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June 29, 2012

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

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

Dear Secretary Conrad:

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

Very truly yours,

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

KMR/kjf
Enclosures

STATE OF IOWA

BEFORE THE IOWA UTILITIES BOARD

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

COMPLIANCE FILING

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

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

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

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

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

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

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

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

Dated this 29th day of June, 2012.

Respectfully submitted,

Interstate Power and Light Company

BY: */s/ Kent M. Ragsdale*

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

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Executive Summary

Interstate Power and Light Company (IPL) continues with activities associated with managing the processes and relationship with ITC Midwest, LLC (ITC-M) (an operating subsidiary of ITC Holdings Corp. (ITC)), and influencing transmission service levels and cost impacts to IPL customers. This report focuses on the following areas, with particular emphasis on activities and results since the last report filed with the Iowa Utilities Board (Board) on December 30, 2011 (December 2011 Report):

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

A summary of these items follows and more details can be found later in the Report.

In this Report, IPL continues to emphasize results it has achieved on behalf of its customers. This report only addresses the most significant new and continued issues, actions and results affecting transmission service and cost since the last Report.

In addition, IPL is including new information in response to feedback and requests from stakeholders following IPL's December 15, 2011, Transmission Stakeholder Informational meeting, including but not limited to:

- Forecasts of rates for ITC-M and MISO regional transmission projects; and
- Improved clarity of ITC-M reliability performance.

1. ITC-M Relationship Management

IPL has an internal management structure with designated groups and individuals to interface with ITC-M; developed to manage the overall relationship and coordination activities with ITC-M. The structure and processes described in the December 2011 Report are unchanged. This structure is provided in Figure 9 of the Detailed Report.

Results from the internal IPL Executive Stakeholder Team since January 1, 2012 include:

- **Addressing ITC-M's Attachment FF Generator Interconnection Cost Allocation** – Planning and directing IPL efforts with ITC-M, MISO, and the FERC to change the current ITC-M Attachment FF cost allocation process for new generation to be consistent with the majority of other MISO transmission owners. See more detailed background discussion under *Section 4. MISO Activity, IPL Participation* in the Detailed Report.

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

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

IPL continues utilizing a Lean Six Sigma designed process to review, monitor and take action as appropriate in those new regulatory dockets initiated by ITC-M with the Federal Energy Regulatory Commission (FERC), the Minnesota Public Utilities Commission (MPUC) and the Board.

Using this process, IPL performs a daily and weekly review of all new dockets filed by ITC-M in the various jurisdictions. From January 1through June 20, 2012, IPL has reviewed 11 dockets.

A summary of dockets IPL has reviewed since January 1, 2012, and the formal action IPL has taken in those dockets, if any, is listed in Table 1.

Table 1 - Summary of New ITC-M Dockets Reviewed by IPL and Actions Taken
January 1 – June 20, 2012

Jurisdiction	Number of Dockets Reviewed	Number of Dockets Supported	Number of Dockets with No Action	Number of Dockets Objected	Dockets Still Under Review
IUB	10	7	3	0	0
MPUC	0	--	--	--	--
FERC	1	--	--	1	--

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

3. Transmission Regulatory Activity, IPL Engagement

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

Since January 1, 2012, IPL notes the following most significant Board and FERC activity, and IPL's engagement:

1) **MISO compliance plan for FERC Order No. 1000** (Docket Numbers RM10-23-000 & RM10-23-001).

   This Order addresses planning and cost allocation on a regional and interregional basis. There are four major components:
   - Regional transmission planning requirements;
   - Interregional transmission planning requirements;
   - Elimination of the federal right of first refusal (ROFR); and
   - Transmission cost allocation principles (regional and interregional).

   All public utility transmission providers, including ITC-M, must make compliance filings with the FERC within 12 months of the effective date of the Final Rule (August 11, 2011). Compliance filings for interregional transmission coordination and interregional cost allocation, including that of MISO, are required within 18 months of the effective date. As a transmission customer, IPL is not required to make any compliance filings under this order.

   In general, IPL supports the rationale and direction of the Order and anticipates the benefits will include better planning with the consideration of more solutions and developers and aid in limiting the cost of new transmission.

   Results:
   - IPL is participating in the MISO Stakeholder process to formulate MISO's compliance and implementation plan. Specifically, IPL's position has been communicated to MISO and includes the following:
     - The ROFR should be retained on Baseline Reliability Projects (BRP), including projects eligible for cost sharing across the MISO footprint;
     - Separate procedures should be used for the proposal of projects and the subsequent selection of the developer (i.e. competitive bidding approach);
     - Project submittal open to all MISO stakeholders;
     - Developers should be prequalified;

- MISO should lead the process of evaluating solutions to transmission needs;
- Selection of developers of needed projects can be handed to states (if desired by state);
- Selection of developer by MISO should be based on specific criteria; and
- Cost caps should be used.

