all amounts due and owing to the

Owner, the Owner may draw on the remaining balance of the Security provided by the Customer. This payment or draw on the Security does not limit any and all rights and remedies available to the Owner allowed by law with respect to such default or collecting all amounts owed for the remaining months due under this Service Agreement. The Service Agreement is a requirement for Interconnection Service under the GIA, and Customer's default under this Service Agreement will constitute a Breach of the GIA. Customer shall indemnify ITCM for reasonable costs, attorney fees and/or expenses incurred with respect to a default or collecting all amounts owed for the remaining months, including, as applicable, any tax gross-up obligations under this Service Agreement.

V. Shared Network Upgrades

If the Network Upgrade under this Service Agreement is identified as a Shared Network Upgrade, as defined in the MISO Tariff, for a subsequent MISO Interconnection Customer, where that Interconnection Customer has entered into a MISO GIA which requires the Shared Network Upgrade as a condition of that Interconnection Customer's Interconnection Service, Owner will develop agreements and collect Payments that reflect each Interconnection Customer's responsibility for the cost of the Network Upgrade based on the effective date of that subsequent Interconnection Customer's GIA and that subsequent Interconnection Customer's percentage cost responsibility for the Network Upgrade.

VI. Additional Network Upgrades

This Agreement may be amended to incorporate the cost of additional ITCM Network Upgrades for project G870.

VII. Assignment

This Service Agreement shall inure to the benefit of and be binding upon each Party's successors and permitted assigns. No Party shall assign this Service Agreement or their related contractual rights without the prior written consent of the other Party, which prior written consent shall not be unreasonably withheld or delayed; provided, however, any Party may, with ten (10) days written notice to the other Party, and without written consent of the other Party, assign or transfer this Service Agreement to: (i) its affiliate or subsidiary; or (ii) a successor to all or substantially all the properties and assets of such Party; provided that the assignee is at least as creditworthy as the assigning Party and the assignee of Customer shall provide Owner with Security as contemplated herein. No assignment of this Service Agreement shall release or discharge either Party from their future obligations hereunder unless all such obligations are assumed by the successor or assignee of that Party in writing.

VIII. Transmission Service

Nothing in this Service Agreement conveys a right to transmission service under the Tariff. The purchase of transmission service is not required under this Service Agreement.

However, if Customer or its agent decides to purchase transmission service, such service shall be obtained subject to the rates, terms and conditions of the Tariff under a separate agreement.

IX. Other

a. Entire Agreement: This Service Agreement represents the entire agreement between Owner and Customer with reference to payment terms for the Facilities provided by Owner for Customer under the GIA. This Service Agreement may not be amended, modified, or waived other than by a written document signed by all Parties.

b. Regulatory Approval: This Service Agreement and its terms shall be subject to approval, if applicable, by the Commission. This Service Agreement and its terms shall also be subject to, as applicable, the Tariff.

c. Force Majeure: Neither party shall be considered in default as to any obligation under this Service Agreement if prevented from fulfilling the obligation due to an event of Force Majeure. However, if either Party's performance under this Service Agreement is hindered by an event of Force Majeure, it shall make all reasonable efforts to perform its obligations under this Service Agreement. An event of Force Majeure means any act of God, labor disturbance, act of the public enemy, war, act of terrorism, insurrection, riot, fire, storm or flood, explosion, breakage or accident to machinery or equipment, any curtailment, order, regulation or restriction imposed by governmental military or lawfully established civilian authorities, or any other cause beyond Owner's control. Economic hardship is not considered a Force Majeure event.

d. Disputes: In the event a Party has a dispute, or asserts a claim, that arises out of or in connection with this Service Agreement or its performance, such Party (the "disputing Party") shall provide the other Party with written notice of the dispute or claim ("Notice of Dispute"). Such dispute or claim shall be referred to a designated senior representative of each Party for resolution on an informal basis as promptly as practicable after receipt of the Notice of Dispute by the non-disputing Party. In the event the designated representatives are unable to resolve the claim or dispute through unassisted or assisted negotiations within thirty (30) Calendar Days of the non-disputing Party's receipt of the Notice of Dispute, such claim or dispute shall be submitted for resolution in accordance with the dispute resolution procedures of the Tariff.

e. Liability: In no event shall Owner be liable under this Service Agreement or under any cause of action related to the subject matter of this Service Agreement, whether based on contract, warranty, tort (including negligence), strict liability, indemnity, or otherwise for any incidental, special, punitive or

consequential damages including, but not limited to, loss of use, increased costs of purchased or replacement power, interest charges, inability to operate at full capacity, lost profits, or claims of Customer's customers.

f. Governing Law: This Service Agreement is governed by and shall be construed in accordance with laws of the State of Iowa, without regard for any principles of conflicts of laws.

g. No Waiver: It is mutually understood that any failure by Owner or inconsistency to enforce or require the strict keeping and performance by Customer of any of the provisions of this Service Agreement shall not constitute a waiver by Owner of such provisions, and shall not affect or impair such provisions in any way, or the right of Owner at any time to avail itself of such remedies as it may have for any breach or breaches of such provisions. The waiver, illegality, invalidity and/or unenforceability of any provision appearing in this Service Agreement shall not affect the validity of this Service Agreement as a whole or the validity or any other provisions therein.

h. Waiver of Jury: TO THE FULLEST EXTENT PERMITTED BY LAW, EACH OF THE PARTIES HERETO WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS SERVICE AGREEMENT. **EACH PARTY FURTHER WAIVES ANY RIGHT TO CONSOLIDATE ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED.**

i. Rights under the Federal Power Act. Nothing in this Service Agreement shall limit the rights of the Parties or of FERC under Sections 205 or 206 of the Federal Power Act and FERC's rules and regulations thereunder.

X. Contacts

Owner's Representative and Address:

ITC Midwest LLC
6750 Chavenelle Road
Dubuque, Iowa 52002

Customer's Representative and Address:

*Signature Page follows**

IN WITNESS WHEREOF, the Parties have caused this Service Agreement to be executed by their respective authorized officials.

ITC Midwest LLC, a Michigan limited liability company, by ITC Holdings Corp., a Michigan corporation, its sole member	Wisconsin Power and Light Company
By: ______________________________	By: ______________________________
Name: ____________________________	Name: ____________________________
Title: _____________________________	Title: _____________________________

EXHIBIT I
Estimated Network Upgrade Payments

Network Upgrade	**Estimated Initial Capital Cost**	**Levelized Fixed Charge Rate**	**In Service Date**	**Annual Revenue Requirement**	**Monthly Revenue Requirement**
Freeborn to Winnebago 161 kV Rebuild Network Upgrade	$ 38,826,851	12.745%	9/1/2015	$5,016,240	$418,020
Totals	$38,826,851				

Midcontinent Independent System Operator, Inc.

FERC FPA Electric Tariff

Tariff Title: Midwest ISO Agreements

Effective 11/01/2015

Tariff Record Title: SA 2862 : ITC Midwest-WPL FSA Exhibit II (G870)

Option Code: A

EXHIBIT II

Levelized Fixed Charge Rate Calculation with Deferred Recovery

6			
7	Company Name:		
8			
9	Cost Year		
10			
11	Recovery Period		
12			
13	Levelized Fixed Charge Computation		
14			
15	Initial Network Upgrade Capital Cost		
16	Levelized FCR with Deferred Recovery	(Line 46)	#DIV/0!
17	Annual Network Upgrade Charge	(Line 15 x Line 16)	#DIV/0!
18	Monthly Payment	(Line 17 / 12	#DIV/0!
19			
20	Fixed Charge Rate Calculation:		
21			
22	Investment	(Line 15)	0
23	PWtax depreciation	(Line 95)	#DIV/0!
24	Tax rate	(Line 49)	0
25	Tax benefit	(Line 23 x Line 24)	#DIV/0!
26	Present Worth cashflow	(Line 22 - Line 25)	#DIV/0!
27	Revenue conversion factor	[1/(1 - Line 49)]	1
28	Present Worth Revenue Requirement	(Line 26 x Line 27)	#DIV/0!
29			
30	In Service Date		
31	Recovery Start Date		
32	Deferral Days		
33	Deferral annualization factor (based on 365 days)	(Line 32/365)	0
34	Interest rate per year	(Line 63)	#DIV/0!
35	Deferral Factor	{[(1+Line 34)^Line 33] - 1}	#DIV/0!
36	Deferral Adjustment	(Line 28 x Line 35)	#DIV/0!
37			
38	Present Worth with Deferred Recovery	(Line 28 + Line 36)	#DIV/0!
39			
40	Recovery period		25
41	Annualization factor	{ i {(1+i)^RP]} / {[(1+i)^RP] -1} (where RP is Line 40, and i is Line 34)	#DIV/0!
42			
43			
44	Levelized Amount	(Line 38 x Line 41)	#DIV/0!
45			
46	Levelized Fixed Charge Rate (FCR)	(Line 44 / Line 22)	#DIV/0!
47			
48			
49	Combined tax rate (Attchment O, p3, Line 21)		
50			
51	Interest (Attachment O, p4, Line 21)		
52			
53	Preferred Dividends (Attachment O, p4, Line 22)		
54			

		Amount	Weight	Cost	Weighted Cost
55		Amount	Weight	Cost	Weighted
56					Cost
57	(Attachment O, page 4, Lines 27-30):				
58	Long-Term Debt		#DIV/0!	#DIV/0!	#DIV/0!
59	Preferred		#DIV/0!	0	#DIV/0!
60	Common Equity		#DIV/0!	0.1238	#DIV/0!
61	Capitalization	0	#DIV/0!		#DIV/0!
62					
63	Discount rate			(Line 61 - (Line 49 x Line 58))	#DIV/0!
64					
65					
66					

MACRS Depreciation Rates:

Year (a)	(b) MACRS Rates	(c) MACRS Depr	(d) Present Worth Factor 1/(1+i)^n	(d) Present Worth Tax Depreciation
0			1	
1	0.05	0	#DIV/0!	#DIV/0!
2	0.095	0	#DIV/0!	#DIV/0!
3	0.0855	0	#DIV/0!	#DIV/0!
4	0.077	0	#DIV/0!	#DIV/0!
5	0.0693	0	#DIV/0!	#DIV/0!
6	0.0623	0	#DIV/0!	#DIV/0!
7	0.059	0	#DIV/0!	#DIV/0!
8	0.059	0	#DIV/0!	#DIV/0!
9	0.0591	0	#DIV/0!	#DIV/0!
10	0.059	0	#DIV/0!	#DIV/0!
11	0.0591	0	#DIV/0!	#DIV/0!
12	0.059	0	#DIV/0!	#DIV/0!
13	0.0591	0	#DIV/0!	#DIV/0!
14	0.059	0	#DIV/0!	#DIV/0!
15	0.0591	0	#DIV/0!	#DIV/0!
16	0.0295	0	#DIV/0!	#DIV/0!
	Total	0		#DIV/0!

FERC rendition of the electronically filed tariff records in Docket No. ER16-00206-000
Filing Data:
CID: C001344
Filing Title: 2015-10-30_SA 2862 ITC Midwest-WPL Facilities Service Agreement (G870)
Company Filing Identifier: 10760
Type of Filing Code: 10
Associated Filing Identifier:
Tariff Title: Midwest ISO Agreements
Tariff ID: 13
Payment Confirmation:
Suspension Motion:

Tariff Record Data:
Record Content Description, Tariff Record Title, Record Version Number, Option Code:
SA 2862, ITC Midwest-WPL Facilities Service Agreement (G870), 31.0.0, A
Record Narative Name:
Tariff Record ID: 10470
Tariff Record Collation Value: 293860352 Tariff Record Parent Identifier: 4507
Proposed Date: 2015-11-01
Priority Order: 1000000000
Record Change Type: NEW
Record Content Type: 1
Associated Filing Identifier:

SA 2862 ITC MIDWEST – WPL FSA VERSION 31.0.0

EFFECTIVE 11/01/2015

ORIGINAL SERVICE AGREEMENT NO. 2862

Project G870

FACILITIES SERVICE AGREEMENT

entered into by and between

Wisconsin Power and Light Company,

And

ITC Midwest LLC

Facilities Service Agreement
for
Project G870

This Facilities Service Agreement ("Service Agreement") dated ______________, is entered into by and between Wisconsin Power and Light Company ("Customer") and **ITC Midwest LLC** ("ITCM" or "Owner"), to compensate the Owner for changes and additions to its transmission system ("Network Upgrades" or "Facilities") necessary for Interconnection Service for the Customer's generating facility. Customer and Owner are each referred to as "Party," and collectively as "Parties."

WHEREAS, the Parties entered into the May 11, 2015 Generator Interconnection Agreement ("GIA") together with the Midcontinent Independent System Operator, Inc. ("MISO"); and

WHEREAS, the Interconnection Service necessary for Customer's generating facility, MISO project G870, requires Owner to install Network Upgrades on Owner's transmission system consisting of the Network Upgrades in Exhibit I in order for Owner to operate and maintain the transmission system in a safe and reliable manner; and

WHEREAS, in accordance with the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("Tariff") in effect at the time the GIAs were executed, the Owner has elected the self-fund option described in Article 11.3 of the *pro forma* GIA of Attachment X of the Tariff and will recover the initial capital cost of Network Upgrades from Customer through this Service Agreement; and

WHEREAS, the Owner will fund, construct, operate and maintain the Facilities;

NOW, THEREFORE, for valuable consideration, the Parties hereby agree that Owner shall recover the return of and return on the initial capital cost of the Facilities from Customer, under the following terms and conditions:

I. Effective Date and Term

Unless terminated earlier by mutual agreement, the effective date of this Service Agreement shall be November 1, 2015, or such other date as it is permitted to become effective by the Federal Energy Regulatory Commission ("Commission" or "FERC"), whichever is later ("Effective Date"), and shall continue until twenty-five (25) years of Payments have been collected by Owner ("Term").

II. Facility Charge

Beginning with the first month following the effective date of this agreement and continuing for a total of three hundred (300) months, Customer shall make a payment to Owner each month in the amount of the Monthly Revenue Requirement ("Payment") for the Network Upgrade. Each Payment shall be due and payable by the 15^{th} day of each month ("Due Date"), without invoice, for a total of 300 consecutive months. Initial Payment(s) shall be based on the Estimated Network Upgrade Initial Capital Cost ("ENUC" or Initial Capital Cost) as illustrated in Exhibit I.

The Monthly Revenue Requirement or Payment by Customer to Owner for the Facilities shall be re-calculated annually to be effective each June 1st by updating certain inputs to the Formula Rate ("Formula") shown in Exhibit II of this Service Agreement, and rounded to the nearest whole dollar. The monthly payment by Customer should be credited under Attachment O. The Formula calculates the Levelized, Fixed-Charge Rate and Payment based on the Initial Capital Cost, the Term of this Service Agreement in years, the delay between September 1, 2015 ("In-Service Date") and the effective date, and certain data from the ITCM Attachment O Formula Rate under the Tariff including: (i) the ITCM Combined Tax Rate, (ii) the amounts of ITCM Interest on Long Term Debt, (iii) the Long Term Debt and Common Equity balances, and (iv) the FERC approved Return on Equity for ITCM.

Beginning June 1st of the first calendar year following the In Service Date, and each subsequent June 1^{st} thereafter, the Payment shall be updated based on the ITCM Attachment O Formula Rate using data from the previous calendar year, including the impacts of any FERC decisions related to the above items (i) through (iv) that impact billings applicable to that calendar year, and the actual Initial Capital Cost of the Network Upgrade Facilities. Beginning after the first such update, Customer shall have the option of making an annual prepayment ("Annual Payment") to Owner, due July 15, equal to the new Annual Revenue Requirement in lieu of monthly Payments.

A one-time true-up adjustment for each Network Upgrade shall be calculated within one (1) year of the In-Service Date of each Network Upgrade when the Actual Network Upgrade Initial Capital Costs ("ANUC") for each Network Upgrade is known and all costs associated with the Initial Capital Cost of the each Network Upgrade or Facilities have been accounted for. The true-up adjustment will be equal to the difference between Payments collected to-date for each Network Upgrade and what the Payments to-date for each Network Upgrade would have been calculated using the ANUC. Each true-up adjustment, as either a credit due or charges to the Customer, shall be included in the Customer's next Payment due, including interest. Interest on the true-up adjustments will begin to accrue the first day of the month following each In Service Date and will be determined based on the Commission's regulations at 18 C.F.R § 35.19a. Owner will invoice Customer upon determination of each true-up as provided herein and will also invoice Customer annually regarding changes in Payment amount as a result of annual changes to ITCM's Attachment O Formula Rate.

III. Security

a. The Customer has provided Owner with guaranty in the amount of $38,826,386("Security") for the Network Upgrade(s) in Exhibit I under the terms and conditions of the May 11th GIA. The Security provided for Network Upgrade(s) shall be reduced ratably on an annual basis based on Payments received during the prior year, per the terms and conditions of this Service Agreement.

b. In the event Customer fails to make a Payment by the Due Date, Owner, following written notice to Customer and Customer's failure to pay within ten (10) days of such notice, shall be entitled to draw on the Security posted by Customer in the amount of missed Payments as well as any accrued interest charges based on the Commission's regulations at 18 C.F.R § 35.19a. If Customer fails to make Payment by the Due Date and Security has been depleted, Customer shall provide Owner with new security, in a form acceptable to Owner ("New Security"). The amount of New Security may be up to 3 Annual Payments. Customer will provide such Security to Owner within five (5) business days of Owner's request for New Security, and the New Security will remain in place until the Owner releases the New Security to Customer.

c. Security shall remain in place until Service Agreement expiration unless Owner determines, in its sole discretion that Security should be returned to Customer prior to the expiration of this Service Agreement. Any Security provided by Customer must be kept active, must continue to meet Owner's Security requirements and must be available to Owner for the purpose of making Payments under this Service Agreement in the event that Customer fails to make such Payment. Any fees or costs associated with the provision of security are the responsibility of the Customer.

d. Customer acknowledges that the construction of the Facilities under the GIA would be subject to tax gross-up, as applicable, upon Customer's default under this Service Agreement and that the Security provided hereunder could be used to cover such obligations.

IV. Default

Customer shall be in default of this Service Agreement if Customer; (i) fails to make three (3) consecutive payments when due, or, (ii) fails to provide New Security, or (iii) terminates operation of Customer's generating facility prior to the end of the 300 months referred to above and fails to continue to make payments when due. In the event of default, Customer shall promptly pay to Owner all amounts owed for the remaining months due under this Service Agreement. In the event that Customer does not promptly pay all amounts due and owing to the Owner, the Owner may draw on the remaining balance of the Security provided by the

Customer. This payment or draw on the Security does not limit any and all rights and remedies available to the Owner allowed by law with respect to such default or collecting all amounts owed for the remaining months due under this Service Agreement. The Service Agreement is a requirement for Interconnection Service under the GIA, and Customer's default under this Service Agreement will constitute a Breach of the GIA. Customer shall indemnify ITCM for reasonable costs, attorney fees and/or expenses incurred with respect to a default or collecting all amounts owed for the remaining months, including, as applicable, any tax gross-up obligations under this Service Agreement.

V. Shared Network Upgrades

If the Network Upgrade under this Service Agreement is identified as a Shared Network Upgrade, as defined in the MISO Tariff, for a subsequent MISO Interconnection Customer, where that Interconnection Customer has entered into a MISO GIA which requires the Shared Network Upgrade as a condition of that Interconnection Customer's Interconnection Service, Owner will develop agreements and collect Payments that reflect each Interconnection Customer's responsibility for the cost of the Network Upgrade based on the effective date of that subsequent Interconnection Customer's GIA and that subsequent Interconnection Customer's percentage cost responsibility for the Network Upgrade.

VI. Additional Network Upgrades

This Agreement may be amended to incorporate the cost of additional ITCM Network Upgrades for project G870.

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This Service Agreement shall inure to the benefit of and be binding upon each Party's successors and permitted assigns. No Party shall assign this Service Agreement or their related contractual rights without the prior written consent of the other Party, which prior written consent shall not be unreasonably withheld or delayed; provided, however, any Party may, with ten (10) days written notice to the other Party, and without written consent of the other Party, assign or transfer this Service Agreement to: (i) its affiliate or subsidiary; or (ii) a successor to all or substantially all the properties and assets of such Party; provided that the assignee is at least as creditworthy as the assigning Party and the assignee of Customer shall provide Owner with Security as contemplated herein. No assignment of this Service Agreement shall release or discharge either Party from their future obligations hereunder unless all such obligations are assumed by the successor or assignee of that Party in writing.

VIII. Transmission Service

Nothing in this Service Agreement conveys a right to transmission service under the Tariff. The purchase of transmission service is not required under this Service Agreement. However, if Customer or its agent decides to purchase transmission service, such service shall be obtained subject to the rates, terms and conditions of the Tariff under a separate agreement.

IX. Other

a. Entire Agreement: This Service Agreement represents the entire agreement between Owner and Customer with reference to payment terms for the Facilities provided by Owner for Customer under the GIA. This Service Agreement may not be amended, modified, or waived other than by a written document signed by all Parties.

b. Regulatory Approval: This Service Agreement and its terms shall be subject to approval, if applicable, by the Commission. This Service Agreement and its terms shall also be subject to, as applicable, the Tariff.

c. Force Majeure: Neither party shall be considered in default as to any obligation under this Service Agreement if prevented from fulfilling the obligation due to an event of Force Majeure. However, if either Party's performance under this Service Agreement is hindered by an event of Force Majeure, it shall make all reasonable efforts to perform its obligations under this Service Agreement. An event of Force Majeure means any act of God, labor disturbance, act of the public enemy, war, act of terrorism, insurrection, riot, fire, storm or flood, explosion, breakage or accident to machinery or equipment, any curtailment, order, regulation or restriction imposed by governmental military or lawfully established civilian authorities, or any other cause beyond Owner's control. Economic hardship is not considered a Force Majeure event.

d. Disputes: In the event a Party has a dispute, or asserts a claim, that arises out of or in connection with this Service Agreement or its performance, such Party (the "disputing Party") shall provide the other Party with written notice of the dispute or claim ("Notice of Dispute"). Such dispute or claim shall be referred to a designated senior representative of each Party for resolution on an informal basis as promptly as practicable after receipt of the Notice of Dispute by the non-disputing Party. In the event the designated representatives are unable to resolve the claim or dispute through unassisted or assisted negotiations within thirty (30) Calendar Days of the non-disputing Party's receipt of the Notice of Dispute, such claim or dispute shall be submitted for resolution in accordance with the dispute resolution procedures of the Tariff.

e. Liability: In no event shall Owner be liable under this Service Agreement or under any cause of action related to the subject matter of this Service Agreement, whether based on contract, warranty, tort (including negligence), strict liability, indemnity, or otherwise for any incidental, special, punitive or consequential damages including, but not limited to, loss of use, increased costs of purchased or replacement power, interest charges, inability to operate at full capacity, lost profits, or claims of Customer's customers.

f. Governing Law: This Service Agreement is governed by and shall be construed in accordance with laws of the State of Iowa, without regard for any principles of conflicts of laws.

g. No Waiver: It is mutually understood that any failure by Owner or inconsistency to enforce or require the strict keeping and performance by Customer of any of the provisions of this Service Agreement shall not constitute a waiver by Owner of such provisions, and shall not affect or impair such provisions in any way, or the right of Owner at any time to avail itself of such remedies as it may have for any breach or breaches of such provisions. The waiver, illegality, invalidity and/or unenforceability of any provision appearing in this Service Agreement shall not affect the validity of this Service Agreement as a whole or the validity or any other provisions therein.

h. Waiver of Jury: TO THE FULLEST EXTENT PERMITTED BY LAW, EACH OF THE PARTIES HERETO WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS SERVICE AGREEMENT. **EACH PARTY FURTHER WAIVES ANY RIGHT TO CONSOLIDATE ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED.**

i. Rights under the Federal Power Act. Nothing in this Service Agreement shall limit the rights of the Parties or of FERC under Sections 205 or 206 of the Federal Power Act and FERC's rules and regulations thereunder.

X. Contacts

Owner's Representative and Address:

ITC Midwest LLC
6750 Chavenelle Road
Dubuque, Iowa 52002

Customer's Representative and Address:

*Signature Page follows**

IN WITNESS WHEREOF, the Parties have caused this Service Agreement to be executed by their respective authorized officials.

ITC Midwest LLC, a Michigan limited liability company, by ITC Holdings Corp., a Michigan corporation, its sole member	Wisconsin Power and Light Company
By: ______________________	By: ______________________
Name: ______________________	Name: ______________________
Title: ______________________	Title: ______________________

EXHIBIT I
Estimated Network Upgrade Payments

Network Upgrade	Estimated Initial Capital Cost	Levelized Fixed Charge Rate	In Service Date	Annual Revenue Requirement	Monthly Revenue Requirement
Freeborn to Winnebago 161 kV Rebuild Network Upgrade	$ 38,826,851	12.745%	9/1/2015	$5,016,240	$418,020
Totals	$38,826,851				

Record Content Description, Tariff Record Title, Record Version Number, Option Code:
SA 2862, ITC Midwest-WPL FSA Exhibit II (G870), 31.0.0, A
Record Narative Name:
Tariff Record ID: 10471
Tariff Record Collation Value: 293860368 Tariff Record Parent Identifier: 10470
Proposed Date: 2015-11-01
Priority Order: 1000000000
Record Change Type: NEW
Record Content Type: 2
Associated Filing Identifier:

This is a PDF section and we cannot render PDF in a RTF document.

Document Content(s)

November 3, 2015

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: ITC Midwest LLC
Errata to Facilities Service Agreement, Exhibit I
Docket No. ER16-206-000

Dear Secretary Bose:

On October 30, 2015, Midcontinent Independent System Operator, Inc. ("MISO")[1], on behalf of ITC Midwest LLC ("ITC Midwest"), submitted to the Commission an unexecuted Facilities Services Agreement ("FSA") between ITC Midwest and Wisconsin Power and Light Company ("WPL") and requested an effective date of November 1, 2015 ("October 30, 2015 Filing"). MISO has designated the FSA as Original Service Agreement No. 2862 under MISO's FERC Electric Tariff, Fifth Revised Vol. No. 1 ("Tariff"). It has come to ITC Midwest's attention that there were two errors in Exhibit I of the FSA submitted in the October 30, 2015 Filing. This filing is being made to correct those two errors.

I. Exhibit I of the FSA

Exhibit 1 of the FSA describes the facilities charge that will be collected by ITC Midwest from WPL pursuant to the terms of the FSA. Exhibit I of the FSA submitted in the October 30, 2015 filing erroneously stated the Levelized Fixed Charge Rate as 12.745% and the Annual Revenue Requirement as $5,016,240. The Levelized Fixed Charge Rate is actually 12.919519% and the Annual Revenue Requirement is actually $5,016,242. A corrected Exhibit I is being submitted with this filing. The following table summarizes the information from the corrected Exhibit I.

Description	Amount
Estimated Network Upgrade ("ENUC" or "Initial Capital Cost")	$ 38,826,851
Levelized Fixed Charge Rate	12.919519%
Annual Revenue Requirement	$5,016,242
Monthly Revenue Requirement (Payment)	$418,020

[1] As the Administrator of the MISO Tariff on file with the Commission, MISO joins in this filing, but takes no position on the substance of this filing.

II. Documents Submitted with this Filing

This filing consists of the following documents:

1. This transmittal letter,
2. Redline Amended FSA, and
3. Clean Amended FSA.

III. Conclusion

ITC Midwest respectfully requests that the Commission accept this filing to correct Exhibit I of the FSA and as requested in the October 30, 2015 Filing, grant an effective date of November 1, 2015.

Respectfully submitted,

/s/ Amy Monopoli

Amy Monopoli
Counsel – Regulatory & Legislative
ITC Holdings Corp.
27175 Energy Way
Novi, MI 48377
Phone: 248-946-3771
Fax: 248-946-3552

Counsel for ITC Midwest LLC

SA 2862 ITC MIDWEST – WPL FSA VERSION 32.0.0

EFFECTIVE 11/01/2015

SUBSTITUTE ORIGINAL SERVICE AGREEMENT NO. 2862

Project G870

FACILITIES SERVICE AGREEMENT

entered into by and between

Wisconsin Power and Light Company,

And

ITC Midwest LLC

Facilities Service Agreement
for
Project G870

This Facilities Service Agreement ("Service Agreement") dated ______________, is entered into by and between Wisconsin Power and Light Company ("Customer") and **ITC Midwest LLC** ("ITCM" or "Owner"), to compensate the Owner for changes and additions to its transmission system ("Network Upgrades" or "Facilities") necessary for Interconnection Service for the Customer's generating facility. Customer and Owner are each referred to as "Party," and collectively as "Parties."

WHEREAS, the Parties entered into the May 11, 2015 Generator Interconnection Agreement ("GIA") together with the Midcontinent Independent System Operator, Inc. ("MISO"); and

WHEREAS, the Interconnection Service necessary for Customer's generating facility, MISO project G870, requires Owner to install Network Upgrades on Owner's transmission system consisting of the Network Upgrades in Exhibit I in order for Owner to operate and maintain the transmission system in a safe and reliable manner; and

WHEREAS, in accordance with the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("Tariff") in effect at the time the GIAs were executed, the Owner has elected the self-fund option described in Article 11.3 of the *pro forma* GIA of Attachment X of the Tariff and will recover the initial capital cost of Network Upgrades from Customer through this Service Agreement; and

WHEREAS, the Owner will fund, construct, operate and maintain the Facilities;

NOW, THEREFORE, for valuable consideration, the Parties hereby agree that Owner shall recover the return of and return on the initial capital cost of the Facilities from Customer, under the following terms and conditions:

I. Effective Date and Term

Unless terminated earlier by mutual agreement, the effective date of this Service Agreement shall be November 1, 2015, or such other date as it is permitted to become effective by the Federal Energy Regulatory Commission ("Commission" or "FERC"), whichever is later ("Effective Date"), and shall continue until twenty-five (25) years of Payments have been collected by Owner ("Term").

II. Facility Charge

Beginning with the first month following the effective date of this agreement and continuing for a total of three hundred (300) months, Customer shall make a payment to Owner each month in the amount of the Monthly Revenue Requirement ("Payment") for the Network Upgrade. Each Payment shall be due and payable by the 15th day of each month ("Due Date"), without invoice, for a total of 300 consecutive months. Initial Payment(s) shall be based on the Estimated Network Upgrade Initial Capital Cost ("ENUC" or Initial Capital Cost) as illustrated in Exhibit I.

The Monthly Revenue Requirement or Payment by Customer to Owner for the Facilities shall be re-calculated annually to be effective each June 1st by updating certain inputs to the Formula Rate ("Formula") shown in Exhibit II of this Service Agreement, and rounded to the nearest whole dollar. The monthly payment by Customer should be credited under Attachment O. The Formula calculates the Levelized, Fixed-Charge Rate and Payment based on the Initial Capital Cost, the Term of this Service Agreement in years, the delay between September 1, 2015 ("In-Service Date") and the effective date, and certain data from the ITCM Attachment O Formula Rate under the Tariff including: (i) the ITCM Combined Tax Rate, (ii) the amounts of ITCM Interest on Long Term Debt, (iii) the Long Term Debt and Common Equity balances, and (iv) the FERC approved Return on Equity for ITCM.

Beginning June 1st of the first calendar year following the In Service Date, and each subsequent June 1st thereafter, the Payment shall be updated based on the ITCM Attachment O Formula Rate using data from the previous calendar year, including the impacts of any FERC decisions related to the above items (i) through (iv) that impact billings applicable to that calendar year, and the actual Initial Capital Cost of the Network Upgrade Facilities. Beginning after the first such update, Customer shall have the option of making an annual prepayment ("Annual Payment") to Owner, due July 15, equal to the new Annual Revenue Requirement in lieu of monthly Payments.

A one-time true-up adjustment for each Network Upgrade shall be calculated within one (1) year of the In-Service Date of each Network Upgrade when the Actual Network Upgrade Initial Capital Costs ("ANUC") for each Network Upgrade is known and all costs associated with the Initial Capital Cost of the each Network Upgrade or Facilities have been accounted for. The true-up adjustment will be equal to the difference between Payments collected to-date for each Network Upgrade and what the Payments to-date for each Network Upgrade would have been calculated using the ANUC. Each true-up adjustment, as either a credit due or charges to the Customer, shall be included in the Customer's next Payment due, including interest. Interest on the true-up adjustments will begin to accrue the first day of the month following each In Service Date and will be determined based on the Commission's regulations at 18 C.F.R § 35.19a. Owner will invoice Customer upon determination of each true-up as provided herein and will also invoice Customer annually regarding changes in Payment amount as a result of annual changes to ITCM's Attachment O Formula Rate.

III. Security

a. The Customer has provided Owner with guaranty in the amount of $38,826,386("Security") for the Network Upgrade(s) in Exhibit I under the terms and conditions of the May 11th GIA. The Security provided for Network Upgrade(s) shall be reduced ratably on an annual basis based on Payments received during the prior year, per the terms and conditions of this Service Agreement.

b. In the event Customer fails to make a Payment by the Due Date, Owner, following written notice to Customer and Customer's failure to pay within ten (10) days of such notice, shall be entitled to draw on the Security posted by Customer in the amount of missed Payments as well as any accrued interest charges based on the Commission's regulations at 18 C.F.R § 35.19a. If Customer fails to make Payment by the Due Date and Security has been depleted, Customer shall provide Owner with new security, in a form acceptable to Owner ("New Security"). The amount of New Security may be up to 3 Annual Payments. Customer will provide such Security to Owner within five (5) business days of Owner's request for New Security, and the New Security will remain in place until the Owner releases the New Security to Customer.

c. Security shall remain in place until Service Agreement expiration unless Owner determines, in its sole discretion that Security should be returned to Customer prior to the expiration of this Service Agreement. Any Security provided by Customer must be kept active, must continue to meet Owner's Security requirements and must be available to Owner for the purpose of making Payments under this Service Agreement in the event that Customer fails to make such Payment. Any fees or costs associated with the provision of security are the responsibility of the Customer.

d. Customer acknowledges that the construction of the Facilities under the GIA would be subject to tax gross-up, as applicable, upon Customer's default under this Service Agreement and that the Security provided hereunder could be used to cover such obligations.

IV. Default

Customer shall be in default of this Service Agreement if Customer; (i) fails to make three (3) consecutive payments when due, or, (ii) fails to provide New Security, or (iii) terminates operation of Customer's generating facility prior to the end of the 300 months referred to above and fails to continue to make payments when due. In the event of default, Customer shall promptly pay to Owner all amounts owed for the remaining months due under this Service Agreement. In the event that Customer does not promptly pay all amounts due and owing to the

Owner, the Owner may draw on the remaining balance of the Security provided by the Customer. This payment or draw on the Security does not limit any and all rights and remedies available to the Owner allowed by law with respect to such default or collecting all amounts owed for the remaining months due under this Service Agreement. The Service Agreement is a requirement for Interconnection Service under the GIA, and Customer's default under this Service Agreement will constitute a Breach of the GIA. Customer shall indemnify ITCM for reasonable costs, attorney fees and/or expenses incurred with respect to a default or collecting all amounts owed for the remaining months, including, as applicable, any tax gross-up obligations under this Service Agreement.

V. Shared Network Upgrades

If the Network Upgrade under this Service Agreement is identified as a Shared Network Upgrade, as defined in the MISO Tariff, for a subsequent MISO Interconnection Customer, where that Interconnection Customer has entered into a MISO GIA which requires the Shared Network Upgrade as a condition of that Interconnection Customer's Interconnection Service, Owner will develop agreements and collect Payments that reflect each Interconnection Customer's responsibility for the cost of the Network Upgrade based on the effective date of that subsequent Interconnection Customer's GIA and that subsequent Interconnection Customer's percentage cost responsibility for the Network Upgrade.

VI. Additional Network Upgrades

This Agreement may be amended to incorporate the cost of additional ITCM Network Upgrades for project G870.

VII. Assignment

This Service Agreement shall inure to the benefit of and be binding upon each Party's successors and permitted assigns. No Party shall assign this Service Agreement or their related contractual rights without the prior written consent of the other Party, which prior written consent shall not be unreasonably withheld or delayed; provided, however, any Party may, with ten (10) days written notice to the other Party, and without written consent of the other Party, assign or transfer this Service Agreement to: (i) its affiliate or subsidiary; or (ii) a successor to all or substantially all the properties and assets of such Party; provided that the assignee is at least as creditworthy as the assigning Party and the assignee of Customer shall provide Owner with Security as contemplated herein. No assignment of this Service Agreement shall release or discharge either Party from their future obligations hereunder unless all such obligations are assumed by the successor or assignee of that Party in writing.

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Nothing in this Service Agreement conveys a right to transmission service under the Tariff. The purchase of transmission service is not required under this Service Agreement.

However, if Customer or its agent decides to purchase transmission service, such service shall be obtained subject to the rates, terms and conditions of the Tariff under a separate agreement.

IX. Other

a. Entire Agreement: This Service Agreement represents the entire agreement between Owner and Customer with reference to payment terms for the Facilities provided by Owner for Customer under the GIA. This Service Agreement may not be amended, modified, or waived other than by a written document signed by all Parties.

b. Regulatory Approval: This Service Agreement and its terms shall be subject to approval, if applicable, by the Commission. This Service Agreement and its terms shall also be subject to, as applicable, the Tariff.

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d. Disputes: In the event a Party has a dispute, or asserts a claim, that arises out of or in connection with this Service Agreement or its performance, such Party (the "disputing Party") shall provide the other Party with written notice of the dispute or claim ("Notice of Dispute"). Such dispute or claim shall be referred to a designated senior representative of each Party for resolution on an informal basis as promptly as practicable after receipt of the Notice of Dispute by the non-disputing Party. In the event the designated representatives are unable to resolve the claim or dispute through unassisted or assisted negotiations within thirty (30) Calendar Days of the non-disputing Party's receipt of the Notice of Dispute, such claim or dispute shall be submitted for resolution in accordance with the dispute resolution procedures of the Tariff.

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consequential damages including, but not limited to, loss of use, increased costs of purchased or replacement power, interest charges, inability to operate at full capacity, lost profits, or claims of Customer's customers.

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h. Waiver of Jury: TO THE FULLEST EXTENT PERMITTED BY LAW, EACH OF THE PARTIES HERETO WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS SERVICE AGREEMENT. **EACH PARTY FURTHER WAIVES ANY RIGHT TO CONSOLIDATE ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED.**

i. Rights under the Federal Power Act. Nothing in this Service Agreement shall limit the rights of the Parties or of FERC under Sections 205 or 206 of the Federal Power Act and FERC's rules and regulations thereunder.

X. Contacts

Owner's Representative and Address:

ITC Midwest LLC
6750 Chavenelle Road
Dubuque, Iowa 52002

Customer's Representative and Address:

*Signature Page follows**

IN WITNESS WHEREOF, the Parties have caused this Service Agreement to be executed by their respective authorized officials.

ITC Midwest LLC, a Michigan limited liability company, by ITC Holdings Corp., a Michigan corporation, its sole member	Wisconsin Power and Light Company
By: ______________________	By: ______________________
Name: ______________________	Name: ______________________
Title: ______________________	Title: ______________________

EXHIBIT I
Estimated Network Upgrade Payments

Network Upgrade	Estimated Initial Capital Cost	Levelized Fixed Charge Rate	In Service Date	Anuual Revenue Requirement	Monthly Revenue Requirement
Freeborn to Winnebago 161 kV Rebuild Network Upgrade	$ 38,826,851	12.919519%	9/1/2015	$5,016,242	$418,020
Totals	$38,826,851				

SA 2862 ITC MIDWEST – WPL FSA VERSION ~~31~~32.0.0

EFFECTIVE 11/01/2015

SUBSTITUTE ORIGINAL SERVICE AGREEMENT NO. 2862

Project G870

FACILITIES SERVICE AGREEMENT

entered into by and between

Wisconsin Power and Light Company,

And

ITC Midwest LLC

Facilities Service Agreement
for
<u>Project G870</u>

This Facilities Service Agreement ("Service Agreement") dated _____________, is entered into by and between Wisconsin Power and Light Company ("Customer") and **ITC Midwest LLC** ("ITCM" or "Owner"), to compensate the Owner for changes and additions to its transmission system ("Network Upgrades" or "Facilities") necessary for Interconnection Service for the Customer's generating facility. Customer and Owner are each referred to as "Party," and collectively as "Parties."

WHEREAS, the Parties entered into the <u>May 11, 2015</u> Generator Interconnection Agreement ("GIA") together with the Midcontinent Independent System Operator, Inc. ("MISO"); and

WHEREAS, the Interconnection Service necessary for Customer's generating facility, MISO project <u>G870</u>, requires Owner to install Network Upgrades on Owner's transmission system consisting of the Network Upgrades in Exhibit I in order for Owner to operate and maintain the transmission system in a safe and reliable manner; and

WHEREAS, in accordance with the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("Tariff") in effect at the time the GIAs were executed, the Owner has elected the self-fund option described in Article 11.3 of the *pro forma* GIA of Attachment X of the Tariff and will recover the initial capital cost of Network Upgrades from Customer through this Service Agreement; and

WHEREAS, the Owner will fund, construct, operate and maintain the Facilities;

NOW, THEREFORE, for valuable consideration, the Parties hereby agree that Owner shall recover the return of and return on the initial capital cost of the Facilities from Customer, under the following terms and conditions:

I. Effective Date and Term

Unless terminated earlier by mutual agreement, the effective date of this Service Agreement shall be November 1, 2015, or such other date as it is permitted to become effective by the Federal Energy Regulatory Commission ("Commission" or "FERC"), whichever is later ("Effective Date"), and shall continue until twenty-five (25) years of Payments have been collected by Owner ("Term").

II. Facility Charge

Beginning with the first month following the effective date of this agreement and continuing for a total of three hundred (300) months, Customer shall make a payment to Owner each month in the amount of the Monthly Revenue Requirement ("Payment") for the Network Upgrade. Each Payment shall be due and payable by the 15th day of each month ("Due Date"), without invoice, for a total of 300 consecutive months. Initial Payment(s) shall be based on the Estimated Network Upgrade Initial Capital Cost ("ENUC" or Initial Capital Cost) as illustrated in Exhibit I.

The Monthly Revenue Requirement or Payment by Customer to Owner for the Facilities shall be re-calculated annually to be effective each June 1st by updating certain inputs to the Formula Rate ("Formula") shown in Exhibit II of this Service Agreement, and rounded to the nearest whole dollar. The monthly payment by Customer should be credited under Attachment O. The Formula calculates the Levelized, Fixed-Charge Rate and Payment based on the Initial Capital Cost, the Term of this Service Agreement in years, the delay between September 1, 2015 ("In-Service Date") and the effective date, and certain data from the ITCM Attachment O Formula Rate under the Tariff including: (i) the ITCM Combined Tax Rate, (ii) the amounts of ITCM Interest on Long Term Debt, (iii) the Long Term Debt and Common Equity balances, and (iv) the FERC approved Return on Equity for ITCM.

Beginning June 1st of the first calendar year following the In Service Date, and each subsequent June 1st thereafter, the Payment shall be updated based on the ITCM Attachment O Formula Rate using data from the previous calendar year, including the impacts of any FERC decisions related to the above items (i) through (iv) that impact billings applicable to that calendar year, and the actual Initial Capital Cost of the Network Upgrade Facilities. Beginning after the first such update, Customer shall have the option of making an annual prepayment ("Annual Payment") to Owner, due July 15, equal to the new Annual Revenue Requirement in lieu of monthly Payments.

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b. In the event Customer fails to make a Payment by the Due Date, Owner, following written notice to Customer and Customer's failure to pay within ten (10) days of such notice, shall be entitled to draw on the Security posted by Customer in the amount of missed Payments as well as any accrued interest charges based on the Commission's regulations at 18 C.F.R § 35.19a. If Customer fails to make Payment by the Due Date and Security has been depleted, Customer shall provide Owner with new security, in a form acceptable to Owner ("New Security"). The amount of New Security may be up to 3 Annual Payments. Customer will provide such Security to Owner within five (5) business days of Owner's request for New Security, and the New Security will remain in place until the Owner releases the New Security to Customer.

c. Security shall remain in place until Service Agreement expiration unless Owner determines, in its sole discretion that Security should be returned to Customer prior to the expiration of this Service Agreement. Any Security provided by Customer must be kept active, must continue to meet Owner's Security requirements and must be available to Owner for the purpose of making Payments under this Service Agreement in the event that Customer fails to make such Payment. Any fees or costs associated with the provision of security are the responsibility of the Customer.

d. Customer acknowledges that the construction of the Facilities under the GIA would be subject to tax gross-up, as applicable, upon Customer's default under this Service Agreement and that the Security provided hereunder could be used to cover such obligations.

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Customer shall be in default of this Service Agreement if Customer; (i) fails to make three (3) consecutive payments when due, or, (ii) fails to provide New Security, or (iii) terminates operation of Customer's generating facility prior to the end of the 300 months referred to above and fails to continue to make payments when due. In the event of default, Customer shall promptly pay to Owner all amounts owed for the remaining months due under this Service Agreement. In the event that Customer does not promptly pay all amounts due and owing to the

Owner, the Owner may draw on the remaining balance of the Security provided by the Customer. This payment or draw on the Security does not limit any and all rights and remedies available to the Owner allowed by law with respect to such default or collecting all amounts owed for the remaining months due under this Service Agreement. The Service Agreement is a requirement for Interconnection Service under the GIA, and Customer's default under this Service Agreement will constitute a Breach of the GIA. Customer shall indemnify ITCM for reasonable costs, attorney fees and/or expenses incurred with respect to a default or collecting all amounts owed for the remaining months, including, as applicable, any tax gross-up obligations under this Service Agreement.

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VI. Additional Network Upgrades

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VII. Assignment

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However, if Customer or its agent decides to purchase transmission service, such service shall be obtained subject to the rates, terms and conditions of the Tariff under a separate agreement.

IX. Other

a. Entire Agreement: This Service Agreement represents the entire agreement between Owner and Customer with reference to payment terms for the Facilities provided by Owner for Customer under the GIA. This Service Agreement may not be amended, modified, or waived other than by a written document signed by all Parties.

b. Regulatory Approval: This Service Agreement and its terms shall be subject to approval, if applicable, by the Commission. This Service Agreement and its terms shall also be subject to, as applicable, the Tariff.

c. Force Majeure: Neither party shall be considered in default as to any obligation under this Service Agreement if prevented from fulfilling the obligation due to an event of Force Majeure. However, if either Party's performance under this Service Agreement is hindered by an event of Force Majeure, it shall make all reasonable efforts to perform its obligations under this Service Agreement. An event of Force Majeure means any act of God, labor disturbance, act of the public enemy, war, act of terrorism, insurrection, riot, fire, storm or flood, explosion, breakage or accident to machinery or equipment, any curtailment, order, regulation or restriction imposed by governmental military or lawfully established civilian authorities, or any other cause beyond Owner's control. Economic hardship is not considered a Force Majeure event.

d. Disputes: In the event a Party has a dispute, or asserts a claim, that arises out of or in connection with this Service Agreement or its performance, such Party (the "disputing Party") shall provide the other Party with written notice of the dispute or claim ("Notice of Dispute"). Such dispute or claim shall be referred to a designated senior representative of each Party for resolution on an informal basis as promptly as practicable after receipt of the Notice of Dispute by the non-disputing Party. In the event the designated representatives are unable to resolve the claim or dispute through unassisted or assisted negotiations within thirty (30) Calendar Days of the non-disputing Party's receipt of the Notice of Dispute, such claim or dispute shall be submitted for resolution in accordance with the dispute resolution procedures of the Tariff.

e. Liability: In no event shall Owner be liable under this Service Agreement or under any cause of action related to the subject matter of this Service Agreement, whether based on contract, warranty, tort (including negligence), strict liability, indemnity, or otherwise for any incidental, special, punitive or

consequential damages including, but not limited to, loss of use, increased costs of purchased or replacement power, interest charges, inability to operate at full capacity, lost profits, or claims of Customer's customers.

f. Governing Law: This Service Agreement is governed by and shall be construed in accordance with laws of the State of Iowa, without regard for any principles of conflicts of laws.

g. No Waiver: It is mutually understood that any failure by Owner or inconsistency to enforce or require the strict keeping and performance by Customer of any of the provisions of this Service Agreement shall not constitute a waiver by Owner of such provisions, and shall not affect or impair such provisions in any way, or the right of Owner at any time to avail itself of such remedies as it may have for any breach or breaches of such provisions. The waiver, illegality, invalidity and/or unenforceability of any provision appearing in this Service Agreement shall not affect the validity of this Service Agreement as a whole or the validity or any other provisions therein.

h. Waiver of Jury: TO THE FULLEST EXTENT PERMITTED BY LAW, EACH OF THE PARTIES HERETO WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS SERVICE AGREEMENT. **EACH PARTY FURTHER WAIVES ANY RIGHT TO CONSOLIDATE ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED.**

i. Rights under the Federal Power Act. Nothing in this Service Agreement shall limit the rights of the Parties or of FERC under Sections 205 or 206 of the Federal Power Act and FERC's rules and regulations thereunder.

X. Contacts

Owner's Representative and Address:

ITC Midwest LLC
6750 Chavenelle Road
Dubuque, Iowa 52002

Customer's Representative and Address:

*Signature Page follows**

IN WITNESS WHEREOF, the Parties have caused this Service Agreement to be executed by their respective authorized officials.

ITC Midwest LLC, a Michigan limited liability company, by ITC Holdings Corp., a Michigan corporation, its sole member	Wisconsin Power and Light Company
By: ______________________________	By: ______________________________
Name: ____________________________	Name: ____________________________
Title: _____________________________	Title: _____________________________

EXHIBIT I
Estimated Network Upgrade Payments

Network Upgrade	Estimated Initial Capital Cost	Levelized Fixed Charge Rate	In Service Date	Annual Revenue Requirement	Monthly Revenue Requirement
Freeborn to Winnebago 161 kV Rebuild Network Upgrade	$ 38,826,851	12.~~745~~919519%	9/1/2015	$5,016,~~240~~242	$418,020
Totals	$38,826,851				

FERC rendition of the electronically filed tariff records in Docket No. ER16-00206-001
Filing Data:
CID: C001344
Filing Title: 2015-11-03_SA 2862 ITC Midwest-WPL FSA Amendment (G870)
Company Filing Identifier: 10763
Type of Filing Code: 130
Associated Filing Identifier: 10760
Tariff Title: Midwest ISO Agreements
Tariff ID: 13
Payment Confirmation:
Suspension Motion:

Tariff Record Data:
Record Content Description, Tariff Record Title, Record Version Number, Option Code:
SA 2862, ITC Midwest-WPL Facilities Service Agreement (G870), 32.0.0, A
Record Narative Name:
Tariff Record ID: 10470
Tariff Record Collation Value: 293860352 Tariff Record Parent Identifier: 4507
Proposed Date: 2015-11-01
Priority Order: 1500000000
Record Change Type: CHANGE
Record Content Type: 1
Associated Filing Identifier: 10760

SA 2862 ITC MIDWEST – WPL FSA VERSION 32.0.0

EFFECTIVE 11/01/2015

SUBSTITUTE ORIGINAL SERVICE AGREEMENT NO. 2862

Project G870

FACILITIES SERVICE AGREEMENT

entered into by and between

Wisconsin Power and Light Company,

And

ITC Midwest LLC

Facilities Service Agreement
for
Project G870

This Facilities Service Agreement ("Service Agreement") dated _____________, is entered into by and between Wisconsin Power and Light Company ("Customer") and **ITC Midwest LLC** ("ITCM" or "Owner"), to compensate the Owner for changes and additions to its transmission system ("Network Upgrades" or "Facilities") necessary for Interconnection Service for the Customer's generating facility. Customer and Owner are each referred to as "Party," and collectively as "Parties."

WHEREAS, the Parties entered into the May 11, 2015 Generator Interconnection Agreement ("GIA") together with the Midcontinent Independent System Operator, Inc. ("MISO"); and

WHEREAS, the Interconnection Service necessary for Customer's generating facility, MISO project G870, requires Owner to install Network Upgrades on Owner's transmission system consisting of the Network Upgrades in Exhibit I in order for Owner to operate and maintain the transmission system in a safe and reliable manner; and

WHEREAS, in accordance with the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("Tariff") in effect at the time the GIAs were executed, the Owner has elected the self-fund option described in Article 11.3 of the *pro forma* GIA of Attachment X of the Tariff and will recover the initial capital cost of Network Upgrades from Customer through this Service Agreement; and

WHEREAS, the Owner will fund, construct, operate and maintain the Facilities;

NOW, THEREFORE, for valuable consideration, the Parties hereby agree that Owner shall recover the return of and return on the initial capital cost of the Facilities from Customer, under the following terms and conditions:

I. Effective Date and Term

Unless terminated earlier by mutual agreement, the effective date of this Service Agreement shall be November 1, 2015, or such other date as it is permitted to become effective by the Federal Energy Regulatory Commission ("Commission" or "FERC"), whichever is later ("Effective Date"), and shall continue until twenty-five (25) years of Payments have been collected by Owner ("Term").

II. Facility Charge

Beginning with the first month following the effective date of this agreement and continuing for a total of three hundred (300) months, Customer shall make a payment to Owner each month in the amount of the Monthly Revenue Requirement ("Payment") for the Network Upgrade. Each Payment shall be due and payable by the 15^{th} day of each month ("Due Date"), without invoice, for a total of 300 consecutive months. Initial Payment(s) shall be based on the Estimated Network Upgrade Initial Capital Cost ("ENUC" or Initial Capital Cost) as illustrated in Exhibit I.

The Monthly Revenue Requirement or Payment by Customer to Owner for the Facilities shall be re-calculated annually to be effective each June 1st by updating certain inputs to the Formula Rate ("Formula") shown in Exhibit II of this Service Agreement, and rounded to the nearest whole dollar. The monthly payment by Customer should be credited under Attachment O. The Formula calculates the Levelized, Fixed-Charge Rate and Payment based on the Initial Capital Cost, the Term of this Service Agreement in years, the delay between September 1, 2015 ("In-Service Date") and the effective date, and certain data from the ITCM Attachment O Formula Rate under the Tariff including: (i) the ITCM Combined Tax Rate, (ii) the amounts of ITCM Interest on Long Term Debt, (iii) the Long Term Debt and Common Equity balances, and (iv) the FERC approved Return on Equity for ITCM.

Beginning June 1st of the first calendar year following the In Service Date, and each subsequent June 1^{st} thereafter, the Payment shall be updated based on the ITCM Attachment O Formula Rate using data from the previous calendar year, including the impacts of any FERC decisions related to the above items (i) through (iv) that impact billings applicable to that calendar year, and the actual Initial Capital Cost of the Network Upgrade Facilities. Beginning after the first such update, Customer shall have the option of making an annual prepayment ("Annual Payment") to Owner, due July 15, equal to the new Annual Revenue Requirement in lieu of monthly Payments.

A one-time true-up adjustment for each Network Upgrade shall be calculated within one (1) year of the In-Service Date of each Network Upgrade when the Actual Network Upgrade Initial Capital Costs ("ANUC") for each Network Upgrade is known and all costs associated with the Initial Capital Cost of the each Network Upgrade or Facilities have been accounted for. The true-up adjustment will be equal to the difference between Payments collected to-date for each Network Upgrade and what the Payments to-date for each Network Upgrade would have been calculated using the ANUC. Each true-up adjustment, as either a credit due or charges to the Customer, shall be included in the Customer's next Payment due, including interest. Interest on the true-up adjustments will begin to accrue the first day of the month following each In Service Date and will be determined based on the Commission's regulations at 18 C.F.R § 35.19a. Owner will invoice Customer upon determination of each true-up as provided herein and will also invoice Customer annually regarding changes in Payment amount as a result of annual changes to ITCM's Attachment O Formula Rate.