2) ITC-M Section 203 Filing (Docket No. EC12-95-000)

On April 30, 2012, ITC-M filed at FERC, seeking to acquire from Southern Minnesota Municipal Power Agency (SMMPA) certain 161 kV assets located at the Hayward and Adams Substations in Minnesota. ITC-M stated it views this acquisition will eliminate logistical and administrative issues associated with cost sharing of shared features of these substations. ITC-M stated that any effect on the transmission rate as a result of the acquisition will be de minimis.

Results:

- On May 21, 2012, IPL filed a motion to intervene and comment, asking for more analysis concerning the effect on the joint rate zone, as well as additional analysis concerning operational efficiency and reliability benefits of the proposed transaction. IPL expressed concern that the acquisition will have the effect of increasing ITC-M's revenue requirement, and thus increase cost to IPL and IPL customers with no additional benefits received.

  On June 5, 2012, ITC-M filed a motion for leave and answer, in response to IPL's concerns. ITC-M stated that the acquisition will result in a reduction in the zonal revenue requirement for the joint zone, and thus a reduction in charges for IPL.

  IPL is not necessarily in agreement with ITC-M's analysis in their response. IPL will continue to monitor the docket.

3) Entergy integration in MISO (Docket Numbers ER12-480-000 and ER11-3728-000)

Entergy announced its intent to join MISO in April 2011.

Results:

- As noted in IPL's June 30, 2011 Report to the Board, Alliant Energy Corporate Services, Inc. (AECS, service company affiliate of IPL and Wisconsin Power and Light Company; "Alliant Energy Operating Companies") intervened on June 24, 2011 to participate in this proceeding, concerned about the potential cost impacts on

the customers of the Alliant Energy Operating Companies, including those of IPL.

In an Order issued on September 27, 2011, FERC found that MISO's proposal should be submitted via a properly-supported Section 205 filing with tariff sheets. On November 28, 2011, MISO filed revised tariff language that would allocate transmission costs upon Entergy's integration into MISO. FERC subsequently approved MISO's plan to establish a five-year transition period.

IPL continues to monitor this proceeding.

Somewhat related, but separate from the Entergy integration into MISO, is ITC Holdings' announcement on December 5, 2011, that it intended to acquire the transmission assets of Entergy. ITC Holdings has indicated publicly that it expects to make the necessary regulatory filings by mid-summer 2012, and that it expects to close the transaction in 2013. The Entergy integration into MISO is not a prerequisite to the acquisition of the Entergy transmission assets by ITC Holdings.

Results:

- Through its Executive and Administrative Committee communications, IPL expressed to ITC-M its concern that ITC-M could potentially subsidize the cost of the transaction. Further, IPL expressed its expectation to ITC-M that its parents' purchase of Entergy's transmission assets will not negatively impact IPL's, and ultimately its customers', cost of transmission service. ITC-M has indicated verbally to IPL that it does not expect the transaction will result in negative cost impacts or changes in service levels for transmission customers in the ITC-M footprint, including IPL.

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

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

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

FERC is requesting comments on the matter.

Results:

- IPL submitted comments to FERC on June 22, 2012. In these comments, IPL suggested improvements in the above-noted areas of concern. IPL's comments are provided as Appendix 1. IPL seeks greater detail and transparency from both ITC-M and MISO in the determination of Attachment O rates. Specifically, more information should be provided regarding the need for, quantifiable benefits of, priority of, and reasonableness of each of the components, especially individual project capital cost. The need for such detail and transparency have been expressed and emphasized in feedback from IPL customers in view of the historical and IPL forecast of continued and rapid rise in ITC-M rates.

5) ITC-M Attachment FF

See more detailed background discussion under *Section 4. MISO Activity, IPL Participation* in the Detailed Report.

Results:

- IPL is currently developing a Section 206 filing to be initiated at FERC seeking change to ITC-M's Attachment FF implementation. This filing will request that ITC-M's implementation be changed to be consistent with the majority of MISO, where the generation interconnect customer assumes the cost of network upgrades.

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

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

December 29, 2011, FERC issued its Notice of Paper Hearing Procedure.

Results:

- On February 13, 2012, IPL filed comments that, in summary, emphasized that any conflict between ITC-M and FERC accounting policies must be resolved in favor of customers. IPL's filed comments are included as Appendix 2 of this Report.

  On May 11, 2012, FERC issued an Order that essentially reaffirmed its earlier findings, and required ITC to make a filing of its compliance plan within 60 days. IPL awaits the compliance plan filing by ITC, and will continue to monitor and evaluate potential impacts on IPL and IPL customer costs.