III. Security

a. The Customer has provided Owner with guaranty in the amount of $38,826,386("Security") for the Network Upgrade(s) in Exhibit I under the terms and conditions of the May 11th GIA. The Security provided for Network Upgrade(s) shall be reduced ratably on an annual basis based on Payments received during the prior year, per the terms and conditions of this Service Agreement.

b. In the event Customer fails to make a Payment by the Due Date, Owner, following written notice to Customer and Customer's failure to pay within ten (10) days of such notice, shall be entitled to draw on the Security posted by Customer in the amount of missed Payments as well as any accrued interest charges based on the Commission's regulations at 18 C.F.R § 35.19a. If Customer fails to make Payment by the Due Date and Security has been depleted, Customer shall provide Owner with new security, in a form acceptable to Owner ("New Security"). The amount of New Security may be up to 3 Annual Payments. Customer will provide such Security to Owner within five (5) business days of Owner's request for New Security, and the New Security will remain in place until the Owner releases the New Security to Customer.

c. Security shall remain in place until Service Agreement expiration unless Owner determines, in its sole discretion that Security should be returned to Customer prior to the expiration of this Service Agreement. Any Security provided by Customer must be kept active, must continue to meet Owner's Security requirements and must be available to Owner for the purpose of making Payments under this Service Agreement in the event that Customer fails to make such Payment. Any fees or costs associated with the provision of security are the responsibility of the Customer.

d. Customer acknowledges that the construction of the Facilities under the GIA would be subject to tax gross-up, as applicable, upon Customer's default under this Service Agreement and that the Security provided hereunder could be used to cover such obligations.

IV. Default

Customer shall be in default of this Service Agreement if Customer; (i) fails to make three (3) consecutive payments when due, or, (ii) fails to provide New Security, or (iii) terminates operation of Customer's generating facility prior to the end of the 300 months referred to above and fails to continue to make payments when due. In the event of default, Customer shall promptly pay to Owner all amounts owed for the remaining months due under this Service Agreement. In the event that Customer does not promptly pay all amounts due and owing to the Owner, the Owner may draw on the remaining balance of the Security provided by the Customer. This payment or draw on the Security does not limit any and all rights and remedies available to the Owner allowed by law with respect to such default or collecting all amounts owed for the remaining months due under this Service Agreement. The Service Agreement is a requirement for Interconnection Service under the GIA, and Customer's default under this Service Agreement will constitute a Breach of the GIA. Customer shall indemnify ITCM for reasonable costs, attorney fees and/or expenses incurred with respect to a default or collecting all amounts owed for the remaining months, including, as applicable, any tax gross-up obligations under this Service Agreement.

V. Shared Network Upgrades

If the Network Upgrade under this Service Agreement is identified as a Shared Network Upgrade, as defined in the MISO Tariff, for a subsequent MISO Interconnection Customer, where that Interconnection Customer has entered into a MISO GIA which requires the Shared Network Upgrade as a condition of that Interconnection Customer's Interconnection Service, Owner will develop agreements and collect Payments that reflect each Interconnection Customer's responsibility for the cost of the Network Upgrade based on the effective date of that subsequent Interconnection Customer's GIA and that subsequent Interconnection Customer's percentage cost responsibility for the Network Upgrade.

VI. Additional Network Upgrades

This Agreement may be amended to incorporate the cost of additional ITCM Network Upgrades for project G870.

VII. Assignment

This Service Agreement shall inure to the benefit of and be binding upon each Party's successors and permitted assigns. No Party shall assign this Service Agreement or their related contractual rights without the prior written consent of the other Party, which prior written consent shall not be unreasonably withheld or delayed; provided, however, any Party may, with ten (10) days written notice to the other Party, and without written consent of the other Party, assign or transfer this Service Agreement to: (i) its affiliate or subsidiary; or (ii) a successor to all or substantially all the properties and assets of such Party; provided that the assignee is at least as creditworthy as the assigning Party and the assignee of Customer shall provide Owner with Security as contemplated herein. No assignment of this Service Agreement shall release or discharge either Party from their future obligations hereunder unless all such obligations are assumed by the successor or assignee of that Party in writing.

VIII. Transmission Service

Nothing in this Service Agreement conveys a right to transmission service under the Tariff. The purchase of transmission service is not required under this Service Agreement. However, if Customer or its agent decides to purchase transmission service, such service shall be obtained subject to the rates, terms and conditions of the Tariff under a separate agreement.

IX. Other

a. Entire Agreement: This Service Agreement represents the entire agreement between Owner and Customer with reference to payment terms for the Facilities provided by Owner for Customer under the GIA. This Service Agreement may not be amended, modified, or waived other than by a written document signed by all Parties.

b. Regulatory Approval: This Service Agreement and its terms shall be subject to approval, if applicable, by the Commission. This Service Agreement and its terms shall also be subject to, as applicable, the Tariff.

c. Force Majeure: Neither party shall be considered in default as to any obligation under this Service Agreement if prevented from fulfilling the obligation due to an event of Force Majeure. However, if either Party's performance under this Service Agreement is hindered by an event of Force Majeure, it shall make all reasonable efforts to perform its obligations under this Service Agreement. An event of Force Majeure means any act of God, labor disturbance, act of the public enemy, war, act of terrorism, insurrection, riot, fire, storm or flood, explosion, breakage or accident to machinery or equipment, any curtailment, order, regulation or restriction imposed by governmental military or lawfully established civilian authorities, or any other cause beyond Owner's control. Economic hardship is not considered a Force Majeure event.

d. Disputes: In the event a Party has a dispute, or asserts a claim, that arises out of or in connection with this Service Agreement or its performance, such Party (the "disputing Party") shall provide the other Party with written notice of the dispute or claim ("Notice of Dispute"). Such dispute or claim shall be referred to a designated senior representative of each Party for resolution on an informal basis as promptly as practicable after receipt of the Notice of Dispute by the non-disputing Party. In the event the designated representatives are unable to resolve the claim or dispute through unassisted or assisted negotiations within thirty (30) Calendar Days of the non-disputing Party's receipt of the Notice of Dispute, such claim or dispute shall be submitted for resolution in accordance with the dispute resolution procedures of the Tariff.

e. Liability: In no event shall Owner be liable under this Service Agreement or under any cause of action related to the subject matter of this Service Agreement, whether based on contract, warranty, tort (including negligence), strict liability, indemnity, or otherwise for any incidental, special, punitive or consequential damages including, but not limited to, loss of use, increased costs of purchased or replacement power, interest charges, inability to operate at full capacity, lost profits, or claims of Customer's customers.

f. Governing Law: This Service Agreement is governed by and shall be construed in accordance with laws of the State of Iowa, without regard for any principles of conflicts of laws.

g. No Waiver: It is mutually understood that any failure by Owner or inconsistency to enforce or require the strict keeping and performance by Customer of any of the provisions of this Service Agreement shall not constitute a waiver by Owner of such provisions, and shall not affect or impair such provisions in any way, or the right of Owner at any time to avail itself of such remedies as it may have for any breach or breaches of such provisions. The waiver, illegality, invalidity and/or unenforceability of any provision appearing in this Service Agreement shall not affect the validity of this Service Agreement as a whole or the validity or any other provisions therein.

h. Waiver of Jury: TO THE FULLEST EXTENT PERMITTED BY LAW, EACH OF THE PARTIES HERETO WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS SERVICE AGREEMENT. **EACH PARTY FURTHER WAIVES ANY RIGHT TO CONSOLIDATE ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED.**

i. Rights under the Federal Power Act. Nothing in this Service Agreement shall limit the rights of the Parties or of FERC under Sections 205 or 206 of the Federal Power Act and FERC's rules and regulations thereunder.

X. Contacts

Owner's Representative and Address:

ITC Midwest LLC
6750 Chavenelle Road
Dubuque, Iowa 52002

Customer's Representative and Address:

*Signature Page follows**

IN WITNESS WHEREOF, the Parties have caused this Service Agreement to be executed by their respective authorized officials.

ITC Midwest LLC, a Michigan limited liability company, by ITC Holdings Corp., a Michigan corporation, its sole member	Wisconsin Power and Light Company
By: ______________________	By: ______________________
Name: ______________________	Name: ______________________
Title: ______________________	Title: ______________________

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EXHIBIT I
Estimated Network Upgrade Payments

Network Upgrade	Estimated Initial Capital Cost	Levelized Fixed Charge Rate	In Service Date	Annual Revenue Requirement	Monthly Revenue Requirement
Freeborn to Winnebago 161 kV Rebuild Network Upgrade	$ 38,826,851	12.919519%	9/1/2015	$5,016,242	$418,020
Totals	$38,826,851				

Document Content(s)

Appendix 3 – November 24, 2015 WPL Protest of Bent Tree FSA (Docket No. EL16-206-000)

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midcontinent Independent System Operator, Inc., and	)))	Docket No. ER16-206-000
ITC Midwest LLC	)	

MOTION OF WISCONSIN POWER AND LIGHT COMPANY FOR LEAVE TO INTERVENE AND PROTEST OF RATE SCHEDULE FILING

Pursuant to Rules 211 and 214 of the Federal Energy Regulatory Commission's ("FERC") Rules of Practice and Procedure, 18 CFR §§ 385.211, 214, Wisconsin Power and Light Company ("WPL") respectfully moves for leave to intervene in this proceeding with full rights as a party. In addition, WPL respectfully protests the filing of the unexecuted Facilities Services Agreement between ITC Midwest, LLC ("ITC Midwest") and WPL (the "FSA") on October 30, 2015, as amended on November 3, 2015.

COMMUNICATIONS

WPL requests that communications with respect to this motion be addressed to:

Cortlandt C. Choate, Jr.
Senior Attorney
Alliant Energy Corporate Services, Inc.
Madison, WI 53715
608-458-6217
CortlandtChoate@alliantenergy.com

James K. Mitchell
Davis Wright Tremaine LLP
1919 Pennsylvania Ave., NW, Suite 800
Washington, DC 20006
202-973-4241
jamesmitchell@dwt.com

MOTION FOR LEAVE TO INTERVENE

On October 30, 2015, as amended on November 3, 2015, the Midcontinent Independent System Operator, Inc. ("MISO"), on behalf of ITC Midwest, tendered the FSA for filing pursuant to Section 205 of the Federal Power Act, 16 U.S.C.A. § 824d. As discussed in the letter of transmittal of the FSA for filing, dated October 30, 2015, the FSA is intended to provide a means for ITC Midwest to recover from WPL the cost of certain network upgrades to ITC Midwest's transmission system that are associated with the interconnection of WPL's Bent Tree Wind Farm ("Bent Tree") to the transmission facilities of ITC Midwest. For that reason, WPL has a direct and substantial interest that may be affected by the outcome of this docket. WPL's participation is in the public interest. No other party adequately represents the interests of WPL in this proceeding. WPL therefore respectfully requests that it be granted leave to intervene in this proceeding with full rights as a party.

PROTEST

WPL is a load-serving public utility that owns and operates electric facilities for the generation, distribution, and sale of electric power and energy to approximately 463,000 retail electric service customers in southern and central Wisconsin. ITC Midwest is an independent transmission company and a wholly-owned subsidiary of ITC Holdings Corp. Operational control over the transmission facilities owned and operated by ITC Midwest has been transferred to MISO, and transmission service is available over such facilities pursuant to the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff (the "MISO Tariff").

Bent Tree is a 201 MW wind farm developed by WPL in Freeborn County, Minnesota. Certain network upgrades of the ITC Midwest transmission system were needed to implement the interconnection of Bent Tree and delivery of electricity from Bent Tree to the interstate transmission grid. ITC Midwest elected to self-fund the cost of some of those network upgrades and to recover a return of and a return on the capital costs of such network upgrades from WPL through a Facility Charge incorporated in the FSA.

The Facility Charge specified in the FSA, which is based on a cost-of-service formula rate that is to be recalculated annually, is excessive and unjust and unreasonable. As noted in the attached Affidavit of Neil E. Michek, Manager-Financial Planning of Alliant Energy Corporate Services, Inc. ("AECS"), a service company affiliate of WPL (the "Michek Affidavit"), the FSA was filed as an unexecuted agreement (Michek Affidavit at P 3):

> ...due to disagreement between WPL and ITCM over consideration of Bonus Depreciation in the calculation of the annual levelized fixed charge rate. WPL's objection to the FSA is that the levelized fixed charge rate in the agreement will not reflect the savings that might be realized by use of Bonus Depreciation, even if the Network Upgrades *are eligible (emphasis added)* for such treatment.

Since 2008, various legislation has permitted taxpayers to take special depreciation allowances (i.e., bonus depreciation) on qualified property under Section 168(k) of the Internal Revenue Code. The effect of doing so is to accelerate the depreciation of the assets eligible for bonus depreciation by the taxpayer when calculating its Federal income tax expense, and correspondingly to reduce the federal income tax that would otherwise be payable by the taxpayer in the year in which the bonus depreciation is taken.

Because depreciation expense is determined for ratemaking purposes on the basis of straight-line depreciation, the difference in timing between accelerated depreciation of the asset for Federal income tax purposes (whether it be through the Modified Accelerated Cost Recovery System (the "MACRS") used by ITC Midwest or additional bonus depreciation) and depreciation of the asset for ratemaking purposes results in an increase in accumulated deferred income taxes ("ADIT") as recorded on the books of the utility. For ratemaking purposes, ADIT reduces the rate base on which charges are determined. Thus, as explained in the Michek Affidavit at PP 7-8:

> Bonus depreciation reduces taxable income reported to the IRS, and therefore generates improved cash flows to the utility through lower tax payments, all else equal. Regulated utilities are required to account for the timing differences between payment of income taxes due to IRS and recording of book income taxes reflected in rates in various Accumulated Deferred Income Taxes ("ADIT") accounts.

> Ratemaking practices at the [FERC], and, to my knowledge, most if not all state jurisdictions, reflect the balances of ADIT in the calculation of Net Investment Rate Base ("NIRB") that is used in establishing rates. Since the implementation of accelerated tax depreciation methods for income taxes, ADIT balances have generally reduced NIRB and therefore resulted in a reduction of revenue requirements. This reduction of NIRB recognizes that deferred income taxes are effectively an interest free loan from the federal (or state) government and that the benefit of that interest free loan should flow through the utility's rates for the benefit of its ratepayers. Bonus Depreciation generally (absent being in a NOL position) results in a reduction of NIRB and therefore customer rates are reduced.

Notwithstanding the savings derived by utilities in most cases when bonus depreciation is used to calculate Federal income taxes, ITC Midwest is proposing to calculate the Facility Charge incorporated in the FSA based on the assumption that it will opt out of bonus depreciation. By opting out of bonus depreciation, ITC Midwest unreasonably and imprudently increases charges to WPL.

At the present time, bonus depreciation is available for use on investments in eligible facilities made prior to January 1, 2015, where such facilities are placed in service no later than December 31, 2015.[1] Because construction of the network upgrades associated with Bent Tree began in 2014, a portion of the investment in such facilities may be eligible for bonus depreciation under current law. Moreover, as discussed in the Affidavit of Jennifer E. Janecek, Director-Taxes of AECS ("the "Janecek Affidavit"), a copy of which is attached hereto, WPL reasonably expects that the bonus depreciation provisions of the Internal Revenue Code will be extended, and therefore that all qualified utility property that is placed in service during 2015 will also be eligible for use of bonus depreciation (Janecek Affidavit at P 8). Accordingly, it is likely that ITC Midwest ultimately will be permitted to use bonus depreciation for all eligible network upgrade facilities it funded with respect to Bent Tree when it calculates the Facility

[1] Bonus depreciation may be used on investments made no later than December 31, 2014 on facilities placed in service during 2015 if the cost of the project exceeded $1 million and the time between the date on which 5% of the costs of the project had been incurred and the date on which the project was placed in service exceeded one year.

Charge under the FSA. WPL is unaware of any valid reason for ITC Midwest not to consider the savings to be realized through use of bonus depreciation when calculating the Facility Charge to the extent that the network upgrade facilities installed by ITC Midwest are eligible for bonus depreciation.

Because the use of bonus depreciation would be beneficial to WPL and its customers, Mr. Michek asked to have the following sentence inserted at the end of the second paragraph in Section II—Facility Charge of the FSA (Michek Affidavit at P 3):

> The levelized Fixed Charge Rate and Payment shall also reflect the impacts of Bonus Tax Depreciation if the network upgrades are eligible for Bonus Depreciation.

This provision would protect WPL's right to have charges under the FSA reflect both the effect of using bonus depreciation for the cost of network upgrades incurred prior to January 1, 2015 that may be eligible for bonus depreciation under current law, and the effect of using bonus depreciation for network upgrades installed in 2015 if the bonus depreciation provision of the tax law is extended. The language requested by WPL is similar to language used in other recent transmission construction agreements executed by other parties and accepted by the FERC.[2] ITC Midwest's failure and refusal to use bonus depreciation to calculate the Facility Charge in the FSA to the extent the network upgrades associated with Bent Tree are eligible for bonus depreciation renders Section II—Facility Charge of the FSA unjust and unreasonable, and contrary to the requirements of Section 205 of the Federal Power Act.[3]

ITC Midwest asserted in its letter of transmittal at page 5 that it opposes the use of bonus depreciation to calculate the Tax Benefit under the FSA in part because:

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[2] See, MISO Service Agreement 2722, accepted in Docket No. ER15-613-000; MISO Service Agreement 2760, accepted in Docket No. ER15-1390-000, and MISO Service Agreement 2808, accepted in Docket No. ER15-2033-000.

[3] Section 205(a) of the Federal Power Act provides that all rates and charges by a public utility "shall be just and reasonable, and any such rate or charge that is not just and reasonable is hereby declared to be unlawful."

> Bonus depreciation expired at the end of 2014 and has not been extended. Thus, WPL is requesting that the Facilities Charge be calculated on the basis of tax treatment for which the Network Upgrade facilities do not currently qualify.

Regardless of whether bonus depreciation is extended, the 2014 costs of network upgrades associated with Bent Tree may qualify for bonus depreciation under current law. Therefore, as discussed by Mr. Michek, "[t]o the extent that the 2014 costs of the Network Upgrades qualify for Bonus Depreciation, the levelized fixed charge calculation should be modified to reflect Bonus Depreciation treatment" (Michek Affidavit at P 12). The change to the FSA sought by WPL is needed to ensure, at a minimum, that the Facilities Charge will be calculated based on use of bonus depreciation for which the Network Upgrade facilities currently qualify.

Moreover, Section II—Facility Charge of the FSA establishes an Initial Payment based on the Estimated Network Upgrade Initial Capital Cost as set forth in Exhibit I of the FSA, and provides for a true-up adjustment to that amount when the Actual Network Upgrade Initial Capital Costs are known. WPL expects that the bonus depreciation provisions of the Internal Revenue Code will be extended to permit use of bonus depreciation with respect to qualified property placed in service in 2015, including the network upgrades installed by ITC Midwest, before the true-up adjustment is calculated. The language proposed by WPL would simply require ITC to utilize the benefits of bonus depreciation when calculating the true-up adjustment to the Facilities Charge to the extent that network upgrade costs incurred by ITC Midwest for the benefit of Bent Tree are eligible for bonus depreciation at the time of the true up.

ITC Midwest also stated that "[i]f bonus depreciation were to be extended for 2015…and <u>if ITC Holdings were to take bonus depreciation for 2015</u>, ITC Midwest would adjust the Tax Benefit accordingly" (emphasis added). Although making this assertion in the letter of transmittal, ITC Midwest has not included this commitment in the FSA, and, in any event, the commitment provides no assurance that ITC Midwest would utilize bonus depreciation to calculate depreciation expense with respect to all network upgrades associated with Bent Tree funded by ITC Midwest that are eligible for bonus depreciation.

Although qualified facilities may be eligible for bonus depreciation, taxpayers are permitted to "opt out" of taking bonus depreciation, and ITC Midwest has done so for every year beginning with 2010 via its corporate parent, ITC Holdings. By making its use of bonus depreciation to calculate the Facility Charge in the FSA dependent on whether ITC Holdings takes bonus depreciation for 2015, ITC Midwest has reserved to itself and its corporate parent the ability to opt out of bonus depreciation, even if network upgrade facilities installed for Bent Tree are eligible for bonus depreciation.

The mere fact that a taxpayer is allowed to opt out of bonus depreciation does not imply that a decision to do so is prudent under all circumstances. The failure and refusal of ITC Midwest via its parent to use bonus depreciation when calculating the Facility Charge to the extent the network upgrades associated with Bent Tree are eligible for bonus depreciation renders the Facility Charge incorporated in the FSA excessive and unjust and unreasonable. Because ITC Holdings files a consolidated Federal income tax return on behalf of itself and its subsidiaries, use of bonus depreciation by ITC Midwest for depreciation of network upgrades associated with Bent Tree will reduce the Facility Charge in the FSA as well as charges for other transmission facilities owned by subsidiaries of ITC Holdings that are in the same class of assets. Alternatively, ITC Midwest could make an affirmative election using IRS Form 8832 (Entity Classification Election) to be taxable as an individual corporation so that it could make a decision on bonus depreciation on its own merits rather than be subject to a decision by its parent, ITC Holdings, that would also impact its related subsidiaries.

Although ITC Midwest does not currently file a Federal income tax return separately from that of ITC Holdings, ITC Midwest and ITC Holdings have many common officers. As a result, senior officials of ITC Midwest have a significant role in determining whether ITC Midwest will, through its corporate parent, take advantage of bonus depreciation to the extent such bonus depreciation is available. Regardless of their roles in management of ITC Holdings, it is incumbent on senior officials of ITC Midwest to act reasonably and prudently with due concern for customers of ITC Midwest such as WPL when making decisions which might affect the costs of service being incurred by ITC Midwest and passed through to its customers. If and to the extent that they fail to do so, the FERC should protect such customers from having to compensate ITC Midwest for costs that were imprudently incurred.

Mr. Michek has calculated the adverse financial impact on WPL and its customers if ITC Midwest fails to use bonus depreciation for calculating the Facility Charge in the FSA. As discussed in the Michek Affidavit at P 12, certain costs of the network upgrades installed for Bent Tree were incurred in 2014 and may be eligible for bonus depreciation under current law. In addition, it is likely that bonus depreciation provisions in current law will be extended to include all costs for assets placed in service in 2015. Mr. Michek has shown that, depending on whether the bonus depreciation provisions of the Internal Revenue Code are extended to cover projects installed in 2015, the savings to WPL and its customers over the 25-year life of the FSA if ITC Midwest utilizes bonus depreciation when calculating the levelized fixed charge rate and payment due from WPL may exceed $12 million, as follows:

Wisconsin Power and Light Company Cost Savings of Not Opting Out of Bonus Depreciation				
	ITC-Midwest Filed	Bonus Depr. Full Project	Bonus Depr. 50% of Proj.	Bonus Depr. 25% of Proj.
Annual Payment	$5,016,242	$4,530,653	$4,773,447	$4,894,845
Annual Variance vs. ITCM Filed		($485,590)	($242795)	($121,397)
Total Contract Variance (Year of Occurrence $)		($12,139,747)	($6,069,874)	($3,034,937)
Net Present Value (2015$) based on discount rate of 8.46%	$48,155,212	$43,493,619	$45,824,416	$46,989,814

As discussed in *New England Power Company,* 31 FERC ¶ 61,047 at 61,084 (1985), the test to be used in determining whether specific costs are imprudent, and therefore unallowable, is whether the costs in question:

> ...are costs which a reasonable utility management (or that of another jurisdictional entity) would have made, in good faith, under the same circumstances, and at the relevant point in time....[O]ur task is to review the prudence of the utility's actions and the costs resulting therefrom based on the particular circumstances existing either at the time the challenged costs were actually incurred, or the time the utility became committed to incur those expenses.

Regulations adopted by the U.S. Treasury Department assume that utilities will use bonus depreciation for qualified properties to the extent they are eligible to do so, and therefore, the default practice under such regulations is to use bonus depreciation. Although such regulations permit taxpayers to opt-out of taking bonus depreciation, the Janecek Affidavit shows that this option is only beneficial to ratepayers when failure to do so might cause a permanent loss of tax benefits to the taxpayer (Janecek Affidavit at P 4). Insofar as WPL is aware, ITC Midwest is not facing the potential of a permanent loss of tax benefits if it uses bonus depreciation when calculating the Facility Charge under the FSA. Rather, insofar as WPL is aware, its sole purpose in electing out of bonus depreciation is to increase revenue requirements to its customers by increasing rate base, and thus to generate more earnings for its corporate parent and protect the interest expense tax shield of its parent's significant debt leverage.

Consistent with *New England Power Company*, a determination of whether ITC Midwest would be imprudent by failing to reduce its costs by using bonus depreciation to the extent bonus depreciation is available depends on consideration of whether a reasonable utility management would have opted out of bonus depreciation in good faith, and therefore incurred additional costs, under the same circumstances and at the relevant point in time. Mr. Michek explained that insofar as he is aware, there is no customer-focused (i.e., lower rates) rationale for ITC Midwest to elect out of bonus depreciation (Michek Affidavit at P 5).[4] Moreover, the Janecek Affidavit shows that, in fact, the almost universal practice in the electric utility industry is for utilities to use bonus depreciation when it is available unless, by doing so, a utility would realize a permanent loss of a tax benefit such as a reduction of the permanent Manufacturing Production Deduction or the expiration of a net operating loss (Janecek Affidavit at P 14). Therefore, as discussed in the Janecek Affidavit, it would be imprudent for a company to elect out of bonus depreciation if it is paying current taxes and not protecting any permanent tax benefits.

ITC Midwest's FERC Form 1 shows that it has paid approximately $135 million of current federal income taxes from 2010 through 2014 and that it does not have permanent tax credits, is not eligible for the manufacturing deduction and is not carrying forward any net operating loss (Janecek Affidavit at P 15). Under such circumstances, ITC Midwest's failure and refusal to include language in the FSA requiring it to reflect the impacts of bonus depreciation in the levelized fixed charge rate of the FSA if and to the extent the network upgrades are eligible for use of bonus depreciation is imprudent.

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[4] He also noted that "WPL is unaware of any ITCM stand-alone entity rationale for choosing to elect out of Bonus Depreciation" (*id.*).

Unless ITC Midwest otherwise agrees to use bonus depreciation for depreciation of network upgrades associated with Bent Tree for tax purposes, and to reflect its use of bonus depreciation of such facilities when determining the ADIT used to calculate charges to WPL, the FERC should condition its acceptance of the FSA on an appropriate reduction in the rate of return on common equity ("ROE") used to calculate the Facility Charge in the FSA.[5]

Pursuant to the FSA, the Facility Charge is recalculated annually through use of a levelized fixed charge rate. As shown on Exhibit II, page 1, line 60 of the FSA, the levelized fixed charge rate is based in part on a rate of return on common equity ("ROE") of 12.38%, which is the generally applicable ROE used to calculate transmission rates of MISO Transmission Owners. *ITC Holdings Corp.*, 121 FERC ¶ 61,229 at P 39 (2007).[6] This ROE was the mid-point of the zone of reasonableness for MISO Transmission Owners, determined on the basis of rates of return of a proxy group of companies, of 8.79% to 15.96%. See, *Midwest Independent Transmission System Operator, Inc.*, 106 FERC ¶ 61,302 at P 3 (2004).

The FERC has recognized that adjustments to the otherwise allowable ROE used to establish FERC-jurisdictional transmission rates are an appropriate method of providing financial incentives for transmission owners to make strategic decisions that are consistent with FERC

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[5] WPL understands that revenues collected under the FSA normally would be treated as a revenue credit to the cost of service used to determine transmission charges under Attachment O-ITC Midwest of the MISO Tariff. Under such circumstances, a reduction in revenues collected by ITC Midwest under the FSA due to a modification of the ROE in the FSA might simply result in a corresponding increase in transmission charges under Attachment O-ITC Midwest of the MISO Tariff. It is therefore essential that in addition to requiring modification of the ROE in the FSA, the FERC should bar ITC Midwest from recovering the reduction in revenues adopted to deter ITC Midwest from opting out of bonus depreciation through an off-setting increase in charges pursuant to Attachment O-ITC Midwest of the MISO Tariff.