4. MISO Activity, IPL Participation

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

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

1) **A significant annual activity that IPL participates in is the MISO Transmission Expansion Plan (MTEP) process, which includes the Candidate Multi-Value Projects (MVPs).**

   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.

   IPL reviews the projects resulting from the planning process and provides feedback to MISO on all projects potentially impacting the transmission service and cost to IPL customers, including those of ITC-M.

Consistent with its annual planning process, MISO released its pre-plan MTEP 12 project list in September 2011. IPL has evaluated all of the MTEP 2012 projects proposed, including those of ITC-M through its participation in the MTEP process, and provided feedback to ITC-M and MISO. IPL will continue to be actively involved at MISO as the MTEP 2012 project list continues to be studied and refined.

Results:

- In 2011, IPL reviewed those projects proposed for MTEP 12 and provided comments to MISO:
  - IPL generally did not take a position on projects unrelated to IPL, including those of ITC-M.
  - IPL generally supported projects that would improve reliability to IPL customers or the interconnected system, including those of ITC-M.
  - IPL supported ITC-M projects related to the conversion of the 34.5kV and 115kV systems.
  - IPL opposed ITC-M ownership of one project. ITC-M proposed building a transmission substation, at its cost, to exclusively supply a retail industrial customer that is not IPL's customer. The cost would have been predominantly recovered from IPL through ITC-M's rates.

2) IPL is engaging MISO stakeholder process for Attachment FF concerns

Results:

- IPL has communicated its concerns to ITC-M regarding its implementation of the MISO Attachment FF. In this tariff, the costs of generator interconnections are reimbursed to generators and, thus, passed on to IPL customers through ITC-M's rates. IPL contends that IPL customers are significantly and unfairly disadvantaged. IPL has requested ITC-M to consider changing this policy to be consistent with of the majority of MISO. ITC-M has declined to make such a change. IPL has engaged the MISO stakeholder process through the MISO Planning Advisory Committee (PAC) and then the MISO Steering Team Committee (STC) in April and May 2012. The STC advised IPL that MISO could not address the disputed issue between IPL and ITC-M.

Results:

- IPL is currently developing a Section 206 filing to be initiated at FERC seeking change to ITC-M's Attachment FF implementation. This filing will request that ITC-M's implementation be changed to be consistent with the majority of MISO, where the generation interconnect customer assumes the cost of network upgrades.

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

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

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

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

Results include:

- **Lean Six Sigma (LSS) Rapid Improvement (RI) event joint efforts with ITC-M.** IPL initiated a LSS project in November 2011 to address a lack of clarity in the joint planning/design/construction processes that can lead to challenges in design and construction schedules, and budgeting for each company... ITC-M participated. The joint project has promoted a more clearly defined process of interaction between both companies from the early stages of planning through work scope development, engineering design, project management, construction and closure of a project. The results of this effort are:
  - Formal communication with notices of receipt that will promote both companies working off the most recent information.
  - Alignment on work plans through integration of ITC-M project information into IPL's project database.
  - Engineering alignment through earlier release of projects by IPL to match with ITC-M design schedules.
  - Budget alignment on multi-year plans through monthly meetings.

- **34kV to 69kV conversions and other projects completed.** ITC-M completed several 34.5 to 69kV conversion projects in the last several months. The completed projects are listed in Detailed Report.

  In 2012 IPL and ITC-M have begun monthly meetings to better align budgets, as noted in item 1. Support of ITC-M's 12 year rebuild plan and 18 year conversion schedule are priorities for both IPL and ITC-M.

  In addition, ITC-M noted a number of system projects have been completed in recent months and have been placed in service. Those projects and benefits are also listed in the Detailed Report.

- **Update on lessons learned from July 2011 wind event.** Early in the morning of July 11, 2011, 130 mph straight-line winds created a path of destruction 30-miles wide and 70-miles long in central and east central Iowa. IPL and ITC-M each performed a "lessons learned" evaluation independent of one another following this event, and then jointly.

6. IPL Projections of ITC Midwest and MISO Rates

Following IPL's December 15, 2011, Transmission Stakeholder Informational meeting, IPL received various comments and requests from stakeholders. These comments and requests were predominately provided by the Iowa Consumer's Coalition (ICC). The ICC's formal request, IPL's response and supporting materials are included in several Appendices to this Report.