[6] This ROE is based on the allowable ROE in Attachment O-ITC Midwest of the MISO Tariff, which specifies that the ROE is to be "supported in the original filing and no change in ROE may be made absent a filing with FERC. A 50 basis point adder for RTO participation and 50 basis point adder for independence may be added to the allowed ROE up to the upper end of the zone of reasonableness established by the FERC." Those adders have not been implemented.

policies.[7] It is unjust and unreasonable for the FERC to permit ITC Midwest to establish the Facility Charge in the FSA based in part on the ROE generally used by MISO transmission owners when, unlike all other MISO transmission owners, ITC Midwest has determined to opt out of using bonus depreciation, the effect of which is to impose on WPL certain costs that were incurred imprudently. Therefore, unless ITC Midwest agrees to use bonus depreciation for depreciation of the network upgrades installed to support the interconnection of Bent Tree, the FERC should require ITC Midwest to reduce the ROE incorporated in the FSA for calculation of the levelized fixed charge rate to the lowest end of the zone of reasonableness as previously determined by the FERC. Reduction of the ROE included in the FSA will help to mitigate the adverse effect of charges being imposed by ITC Midwest based on consideration of costs that have been incurred imprudently.

In addition to increasing the Facility Charge in the FSA for Bent Tree, ITC Midwest's decision to opt out of using bonus depreciation for depreciation of network upgrade facilities installed in 2014 and 2015 when calculating its Federal income tax expense may also unduly increase charges established by ITC Midwest in a Facilities Services Agreement for the Marshalltown Generating Station being built by an affiliate of WPL, which is expected to be filed with the FERC by ITC Midwest in the near future. Because the decision of ITC Midwest and its corporate parent to opt out of bonus depreciation in recent years also results in higher electric service rates to retail customers of an affiliate of WPL, the Large Energy Group, a coalition of large electricity consumers in Iowa, strongly supports this Protest (see attached letter dated November 16, 2015).

[7] *Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs., Regulations Preambles ¶ 31,222 (2006).

WHEREFORE, for the foregoing reasons, WPL respectfully requests that it be granted leave to intervene in this proceeding with full rights of a party. WPL further respectfully requests that the FERC condition its acceptance of the FSA on either (a) a requirement for ITC Midwest to modify the FSA to provide that the Facility Charge in the FSA shall reflect the impacts of bonus tax depreciation if and to the full extent that the network upgrades installed for Bent Tree that have been funded by ITC Midwest are eligible for bonus tax depreciation under the Internal Revenue Code, or, alternatively, (b) a requirement for ITC Midwest to modify the FSA by reducing the ROE used to calculate the levelized fixed charge rate to the lower end of the zone of reasonableness.

Respectfully submitted,

WISCONSIN POWER AND LIGHT COMPANY

By *James K. Mitchell*

James K. Mitchell
Davis Wright Tremaine LLP
1919 Pennsylvania Avenue, NW
Washington, DC 20006
202-973-4241

Its Attorney

November 24, 2015

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, DC this 24th day of November, 2015.

James K. Mitchell

James K. Mitchell
Davis Wright Tremaine LLP
1919 Pennsylvania Ave., NW Ste. 800
Washington, DC 20006-3401
Tel.: (202) 973-4241

Large Energy Group

150 1st Avenue, NE, Suite 300
Cedar Rapids, Iowa 52401

November 16, 2015

To: Mr. Eric Guelker
Director – Transmission Policy and Sales Forecasting
Alliant Energy Corporate Services, Inc.
MSN GO 3N
4902 N Biltmore Lane
Madison, WI 53718

RE: Support of Large Energy Group ("LEG") for the Wisconsin Power and Light Company ("WPL") Protest of the Facilities Service Agreement ("FSA") for Project G870, filed at FERC on October 30, 2015 in Docket No. EL16-206

Dear Mr. Guelker:

Thank you for the verbal briefing regarding the opt-out of bonus depreciation by ITC Midwest LLC (ITCM) that you and your colleagues provided on November 12, 2015 to Robert Latham, representing the Large Energy Group ("LEG").

LEG is a coalition of large electricity consumers in the State of Iowa that are customers of Interstate Power and Light Company ("IPL"). A list of our members is attached. LEG has substantial interest in supporting the Protest of Wisconsin Power and Light ("WPL") in this docket, given that it is anticipated that the same issue, if unresolved, could also result in the FSA for the IPL (a utility affiliate of WPL) Marshalltown Generating Station (MGS) network upgrades being filed at FERC unexecuted. You indicated this MGS FSA is expected to be filed in the near future. We also understand that the opt-out of bonus depreciation is applicable to *all* the eligible assets of ITCM and not just those network upgrades associated with Project G870 (the WPL Bent Tree Wind Farm), the subject of this Protest.

As you and your colleagues described, higher rates to customers of ITCM result from the decision by ITCM and its parent company ITC Holdings Corp. to opt-out of bonus depreciation the last few years that such provisions have been available under federal tax law. Those higher rates in turn result in higher transmission costs to ITCM customer IPL, and ultimately the customers of IPL, including members of LEG.

Specifically, we understand that the ITCM revenue requirements in 2015 are estimated to be approximately $18 million more than they would otherwise be due to the ITCM decision to opt-out of bonus depreciation. This translates into approximately a 5% higher ITCM transmission rate, and approximately 1% higher rates overall to IPL customers that are closer to 2% higher rates for LEG members.

Please accept this letter as a firm expression of our support for the Protest of WPL in Docket No. EL16-206 on behalf of LEG and its members, in the interests of their costs as IPL customers.

Thank you,

[redacted]

Matt Corkery
President, Large Energy Group

Large Energy Group Membership

AG Processing	Mason City, Iowa
Agri-Industrial Plastics	Fairfield, Iowa
Amsted Griffin Wheel	Keokuk, Iowa
City of Cedar Rapids	Cedar Rapids, Iowa
Danisco Genencor	Cedar Rapids, Iowa
Deere & Company	Dubuque, Ottumwa, Iowa
General Mills	Cedar Rapids, Iowa
Guardian Glass	DeWitt, Iowa
Henniges Automotive	Keokuk, Iowa
Hormel Foods	Osceola, Iowa
International Paper – CR Mill	Cedar Rapids, Iowa
International Paper – Shaver Road	Cedar Rapids, Iowa
Keokuk Steel Casting	Keokuk, Iowa
Keokuk Water Works	Keokuk, Iowa
Kinze Manufacturing	Williamsburg, Iowa
Lehigh Cement	Mason City, Iowa
Mercy Medical Center	Cedar Rapids, Iowa
Penford Products	Cedar Rapids, Iowa
FMI Climax Molybdenum	Fort Madison, Iowa
PMX Industries	Cedar Rapids, Iowa
Quaker Oats	Cedar Rapids, Iowa
Ralston Foods	Cedar Rapids, Iowa
Rockwell Collins	Cedar Rapids, Iowa
Roquette America	Keokuk, Iowa
St. Luke's Hospital	Cedar Rapids, Iowa

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ITC-Midwest LLC Bonus Depreciation Docket No. ER16-206-000

AFFIDAVIT OF
JENNIFER E. JANECEK

Introduction

1. My name is Jennifer Janecek. I am employed by Alliant Energy Corporate Services, Inc. (AECS), a service company subsidiary of Alliant Energy Corporation (Alliant Energy). My job title is Director - Taxes. In this position, most of my time is spent working for Alliant Energy's wholly-owned utility subsidiaries, Interstate Power and Light Company (IPL or Company), and Wisconsin Power and Light Company (WPL). My educational background includes a Bachelor's degree in Accounting from the University of Wisconsin – Whitewater and a Master's degree in Taxation from the University of Wisconsin – Milwaukee. I am currently a licensed CPA in Wisconsin. I started my career at Ernst & Young LLP as a tax consultant. After three years at Ernst & Young LLP, I have worked exclusively for Alliant Energy or its predecessor companies. My entire career has been focused on the tax area with the last four years as the Director-Taxes. In addition to my work at Alliant Energy, I am an active member of Edison Electric Institute's (EEI) Tax Analysis and Research Subcommittee (TARS) and lead an EEI's User Group that focuses on system issues in calculating tax provisions and depreciation for regulated entities.

Bonus Depreciation

2. Bonus depreciation is the result of provisions in the federal tax laws that allow a corporation to deduct either 50 percent or 100 percent of the qualifying capital investments in the first year an investment is placed in-service for tax purposes. In the case of the 50 percent bonus depreciation that was in effect in 2014, the remaining 50 percent of the investment is depreciated for tax purposes using the existing accelerated depreciation schedules.

3. Bonus depreciation significantly increases deferred tax liabilities. For utilities, the deferred tax liabilities associated with bonus depreciation are required to be included in rate base, which has the impact of reducing rate base and lowering customer costs. For example if a transmission line that qualified for bonus depreciation and cost $100 million was placed in-service in 2014, the reduction in rate base at the end of 2014 would be approximately $16 million as illustrated in the Table below in the column labeled Deferred Tax Impact.

TABLE 1

Asset	Book	Tax	Difference	Deferred Tax Impact (35%)
Transmission Line	$ 100,000,000	$ 100,000,000	$ -	0
2014 Depreciation	$ 6,666,667	$ 52,500,000		
2014 Asset Balance	$ 93,333,333	$ 47,500,000	$ 45,833,333	$ 16,041,667
2015 Depreciation	$ 6,666,667	4,750,000		
2015 Asset Balance	$ 86,666,667	$ 42,750,000	$ 43,916,667	$ 15,370,833

4. The default for tax depreciation assumes that companies will take bonus depreciation. However, the U.S. Treasury Department has provided taxpayers with an opportunity to opt-out of taking bonus depreciation. This opt-out election is useful when failure to do so might cause a permanent loss of tax benefits.

5. If a company does elect out of bonus depreciation they may request to revoke the election by obtaining IRS consent with a private letter ruling.[1]

Potential Law Changes – Bonus Depreciation

6. Bonus depreciation has been in effect since 2008 through numerous extensions in the law.

Law	Enacted	Extended Bonus Depreciation for costs incurred through
2009 American Recovery and Reinvestment Act	February 2009	December 2009
Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010*	December 2010	December 2011
American Taxpayer Relief Act of 2012	January 2013	December 2013
Federal Tax Increase Prevention Act	December 2014	December 2014

* Bonus depreciation of 100 percent was enacted for 2011 and 2012 qualifying capital additions. All other laws enacted or extended the 50% bonus depreciation provisions.

7. At this time, bonus depreciation is in effect for costs incurred through December 2014 for assets that were placed in service prior to 1/1/15. In addition, for those assets that qualify for long-lived assets, such as transmission assets, there is an additional provision in the law that allows bonus depreciation to be taken for those costs incurred in 2014, if the assets are placed in service prior to 1/1/16.

[1] IRS Publication 946 (2014), How to Depreciate Property

Since the Bent Tree transmission upgrades included approximately $16 million of costs in 2014 and was placed in service in 2015, a portion of the costs incurred may already qualify for bonus depreciation. Additional information would be needed to determine eligibility regarding whether the length of the construction of the upgrades were estimated to be greater than one year. The information to determine whether this project qualifies has not been provided to Wisconsin Power & Light but based on the project's kick-off date of 3/26/14 and in-service date of 9/3/15[2], the 2014 costs could potentially qualify for bonus depreciation currently.

8. If this project is not currently eligible for bonus depreciation, Congress is looking at the potential of extending many of the tax provisions in the Internal Revenue Code that expired at the end of 2014 including a one-year extension for bonus tax depreciation under which all expenditures through December 2015 would qualify for bonus depreciation. Based on conversations with Speaker of the U.S. House of Representatives, Paul Ryan of Wisconsin's 1st congressional district[3], Alliant Energy expects, similar to prior years that the tax extenders will be signed into law sometime before the end of 2015 and will apply to facilities placed into service throughout 2015.

Industry practice

9. Based on discussions with many of my colleagues at EEI and in various utility meetings, virtually all utilities have taken bonus depreciation to the extent possible. At a recent EEI tax committee meeting, participants were asked if anyone in the meeting elected out of bonus depreciation. Out of approximately 40-50 utility companies represented no one had raised their hand. The one or two utilities of which I am aware that have elected out of bonus depreciation had the potential to realize a permanent loss of a tax benefit if they failed to do so with the exception of ITC-Midwest. A loss of permanent tax credits, such as the reduction of the permanent Manufacturing Production Deduction[4], or the expiration of a net operating loss, could be a valid reason to opt out of bonus depreciation, depending on the impacts of these benefits compared to the impacts of bonus depreciation.

10. Based on my experience and the knowledge of what all of my colleagues that lead the tax departments of electric and gas utilities around the nation, it would be imprudent for a company to elect out of bonus depreciation if it is paying current taxes and is not protecting any permanent tax benefits. ITC-Midwest's FERC Form 1 shows that it has paid approximately $135 million of current federal taxes since 2010[5] and does not have permanent tax credits, is not eligible for the manufacturing production deduction and is not carrying forward any net operating

[2] E-mail from Daniel Barr to Christian Alva, November 9th, 2015, 8:53 a.m. CST
[3] Alliant Energy Madison General Offices, June 5, 2015
[4] §199 of the Internal Revenue Code
[5] 2011-2014 FERC Form 1s, Page 262, Federal income tax paid

losses. This shows that ITC Midwest is simply not taking advantage of a tax benefit that has been provided to all utilities.

11. The reasons for taking bonus depreciation include reducing customer costs and increasing cash flow by reducing tax payments. If ITC-Midwest had taken full advantage of bonus depreciation, it would have reduced customer costs by $10-18 million per year as evidenced by Neil Michek's affidavit and it would have increased cash flows since 2010 by at least $135 million to ITC-Midwest on a stand alone basis.

JENNIFER E. JANECEK being duly sworn, deposes and states: that she prepared the Affidavit of Jennifer E. Janecek and that the statements contained therein and the Exhibits attached thereto are true and correct to the best of her knowledge and belief.

Jennifer E. Janecek

Subscribed and sworn before me this 23rd day of November, 2015.

Notary Public, State of Wisconsin

Printed Name: Kathy M. Chiono

My Commission Expires: 2/5/2017

KATHY M. CHIONO
NOTARY PUBLIC
STATE OF WISCONSIN

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ITC-Midwest Bonus Depreciation Docket No. ER16-206-000

AFFIDAVIT OF
NEIL E. MICHEK

Introduction

1. My name is Neil E. Michek. I am employed by Alliant Energy Corporate Services, Inc. ("AECS"), a service company subsidiary of Alliant Energy Corporation (Alliant Energy). My job title is Manager – Financial Planning. In this position, I am responsible for financial forecasting and analysis in support of regulatory finance compliance filings, regulatory rate proceedings and other state and federal regulatory dockets on behalf of AECS, Wisconsin Power and Light Company ("WPL") and Interstate Power and Light Company ("IPL"). The financial forecasting aspect of my work includes responsibilities for the oversight of forecasting or budgeting WPL's and IPL's fuel and transmission costs.

2. My educational background includes a Bachelor's degree in Accounting and Business Administration from the University of Wisconsin – Platteville. I have been employed in the regulated utility industry for 25 years. I have been employed by AECS or WPL since 2001, and have held several positions including Lead Analyst II – Financial Planning and Analysis, Senior Financial Consultant – GENCO, and Manager – Regulatory Affairs prior to my current position. I was employed by the Public Service Commission of Wisconsin ("PSCW") as a Public Utility Auditor from 1990 until beginning my employment at AECS and WPL.

Proposed Facility Services Agreement

3. ITC Midwest, LLC ("ITCM") filed an unexecuted Facility Service Agreement ("FSA") relating to an interconnection between ITCM and WPL's Bent Tree Wind Farm ("BTWF"). The FSA was filed as an unexecuted agreement due to disagreement between WPL and ITCM over consideration of Bonus Depreciation in the calculation of the annual levelized fixed charge rate. WPL's objection to the FSA is that the levelized fixed charge rate in the agreement will not reflect the savings that might be realized by use of Bonus Depreciation, even if the Network Upgrades are eligible (emphasis added) for such treatment. In order to overcome this objection, the second paragraph of Section II – Facility Charge of the FSA should be modified by addition of the following sentence:

> The Levelized Fixed Charge Rate and Payment shall also reflect the impacts of Bonus Tax Depreciation if the network upgrades are *eligible (emphasis added)* for Bonus Tax Depreciation.

4. The key term within that sentence is "eligible." As discussed in the affidavit of Ms. Jennifer E Janecek, Internal Revenue Service ("IRS") rules for Bonus Depreciation state that first year Bonus Depreciation is mandatory unless a taxpayer affirmatively elects out of using Bonus Depreciation for certain classes of assets. In the case of ITCM, an election out of Bonus Depreciation is an intentional choice to raise customer rates for no benefit except to ITCM shareholders.

5. WPL is unaware of any customer focused (i.e. lower rates) rationale by ITCM to elect out of Bonus Depreciation. In addition, WPL is unaware of any ITCM stand-alone entity rationale for choosing to elect out of Bonus Depreciation. However WPL is aware that ITCM has consistently elected out of Bonus Depreciation in recent years, even though ITCM has made income tax payments to its parent company during that time that could have been reduced if it had not elected out of Bonus Depreciation. As a result, the FSA should affirm that ITCM will not elect out of Bonus Depreciation, if eligible, and that the benefits of Bonus Depreciation appropriately serve to reduce WPL's costs.

Rate Making Impacts of Accumulated Deferred Income Taxes - General

6. Ms. Janecek's affidavit provides background information regarding the applicability and accounting impacts of Bonus Depreciation. Ms. Janecek's affidavit also addresses possible extension of Bonus Depreciation by Congress, the relationship between Bonus Depreciation and Net Operating Losses ("NOL") for tax purposes, and her understanding of general utility industry practice not to opt-out of Bonus Depreciation.

7. Bonus Depreciation reduces taxable income reported to the IRS, and therefore generates improved cash flows to the utility through lower tax payments, all else equal. Regulated utilities are required to account for the timing differences between payment of income taxes due to IRS and recording of book income taxes reflected in rates in various Accumulated Deferred Income Taxes ("ADIT") accounts.[1]

8. Ratemaking practices at the Federal Energy Regulatory Commission ("FERC"), the Public Service Commission of Wisconsin, and the Iowa Utilities Board, and, to my knowledge other state jurisdictions, reflect the plant related balances of ADIT in the calculation of Net Investment Rate Base ("NIRB") that is used in establishing rates.[2] Since the implementation of accelerated tax depreciation methods for income taxes, ADIT balances have generally reduced NIRB and therefore resulted in a reduction of revenue requirements. This reduction of NIRB recognizes that deferred income taxes are effectively an interest free loan from the federal (or state) government and that the benefit of that interest free loan should flow through the utility's rates for the benefit of its

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[1] Uniform System of Accounts: 18CFR Chapter I, Subchapter C, Part 101: Account 190 – Accumulated Deferred Income Taxes; Account 281 – Accumulated Deferred Income Taxes – Accelerated Amortization; Account 282 – Accumulated Deferred Income Taxes – Other Property; and Account 283 – Accumulated Deferred Income Taxes - Other

[2] Specific treatment of the various individual ADIT account balances, or sub account information may vary by jurisdiction.

ratepayers. Bonus Depreciation (absent being in a NOL position) results in a reduction of NIRB and therefore customer rates are reduced.

9. ITC-Midwest, LLC's ("ITCM") Attachment O formula rates reflect ADIT balances as a component of NIRB. To my knowledge, all transmission providers in the Midwest Intercontinent System Operator, Inc. footprint include ADIT in their Attachment O formula rate calculations to the extent that the transmission providers are subject to state and/or federal income taxes.

Bonus Depreciation Impacts – Bent Tree Network Upgrade Facility Charge

10. ITCM has proposed to charge WPL a levelized fixed charge rate per year, subject to certain true-up mechanisms, for ITCM's construction of Network Upgrades necessary for the BTWF. The intent of this cost recovery mechanism is to ensure that the cost causer, in this instance WPL, is responsible for the costs of the Network Upgrades.

11. This fixed charge would be in place for 25 years from the date on which the FSA becomes effective. Revenue that ITCM collects pursuant to this charge will result in a revenue credit to ITCM's Attachment O revenue requirements recorded in Account 456 – Other Electric Revenues. Thus ITCM's other network transmission customers, including IPL, will receive the benefit of the network upgrade charges paid by WPL and other generators subject to similar cost recovery mechanisms.

12. ITCM's calculation of the levelized fixed charge, as filed, is premised upon the applicability of the Modified Accelerated Cost Recovery System ("MACRS") accelerated depreciation for the Network Upgrade transmission assets as a 15-year MACRS asset. To the extent that the 2014 or prior costs of the Network Upgrades qualify for Bonus Depreciation, the levelized fixed charge calculation should be modified to reflect Bonus Depreciation treatment. In addition, if the bonus depreciation provisions in the law are extended to include all costs for assets placed in service in 2015, ITCM should reflect this law change when truing up the levelized fixed charge. WPL anticipates that Congress will act on an extension of Bonus Depreciation before the end of 2015 and that the extension could result in the entire BTWF Network Upgrades qualifying for bonus depreciation.

13. If an extension of Bonus Depreciation is passed and the entire BTWF Network Upgrades qualify for Bonus Depreciation, I calculate that the levelized fixed charge would be reduced by $448,741 per year, or approximately $11 million over the 25 years of the contract. This estimate assumes that the entire cost of the project is eligible for Bonus Depreciation, and that ITCM does not elect out of Bonus Depreciation for the applicable tax year(s). If only 25% of the BTWF Network Upgrades qualify for Bonus Depreciation, I calculate that the total savings to WPL and its customers over the 25 year contract would be approximately $3 million.

14. Attachment A to this affidavit includes five schedules that provide my calculations of the cost savings to WPL and its customers from the potential applicability of Bonus Depreciation.

- Schedule 1 is a summary schedule that compares the levelized fixed payments as filed by ITCM to three different scenarios of Bonus Depreciation applicability.
- Schedule 2 is a copy of the ITCM filed FSA fixed charge calculation.
- Schedule 3 is a revised FSA fixed charge calculation that assumes the entire cost, of the BTWF Network Upgrades, qualifies for Bonus Depreciation.
- Schedule 4 is a revised FSA fixed charge calculation that assumes 50% of the cost, of the BTWF Network Upgrades, qualifies for Bonus Depreciation.
- Schedule 5 is a revised FSA fixed charge calculation that assumes 25% of the cost, of the BTWF Network Upgrades, qualifies for Bonus Depreciation.

NEIL E. MICHEK being duly sworn, deposes and states: that he prepared the Affidavit of Neil E. Michek and that the statements contained therein and the Exhibits attached thereto are true and correct to the best of his knowledge and belief.

[redacted]
Neil E. Michek

Subscribed and sworn before me this 24 day of November, 2015.

[redacted]
Notary Public, State of Wisconsin

Printed Name: Mary A. Bomkamp

My Commission Expires: May 15, 2017

Wisconsin Power and Light Company
Potential Impacts of Bonus Depreciation on BTWF FSA
ER16-206-000

Attachment A
Schedule 1

			ITCM Filed	Bonus Depr. Full-Project	Bonus Depr. 50% of Project	Bonus Depr. 25% of Project
1	Monthly Payment		$ 418,020	$ 380,625	$ 399,461	$ 408,879
2	Annual Payment		$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
3	Annual Variance vs ITCM Filed			$ (448,741)	$ (222,708)	$ (109,691)
4	Total Contract Variance (Year of Occurrence $)			$ (11,218,532)	$ (5,567,699)	$ (2,742,283)
5						
6	Discount Rate		8.46%	8.46%	8.46%	8.46%
7						
8	NPV (2015$)		$48,155,212	$43,847,360	$46,017,248	$47,102,192
9	Variance: NPV vs ITCM Filed			($4,307,853)	($2,137,965)	($1,053,021)
10	% Variance NPV			-9%	-4%	-2%
11						
12	Year					
13		2015	$ 836,040	$ 761,250	$ 798,922	$ 817,759
14		2016	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
15		2017	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
16		2018	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
17		2019	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
18		2020	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
19		2021	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
20		2022	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
21		2023	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
22		2024	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
23		2025	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
24		2026	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
25		2027	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
26		2028	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
27		2029	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
28		2030	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
29		2031	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
30		2032	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
31		2033	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
32		2034	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
33		2035	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
34		2036	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
35		2037	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
36		2038	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
37		2039	$ 5,016,242	$ 4,567,501	$ 4,793,534	$ 4,906,551
38		2040	$ 4,180,202	$ 3,806,251	$ 3,994,612	$ 4,088,793
39	Total		$ 125,406,060	$ 114,187,527	$ 119,838,361	$ 122,663,777
40	Check Total		$ 125,406,060	$ 114,187,527	$ 119,838,361	$ 122,663,777
41	Variance vs ITCM Filed			$ (11,218,532)	$ (5,567,699)	$ (2,742,283)
42	% Variance vs ITCM Filed (Year of Occurrence $)			-9%	-4%	-2%

Wisconsin Power and Light Company
ITCM Filed Levelized Fixed Charge Calculation: BTWF FSA
ER16-206-000

Attachment A
Schedule 2

Levelized Fixed Charge Rate Calculation with Deferred Recovery

6					
7	Company Name:	ITC Midwest LLC			
8	Project Name:	G870 Freeborn to Winnebago 161kV Rebuild			
9	Cost Year	2015			
10					
11	Recovery Period	June 1, 2015 thru May 31, 2016			
12					
13	Levelized Fixed Charge Computation				
14					
15	Initial Network Upgrade Capital Cost				$38,826,851
16	Levelized FCR with Deferred Recovery			(Line 46)	0.12919519
17	Annual Network Upgrade Charge			(Line 15 x Line 16)	$5,016,242
18	Monthly Payment			(Line 17 / 12	$418,020
19					
20	Fixed Charge Rate Calculation:				
21					
22	Investment			(Line 15)	38,826,851
23	PWtax depreciation			(Line 95)	21,908,464
24	Tax rate			(Line 49)	41.46%
25	Tax benefit			(Line 23 x Line 24)	9,083,249
26	Present Worth cashflow			(Line 22 - Line 25)	29,743,602
27	Revenue conversion factor			[1/(1 - Line 49)]	1.708233686
28	Present Worth Revenue Requirement			(Line 26 x Line 27)	50,809,023
29					
30	In Service Date				9/1/2015
31	Recovery Start Date				11/1/2015
32	Deferral Days				61
33	Deferral annualization factor (based on 365 days)			(Line 32/365)	0.167123288
34	Interest rate per year			(Line 63)	0.084611791
35	Deferral Factor			{[(1+Line 34)^Line 33] - 1}	0.013666655
36	Deferral Adjustment			(Line 28 x Line 35)	694,389
37					
38	Present Worth with Deferred Recovery			(Line 28 + Line 36)	51,503,412
39					
40	Recovery period				25
41	Annualization factor			{i [(1+i)^RP]} / {[(1+i)^RP] -1} (where RP is Line 40, and i is Line 34)	0.097396312
42					
43					
44	Levelized Amount			(Line 38 x Line 41)	5,016,242
45					
46	Levelized Fixed Charge Rate (FCR)			(Line 44 / Line 22)	0.12919519
47					
48					
49	Combined tax rate (Attchment O, p3, Line 21)				0.4146
50					
51	Interest (Attachment O, p4, Line 21)			29,603,787	
52					
53	Preferred Dividends (Attachment O, p4, Line 22)				
54					
55		Amount	Weight	Cost	Weighted
56					Cost
57	(Attachment O, page 4, Lines 27-30):				
58	Long-Term Debt	671,084,615	39.9977%	4.41133345%	0.017644343
59	Preferred		0.0000%	0.0000000%	0
60	Common Equity	1,006,721,531	60.0023%	12.3800000%	0.074282792
61	Capitalization	1,677,806,146	1		0.091927135
62					
63	Discount rate			(Line 61 - (Line 49 x Line 58))	0.084611791
64					
65					
66					

Wisconsin Power and Light Company
ITCM Filed Levelized Fixed Charge Calculation: BTWF FSA
ER16-206-000

MACRS Depreciation Rates:

Year (a)	(b) MACRS Rates	(c) MACRS Depr	(d) Present Worth Factor 1/(1+i)^n	(d) Present Worth Tax Depreciation
0			1	
1	0.05	1,941,343	0.9219889	1,789,896
2	0.095	3,688,551	0.8500635	3,135,502
3	0.0855	3,319,696	0.7837491	2,601,808
4	0.077	2,989,668	0.7226079	2,160,357
5	0.0693	2,690,701	0.6662365	1,792,643
6	0.0623	2,418,913	0.6142626	1,485,848
7	0.059	2,290,784	0.5663433	1,297,370
8	0.059	2,290,784	0.5221622	1,196,161
9	0.0591	2,294,667	0.4814277	1,104,716
10	0.059	2,290,784	0.443871	1,016,813
11	0.0591	2,294,667	0.4092441	939,079
12	0.059	2,290,784	0.3773185	864,355
13	0.0591	2,294,667	0.3478835	798,277
14	0.059	2,290,784	0.3207447	734,757
15	0.0591	2,294,667	0.2957231	678,586
16	0.0295	1,145,392	0.2726534	312,295
	Total	38,826,851		21,908,464

Wisconsin Power and Light Company
Recalculation DTWF-FSA
Bonus Depreciation Assumed - Entire Installed Cost of Project
ER16-206-000

Attachment A
Schedule 3

Line	Item	Reference	Value
6			
7	Company Name:	ITC Midwest LLC	
8	Project Name:	G870 Freeborn to Winnebago 161kV Rebuild	
9	In-Service Cost Year:	2015	
10			
11	Recovery Period	June 1, 2015 thru May 31, 2016	
12			
13	Levelized Fixed Charge Computation		
14			
15	Initial Network Upgrade Capital Cost		$ 38,826,851
16	Levelized Fixed Charge Rate	(Line 46)	11.76377%
17	Annual Network Upgrade Charge	(Line 15 x Line 16)	$ 4,567,501
18	Monthly Payment	(Line 17 / 12)	$ 380,625
19			
20	Fixed Charge Rate Calculation:		
21			
22	Investment	(Line 15)	$ 38,826,851
23	PW tax depreciation	(Line 90)	$ 28,143,402
24	Tax rate	(Line 94)	41.73%
25	Tax benefit	(Line 23 x Line 24)	$ 11,744,042
26	Present Worth cashflow	(Line 22 - Line 25)	$ 27,082,809
27	Revenue conversion factor	[1/(1 - Line 49)]	1.708233686
28	Present Worth Revenue Requirement	(Line 26 x Line 27)	$ 46,263,766
29			
30	In Service Date		9/1/2015
31	Recovery Start Date		11/1/2015
32	Deferral Days	(Line 31 - Line 30)	61
33	Deferral annualization factor (based on 365 days)	(Line 32/365)	0.167123288
34	Interest rate per year	(Line 64)	8.4611791%
35	Deferral Factor	[[(1+Line 34)^Line 33] -	0.013666655
36	Deferral Adjustment	(Line 28 x Line 35)	632,271
37			
38	Present Worth with Deferred Recovery	(Line 28 + Line 36)	46,896,037
39			
40	Recovery Period (BL)		25
41	Annualization factor	[i(1+i)^BL]/[(1+i)^BL-1]	0.097396312
42			
43	Levelized Amount	(Line 38 x Line 41)	$ 4,567,501
44			
45			
46	Levelized Fixed Charge Rate	(Line 43 / Line 22)	11.763769%
47			
48			
49	Combined tax rate (Attachment O, p3, Line 21)		41.46%
50			
51	Interest (Attachment O, p4, Line 21)	$ 29,603,787	
52			
53	Preferred Dividends (Attachment O, p4, Line 22)	$ -	
54			

Line		Amount	Weight	Cost	Weighted Cost
55		Amount	Weight	Cost	Weighted
56					Cost
57	(Attachment O, page 4, Lines 27-30):				
58	Long-Term Debt	$ 671,084,615	39.9977%	4.4113345%	1.7644343%
59	Preferred		0%	0.00%	0.0000000%
60	Common Equity	$ 1,006,721,531	60.0023%	12.380000%	7.4282792%
61	Capitalization	$ 1,677,806,146	100%		9.1927135%
62					
63					
64	Discount rate (i)			(Line 61 - (Line 49 * Line 58)	8.4611791%

Wisconsin Power and Light Company
Recalculation BTWF FSA
Bonus Depreciation Assumed - Entire Installed Cost of Project
ER16-206-000

Attachment A
Schedule 3

Percentage of Original Investment Eligible for Bonus Depreciation: 100%

MACRS Depreciation Rates:

[a] Year	[b] MACRS Rates - 50% Bonus	[c] MACRS Rates - No Bonus	[d] MACRS Depr - Federal	[e] MACRS Depr - State Bonus Modification	[f] MACRS Depr - State	[g] Present Worth Factor 1/(1+i)^n	[h] Present Worth Tax Depr. Federal	[i] Present Worth Tax Depr. State	[j] Present Worth Tax Depr - Combined
0						1.00000000			
1	52.50%	5.00%	$ 20,384,097	$ (15,530,740)	$ 4,853,356	0.92198887	$ 18,793,910	$ 4,474,741	$ 15,431,096
2	4.75%	9.50%	$ 1,844,275	$ 3,106,148	$ 4,950,424	0.85006348	$ 1,567,751	$ 4,208,174	$ 2,187,847
3	4.28%	8.55%	$ 1,659,848	$ 3,106,148	$ 4,765,996	0.78374907	$ 1,300,904	$ 3,735,345	$ 1,872,625
4	3.85%	7.70%	$ 1,494,834	$ 3,106,148	$ 4,600,982	0.72260792	$ 1,080,179	$ 3,324,706	$ 1,607,299
5	3.47%	6.93%	$ 1,345,350	$ 3,106,148	$ 4,451,498	0.66623646	$ 896,321	$ 2,965,751	$ 1,382,321
6	3.12%	6.23%	$ 1,209,456	$ 3,106,148	$ 4,315,604	0.61426260	$ 742,924	$ 2,650,914	$ 1,191,010
7	2.95%	5.90%	$ 1,145,392		$ 1,145,392	0.56634328	$ 648,685	$ 648,685	$ 648,685
8	2.95%	5.90%	$ 1,145,392		$ 1,145,392	0.52216210	$ 598,080	$ 598,080	$ 598,080
9	2.96%	5.91%	$ 1,147,333		$ 1,147,333	0.48142774	$ 552,358	$ 552,358	$ 552,358
10	2.95%	5.90%	$ 1,145,392		$ 1,145,392	0.44387102	$ 508,406	$ 508,406	$ 508,406
11	2.96%	5.91%	$ 1,147,333		$ 1,147,333	0.40924414	$ 469,539	$ 469,539	$ 469,539
12	2.95%	5.90%	$ 1,145,392		$ 1,145,392	0.37731854	$ 432,178	$ 432,178	$ 432,178
13	2.96%	5.91%	$ 1,147,333		$ 1,147,333	0.34788349	$ 399,138	$ 399,138	$ 399,138
14	2.95%	5.90%	$ 1,145,392		$ 1,145,392	0.32074471	$ 367,378	$ 367,378	$ 367,378
15	2.96%	5.91%	$ 1,147,333		$ 1,147,333	0.29572305	$ 339,293	$ 339,293	$ 339,293
16	1.48%	2.95%	$ 572,696		$ 572,696	0.27265336	$ 156,148	$ 156,148	$ 156,148
Total			$ 38,826,851		$ 38,826,851		$ 28,853,194	$ 25,830,835	$ 28,143,402
Tax Rate					41.37%		35.00%	9.80%	
Stand Along Tax Benefit							$ 10,098,618	$ 2,531,422	$ 12,630,040
Tax Benefit Adjusted for Interdeductibility							$ 9,212,620	$ 2,531,422	$ 11,744,042
							31.93%	9.80%	41.73%
							$ 28,853,194.32	$ 25,830,835.08	
								$ -	
								$ 25,830,835.08	
								$ 0.10	
							$ (2,531,421.84)	$ 2,531,421.84	$ 2,531,421.84
							$ 26,321,772.48		
							$ 0.35		
							$ 9,212,620.37		$ 9,212,620.37
									$ 11,744,042.21
							31.93%	9.80%	41.73%

Wisconsin Power and Light Company
Recalculation BTWF FSA
Bonus Depreciation Assumed - 50% of Installed Cost of Project
ER16-206-000

Attachment A
Schedule 4

Line	Description	Reference	Value
6			
7	Company Name:	ITC Midwest LLC	
8	Project Name:	G870 Freeborn to Winnebago 161kV Rebuild	
9	In-Service Cost Year:	2015	
10			
11	Recovery Period	June 1, 2015 thru May 31, 2016	
12			
13	Levelized Fixed Charge Computation		
14			
15	Initial Network Upgrade Capital Cost		$ 38,826,851
16	Levelized Fixed Charge Rate	(Line 46)	12.34593%
17	Annual Network Upgrade Charge	(Line 15 x Line 16)	$ 4,793,534
18	Monthly Payment	(Line 17 / 12	$ 399,461
19			
20	Fixed Charge Rate Calculation:		
21			
22	Investment	(Line 15)	$ 38,826,851
23	PWtax depreciation	(Line 90)	$ 25,024,609
24	Tax rate	(Line 94)	41.57%
25	Tax benefit	(Line 23 x Line 24)	$ 10,403,787
26	Present Worth cashflow	(Line 22 - Line 25)	$ 28,423,064
27	Revenue conversion factor	[1/(1 - Line 49)]	1.708233686
28	Present Worth Revenue Requirement	(Line 26 x Line 27)	$ 48,553,236
29			
30	In Service Date		9/1/2015
31	Recovery Start Date		11/1/2015
32	Deferral Days	(Line 31 - Line 30)	61
33	Deferral annualization factor (based on 365 days)	(Line 32/365)	0.167123288
34	Interest rate per year	(Line 64)	8.4611791%
35	Deferral Factor	{[(1+Line 34)^Line 33] -	0.013666655
36	Deferral Adjustment	(Line 28 x Line 35)	663,560
37			
38	Present Worth with Deferred Recovery	(Line 28 + Line 36)	49,216,796
39			
40	Recovery Period (BL)		25
41	Annualization factor	[i(1+i)^BL]/[(1+i)^BL-1]	0.097396312
42			
43	Levelized Amount	(Line 28 x Line 31)	$ 4,793,534
44			
45			
46	Levelized Fixed Charge Rate	(Line 43 / Line 22)	12.345926%
47			
48			
49	Combined tax rate (Attchment O, p3, Line 21)		41.46%
50			
51	Interest (Attachment O, p4, Line 21)	$ 29,603,787	
52			
53	Preferred Dividends (Attachment O, p4, Line 22)	$ -	

Line		Amount	Weight	Cost	Weighted Cost
54					
55		Amount	Weight	Cost	Weighted
56					Cost
57	(Attachment O, page 4, Lines 27-30):				
58	Long-Term Debt	$ 671,084,615	39.9977%	4.4113345%	1.7644343%
59	Preferred		0%	0.00%	0.0000000%
60	Common Equity	################	60.0023%	12.380000%	7.4282792%
61	Capitalization	################	100%		9.1927135%
62					
63					
64	Discount rate (i)		(Line 61 - (Line 49 * Line 58)		8.4611791%
65					
66	Percentage of Original Investment Eligible for Bonus Depreciation:				50%

Wisconsin Power and Light Company
Recalculation BTWF FSA
Bonus Depreciation Assumed - 50% of Installed Cost of Project
ER16-206-000

Attachment A
Schedule 4

MACRS Depreciation Rates:

[a] Year	[b] MACRS Rates - 50% Bonus	[c] MACRS Rates - No Bonus	[d] MACRS Depr - Federal	[e] MACRS Depr - State Bonus Modification	[f] MACRS Depr - State	[g] Present Worth Factor 1/(1+i)^n	[h] Present Worth Tax Depr. Federal	[i] Present Worth Tax Depr. State	[j] Present Worth Tax Depr - Combined
0						1.00000000			
1	52.50%	5.00%	$ 11,162,720	$ (7,765,370)	$ 3,397,349	0.92198887	$ 10,291,903	$ 3,132,318	$ 8,604,225
2	4.75%	9.50%	$ 2,766,413	$ 1,553,074	$ 4,319,487	0.85006348	$ 2,351,627	$ 3,671,838	$ 2,662,831
3	4.28%	8.55%	$ 2,489,772	$ 1,553,074	$ 4,042,846	0.78374907	$ 1,951,356	$ 3,168,577	$ 2,238,283
4	3.85%	7.70%	$ 2,242,251	$ 1,553,074	$ 3,795,325	0.72260792	$ 1,620,268	$ 2,742,532	$ 1,884,811
5	3.47%	6.93%	$ 2,018,026	$ 1,553,074	$ 3,571,100	0.66623646	$ 1,344,482	$ 2,379,197	$ 1,588,388
6	3.12%	6.23%	$ 1,814,185	$ 1,553,074	$ 3,367,259	0.61426260	$ 1,114,386	$ 2,068,381	$ 1,339,264
7	2.95%	5.90%	$ 1,718,088		$ 1,718,088	0.56634328	$ 973,028	$ 973,028	$ 973,028
8	2.95%	5.90%	$ 1,718,088		$ 1,718,088	0.52216220	$ 897,121	$ 897,121	$ 897,121
9	2.96%	5.91%	$ 1,721,000		$ 1,721,000	0.48142774	$ 828,537	$ 828,537	$ 828,537
10	2.95%	5.90%	$ 1,718,088		$ 1,718,088	0.44387102	$ 762,610	$ 762,610	$ 762,610
11	2.96%	5.91%	$ 1,721,000		$ 1,721,000	0.40924414	$ 704,309	$ 704,309	$ 704,309
12	2.95%	5.90%	$ 1,718,088		$ 1,718,088	0.37731854	$ 648,267	$ 648,267	$ 648,267
13	2.96%	5.91%	$ 1,721,000		$ 1,721,000	0.34788349	$ 598,708	$ 598,708	$ 598,708
14	2.95%	5.90%	$ 1,718,088		$ 1,718,088	0.32074471	$ 551,068	$ 551,068	$ 551,068
15	2.96%	5.91%	$ 1,721,000		$ 1,721,000	0.29572305	$ 508,939	$ 508,939	$ 508,939
16	1.48%	2.95%	$ 859,044		$ 859,044	0.27265336	$ 234,221	$ 234,221	$ 234,221
Total			$ 38,826,851		$ 38,826,851		$ 25,380,829	$ 23,869,650	$ 25,024,609
Tax Rate					0.4137		35.00%	9.80%	
Stand Along Tax Benefit							$ 8,883,290	$ 2,339,226	$ 11,222,516
Tax Benefit Adjusted for Interdeductibility							$ 8,064,561	$ 2,339,226	$ 10,403,787
							31.77%	9.80%	41.57%
							$ 25,380,829.22	$ 23,869,649.60	
								$ -	
								$ 23,869,649.60	
								$ 0.10	
							$ (2,339,225.66)	$ 2,339,225.66	$ 2,339,225.66
							$ 23,041,603.56		
							$ 0.35		
							$ 8,064,561.25		$ 8,064,561.25
									$ 10,403,786.91
							31.77%	9.80%	41.57%

Wisconsin Power and Light Company
Recalculation BTWF FSA
Bonus Depreciation Assumed - 25% of Installed Cost of Project
ER16-206-000

Line	Item	Reference	Value
7	Company Name:	ITC Midwest LLC	
8	Project Name:	G870 Freeborn to Winnebago 161kV Rebuild	
9	In-Service Cost Year:	2015	
11	Recovery Period	June 1, 2015 thru May 31, 2016.	
13	Levelized Fixed Charge Computation		
15	Initial Network Upgrade Capital Cost		$ 38,826,851
16	Levelized Fixed Charge Rate	(Line 46)	12.63700%
17	Annual Network Upgrade Charge	(Line 15 x Line 16)	$ 4,906,551
18	Monthly Payment	(Line 17 / 12	$ 408,879
20	Fixed Charge Rate Calculation:		
22	Investment	(Line 15)	$ 38,826,851
23	PW tax depreciation	(Line 90)	$ 23,466,131
24	Tax rate	(Line 94)	41.48%
25	Tax benefit	(Line 23 x Line 24)	$ 9,733,659
26	Present Worth cashflow	(Line 22 - Line 25)	$ 29,093,192
27	Revenue conversion factor	[1/(1 - Line 49)]	1.708233686
28	Present Worth Revenue Requirement	(Line 26 x Line 27)	$ 49,697,970
30	In Service Date		9/1/2015
31	Recovery Start Date		11/1/2015
32	Deferral Days	(Line 31 - Line 30)	61
33	Deferral annualization factor (based on 365 days)	(Line 32/365)	0.167123288
34	Interest rate per year	(Line 64)	8.4611791%
35	Deferral Factor	{[(1+Line 34)^Line 33] -	0.013666655
36	Deferral Adjustment	(Line 28 x Line 35)	679,205
38	Present Worth with Deferred Recovery	(Line 28 + Line 36)	50,377,175
40	Recovery Period (BL)		25
41	Annualization factor	[i(1+i)^BL]/[(1+i)^BL-1]	0.097396312
43	Levelized Amount	(Line 38 + Line 41)	$ 4,906,551
46	Levelized Fixed Charge Rate	(Line 43 / Line 22)	12.637005%
49	Combined tax rate (Attchmnt O, p3, Line 21)		41.46%
51	Interest (Attachment O, p4, Line 21)	$ 29,603,787	
53	Preferred Dividends (Attachment O, p4, Line 22)	$ -	

Line	Item	Amount	Weight	Cost	Weighted Cost
57	(Attachment O, page 4, Lines 27-30):				
58	Long-Term Debt	$ 671,084,615	39.9977%	4.41133345%	1.7644343%
59	Preferred		0%	0.00%	0.0000000%
60	Common Equity	$ 1,006,721,531	60.0023%	12.380000%	7.4282793%
61	Capitalization	$ 1,677,806,146	100%		9.1927135%
64	Discount rate (i)			(Line 61 - (Line 49 * Line 58)	8.4611791%

Wisconsin Power and Light Company
Recalculation BTWF FSA
Bonus Depreciation Assumed - 25% of Installed Cost of Project
ER16-206-000

Attachment A
Schedule 5

65										
66	Percentage of Original Investment Eligible for Bonus Depreciation:					25%				
67										
68	MACRS	Depreciation		Rates:						
69										
70	[a]	[b]	[c]	[d]	[e]	[f]	[g]	[h]	[i]	[j]
71	Year	MACRS Rates - 50% Bonus	MACRS Rates - No Bonus	MACRS Depr - Federal	MACRS Depr - State Bonus Modification	MACRS Depr - State	Present Worth Factor 1/((1+i)^n	Present Worth Tax Depr. Federal	Present Worth Tax Depr. State	Present Worth Tax Depr - Combined
72	0						1.00000000			
73	1	52.50%	5.00%	$ 6,552,031	$ (3,882,685)	$ 2,669,346	0.92198887	$ 6,040,900	$ 2,461,107	$ 5,195,136
74	2	4.75%	9.50%	$ 3,227,482	$ 776,537	$ 4,004,019	0.85006348	$ 2,743,565	$ 3,403,670	$ 2,899,522
75	3	4.28%	8.55%	$ 2,904,734	$ 776,537	$ 3,681,271	0.78374907	$ 2,276,582	$ 2,885,193	$ 2,420,373
76	4	3.85%	7.70%	$ 2,615,959	$ 776,537	$ 3,392,496	0.72260792	$ 1,890,313	$ 2,451,445	$ 2,022,886
77	5	3.47%	6.93%	$ 2,354,363	$ 776,537	$ 3,130,900	0.66623646	$ 1,568,563	$ 2,085,920	$ 1,690,794
78	6	3.12%	6.23%	$ 2,116,549	$ 776,537	$ 2,893,086	0.61426260	$ 1,300,117	$ 1,777,114	$ 1,412,812
79	7	2.95%	5.90%	$ 2,004,436		$ 2,004,436	0.56634328	$ 1,135,199	$ 1,135,199	$ 1,135,199
80	8	2.95%	5.90%	$ 2,004,436		$ 2,004,436	0.52216220	$ 1,046,641	$ 1,046,641	$ 1,046,641
81	9	2.96%	5.91%	$ 2,007,834		$ 2,007,834	0.48142774	$ 966,627	$ 966,627	$ 966,627
82	10	2.95%	5.90%	$ 2,004,436		$ 2,004,436	0.44387102	$ 889,711	$ 889,711	$ 889,711
83	11	2.96%	5.91%	$ 2,007,834		$ 2,007,834	0.40924414	$ 821,694	$ 821,694	$ 821,694
84	12	2.95%	5.90%	$ 2,004,436		$ 2,004,436	0.37731854	$ 756,311	$ 756,311	$ 756,311
85	13	2.96%	5.91%	$ 2,007,834		$ 2,007,834	0.34788349	$ 698,492	$ 698,492	$ 698,492
86	14	2.95%	5.90%	$ 2,004,436		$ 2,004,436	0.32074471	$ 642,912	$ 642,912	$ 642,912
87	15	2.96%	5.91%	$ 2,007,834		$ 2,007,834	0.29572305	$ 593,763	$ 593,763	$ 593,763
88	16	1.48%	2.95%	$ 1,002,218		$ 1,002,218	0.27265336	$ 273,258	$ 273,258	$ 273,258
89										
90	Total			$ 38,826,851		$ 38,826,851		$ 23,644,647	$ 22,889,057	$ 23,466,131
91	Tax Rate					0.4137		35.00%	9.80%	
92	Stand Along Tax Benefit							$ 8,275,626	$ 2,243,128	$ 10,518,754
93	Tax Benefit Adjusted for Interdeductibility							$ 7,490,532	$ 2,243,128	$ 9,733,659
94								31.68%	9.80%	41.48%
95										
96										
97								$ 23,644,646.68	$ 22,889,056.87	
98									$ -	
99									$ 22,889,056.87	
100									$ 0.10	
101								$ (2,243,127.57)	$ 2,243,127.57	$ 2,243,127.57
102								$ 21,401,519.10		
103								$ 0.35		
104								$ 7,490,531.69		$ 7,490,531.69
105										$ 9,733,659.26
106								31.68%	9.80%	41.48%

Document Content(s)

Davis Wright Tremaine LLP

Suite 800
1919 Pennsylvania Avenue N.W.
Washington, D.C. 20006-3401

James K. Mitchell
202-973-4241 tel
jamesmitchell@dwt.com

November 30, 2015

Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Streete, N.E.
Washington, DC 20426

Re: Midcontinent Independent System Operator, Inc., and
ITC Midwest, LLC
FERC Docket No. ER16-206-000

Dear Ms. Bose:

Pursuant to Rule 215 of the Federal Energy Regulatory Commission's Rules of Practice and Procedure, 18 CFR § 385.215, enclosed for filing is an Amendment to the Motion of Wisconsin Power and Light Company for Leave to Intervene and Protest of Rate Schedule Filing (the "Motion"), which was filed in this proceeding on November 24, 2015. This Amendment is being submitted to conform the content of the Motion to the Affidavit of Neil E. Michek and Attachment A thereto which were submitted in conjunction with the Motion.

In accordance with Rule 215(a)(3)(i) of the Rules of Practice, the Amendment to the Motion becomes effective as an amendment on the date on which it is being filed.

Respectfully submitted,

James K. Mitchell
James K. Mitchell
Attorney for
Wisconsin Power and Light Company

cc: Service List

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midcontinent Independent System Operator, Inc., and	))	Docket No. ER16-206-000
ITC Midwest LLC	))	

AMENDMENT TO
MOTION OF WISCONSIN POWER AND LIGHT COMPANY
FOR LEAVE TO INTERVENE
AND PROTEST OF RATE SCHEDULE FILING

Pursuant to Rule 215 of the Federal Energy Regulatory Commission's Rules of Practice, 18 CFR § 385.215, Wisconsin Power and Light Company ("WPL") hereby amends the Motion of Wisconsin Power and Light Company for Leave to Intervene and Protest of Rate Schedule Filing (the "Motion"), which was filed in this proceeding on November 24, 2015.

This proceeding involves consideration of an unexecuted Facilities Services Agreement between ITC Midwest, LLC ("ITC Midwest") and WPL which establishes a Facility Charge to be paid by WPL to compensate ITC Midwest for the cost of certain network upgrades on its transmission facilities. WPL has protested the proposed charges on the basis that they fail to reflect the benefit of bonus depreciation which may be available to ITC Midwest when calculating its Federal income tax expense, and therefore are excessive and unreasonable.

The Motion was accompanied by the Affidavit of Neil E. Michek (the "Affidavit"), who calculated the adverse effect on WPL and its customers if ITC Midwest fails to use bonus depreciation for calculating the Facility Charge included in the Facility Services Agreement. Those calculations are contained in Attachment A to the Affidavit.

The top of page 4 of the Motion contained a quote from the Affidavit, and pages 8-9 of the Motion summarize the results of Mr. Michek's analysis. However, those portions of the

Motion did not conform to the Affidavit and Attachment A thereto. Therefore, WPL hereby submits revised versions of page 4 and pages 8-9 of the Motion, which have been amended to conform to the Affidavit and to Schedule 1 of Attachment A to the Affidavit.

WHEREFORE, for the foregoing reasons, WPL hereby amends page 4 and pages 8-9 of the Motion, and respectfully requests pursuant to Rule 215 (a)(3)(i) of the Rules of Practice that the enclosed pages 4 and 8-9 of the Motion be substituted for those pages of the Motion which were previously submitted in this proceeding.

Respectfully submitted,

WISCONSIN POWER AND LIGHT COMPANY

By *James K. Mitchell*

James K. Mitchell
Davis Wright Tremaine LLP
1919 Pennsylvania Avenue, NW
Washington, DC 20006
202-973-4241

Its Attorney

November 30, 2015

Midcontinent Independent System Operator, Inc.
And ITC Midwest, LLC
FERC Docket No. ER16-206-000

Amended Page 4 of
Motion of Wisconsin Power and Light Company for Leave to Intervene
And Protest of Rate Schedule Filing

> Ratemaking practices at the [FERC], the Public Service Commission of Wisconsin, and the Iowa Utilities Board, and, to my knowledge, other state jurisdictions, reflect the plant related balances of ADIT in the calculation of Net Investment Rate Base ("NIRB") that is used in establishing rates. Since the implementation of accelerated tax depreciation methods for income taxes, ADIT balances have generally reduced NIRB and therefore resulted in a reduction of revenue requirements. This reduction of NIRB recognizes that deferred income taxes are effectively an interest free loan from the federal (or state) government and that the benefit of that interest free loan should flow through the utility's rates for the benefit of its ratepayers. Bonus Depreciation (absent being in a NOL position) results in a reduction of NIRB and therefore customer rates are reduced.

Notwithstanding the savings derived by utilities in most cases when bonus depreciation is used to calculate Federal income taxes, ITC Midwest is proposing to calculate the Facility Charge incorporated in the FSA based on the assumption that it will opt out of bonus depreciation. By opting out of bonus depreciation, ITC Midwest unreasonably and imprudently increases charges to WPL.

At the present time, bonus depreciation is available for use on investments in eligible facilities made prior to January 1, 2015, where such facilities placed in service no later than December 31, 2015.[1] Because construction of the network upgrades associated with Bent Tree began in 2014, a portion of the investment in such facilities may be eligible for bonus depreciation under current law. Moreover, as discussed in the Affidavit of Jennifer E. Janecek, Director-Taxes of AECS ("the "Janecek Affidavit"), a copy of which is attached hereto, WPL reasonably expects that the bonus depreciation provisions of the Internal Revenue Code will be extended, and therefore that all qualified utility property that is placed in service during 2015 will also be eligible for use of bonus depreciation (Janecek Affidavit at P 8). Accordingly, it is likely that ITC Midwest ultimately will be permitted to use bonus depreciation for all eligible network upgrade facilities it funded with respect to Bent Tree when it calculates the Facility

[1] Bonus depreciation may be used on investments made no later than December 31, 2014 on facilities placed in service during 2015 if the cost of the project exceeded $1 million and the time between the date on which 5% of the costs of the project had been incurred and the date on which the project was placed in service exceeded one year.

Midcontinent Independent System Operator, Inc.
And ITC Midwest, LLC
FERC Docket No. ER16-206-000

Amended Pages 8-9 of
Motion of Wisconsin Power and Light Company for Leave to Intervene
And Protest of Rate Schedule Filing

Although ITC Midwest does not currently file a Federal income tax return separately from that of ITC Holdings, ITC Midwest and ITC Holdings have many common officers. As a result, senior officials of ITC Midwest have a significant role in determining whether ITC Midwest will, through its corporate parent, take advantage of bonus depreciation to the extent such bonus depreciation is available. Regardless of their roles in management of ITC Holdings, it is incumbent on senior officials of ITC Midwest to act reasonably and prudently with due concern for customers of ITC Midwest such as WPL when making decisions which might affect the costs of service being incurred by ITC Midwest and passed through to its customers. If and to the extent that they fail to do so, the FERC should protect such customers from having to compensate ITC Midwest for costs that were imprudently incurred.

Mr. Michek has calculated the adverse financial impact on WPL and its customers if ITC Midwest fails to use bonus depreciation for calculating the Facility Charge in the FSA. As discussed in the Michek Affidavit at P 12, certain costs of the network upgrades installed for Bent Tree were incurred in 2014 and may be eligible for bonus depreciation under current law. In addition, it is likely that bonus depreciation provisions in current law will be extended to include all costs for assets placed in service in 2015. Mr. Michek has shown that, depending on whether the bonus depreciation provisions of the Internal Revenue Code are extended to cover projects installed in 2015, the savings to WPL and its customers over the 25-year life of the FSA if ITC Midwest utilizes bonus depreciation when calculating the levelized fixed charge rate and payment due from WPL may exceed $11 million, as follows:

Wisconsin Power and Light Company Cost Savings of Not Opting Out of Bonus Depreciation				
	ITC-Midwest Filed	Bonus Depr. Full Project	Bonus Depr. 50% of Proj.	Bonus Depr. 25% of Proj.
Annual Payment	$5,016,242	$4,567,501	$4,793,534	$4,906,551
Annual Variance vs. ITCM Filed		($448,741)	($222,708)	($109,691)
Total Contract Variance (Year of Occurrence $)		($11,218,532)	($5,567,699)	($2,742,283)
Net Present Value (2015$) based on discount rate of 8.46%	$48,155,212	$43,847,360	$45,017,248	$47,102,192

As discussed in *New England Power Company*, 31 FERC ¶ 61,047 at 61,084 (1985), the test to be used in determining whether specific costs are imprudent, and therefore unallowable, is whether the costs in question:

> ...are costs which a reasonable utility management (or that of another jurisdictional entity) would have made, in good faith, under the same circumstances, and at the relevant point in time....[O]ur task is to review the prudence of the utility's actions and the costs resulting therefrom based on the particular circumstances existing either at the time the challenged costs were actually incurred, or the time the utility became committed to incur those expenses.

Regulations adopted by the U.S. Treasury Department assume that utilities will use bonus depreciation for qualified properties to the extent they are eligible to do so, and therefore, the default practice under such regulations is to use bonus depreciation. Although such regulations permit taxpayers to opt-out of taking bonus depreciation, the Janecek Affidavit shows that this option is only beneficial to ratepayers when failure to do so might cause a permanent loss of tax benefits to the taxpayer (Janecek Affidavit at P 4). Insofar as WPL is aware, ITC Midwest is not facing the potential of a permanent loss of tax benefits if it uses bonus depreciation when calculating the Facility Charge under the FSA. Rather, insofar as WPL is aware, its sole purpose in electing out of bonus depreciation is to increase revenue requirements to its customers by

Document Content(s)

Appendix 4 – November 24, 2015 IPL Comments on Bent Tree FSA (Docket No. EL16-206-000)

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midcontinent Independent System Operator, Inc., and	))	Docket No. ER16-206-000
ITC Midwest LLC	))	

MOTION FOR LEAVE TO INTERVENE
AND COMMENTS OF
INTERSTATE POWER AND LIGHT COMPANY

Pursuant to Rules 212 and 214 of the Federal Energy Regulatory Commission's ("FERC") Rules of Practice and Procedure, 18 CFR §§ 385.212, 214, Interstate Power and Light Company ("IPL") respectfully moves for leave to intervene in this proceeding, which involves an unexecuted Facilities Services Agreement (the "FSA") between ITC Midwest, LLC ("ITC Midwest") and Wisconsin Power and Light Company ("WPL"), an affiliate of IPL, with full rights as a party.

COMMUNICATIONS

IPL requests that communications with respect to this motion be addressed to:

Cortlandt C. Choate, Jr.
Senior Attorney
Alliant Energy Corporate Services, Inc.
Madison, WI 53715
608-458-6217
CortlandtChoate@alliantenergy.com

James K. Mitchell
Davis Wright Tremaine LLP
1919 Pennsylvania Ave., NW, Suite 800
Washington, DC 20006
202-973-4241
jamesmitchell@dwt.com

MOTION FOR LEAVE TO INTERVENE

On October 30, 2015, as amended on November 3, 2015, the Midcontinent Independent System Operator, Inc. ("MISO"), on behalf of ITC Midwest, tendered the FSA for filing pursuant to Section 205 of the Federal Power Act, 16 U.S.C.A. § 824d. As discussed in the letter of transmittal of the FSA for filing, dated October 30, 2015, the FSA is intended to provide a means for ITC Midwest to recover from WPL the cost of certain network upgrades to ITC Midwest's transmission system that are associated with the interconnection of WPL's Bent Tree Wind Farm ("Bent Tree"), a 201 MW wind farm developed by WPL in Freeborn County, Minnesota, to the transmission facilities of ITC Midwest.

IPL is a load-serving public utility that owns and operates electric facilities for the generation, distribution, and sale of electric power and energy to approximately 490,000 retail electric service customers in Iowa. Because transmission facilities previously owned and operated by IPL have been sold to ITC Midwest, IPL is a transmission-dependent utility. Operational control over the transmission facilities owned and operated by ITC Midwest has been transferred to MISO, and transmission service needed by IPL is acquired from MISO pursuant to the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff (the "MISO Tariff").

ITC Midwest is a wholly-owned subsidiary of ITC Holdings Corp ("ITC Holdings") that owns and operates transmission facilities in Iowa, Minnesota, Illinois and Missouri. ITC Midwest is a transmission-owning member of MISO. Charges for transmission service within the ITC Midwest zone of MISO are determined pursuant to a cost-of-service formula rate set forth in Attachment O-ITC Midwest of the MISO Tariff. Transmission service needed for IPL to deliver electricity from its generation resources to its retail electric service customers is purchased by IPL from MISO, primarily at rates specified in Attachment O-ITC Midwest of the MISO Tariff.

For many years, public utility taxpayers have been permitted to accelerate the depreciation of certain assets for tax purposes by taking what is known as bonus depreciation on qualified property under section 168(k) of the Internal Revenue Code ("IRC"). However, a corporate tax filer may make a formal election not to take advantage of bonus depreciation (i.e., to "opt out") on an originally-filed Federal tax return. ITC Midwest and ITC Holdings, which file a consolidated Federal income tax return, have opted out of bonus depreciation for every year beginning with 2010.

The FSA establishes a Facility Charge for certain network upgrades based on a cost-of-service formula rate which is similar in certain respects to that included in Attachment O-ITC Midwest of the MISO Tariff. The effect of the decision by ITC Midwest and ITC Holdings to opt out of using bonus depreciation is to increase the amount of the Facility Charge in the FSA to be paid by WPL. If the project qualifies for bonus depreciation and if ITC Midwest does not utilize bonus depreciation, the decision to opt out of using bonus depreciation for this project may increase transmission service charges to WPL and its customers by more than $12 million over the project's life under the FSA.

The letter of transmittal of the FSA for filing, dated October 30, 2015, noted that WPL has disputed the reasonableness of the proposed Facility Charge because, in its view, bonus depreciation should have been taken for eligible Network Upgrades pursuant to IRC Section 168(k), and the associated accumulated deferred income taxes based on use of bonus depreciation rates ("BD Rates") should be utilized to calculate ITC Midwest's rate base.

Because the decision of ITC Midwest and ITC Holdings to opt out of using bonus depreciation applies to all assets within a given IRC-determined asset class, not only those assets comprising the Bent Tree network upgrades, this decision also impacts assets on the ITC Midwest system that provide transmission service to ITC Midwest customers, including IPL. Beginning in 2010, this decision has had the effect of increasing the annual charges paid by IPL for transmission service pursuant to Attachment O-ITC Midwest of the MISO Tariff. Moreover, IPL is currently working to complete construction of its Marshalltown Generating Station, a 650 MW combined-cycle, natural gas-fueled generating station located in Marshalltown, Iowa (the "Marshalltown Plant"). IPL expects that ITC Midwest will file a Facilities Services Agreement for the Marshalltown Plant that similarly establishes charges payable by IPL based on use of a cost-of-service formula rate that reflects the decision of ITC Midwest and ITC Holdings to opt out of using bonus depreciation, thereby increasing charges to IPL.

IPL has estimated that ITC Midwest's annual revenue requirement is roughly $18 million higher in 2015 than it would have been had ITC Midwest taken available bonus depreciation in prior years in which it was eligible to do so. This results in an ITC Midwest transmission rate which is approximately 5% higher, unnecessarily increasing charges to ITC Midwest's customers--including IPL and its customers. Because transmission costs constitute approximately 20% of IPL's costs, the increase in ITC Midwest's transmission rates causes an increase in IPL's charges to its customers of approximately one percent.

IPL understands that WPL is asking the FERC to condition its acceptance of the FSA on a requirement for ITC Midwest to take advantage of bonus depreciation to the extent it is available by law and reflect those impacts in the FSA. Because of the large number of assets impacted by the decision by ITC Midwest and ITC Holdings to opt out of using bonus depreciation, it causes an increase in charges paid by IPL as well as those paid by WPL. Therefore, IPL supports the request by WPL that the FSA be modified in that manner.

The decision in this proceeding will likely affect rates and charges paid by IPL as well as WPL to ITC Midwest. For that reason, IPL has a direct and substantial interest that may be affected by the outcome of this docket. IPL's participation is in the public interest. No other party adequately represents the interests of IPL in this proceeding. IPL therefore respectfully requests that it be granted leave to intervene in this proceeding with full rights as a party.

Respectfully submitted,

INTERSTATE POWER AND
LIGHT COMPANY

By *James K. Mitchell*

James K. Mitchell
Davis Wright Tremaine LLP
1919 Pennsylvania Avenue, NW
Washington, DC 20006
202-973-4241

Its Attorney

November 24, 2015

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, DC this 24th day of November, 2015.

James K. Mitchell

James K. Mitchell
Davis Wright Tremaine LLP
1919 Pennsylvania Ave., NW Ste. 800
Washington, DC 20006-3401
Tel.: (202) 973-4241

Document Content(s)

Appendix 5 – December 9, 2015 ITC-M Answer to WPL Protest (Docket No. EL16-206-000)

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midcontinent Independent System Operator, Inc., and	)))	Docket Nos. ER16-206-000 & 001
ITC Midwest LLC	)	

MOTION FOR LEAVE TO ANSWER AND ANSWER OF ITC MIDWEST LLC TO THE PROTEST OF WISCONSIN POWER AND LIGHT COMPANY

Pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 and 385.213, ITC Midwest LLC ("ITC Midwest") hereby moves for leave to answer and submits its answer to the Protest filed in this proceeding on November 24, 2015 by Wisconsin Power and Light Company ("WPL"), as amended on November 30, 2015, and to the supporting comments of the Iowa Utilities Board, the Iowa Office of Consumer Advocate, Interstate Power and Light Company, the Resale Power Group of Iowa, and the Iowa Consumers Coalition.

I. SUMMARY OF POSITION

WPL has argued that the Facility Charge in the Facilities Services Agreement ("FSA") between ITC Midwest and WPL for the Bent Tree Wind Farm ("Bent Tree") is unjust and unreasonable because it does not reflect rate reductions that allegedly would be realized by the use of Bonus Depreciation ("BD") (Protest at 2-3). WPL asks that the Commission require ITC Midwest to modify the Facility Charge to reflect the use of BD for all eligible facilities or, alternatively, reduce the rate of return used in the calculation of the Facilities Charge to the lower end of the zone of reasonableness to mitigate the impact of ITC Midwest's failure to reflect the use of BD. (*Id.* at 13). In order to ensure that its proposed remedies result in a reduction in ITC Midwest's revenue requirement, WPL also asks the Commission to amend ITC Midwest's Attachment O rate, although that is not before the Commission in this proceeding, to prevent ITC Midwest's network customers from compensating ITC Midwest for the reduction in the Facility Charge that WPL seeks here.[1]

This proceeding involves a single, specific FSA and the charges related to a single specific set of network upgrades. Most of the facilities in question are not now and may never be eligible for BD. ITC Midwest's parent, ITC Holdings Corp. ("ITC Holdings") elected out of BD in its consolidated federal tax return for 2014. BD expired at the end of 2014 and, even if it is extended, ITC Holdings plans to elect out of BD for 2015, the year that the facilities covered in the FSA were placed into service. As explained more fully below, these decisions were reasonable and well within the discretion granted to ITC Holdings by Congress. They were, in addition, fully consistent with the intent of Congress to give taxpayers, and specifically utilities, the unconditional right to choose whether or not to take BD, based on their own specific circumstances.

Since BD has not actually been taken by ITC Holdings in its consolidated federal tax return for 2014, and since ITC Holdings does not plan to take BD for 2015 if BD is extended,[2] ITC Midwest was clearly justified in not reflecting the taking of BD in the calculation of the Facility Charge under the FSA, even though some or all of the facilities may be eligible for BD. Simulating the taking of BD in the Facility Charge, with a corresponding reduction in ITC Midwest's revenue requirement, as WPL has requested, when BD was not actually taken by the taxpayer, would constitute a normalization violation under applicable Internal Revenue Service

[1] WPL Protest at p. 11, n. 5.
[2] See the attached Prepared Direct Testimony of Fred G. Stibor ("Stibor Testimony") at 2.

("IRS") regulations, resulting in the potential loss of accelerated tax depreciation methods currently used by ITC Midwest that would result in higher transmission rates for ITC Midwest's customers.[3] For that reason, and because it would effectively negate the unfettered right to elect out of BD granted by Congress,[4] the primary relief requested by WPL – that, even if BD is not actually taken, "acceptance of the FSA" be conditioned on "a requirement for ITC Midwest to modify the FSA to provide that the Facility Charge in the FSA shall reflect the impacts of bonus tax depreciation" (Protest at 13) – is both unjustified and unwise.[5]

For the same basic reasons, the alternate relief requested by WPL – that the rate of return used by ITC Midwest to calculate the Facility Charge be reduced to "mitigate the adverse effect" of ITC Midwest's failure to reflect the taking of BD with a corresponding reduction in ITC Midwest's revenue requirement (Protest at 12 and 13) – would similarly violate the normalization rules because it is, in effect, simply a request that the Commission approve a rate construct that would indirectly simulate the taking of BD when BD was not actually being taken by the taxpayer.[6]

In addition, ITC Midwest is using its Commission-authorized rate of return, and, as WPL has acknowledged in its Protest, that rate is simply "the generally applicable ROE used to calculate the transmission rates of MISO Transmission Owners" that was approved by the Commission in 2007. (Protest at 11). ITC Midwest's generally applicable rates are not before

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[3] Stibor Testimony at 6.
[4] *Id.* at 3-5.
[5] At certain points in its Protest, WPL appears to be requesting that the Commission require ITC Midwest, or ITC Holdings, to actually take BD in its tax returns (*See, e.g,*. Protest at the top of p. 11). WPL has not included that notion in its request for relief, however, and, throughout its Protest, WPL has focused instead on "ITC Midwest's failure and refusal to use Bonus Depreciation to *calculate* the Facility Charge" and on the alleged need that "the levelized fixed charge *calculation* … be modified to reflect Bonus Depreciation treatment" (*see, e.g.*, Protest at 5, 6, 7, 8, 13) (emphasis added). WPL has not provided any support whatsoever for the Commission's authority to require a taxpayer to change an election option granted to it by Congress and ITC Midwest submits there is none. To the extent, therefore, that WPL is actually seeking such a requirement, its request should be rejected.
[6] Stibor Testimony at 6-7.

the Commission in this docket and are not properly subject to attack in this case.[7] The efforts of the intervenors, therefore, to expand the scope of this proceeding to include the broader question of whether BD can or should be assumed by ITC Midwest in the calculation of its generally applicable rates is a collateral attack on ITC Midwest's filed rates and it should be rejected. The broader issues should be raised, if at all, in a complaint filed under Section 206 of the Federal Power Act ("FPA"). ITC Midwest's rate of return is not properly subject to challenge in this proceeding. Until it is changed, either by the company itself in a filing under Section 205 of the FPA or by the Commission pursuant to Section 206, the currently authorized rate must be used for all purposes, including the calculation of the Facility Charge at issue in this case.

II. FACTS

The background and facts relevant to the FSA and the Facility Charge at issue in this case were set forth in ITC Midwest's October 30, 2015 filing and need not be restated here in detail. Suffice it to say that the FSA establishes a cost-based Facility Charge to recover the costs of the network upgrades required to be constructed by ITC Midwest to connect WPL's Bent Tree to the transmission grid. Construction of the Bent Tree facilities commenced in 2014 and was completed in September 2015, after which the Bent Tree facilities were placed in service. ITC Midwest and WPL are in full agreement on all aspects of the FSA and the Facility Charge, except for the BD matters set forth in WPL's November 24, 2015, Protest. Specifically, WPL contends that the Facility Charge should be calculated to reflect the impact of taking BD for all eligible facilities. ITC Midwest, in contrast, has not assumed the taking of BD for any of the facilities in calculating the Facility Charge.

[7] The MISO Transmission Owners' base ROE is currently under review in two unconsolidated Commission proceedings in Docket Nos. EL14-12 and EL15-45.

III. MOTION FOR LEAVE TO ANSWER

Although Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213, generally prohibits the submission of answers to protests, the Commission routinely permits the filing of such answers when they would clarify the issues and/or provide information that is helpful in the decision-making process.[8] ITC Midwest respectfully moves for leave to submit this answer on that basis.

IV. ANSWER

A. The Scope Of This Proceeding Is Very Narrow And It Cannot Properly Be Expanded.

This proceeding involves a single FSA and the charges for a single set of network upgrades. Because BD expired in 2014 and has not been extended as of the date of this answer, only a portion of these facilities, namely those constructed in 2014, are even theoretically eligible for BD. The remaining facilities could, however, become eligible if and when BD is extended. The only charge at issue in this case is the Facility Charge set forth in the FSA. ITC Midwest's generally applicable rates are not before the Commission in this case and are not subject to review. Indeed, WPL is not even a network customer for which the generally applicable rates of ITC Midwest are relevant and it has not raised or in any way challenged ITC Midwest's generally applicable rates in its Protest.

Despite the foregoing, several of the intervenors other than WPL have attempted to expand the scope of this proceeding to include the broader question of whether the use of BD can or should be assumed by ITC Midwest in the calculation of its generally applicable rates. Those efforts should be rejected. The broader issues cannot properly be raised in this proceeding and can only be raised by those parties, if at all, in a complaint filed under Section 206 of the FPA.

[8] *New York Public Service Commission, et al.*, 153 FERC ¶ 61,022 at P 9 (2015); *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208 at P 21 (2015); *New York Independent System Operator, Inc.*, 99 FERC ¶ 61,246 at 62,040 (2002).

B. The Decision Of ITC Holdings Not To Take BD In 2014, And Its Intention To Also Elect Out Of BD For 2015 If BD Is Extended, Were Reasonable And Consistent With Congressional Intent.

1. BD was not intended to provide a subsidy to utility ratepayers.

WPL appears to presume that Congress has approved the use of BD by utilities for the purpose, among other things, of "reducing customer costs." (Janecek Affidavit at P 11). It has provided no support for such a presumption, however, and it is, in fact, not correct.

BD, and all other forms of accelerated depreciation, have been approved by Congress for the purpose of stimulating and incenting new investment.[9] With respect to utilities, Congress has mandated the use of tax normalization procedures which are specifically designed to ensure that regulators cannot flow the tax benefits of accelerated depreciation deductions through to rate payers if the taxpayer has not yet realized such benefits.[10] Reducing utility rates was not a stated or intended Congressional goal in authorizing the option of BD.

2. The right granted by Congress for taxpayers, and specifically for utilities, to elect out of BD is unconditional.

WPL appears also to presume that taxpayers can only elect out of taking BD if the failure to do so would result in the loss of permanent tax benefits. (Protest at 9 and Janecek Affidavit at P 4). Indeed, WPL's reference in its Protest to "Regulations adopted by the U.S. Treasury" seems designed to imply that Treasury has imposed an affirmative obligation upon utilities in particular to take BD whenever it is available, unless a permanent tax loss of some sort would result. (Protest at 9).

WPL has provided no support for its presumption in this regard and the fact is that there is none. On the contrary, the right to elect out of BD is unfettered and is not in any way

[9] Stibor Testimony at 3.
[10] *Id.* at 6.

dependent upon any conditions such as the permanent loss of tax benefits.[11] Since the right to elect out of BD is unconditional, the only conclusion that can reasonably be drawn is that Congress intended all taxpayers to have the unfettered right to opt out of BD whenever they determined that in their own specific circumstances, taking BD would not be advantageous or would actually be damaging. Congress' intent that the right to elect out of BD be available to utilities was made very clear by language included in the American Taxpayer Relief Act of 2012 that specifically recognized that regulated utility taxpayers may wish to elect out of BD, and did not include any conditions on that election. [12] The statutory language accomplished this by adding a parenthetical "(respecting all elections made by the taxpayer under this section)" to the normalization accounting rules of Internal Revenue Code ("IRC") Section 168(i)(9)(A)(ii) that are applicable only to public utility property.[13]

3. Electing BD would have a negative impact on ITC Midwest.

WPL has detailed in its Protest the amount of reductions in the Facility Charge that would allegedly result from assuming BD in the calculation of that charge. (Protest at 8-9, as amended on November 30). WPL's calculations are unrealistic because they incorrectly presume that BD could be taken for just the Bent Tree upgrades, and not for the other similarly classed facilities on the ITC Midwest system, whereas, in fact, BD would have to be taken for all similarly classed facilities on the system.[14] WPL's calculations also do not reflect the net operating losses ("NOLs") that would result for the Bent Tree upgrades if BD was somehow taken for only the Bent Tree facilities. For purposes of this answer, however, ITC Midwest agrees that, as explained in the Affidavit of Neil E. Michek attached to the WPL Protest, some

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[11] *Id.* at 3-5.
[12] Pub. L. No. 112-240, §331(d), which amended Internal Revenue Code §168(i)(9)(A)(ii) by inserting "(respecting all elections made by the taxpayer under this section)."
[13] Stibor Testimony at 5.
[14] *See* IRC Section 168(k)(2)(D)(iii).

level of reductions in the Facility Charge would result from assuming BD because electing BD would increase ITC Midwest's Accumulated Deferred Income Tax balance ("ADIT"). Since ADIT is deducted from net plant to calculate rate base, the increase in ADIT would translate into a reduction in rate base which would, in turn, result in a reduction in earnings and revenue requirement and thus cause financial harm to ITC Midwest.

There is no evidence to support or suggest that Congress intended for any taxpayer to be financially harmed by taking BD. Indeed, avoidance of any such unintended result would appear to be the only logical rationale for the unfettered right to elect out of BD included in the legislation and for the normalization rules. That is especially true where the negative impacts on a taxpayer from taking BD would not be offset by accompanying BD-induced increased investment of the type that Congress was attempting to stimulate. That is the case here, however, because ITC Midwest's investments have a very long-term planning and construction cycle and are driven by the need for new facilities to enhance and protect the power grid. Indeed, the fact that BD has not been extended yet for 2015 or any year in the future has had no effect on ITC Midwest's future investment plans. The availability of BD, therefore, would not result in new investment that would not otherwise be made.

Given the significant negative impact that the use of BD would have on ITC Midwest and the fact that taking BD would not stimulate new investment by ITC Midwest, the decision of ITC Holdings to exercise its unfettered and unconditional right to elect out of BD, and its intention to do so going forward if BD is extended, were and are reasonable and fully consistent with the intent of Congress in its BD-related legislation.

WPL attaches great significance in its Protest to an informal poll it conducted at a "recent EEI tax committee meeting" (Janecek Affidavit at P 9). The participants at the meeting were asked if any of them had elected out of BD and out of the "approximately 40-50 companies represented" none raised their hand. (*Id.*) From this, WPL concludes that it is "industry practice" to take BD whenever it is available, apparently irrespective of the impacts as well as differences among utilities within the industry. (*Id.* and Protest at 10).

The informal poll at the recent EEI tax committee is of little or no value. ITC Holdings is the only independent, publicly traded transmission company, with rates, terms, and conditions of service primarily regulated by the Commission, and is, therefore, not similarly situated with conventional, predominantly state-regulated, integrated investor-owned utilities. In addition, the identity of the companies polled is not known, their rate structures, investment plans and other relevant circumstances are not known, and the specific effects that taking BD has had on them and will have on them in the future are not known. The informal poll results, therefore, are meaningless.

C. ITC Midwest Should Not Be Required To Reflect The Use of BD In The Bent Tree Facility Charge.

The primary relief that WPL has requested in its Protest is that the Commission should condition its acceptance of the FSA on a requirement that the Facility Charge and ITC Midwest's total revenue requirement be modified to reflect the impacts of taking BD for all eligible Bent Tree facilities. (Protest at 13). Any such action, however, would be unwise because it would cause a violation of the normalization rules,[15] and unwarranted because it would, in effect, negate ITC Holdings' right to opt out of BD, which is provided by statute.[16]

First, since BD was not actually taken by ITC Holdings in its consolidated tax return for 2014, and since ITC Holdings does not plan to take BD for 2015, simulating the taking of BD in ITC Midwest's charges to WPL, and assuming a corresponding reduction to ITC Midwest's

[15] Stibor Testimony at 6.
[16] *Id.* at 3-5; *see also* IRC Section 168(k)(2)(D)(iii).

revenue requirement as WPL has proposed, would constitute a normalization violation under applicable IRS rules. Such a violation could result in the loss of ITC Holdings' right to utilize any form of accelerated depreciation, which would result in increased rates for customers.[17]

Second, if the Commission did require the use of BD to be assumed in the calculation of the Facility Charge, it would, in effect, be attempting to ignore, override and negate the intent of Congress that all taxpayers have the unfettered right to elect out of BD based on their own specific circumstances.[18] It would also be attempting to force the use of BD for a purpose not intended by Congress, namely, the subsidization of utility rates. The Commission has no authority to ignore the will of Congress in that fashion.[19]

The *New England Power Company* decision, 31 FERC ¶ 61,047 (1985), which is the only authority cited by WPL in its Protest (Protest at 9, 10), does not support an attempt by the Commission to require the use of BD to be assumed in the calculation of the Facility Charge. The costs at issue in that case, quite simply, did not create the risk of violation of Federal income tax laws, and disallowances of those costs did not entail ignoring and overriding the will of Congress.

D. The Rate Of Return Used By ITC Midwest In The Calculation Of The Facility Charge Cannot Be Reduced Because Of ITC Midwest's Failure To Reflect The Taking Of BD In The Calculation.

The alternative relief requested by WPL is that the rate of return used by ITC Midwest to calculate the Facility Charge be reduced by some unstated amount, along with a corresponding reduction in ITC Midwest's revenue requirement, to "mitigate the adverse effect" of ITC Midwest's failure to reflect BD in the calculation. (Protest at 13). Like WPL's primary requested

[17] Stibor testimony at 6.
[18] *Id.* at 3-5.
[19] As indicated in footnote 1, *supra*, any attempt to force either ITC Midwest or ITC Holdings to actually take BD in their tax returns would directly conflict with the right to elect out of BD granted by Congress and would be unlawful for that reason.

relief, and for the same basic reasons, its alternate request would similarly result in a violation of the normalization rules. It reduces to an attempt to indirectly simulate the taking of BD when BD has not actually been taken and, as such, would constitute an indirect normalization violation, with the same adverse consequences.[20] In addition, it would, in effect, reduce to an attempt to end run and negate the right to elect out of BD granted by Congress.

In addition to these basic and dispositive deficiencies, the requested reduction in the rate of return used to calculate the Facility Charge has a fatal procedural flaw. As WPL has acknowledged, the rate used in the calculation is simply "the generally applicable ROE used to calculate the transmission rates of MISO Transmission Owners." (Protest at 11). That Commission-authorized rate is not properly subject to challenge in this proceeding and until it is changed, either by the company itself in a filing under Section 205 of the FPA, or by the Commission pursuant to Section 206, it must be used for all purposes, including the calculation of the Facilities Charge in this case.

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[20] Stibor Testimony at 6; *see also* the Private Letter Ruling issued by the IRS on August 19, 2015, PLR-201548017, which is attached to that testimony as Appendix A. There, the IRS states at page 6 with respect to a proposed reduction of tax expense in the Taxpayer's cost of service that:

> ...we believe that such reduction would, in effect, flow through the tax benefits of accelerated depreciation deductions through to rate payers even though the Taxpayer has not yet realized such benefits. In addition, such adjustment would be made specifically to mitigate the effect of the normalization rules in the calculation of Taxpayer's NOLC-related ADIT. In general, taxpayers may not adopt any accounting treatment that directly or indirectly circumvents the normalization rules.

See also the Private Letter Ruling issued by the IRS on July 6, 2015, PLR-201541010, which is attached to the Stibor Testimony as Appendix B. There, the IRS states at page 8 that:

> In general, taxpayers may not adopt any accounting treatment that directly or indirectly circumvents the normalization rules.

V. CONCLUSION

For the reasons set forth above, the FSA submitted in this proceeding by ITC Midwest on October 30, 2015 should be accepted by the Commission as filed, with no conditions or modifications, and the Protest of WPL and the relief requested in the supporting filings of the other intervenors should be denied.

Respectfully submitted,

/s/: *Stephen J. Videto*

Stephen J. Videto
Amy Monopoli
ITC Holdings Corp.
27175 Energy Way
Novi, MI 48377
T: (248) 946-3526
F: (248) 946-3552
svideto@itctransco.com

/s/: *John R. Staffier*

Linda G. Stuntz
John R. Staffier
Stuntz, Davis & Staffier, P.C.
555 Twelfth Street, NW, Suite 630
Washington, DC 20004
T: (202) 638-6588
F: (202) 638-6581
jstaffier@sdsatty.com

Counsel to ITC Midwest LLC

Dated: December 9, 2015

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midcontinent Independent System Operator, Inc., and ITC Midwest LLC	)))	Docket No. ER16-206-000 & 001

PREPARED DIRECT TESTIMONY OF FRED G. STIBOR

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Fred G. Stibor. My business address is 27175 Energy Way, Novi, Michigan 48377. I am the Vice President and Controller of ITC Holdings Corp. ("ITC").

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS VICE PRESIDENT AND CONTROLLER OF ITC HOLDINGS CORP.

A. I have responsibility for all aspects of tax and accounting for ITC and its subsidiaries, including ITC Midwest LLC ("ITC Midwest"). My responsibilities include tax compliance and accounting and financial reporting under Federal Energy Regulatory Commission ("FERC" or "Commission"), Generally Accepted Accounting Principles ("GAAP"), and Securities and Exchange Commission reporting requirements.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I received a Bachelor of Business Administration degree from the University of Michigan in 1994 with an accounting concentration.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. Prior to joining ITC in 2003, I practiced public accounting for approximately nine years with Deloitte LLP, where I reached the position of Senior Manager. Since joining ITC in

2003, I have had various management responsibilities for accounting, reporting and tax matters. Including my experience at Deloitte LLP and ITC, I have over eighteen years of experience in the electric utility industry. I am registered as a certified public accountant in the State of Michigan.

Q. HAVE YOU PROVIDED TESTIMONY IN PRIOR PROCEEDINGS BEFORE THE COMMISSION?

A. Yes. I have submitted testimony on behalf of ITC's subsidiaries ITC Great Plains, LLC in FERC Docket No. ER09-548-000, ITC Midwest LLC in Docket No. PA10-13-000, Michigan Electric Transmission Company in Docket No. ER10-2156, ITC Green Power Express LP in FERC Docket No. ER09-681-000, and on behalf of ITC in Docket Nos. EC12-145-000 and ER12-2681-000.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will explain certain aspects of bonus depreciation, including the unconditional right given to taxpayers to elect out of bonus depreciation, and the effects on ITC Midwest of "simulating" the taking of bonus depreciation in the context of IRS normalization requirements.

II. BONUS DEPRECIATION ELECTION

Q. HAS ITC HOLDINGS TAKEN BONUS DEPRECIATION FOR 2014?

A. No.

Q. IF BONUS DEPRECIATION IS EXTENDED, WILL ITC HOLDINGS TAKE BONUS DEPRECIATION IN 2015?

A. ITC does not anticipate taking bonus depreciation in 2015.

Q. WHAT IS THE PURPOSE BEHIND BONUS DEPRECIATION?

A. As explained in a 2012 publication of the Congressional Joint Committee on Taxation ("Joint Tax Committee"), "[a] formulaic system of depreciation can serve to provide a tax incentive for capital investment to the extent the depreciation deductions are faster than the economic or financial statement depreciation of the property. For example, temporary rules providing for additional first-year depreciation (also known as bonus depreciation) were enacted several times in recent legislation with the purpose of providing economic stimulus during times of economic downturn."[1] The rationale for bonus depreciation was presented in the legislative history of the Jobs and Growth Tax Relief Reconciliation Act of 2003: "increasing and extending the additional first-year depreciation will accelerate purchases of equipment, promote capital investment, modernization, and growth, and will help to spur an economic recovery. As businesses accelerate their purchases of equipment current employment will increase to produce that equipment. Current business expansion also will increase employment opportunities in the years ahead."[2]

Q. WAS ITC'S ELECTION OUT OF BONUS DEPRECIATION CONSISTENT WITH THE LEGISLATION THAT ENACTED BONUS DEPRECIATION?

A. Yes. Congress gave taxpayers, and specifically public utilities, an unconditional right to choose whether or not to take bonus depreciation. Throughout the history of bonus depreciation since the 2002 legislation that introduced it,[3] taxpayers have had the right to elect out of bonus depreciation. Most recently, the right of taxpayers to elect out of bonus depreciation provided by Internal Revenue Code ("IRC") Section 168(k)(2)(D)(iii) was

[1] *See* Background and Present Law Relating to Manufacturing Activities Within the United States, JCX-61-12, Prepared by the Staff of the Joint Committee on Taxation, July 17, 2012 ("JCX-61-12"), p. 13-14. (Footnote omitted.)
[2] JCX-61-12, p. 33, *citing* H.R. Rep. No. 108-94, p. 23.
[3] Job Creation and Worker Assistance Act of 2002, Pub. L. No. 107-147 (bonus depreciation provisions in Sec. 101(a)).

expressly noted in the Joint Tax Committee's analysis of tax legislation enacted in the 113th Congress.[4]

Q. HAS CONGRESS RECOGNIZED THAT REGULATED PUBLIC UTILITY TAXPAYERS MAY WISH TO ELECT OUT OF BONUS DEPRECIATION?

A. Yes. Section 331(d) of the American Taxpayer Relief Act of 2012, Pub. L. No. 112-240 ("ATRA"), amended the normalization rules for public utility property in IRC Section 168(i)(9)(A)(ii) to require consideration of elections made by a taxpayer. In general, IRC Section 168 establishes rules for depreciation; the statutory provisions for bonus depreciation appear in subsection (k) of Section 168. Under IRC Section 168(f)(2), depreciation under Section 168, including bonus depreciation, is not available for public utility property unless the taxpayer uses a normalization method of accounting. The rules for normalization accounting for public utility property provide, *inter alia*, "[i]n order to use a normalization method of accounting with respect to any public utility property for purposes of subsection (f)(2)— (i) the taxpayer must, in computing its tax expense for purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, use a method of depreciation with respect to such property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation expense for such purposes; and (ii) if the amount allowable as a deduction under this section with respect to such property <u>(respecting all elections made by the taxpayer under this section)</u> differs from the amount that would be allowable as a deduction under section 167 using

[4] *See* Joint Committee on Taxation, General Explanation of Tax Legislation Enacted in the 113th Congress, JCS-1-15, discussing modifications made through the Tax Increase Prevention Act of 2014, Pub. L. No. 113-295, (bonus depreciation provisions in Sec. 125), March 2015, at p. 160 ("The taxpayer may elect out of additional first-year depreciation for any class of property for any taxable year," citing IRC Sec. 168(k)(2)(D)(iii)).

the method (including the period, first and last year convention, and salvage value) used to compute regulated tax expense under clause (i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference." (Emphasis supplied.) [5] The underscored language was added through the ATRA. Thus Congress reaffirmed that public utility taxpayers specifically may elect out of bonus depreciation and did not include any conditions on that election.

Q. DID CONGRESS RECOGNIZE THAT A PUBLIC UTILITY'S ELECTION OUT OF BONUS DEPRECIATION MUST BE RESPECTED IN DETERMINING WHEN NORMALIZATION ACCOUNTING MUST BE USED?

A. Yes. As explained by the Joint Tax Committee, "in order for public utility property to qualify for certain accelerated depreciation allowances for Federal income tax purposes, the benefits of accelerated depreciation must be normalized. [IRC Sec. 168(i)(9).] Normalization accounting as applied to accelerated tax depreciation generally requires regulatory tax expense to be computed using the depreciation methods and periods used for regulatory, rather than Federal income tax, purposes. Any deferred tax reserve resulting from the use of the normalization method of accounting may be used to reduce the rate base upon which a utility earns its rate of return."[6] The ATRA "[clarified] that for public utility property elections, such as an election out of bonus depreciation, must be respected in determining when normalization accounting may be used."[7]

Q. WOULD SIMULATING THE TAKING OF BONUS DEPRECIATION IN THE FACILITY CHARGE UNDER THE FSA AND A CORRESPONDING

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[5] IRC § 168(i)(9)(A).
[6] *See* Joint Committee on Taxation, General Explanation of Tax Legislation Enacted in the 112[th] Congress, JCS-2-13, discussing modifications made through the American Taxpayer Relief Act of 2012, Pub. L. No. 112-240, (bonus depreciation provisions in Sec. 331), Feb. 2013, at p. 201.
[7] *Id.*, p. 202.

REDUCTION IN ITC MIDWEST'S REVENUE REQUIREMENT CONSTITUTE A NORMALIZATION VIOLATION?

A. Yes. The relief requested by WPL to reduce the facilities charge under the FSA by simulating the taking of bonus depreciation coupled with a corresponding reduction in ITC Midwest's revenue requirement[8] would be a normalization violation. Normalization rules are clear that it is impermissible to flow the tax benefits of accelerated depreciation deductions through to ratepayers if the Taxpayer has not yet realized such benefits. Such a normalization violation could result in ITC's loss of the right to use any form of accelerated depreciation.[9] Such a loss would adversely affect ITC Midwest's customers' rates.[10]

Q. WOULD SIMULATING THE TAKING OF BONUS DEPRECIATION BY REDUCING ITC MIDWEST'S RATE OF RETURN UNDER THE FSA, TOGETHER WITH A CORRESPONDING REDUCTION IN ITC MIDWEST'S REVENUE REQUIREMENT, ALSO CONSTITUTE A NORMALIZATION VIOLATION?

A. Yes. Similar to the discussion in response to the question above, reducing ITC Midwest's revenue requirement by any mechanism to effectively flow through to customers the impacts of bonus depreciation, when bonus depreciation has not been taken, would be a normalization violation. In a Private Letter Ruling ("PLR") in August 2015, the Internal Revenue Service ("IRS") made it clear that a reduction of tax expense in the Taxpayer's cost of service in order to flow through tax benefits when the taxpayer does not realize

[8] WPL Protest at p. 11, fn. 5.
[9] *See* IRC Section 168(f)(2) (providing that accelerated depreciation under Section 168 shall not apply to public utility property if the taxpayer does not use a normalization method of accounting) and IRC Section 168(i)(9)(C).
[10] It should be noted in this regard that although it has elected out of bonus depreciation for 2014 and plans to do so in 2015 if bonus depreciation is extended, ITC already takes other forms of accelerated depreciation.

any such tax benefit would be deemed to violate the normalization rules.[11] Therefore, in assessing whether a normalization violation exists, the IRS does not distinguish whether the reduction in cost of service was accomplished directly or indirectly. Anything done to simulate tax benefits that were not actually realized by the taxpayer is problematic.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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[11] *See* PLR 201548017, dated August 19, 2015, at p. 6, where the IRS stated with respect to a proposed reduction of tax expense in the Taxpayer's cost of service that:

> "...we believe that such reduction would, in effect, flow through the tax benefits of accelerated depreciation deductions through to rate payers even though the Taxpayer has not yet realized such benefits. In addition, such adjustment would be made specifically to mitigate the effect of the normalization rules in the calculation of Taxpayer's NOLC-related ADIT. In general, taxpayers may not adopt any accounting treatment that directly or indirectly circumvents the normalization rules." (Emphasis supplied.)

This PLR is attached as Appendix A. *See also* PLR 201541010, dated July 6, 2015, at pp.8-9 (attached as Appendix B), in which the IRS explained:

> "In general, taxpayers may not adopt any accounting treatment that directly or indirectly circumvents the normalization rules. . . . Here, Commission A adjusted the cash working capital allowance specifically to mitigate the effect of the application of the proration methodology. This is inconsistent with the normalization rules. We do not hold that the normalization rules require a similar type of cash working capital adjustment in all cases; we hold only that, where, as here, it is adjusted or removed in an attempt to mitigate the effects of the application of the proration methodology or similar normalization rule, that adjustment or removal is not permitted under the normalization rules." (Emphasis supplied.)

AFFIDAVIT OF FRED G. STIBOR

State of Michigan)
)
County of Oakland)

I, Fred G. Stibor, being first duly sworn, depose and state that the attached Prepared Direct Testimony was prepared by me or under my supervision and is true and correct, to the best of my knowledge, information and belief.

Fred G. Stibor
ITC Holdings Corp.

SUBSCRIBED AND SWORN to before me this 9th day of December, 2015.

Notary Public in and for
Oakland County, Michigan

My Commission Expires:

11-21-2020

APPENDIX A

Internal Revenue Service

Number: **201548017**
Release Date: 11/27/2015

Index Number: 167.22-01

Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:PSI:B06
PLR-116998-15

Date:
August 19, 2015

LEGEND:

Taxpayer	=
Parent	=
State A	=
State B	=
Commission	=
Year A	=
Year B	=
Date A	=
Date B	=
Case	=
Director	=

Dear :

This letter responds to the request, dated May 14, 2015, of Taxpayer for a ruling on the application of the normalization rules of the Internal Revenue Code to certain accounting and regulatory procedures, described below.

The representations set out in your letter follow.

Taxpayer is primarily engaged in the regulated distribution of natural gas in State A. It is incorporated in State B and is wholly owned by Parent. Taxpayer is subject to the regulatory jurisdiction of Commission with respect to terms and conditions of service and particularly the rates it may charge for the provision of service. Taxpayer's rates are established on a rate of return basis. Taxpayer takes accelerated depreciation, including "bonus depreciation" where available and, for each year beginning in Year A and ending in Year B, Taxpayer incurred net operating losses (NOL). On its regulatory books of account, Taxpayer "normalizes" the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of accelerated tax depreciation) were claimed constitute "cost-free capital" to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account. In addition, Taxpayer maintains an offsetting series of entries – a "deferred tax asset" and a "deferred tax expense" - that reflect that portion of those 'tax losses' which, while due to accelerated depreciation, did not actually defer tax because of the existence of an net operating loss carryover (NOLC). Taxpayer, for normalization purposes, calculates the portion of the NOLC attributable to accelerated depreciation using a "last dollars deducted" methodology, meaning that an NOLC is attributable to accelerated depreciation to the extent of the lesser of the accelerated depreciation or the NOLC.

Taxpayer filed a general rate case with Commission on Date A (Case). The test year used in the Case was the 12 month period ending on Date B. In computing its income tax expense element of cost of service, the tax benefits attributable to accelerated depreciation were normalized in accordance with Commission policy and were not flowed thru to ratepayers. In establishing the rate base on which Taxpayer was to be allowed to earn a return Commission offsets rate base by Taxpayer's ADIT balance. Taxpayer argued that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of the NOLC, as represented in the deferred tax asset account. Testimony by various other participants in Case argued against Taxpayer's proposed calculation of ADIT. One proposal made to Commission was, if Commission allowed Taxpayer to reduce the ADIT balance as Taxpayer proposed, then an offsetting reduction should be made to Taxpayer's income tax expense element of service.

A Utility Law Judge upheld Taxpayer's position with respect to the NOLC-related ADIT and ordered Taxpayer to seek a ruling from the Internal Revenue Service on this matter. This request is in response to that order.

Taxpayer requests that we rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the balance of its ADIT accounts unreduced by its NOLC-related deferred tax account would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

2. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balances offset by a portion of its NOLC-related account balance that is less than the amount attributable to accelerated depreciation computed on a "last dollars deducted" basis would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1.
3. Under the circumstances described above, any reduction in Taxpayer's tax expense element of cost of service to reflect the tax benefit of its NOLC would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1.

Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii), if the amount allowable as a deduction under section 168 differs from the amount that-would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under section 168(i)(9)(B)(ii), such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii), unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a "normalization method of accounting." A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A). Section 1.167(1)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(l)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(1)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) results in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(1)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under section 167(1) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(1)-1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under section 167(a).

Section 1.167(1)-(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(1)-(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under section 1.167(1)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(1)-(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

Section 1.167(1)-1(h)(1)(iii) makes clear that the effects of an NOLC must be taken into account for normalization purposes. Further, while that section provides no specific mandate on methods, it does provide that the Service has discretion to determine whether a particular method satisfies the normalization requirements. Section 1.167(1)-(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Because the ADIT account, the reserve account for deferred taxes, reduces rate base, it is clear that the portion of an NOLC that is attributable to accelerated depreciation must be taken into account in calculating the amount of the reserve for deferred taxes (ADIT). Thus, the proposed order by the Utility Law Judge upholding Taxpayer's position that the NOLC-related deferred tax account must be included in the calculation of Taxpayer's ADIT is in accord with the normalization requirements. The "last dollars deducted" methodology employed by Taxpayer is specifically designed to ensure that the portion of the NOLC attributable to accelerated depreciation is correctly taken into account by maximizing the amount of the NOLC attributable to accelerated depreciation. This methodology provides certainty and prevents the possibility of "flow through" of the benefits of accelerated depreciation to ratepayers. Under these facts, any method other than the "last dollars deducted" method would not provide the same level of certainty and therefore the use of any other methodology is inconsistent with the normalization rules.

Regarding the third issue, reduction of Taxpayer's tax expense element of cost of service, we believe that such reduction would, in effect, flow through the tax benefits of accelerated depreciation deductions through to rate payers even though the Taxpayer has not yet realized such benefits. In addition, such adjustment would be made specifically to mitigate the effect of the normalization rules in the calculation of Taxpayer's NOLC-related ADIT. In general, taxpayers may not adopt any accounting treatment that directly or indirectly circumvents the normalization rules. See generally, § 1.46-6(b)(2)(ii) (In determining whether, or to what extent, the investment tax credit has been used to reduce cost of service, reference shall be made to any accounting treatment that affects cost of service); Rev. Proc 88-12, 1988-1 C.B. 637, 638 (It is a violation of the normalization rules for taxpayers to adopt any accounting treatment that, directly or indirectly flows excess tax reserves to ratepayers prior to the time that the amounts in the vintage accounts reverse). This "offsetting reduction" would violate the normalization provisions.

Based on the representations submitted by Taxpayer, we rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the balance of its ADIT accounts unreduced by its NOLC-related deferred tax account would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.
2. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balances offset by a portion of its NOLC-related account balance that is less than the amount attributable to accelerated depreciation computed on a "last dollars deducted" basis would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1.
3. Under the circumstances described above, any reduction in Taxpayer's tax expense element of cost of service to reflect the tax benefit of its NOLC would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman
Senior Technician Reviewer, Branch 6
Office of Associate Chief Counsel
(Passthroughs & Special Industries)

cc:

APPENDIX B

Internal Revenue Service

Number: **201541010**
Release Date: 10/9/2015

Index Number: 167.22-01

Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:PSI:B06
PLR-143241-14

Date:
July 06, 2015

LEGEND:

Taxpayer =

Parent =

State A =
State B =
Commission A =
Commission B =
Commission C =
Operator =
Year A =
Case A =
Case B =
Case C =
Date X =
Director =

Dear :

This letter responds to Parent's request, made on behalf of Taxpayer, dated January 9, 2015, for a ruling on the application of the normalization rules to certain regulatory procedures applied in State as described below.

The representations set out in your letter follow.

Taxpayer, a wholly-owned subsidiary of Parent, is primarily engaged in the business of generating, transmitting, distributing, and selling electric power to customers in State A and State B. It is subject to regulation by Commission A, Commission B, and Commission C with respect to terms and conditions of services, including the rates it may charge for its services. All three Commissions establish Taxpayer's rates based on Taxpayer's costs, including a provision for a return on the capital employed by Taxpayer in its regulated business.

The law of State A provides a process under which a utility may recover its costs relating to projects such as new electric generation facilities as a stand-alone rate adjustment added to customers' base rates. As relevant to this ruling request, the process for setting the rates involves two components. First, a taxpayer files estimated projections of all factors, including Accumulated Deferred Federal Income Taxes (ADFIT), relevant to the costs associated with the facility that is the subject of the rate adjustment. Rate base for this purpose is calculated using an average of the thirteen projected end of month balances of the components of rate base. The rate adjustment computed using these projections goes into effect at the beginning of the test period. The test period is a twelve month period. The anticipated collections from rate payers, the actual cost incurred with respect to the generating facility and any differences between anticipated amounts and actual amounts are reconciled by a "true-up" mechanism at the end of the test year. Under this mechanism, the reconciliation amount is either charged to ratepayers (if actual revenues are below estimates) or credited to ratepayers (if actual revenues exceed estimates) as part of the rates established for the forthcoming rate year. For both under and over collections, a carrying charge is imposed.

Taxpayer owns and operates electric transmission lines in several states, including State A and State B. These lines are integrated into Operator, a regional transmission operator. The rates that Taxpayer may charge its customers for these transmission services are set using a formula approved by Commission C. The formula rates are calculated using a methodology similar to that used to calculate the rate adjustments, inasmuch as the formula rates are calculated using projected costs to establish rates during the period for which rates are being set and a true-up based on over or under recoveries that are reflected in a subsequent rate year. The rates are determined by application of the formula approved by Commission C and go into effect with no additional action by Commission C.

Taxpayer claims accelerated depreciation on its tax returns to the extent permitted by the Internal Revenue Code. Taxpayer normalizes the federal income taxes deferred as a result of its use of accelerated depreciation and thus maintains an ADFIT balance on its regulatory books. In ratemaking proceedings before Commission A to authorize rate adjustments as well as in calculation of the formula rates, rate base is reduced by the calculated ADFIT balance. In calculating its ADFIT balance for purposes of both the projection and true-up elements of the rate adjustment calculations, Taxpayer followed the same averaging conventions it used for the other components of rate base. However, for prior formula rate filings, Taxpayer had calculated its ADFIT balance by an average of the beginning and ending balances notwithstanding that it used a 13-month average for computation of the plant portion of rate base. In those prior cases, the averages are calculated in accordance with the provisions of the Commission-approved template and the differences in averaging conventions are required by the regulations adopted by Commission C.

Section 1.167(l)-1(h)(6) of the Income Tax Regulations requires that a proration methodology be used by Taxpayer to calculate its applicable ADFIT balance for future test periods. Prior to Year A, Taxpayer had not used the proration methodology either in estimating its projected ADFIT balance or for the calculation of ADFIT for purposes of the true-up. Members of Taxpayer's tax department became concerned about the normalization implications of not using the proration formula during Year A. In filing Case A, Case B, and Case C, Taxpayer incorporated the proration methodology into the calculation of its projected ADFIT balance. In addition, Taxpayer incorporated the proration methodology into the calculation of the true-up in Case B. The staff of Commission A did not agree that the test period used for the rate adjustment ratemaking was a future test period and therefore asserted that the proration methodology was not required. In each of these cases, Commission A approved the use of the proration methodology in the projected ADFIT balance but denied its use in the true-up. When Commission A approved the use of the proration methodology for the projected ADFIT balance, it revised a portion of the Taxpayer's cash working capital allowance to reflect the adoption of the proration methodology. The adjusted portion was intended to compensate Taxpayer for the lag in time between when expenditures are made for services by Taxpayer and when collections for those services are received by Taxpayer. Commission A concluded that the item in the cash working capital allowance was duplicative of the effect of the proration methodology and was thus unnecessary. Due to the uncertainty surrounding the application of the proration methodology and the adjustment to cash working capital, Commission A directed Taxpayer to seek this ruling from the Internal Revenue Service.

Both Commission A and Commission C at all times have required that all public utilities under their respective jurisdictions use normalized methods of accounting.

Taxpayer requests that we rule as follows:

1. The proration methodology requirement does not apply to stand-alone rate adjustment ratemaking and to the Commission C formula rates even if they involve future test periods.
2. The estimated projection component of both the stand-alone rate adjustment ratemaking and the formula rate does not employ a future test period within the meaning of § 1.167(l)-1(h)(6)(ii) and therefore Taxpayer is not required to use the proration methodology in order to comply with the normalization rules.

3. The true-up component of both the stand-alone rate adjustment ratemaking and the formula rate does not employ a future test period within the meaning of § 1.167(l)-1(h)(6)(ii) and therefore Taxpayer is not required to use the proration methodology in order to comply with the normalization rules.
4. In Taxpayer's stand-alone rate adjustment proceedings, an adjustment to eliminate from the Taxpayer's cash working capital allowance any provision for accelerated depreciation-related ADFIT if the proration methodology is employed does not conflict with the normalization rules.
5. In order to comply with the consistency requirement of the normalization rules, it is not necessary that the Taxpayer use the same averaging convention it uses in computing the other elements of rate base in computing its ADFIT balance for purposes of the formula rates.
6. If the Service rules adversely with respect to Rulings 1, 2, or 3, above, any failure by Taxpayer to employ the proration methodology prior to the proceedings in Cases A, B, or C or the effective date approved by Commission C for the requested modification of the formula rates was not a violation of the normalization rules requiring sanctions for such violation.
7. In the event that the Service rules adversely with respect to Ruling 5, above, Taxpayer's failure to comply with the consistency requirement in connection with its formula rates prior to the effective date approved by Commission C for the requested modification of the formula rates was not a violation of the normalization rules.

Law and Analysis

Issues 1 and 2

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a "normalization method of accounting." A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A). Section 1.167(1)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A) requires that a taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii), if the amount allowable as a deduction under section 168 differs from the amount that-would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 1.167(l)-1(h)(6) sets forth additional normalization requirements with respect to public utility property. Under § 1.167(l)-1(h)(6)(i), a taxpayer does not use a normalization method of accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes excluded from the rate base, or treated as cost-free capital, exceeds the amount of the reserve for the period used in determining the taxpayer's ratemaking tax expense. Section 1.167(l)-1(h)(6)(ii) also provides the procedure for determining the amount of the reserve for deferred taxes to be excluded from rate base or to be included as no-cost capital. If, in determining depreciation for ratemaking tax expense, a period (the "test period") is used which is part historical and part future, then the amount of the reserve account for this period is the amount of the reserve at the end of the historical portion of the period and a pro rata amount of any projected increase to be credited to the account during the future portion of the period. The pro rata amount of any increase during the future portion of the period is determined by multiplying the increase by a fraction, the numerator of which is the number of days remaining in the period at the time the increase is to accrue, and the denominator of which is the total number of days in the future portion of the period.

Section 1.167(l)-1(h)(6)(i) makes it clear that the reserve excluded from rate base must be determined by reference to the same period as is used in determining ratemaking tax expense. A taxpayer may use either historical data or projected data in calculating these two amounts, but it must be consistent. As explained in section 1.167(l)-1(a)(1), the rules provided in section 1.167(l)-1(h)(6)(i) are to insure that the same time period is used to determine the deferred tax reserve amount resulting from the use of an accelerated method of depreciation for cost of service purposes and the reserve amount that may be excluded from the rate base or included in no-cost capital in determining such cost of services.

If a taxpayer chooses to compute its ratemaking tax expense and rate base exclusion amount using projected data then it must use the formula provided in section 1.167(l)-1(h)(6)(ii) to calculate the amount of deferred taxes subject to exclusion from the rate base. This formula prorates the projected accruals to the reserve so as to account for the actual time these amounts are expected to be in the reserve. As explained in § 1.167(l)-1(a)(1), the formula in section 1.167(l)-1(h)(6)(ii) provides a method to determine the period of time during which the taxpayer will be treated as having received amounts credited or charged to the reserve account so that the disallowance of earnings with respect to such amounts through rate base exclusion or treatment as no-cost capital will take into account the factor of time for which such amounts are held by the taxpayer.

The purpose of the proration formula is to prevent the immediate flow-through of the benefits of accelerated depreciation to ratepayers. The proration formula stops flow-through by limiting the deferred tax reserve accruals that may be excluded from rate base, and thus the earnings on rate base that may be disallowed, according to the length of time these accruals are actually in the reserve account.

The effectiveness of § 1.167(l)-1(h)(6)(ii) in resolving the timing issue has been questioned by its failure to define some key terms. Nowhere does this provision state what is meant by the terms "historical" and "future" in relation to the period for determining depreciation for ratemaking tax expense (the "test period"). One interpretation focuses on the type or quality of the data used in the ratemaking process. According to this interpretation, the historical period is that portion of the test period for which actual data is used, while the portion of the period for which data is estimated is the future period. The second interpretation focuses on when the utility rates become effective. Under this interpretation, the historical period is that portion of the test period before rates go into effect, while the portion of the test period after the effective date of the rate order is the future period.

The first interpretation, which focuses on the quality of the ratemaking data, is an attractive one. It proposes a simple rule, easy to follow and to enforce: any portion of the reserve for deferred taxes based on estimated data must be prorated in determining the amount to be deducted from rate base. The actual passage of time between the date ratemaking data is submitted and the date rates become effective is of no importance. But this interpretation of the regulations achieves simplicity at the expense of precision; in other words, it is overbroad. The proration of all estimated deferred tax data does serve to magnify the benefits of accelerated depreciation to the utility, but this is not the purpose of normalization. Congress was explicit: normalization "in no way diminishes whatever power the [utility regulatory] agency may have to require that the deferred taxes reserve be excluded from the base upon which the utility's permitted rate of return is calculated." H.R. Rep. No. 413, 91st Cong., 1st Sess. 133 (1969).

In contrast, the second interpretation of section 1.167(l)-1(h)(6)(ii) of the regulations is consistent with the purpose of normalization, which is to preserve for regulated utilities the benefits of accelerated depreciation as a source of cost-free capital. The availability of this capital is ensured by prohibiting flow-through. But whether or not flow-through can even be accomplished by means of rate base exclusions depends primarily on whether, at the time rates become effective, the amounts originally projected to accrue to the deferred tax reserve have actually accrued.

If rates go into effect before the end of the test period, and the rate base reduction is not prorated, the utility commission is denying a current return for accelerated depreciation benefits the utility is only projected to have. This procedure is a form of flow-through, for current rates are reduced to reflect the capital cost savings of accelerated depreciation deductions not yet claimed or accrued by the utility. Yet projected data is often necessary in determining rates, since historical data by itself is rarely an accurate indication of future utility operating results. Thus, the regulations provide that as long as the portion of the deferred tax reserve based on projected (future estimated) data is prorated according to the formula in section 1.167(l)-1(h)(6)(ii), a regulator may deduct this reserve from rate base in determining a utility's allowable return. In other words, a utility regulator using projected data in computing ratemaking tax expense and rate base exclusion must account for the passage of time if it is to avoid flow-through.

But if rates go into effect after the end of the test period, the opportunity to flow through the benefits of future accelerated depreciation to current ratepayers is gone, and so too is the need to apply the proration formula. In this situation, the only question that is important for the purpose of rate base exclusion is the amount in the deferred tax reserve, whether actual or estimated. Once the future period, the period over which accruals to the reserve were projected, is no longer future, the question of when the amounts in the reserve accrued is no longer relevant (at the time the new rate order takes effect, the projected increases have accrued, and the amounts to be excluded from rate base are no longer projected but historical, even though based on estimates).

There are two kinds of ratemaking at issue here, with identical components. For both the stand-alone rate adjustment and the formula rates, Taxpayer estimates the various components of rate base. Rates go into effect as of the beginning of the service year.[1] As such, the rates are in effect during the test year and the proration formula must be used. The addition of the true up increases the ultimate accuracy of the rates but does not convert a future test period into a historical test period as those terms are used in the normalization regulations. Therefore, Taxpayer is required to apply the proration formula in calculating accumulated deferred income taxes for purposes of calculating rate base.

Issue 3

[1] We note that, because Taxpayer is using estimated data for the test period, the test period at issue here constitutes a "future test period" under the first interpretation discussed above as well.

As discussed above, where a taxpayer computes its ratemaking tax expense and rate base exclusion amount using projected data then must use the proration formula provided in section 1.167(l)-1(h)(6)(ii) to calculate the amount of deferred taxes subject to exclusion from the rate base. This formula prorates the projected accruals to the reserve so as to account for the actual time these amounts are expected to be in the reserve. As explained in § 1.167(l)-1(a)(1), the formula in section 1.167(l)-1(h)(6)(ii) provides a method to determine the period of time during which the taxpayer will be treated as having received amounts credited or charged to the reserve account so that the disallowance of earnings with respect to such amounts through rate base exclusion or treatment as no-cost capital will take into account the factor of time for which such amounts are held by the taxpayer.

The purpose of the proration formula is to prevent the immediate flow-through of the benefits of accelerated depreciation to ratepayers. The proration formula stops flow-through by limiting the deferred tax reserve accruals that may be excluded from rate base, and thus the earnings on rate base that may be disallowed, according to the length of time these accruals are actually in the reserve account.

In contrast to the projections discussed above, the true-up component is determined by reference to a purely historical period and there is no need to use the proration formula to calculate the differences between Taxpayer's projected ADFIT balance and the actual ADFIT balance during the period. In calculating the true-up, proration applies to the original projection amount but the actual amount added to the ADFIT over the test year is not modified by application of the proration formula.

Issue 4

In Taxpayer's stand-alone rate adjustment proceedings, Commission A adjusted the already-approved cash working capital allowance specifically to mitigate the effect of the use of the proration methodology, finding the effects duplicative. In general, taxpayers may not adopt any accounting treatment that directly or indirectly circumvents the normalization rules. See generally, § 1.46-6(b)(2)(ii) (In determining whether, or to what extent, the investment tax credit has been used to reduce cost of service, reference shall be made to any accounting treatment that affects cost of service); Rev. Proc 88-12, 1988-1 C.B. 637, 638 (It is a violation of the normalization rules for taxpayers to adopt any accounting treatment that, directly or indirectly flows excess tax reserves to ratepayers prior to the time that the amounts in the vintage accounts reverse). Here, Commission A adjusted the cash working capital allowance specifically to mitigate the effect of the application of the proration methodology. This is inconsistent with the normalization rules. We do not hold that the normalization rules require a similar type of cash working capital adjustment in all cases; we hold only that, where, as here, it is adjusted or removed in an attempt to mitigate the effects of the application of the proration methodology or similar normalization rule, that adjustment or removal is not permitted under the normalization rules.

Issue 5

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a "normalization method of accounting." A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A). Section 1.167(1)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A) requires that a taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii), if the amount allowable as a deduction under section 168 differs from the amount that-would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under section 168(i)(9)(B)(ii), such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii), unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

In order to satisfy the requirements of §168(i)(9)(B), there must be consistency in the treatment of costs for rate base, regulated depreciation expense, tax expense, and deferred tax revenue purposes. Here, rate base, depreciation expense, and accumulated deferred income taxes are all calculated in consistent fashion – all are averaged over the same period. While there are minor differences in the convention used to average all elements of rate base including depreciation expense on the one hand, and ADFIT on the other, for purposes of §168(i)(9)(B), it is sufficient that both are determined by averaging and both are determined over the same period of time. Thus, the calculation of average rate base and accumulated deferred income taxes as described above complies with the consistency requirement of §168(i)(9)(B).

Because of the conclusion reached above, Taxpayer's seventh issue is moot and will not be considered further.

Issue 6

Because the Service has ruled in Issue 1 and 2 that Taxpayer was required to use the proration formula applicable to future test periods for the projected revenue requirement, prospectively adhering to the Service's interpretation of § 1.167(l)-1(h)(6)(ii) require adjustments to conform to this ruling. Any rates that have been calculated using procedures inconsistent with this ruling ("nonconforming rates") which are or which have been in effect and which, under applicable state or federal regulatory law, can be adjusted or corrected to conform to the requirements of this ruling, must be so adjusted or corrected. Where nonconforming rates cannot be adjusted or corrected to conform to the requirements of this ruling due to the operation of state or federal regulatory law, then such correction must be made in the next regulatory filing or proceeding in which Taxpayer's rates are considered. Specifically, the current timing of Taxpayer's stand-alone rate adjustment filings with Commission A will accommodate all adjustments or corrections to any prior estimated projections or true-ups necessary to conform to the requirements of this ruling in rates having an effective date no later Date X, including Case A, Case B, and Case C. In addition, Taxpayer has already sought an order from Commission C to make the necessary changes to the rate templates, not simply unilaterally adjusting the calculations (or the manner in which the templates are completed) in the next annual projections or true-up adjustments. If Taxpayer must request these changes through a filing with Commission C, Taxpayer has represented that it will make a filing with Commission C to amend its formula rate template within six months of receipt of this ruling letter, requesting that Commission C apply a methodology in accordance with this letter using an effective date of the first month following the date of the filing made with Commission C. Following Commission C's order in that filing, Taxpayer will prospectively apply the methodology consistent with this letter approved by Commission C. Until Commission C acts on the filing, Taxpayer will continue to use the methodology described above.

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting. However, in the legislative history to the enactment of the normalization requirements of the Investment Tax Credit, Congress has stated that it hopes that sanctions will not have to be imposed and that disallowance of the tax benefit (there, the ITC) should be imposed only after a regulatory body has required or insisted upon such treatment by a utility. See Senate Report No. 92-437, 92nd Cong., 1st Sess. 40-41 (1971), 1972-2 C.B. 559, 581.

Here, Taxpayer has received stand-alone rate adjustments from Commission A without application of the proration methodology as required. In addition, Taxpayer used a template approved by Commission C to calculate formula-based rates. Both Commission A and Commission C have, at all times, required that utilities under their respective jurisdictions use normalization methods of accounting. Taxpayer also intended at all times to comply with the normalization rules. As concluded above, Taxpayer was required to use the proration methodology in these ratemaking proceedings. However because Commissions A and C as well as Taxpayer at all times sought to comply, and because Taxpayer will take the corrective actions described above, it is not currently appropriate to apply the sanction of denial of accelerated depreciation to Taxpayer.

Conclusions

1. The proration methodology requirement applies to all future test periods.
2. The estimated projection component of both the stand-alone rate adjustment ratemaking and the formula rate does employ a future test period within the meaning of § 1.167(l)-1(h)(6)(ii) and therefore Taxpayer is required to use the proration methodology in order to comply with the normalization rules.
3. The true-up component of both the stand-alone rate adjustment ratemaking and the formula rate does not employ a future test period within the meaning of § 1.167(l)-1(h)(6)(ii) and therefore Taxpayer is not required to use the proration methodology in order to comply with the normalization rules.
4. In Taxpayer's stand-alone rate adjustment proceedings, an adjustment to eliminate from the Taxpayer's cash working capital allowance any provision for accelerated depreciation-related ADFIT if the proration methodology is employed does conflict with the normalization rules.
5. In order to comply with the consistency requirement of the normalization rules, it is not necessary that the Taxpayer use the same averaging convention it uses in computing the other elements of rate base in computing its ADFIT balance for purposes of the formula rates.

6. The Service rules adversely with respect to Rulings 1 and 2, above. Any failure by Taxpayer to employ the proration methodology prior to the proceedings in Cases A, B, or C or the effective date approved by Commission C for the requested modification of the formula rates was not a violation of the normalization rules requiring sanctions for such violation.
7. Because the Service rules favorably with respect to Ruling 5, above, Taxpayer's requested Ruling 7 is moot.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman
Senior Technician Reviewer, Branch 6
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midcontinent Independent System Operator, Inc., and	)	Docket No. ER16-206-000 & 001
	)	
ITC Midwest LLC	)	

CERTIFICATE OF SERVICE

I hereby certify that I have caused a copy of the foregoing document to be served on each person designated on the official service list compiled by the Secretary of the Commission in this proceeding on this 9th day of December 2015.

/s/: John R. Staffier
John R. Staffier
Stuntz, Davis & Staffier, P.C.
555 Twelfth Street, N.W., Suite 630
Washington, D.C. 20004
T: 202-638-6588
F: 202-638-6581
jstaffier@sdsatty.com

Appendix 6 – December 18, 2015 WPL Response to ITC-M Answer (Docket No. EL16-206-000)

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midcontinent Independent System Operator, Inc., and	)	Docket No. ER16-206-000
	)	
ITC Midwest LLC	)	

MOTION OF WISCONSIN POWER AND LIGHT COMPANY
FOR PERMISSION TO RESPOND TO ANSWER,
AND RESPONSE THERETO

Pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission's (the "FERC" or "Commission") Rules of Practice and Procedure, 18 CFR §§ 385.212 and 385.213, Wisconsin Power and Light Company ("WPL") respectfully requests that it be permitted to respond to the Motion for Leave to Answer and Answer of ITC Midwest LLC ("ITC Midwest") to the Protest of Wisconsin Power and Light Company (the "Answer"), which was filed on December 9, 2015.

INTRODUCTION

On October 30, 2015, as amended on November 3, 2015, the Midcontinent Independent System Operator, Inc. ("MISO"), on behalf of ITC Midwest, tendered for filing an unexecuted Facilities Services Agreement between WPL and ITC Midwest (the "FSA"). The FSA is intended to provide a means for ITC Midwest to recover from WPL the cost of certain network upgrades to ITC Midwest's transmission system that are associated with WPL's Bent Tree Wind Farm ("Bent Tree").

The FSA contains a cost-of-service formula rate under which charges to WPL are based on certain costs incurred by ITC Midwest. WPL has filed a Protest of the FSA (the "Protest") on the basis that charges under the cost-of-service formula rate included in the FSA would be excessive and unreasonable. As explained in the Protest, ITC Midwest has opted out of using bonus depreciation for calculation of Federal income tax expense, and therefore the rate in the FSA will result in recovery by ITC Midwest of certain imprudently-incurred costs. In the Answer, ITC Midwest has attempted to refute the demonstration made in the Protest. As discussed below, there is no merit to any of the arguments made by ITC Midwest.

REQUEST FOR AUTHORIZATION TO RESPOND TO THE ANSWER

Rule 213(a)(2) of the FERC's Rules of Practice prohibits the filing of (a) answers to protests, and (b) replies to answers, without FERC authorization. However, the FERC generally accepts replies to pleadings for which FERC authorization is needed that enhance its understanding of the issues being raised.[1] In the event the FERC accepts the Answer, WPL respectfully requests that the FERC also accept this Response to the Answer in order to develop a more complete record on which it can issue a reasoned response.

RESPONSE TO ANSWER

A. <u>ITC Midwest Has No Right to Recover Costs that are Not Prudently Incurred.</u>

ITC Midwest asserted in the Answer that it has an "unconditional" right under the Internal Revenue Code to opt out of using bonus depreciation ("BD"), and therefore (Answer at 6-7):

> ...the only conclusion that can reasonably be drawn is that Congress intended all taxpayers to have the unfettered right to opt out of BD whenever they determined that in their own specific circumstances, taking BD would not be advantageous or would actually be damaging.

Contrary to ITC Midwest's assumption, WPL is not contesting the right of ITC Midwest to opt out of bonus depreciation. However, Section 205(a) of the Federal Power Act requires rates and charges for FERC-jurisdictional services to be just and reasonable. As discussed in the

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[1] See, e.g. *Southern California Edison Co.*, 135 FERC ¶ 61,093 at P 16 (2011) (accepting answers to pleading "because those answers provided information that assisted [the Commission] in [its] decision-making process"); *New York Independent System Operator, Inc.*, 134 FERC ¶ 61,058 at P 24 (2011) (accepting answers to pleadings because they provided information that aided the FERC in better understanding the matters at issue in the proceeding).

Protest, ITC Midwest does not have the unfettered right under the Federal Power Act to recover imprudently-incurred costs through a rate schedule on file at the FERC. The mere fact that ITC Midwest has the statutory right to opt out of bonus depreciation does not establish that its decision to do so was prudent. ITC Midwest should not be permitted to recover costs of system upgrades from WPL, including capital costs, that are the result of its decision to opt out of using bonus depreciation and therefore were imprudent.

B. Transmission System Upgrades Installed by ITC Midwest to Support Bent Tree May Be Eligible for Bonus Depreciation.

ITC Midwest argues that its rates should not be adjusted based on assumed use of bonus depreciation in part because "[m]ost of the facilities in question are not now and may never be eligible for BD" (Answer at 2). However, ITC Midwest has acknowledged that the facilities constructed in 2014 are eligible for bonus depreciation (Answer at 5). Moreover, as discussed in the Affidavit of Jennifer E. Janecek which was attached to the Protest, it is reasonable to expect that bonus depreciation will be extended by Congress. In fact, a 5-year extension of bonus depreciation is part of the "Protecting Americans from Tax Hikes Act of 2015" which has been passed by the House of Representatives and is expected to be passed by the Senate and signed by the President before the end of 2015. ITC Midwest also acknowledged that the facilities constructed by ITC Midwest in 2015 to support Bent Tree could become eligible for bonus depreciation if the use of bonus depreciation is extended (Answer at 5). WPL is simply asking to have charges under the FSA limited to costs that have been prudently incurred, after consideration of the extent to which the facilities installed to support Bent Tree are actually eligible for bonus depreciation.

C. ITC Midwest Has the Ability to Avoid a Violation of the Normalization Rules by Using Bonus Depreciation.

ITC Midwest also objects to having its charges under the FSA adjusted to reflect the use of bonus depreciation for facilities installed to support Bent Tree in part because such adjustment of its rates might cause a violation of the normalization rules of the IRS:

> ...since BD was not actually taken by ITC Holdings in its consolidated tax return for 2014,[2] and since ITC Holdings does not plan to take BD for 2015, simulating the taking of BD in ITC Midwest's charges to WPL, and assuming a corresponding reduction to ITC Midwest's revenue requirement as WPL has proposed, would constitute a normalization violation under applicable IRS Rules.

Under normal circumstances, ITC Holdings would not be expected to file its 2015 Federal income tax return until September 2016. A violation of the IRS normalization rules will not occur unless and until rates have been established on the basis of presumed use of bonus depreciation for 2015 Federal income tax purposes, but ITC Midwest has actually opted out of using bonus depreciation. Therefore, the establishment of charges under the FSA at the present time based on the presumed use of bonus depreciaiton would not cause a violation of the normalization rules.

As discussed in the Protest, many senior management officials of ITC Midwest are also officials of ITC Holdings, and they therefore have discretion over whether bonus depreciation will be used by ITC Midwest. When ITC Holdings files its 2015 Federal income tax return, ITC Holdings (and ITC Midwest) has the ability to use bonus depreciation to calculate Federal income tax expense for their 2015 return based on eligible costs. If it did so, the adjustment of charges under the FSA based on use of bonus depreciation would not constitute a violation of the normalization rules of the IRS. Thus, even if the FERC requires ITC Midwest to calculate

[2] A consolidated Federal income tax return is filed by ITC Holdings LLC, the corporate parent of ITC Midwest, on behalf of all of its subsidiaries, including ITC Midwest.

charges under the FSA based on presumed use of bonus depreciation in its 2015 Federal income tax return, ITC Holdings (and therefore ITC Midwest) has the ability to avoid a violation of the IRS normalization rules by filing a tax return for 2015 without opting out of bonus depreciation.

D. The Alternative Relief Sought by WPL Is Reasonable.

WPL noted in the Protest that, under appropriate circumstances, the FERC has adjusted the otherwise applicable rate of return on common equity used to calculate rates and charges subject to its jurisdiction in order to provide an incentive for utilities to act in the way desired by the FERC. Consistent with that policy, WPL proposed that if ITC Midwest is unwilling to use bonus depreciation for network upgrades installed to support Bent Tree, the return on equity used to calculate charges in the FSA should be set at the lowest end of the zone of reasonableness for ITC Midwest as previously determined by the FERC (Protest at 12). ITC Midwest claims that grant of such alternative relief may cause a violation of the normalization rules and, in any event, that the return on equity can only be changed either by the Company in a filing under Section 205 of the Federal Power Act or by the FERC pursuant to Section 206 of the Federal Power Act (Answer at 10-11).

Attached to the Answer are certain Private Letter Rulings issued by the IRS which discuss the circumstances in which adjustment of rates for regulated public utility service may result in a violation of the normalization rules of the IRS. ITC Midwest noted in footnote 20 of the Answer that in one case, "a proposed reduction of tax expense in the Taxpayer's cost of service" would constitute a violation of the normalization rules if the reduction would, in effect, "flow through the tax benefits of accelerated depreciation deductions through to rate payers even though the Taxpayer has not yet realized such benefits." More generally, these Private Letter

Rulings stated that "taxpayers may not adopt any accounting treatment that directly or indirectly circumvents the normalization rules."[3]

Contrary to the assumption being made by ITC Midwest, the alternative relief being sought by WPL would not involve a reduction of tax expense in the cost-of-service of ITC Midwest or otherwise require adoption of any accounting treatment that directly or indirectly circumvents the normalization rules. Instead, the alternative relief is simply intended to provide an incentive for ITC Midwest to use bonus depreciation, and to provide a reduction in charges to WPL if ITC Midwest and ITC Holdings persist in opting out of using bonus depreciation and thereby imposing excessive and imprudently-incurred costs on WPL.

Significantly, the amount of the reduction in revenues as a result of the alternative relief requested by WPL is unrelated to the amount of a reduction in revenue that would be collected by ITC Midwest if it used bonus depreciation. It is therefore evident that the proposed reduction in the return on equity used to calculate charges to WPL under the FSA does not in any way represent an attempt by WPL "to simulate the taking of BD when BD has not actually been taken," as suggested by ITC Midwest (see, Answer at 11).[4]

Procedurally, this proceeding involves a rate schedule of ITC Midwest that has been filed at the FERC pursuant to Section 205 of the Federal Power Act. That rate schedule has a cost-of-service formula rate pursuant to which charges to WPL will be based on a formula that includes a specified rate of return on common equity. Section 205(a) of the Federal Power Act requires all rates and charges under filed rate schedules to be "just and reasonable." In the event that the proposed charges in the FSA are determined to be unjust and unreasonable because they include

[3] Significantly, in the Private Letter Rulings cited by ITC Midwest, the entities in question did not have the ability to avoid a normalization problem, as does ITC Midwest (by filing a 2015 Federal income tax return in late 2016 without opting out of using bonus depreciation).
[4] ITC Midwest acknowledged in the Answer at 10 that it does not actually know the amount of revenue reduction which would result from adoption of the alternative relief.

imprudently-incurred costs, the FERC has authority pursuant to Section 205(e) of the Federal Power Act to order a reduction in such charges. The mere fact that the return on equity used to calculate charges under the FSA is the same return on equity as that used to calculate transmission rates to MISO Transmission Owners does not render that ROE sacrosanct or otherwise exempt from modification in the context of the FSA.

It should be noted that if ITC Midwest is permitted to opt out of using bonus depreciation with impunity under circumstances in which it would be imprudent for it to do so, many other electric utilities might similarly decide to opt out of bonus depreciation, and thereby to inflate the rate base used to determine their FERC-jurisdictional rates. Therefore, if and to the extent that the reduction of the return on equity of ITC Midwest is deemed to cause a potential violation of the IRS normalization rules, the FERC should impose a financial penalty on ITC Midwest (rather than an adjustment to rates) that is sufficiently large to provide it with an effective economic disincentive to opting out of using bonus depreciation.

E. ITC Midwest Has Not Shown That Use of Bonus Depreciation Will Have a Negative Impact on it.

In an effort to retain the ability to recover imprudently-incurred costs from WPL, ITC Midwest asserted that the use of bonus depreciation somehow "would have a negative impact on ITC Midwest" (Answer at 7-9). However, ITC Midwest has not provided any information to substantiate this assertion.

Specifically, although ITC Midwest noted that the use of bonus depreciation on transmission upgrades installed to support Bent Tree would cause a reduction in the rate base of ITC Midwest, and would result in a reduction of the revenue requirement under the FSA (Answer at 8), it failed to explain how such a reduction in its revenue requirement would be harmful to ITC Midwest. Significantly, the accumulated deferred income taxes ("ADIT") that would result from use of bonus depreciation would act as a source of cost-free capital to ITC Midwest. Therefore, the reduction in its revenue requirement resulting from use of bonus depreciation would simply reflect the fact that ITC Midwest's costs had been reduced. ITC Midwest has not explained how a reduction in its costs in that manner might legitimately be characterized as harmful to it.

Moreover, although ITC Midwest criticized calculations of the revenue impact of bonus depreciation that were submitted by WPL on the basis that such calculations "do not reflect the net operating losses ('NOLs') that would result for the Bent Tree upgrades if BD was somehow taken for only the Bent Tree facilities" (Answer at 7), ITC Midwest has not provided any information to show that it would be subject to NOLs if bonus depreciation was taken for the Bent Tree facilities. Even if ITC Midwest experienced NOLs, those NOLs could be carried back to prior years when ITC Midwest paid taxes or ITC Midwest's rate base would not be reduced due to the inclusion of the portion of deferred tax assets related to depreciation. When ITC Midwest has taxable income in the future, the deferred tax assets would be utilized to reduce rate base at that time and customer rates would then be reduced. Accordingly, NOLs may not properly be characterized as being harmful to ITC Midwest.

In any event, insofar as WPL is aware, there is no general Commission policy to permit utilities to recover imprudently-incurred costs simply because removal of such imprudently-incurred costs from its cost of service would result in a reduction in a utility's revenue requirement. A utility such as ITC Midwest should not be permitted to pass imprudently-incurred costs through to ratepayers under FERC-filed rates simply because it was lawful for the utility to incur those costs.

WHEREFORE, for the reasons discussed in the Protest and herein, the FERC should take appropriate action to protect WPL from having to pay excessive charges under the FSA simply because ITC Midwest has opted out of using bonus depreciation on facilities installed to support Bent Tree to which it is entitled under the Internal Revenue Code.

Respectfully submitted,

WISCONSIN POWER AND LIGHT COMPANY

By *James K. Mitchell*
James K. Mitchell
Davis Wright Tremaine LLP
1919 Pennsylvania Avenue, NW
Washington, DC 20006
202-973-4241

Its Attorney

December 18, 2015

Certificate of Service

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary of the Commission in the above-captioned proceeding.

Dated at Washington, DC this 18th day of December, 2015.

James K. Mitchell
James K. Mitchell

Document Content(s)