In short, these comments and requests from ICC to IPL were for:

- More detailed reporting on changes to ITC-M rates, drivers and reasonableness;
- More detailed reporting on changes to MISO transmission rates for regional projects (for example, MVPs);
- Two to five-year forecasts of rates for ITC-M and MISO regional transmission projects;
- Details of IPL's activities to ensure MISO projects are selected on lowest reasonable cost basis and provide benefits to IPL customers commensurate with cost; and
- Improved clarity of ITC-M reliability performance.

IPL developed an internal model to forecast and illustrate the ITC-M rate formula components over time, using publicly available capital projections from ITC-M of, additional information requested and obtained from ITC-M on their revenue requirements projections, and IPL's own forecast of other variables. ITC-M's capital forecast is summarized in Figure 1 below.

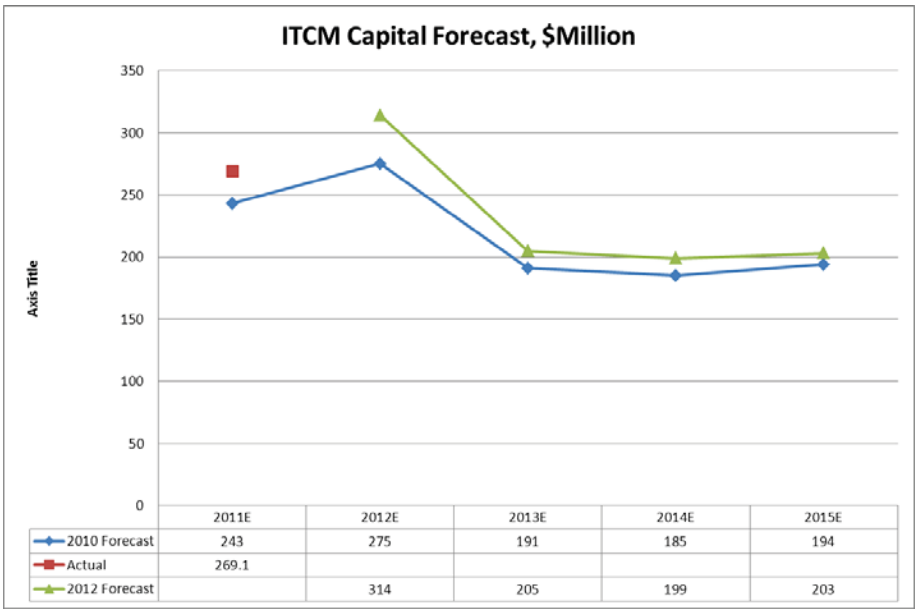


Figure 1 – ITC-M Capital Expense Forecast

IPL's forecast modeling of ITC-M rates yielded the Rate Base Projections and the Network Rate Projections Paid by IPL in Figures 2 and 3 below.

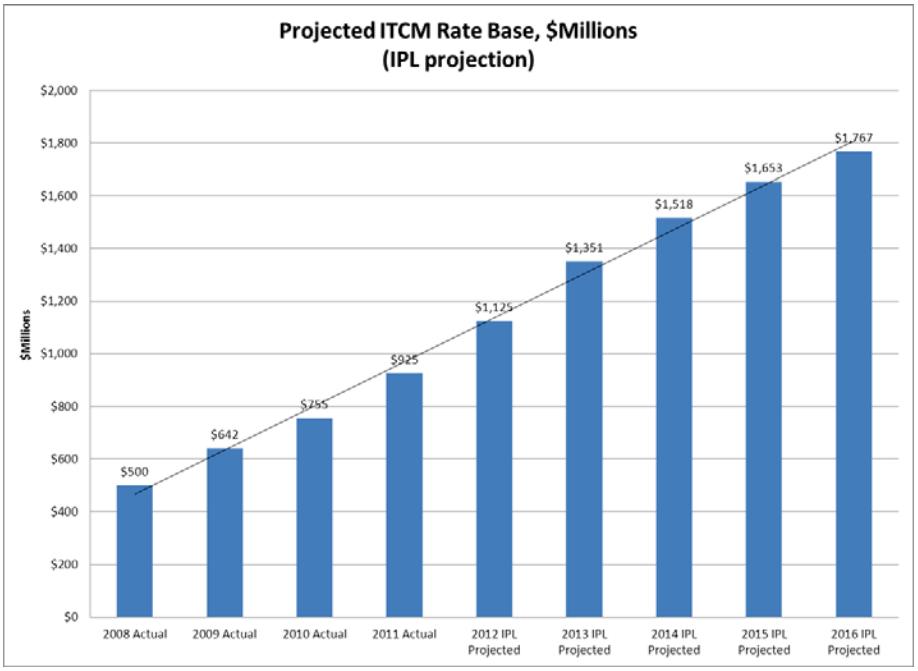


Figure 2 – IPL Projection of ITC-M Rate Base

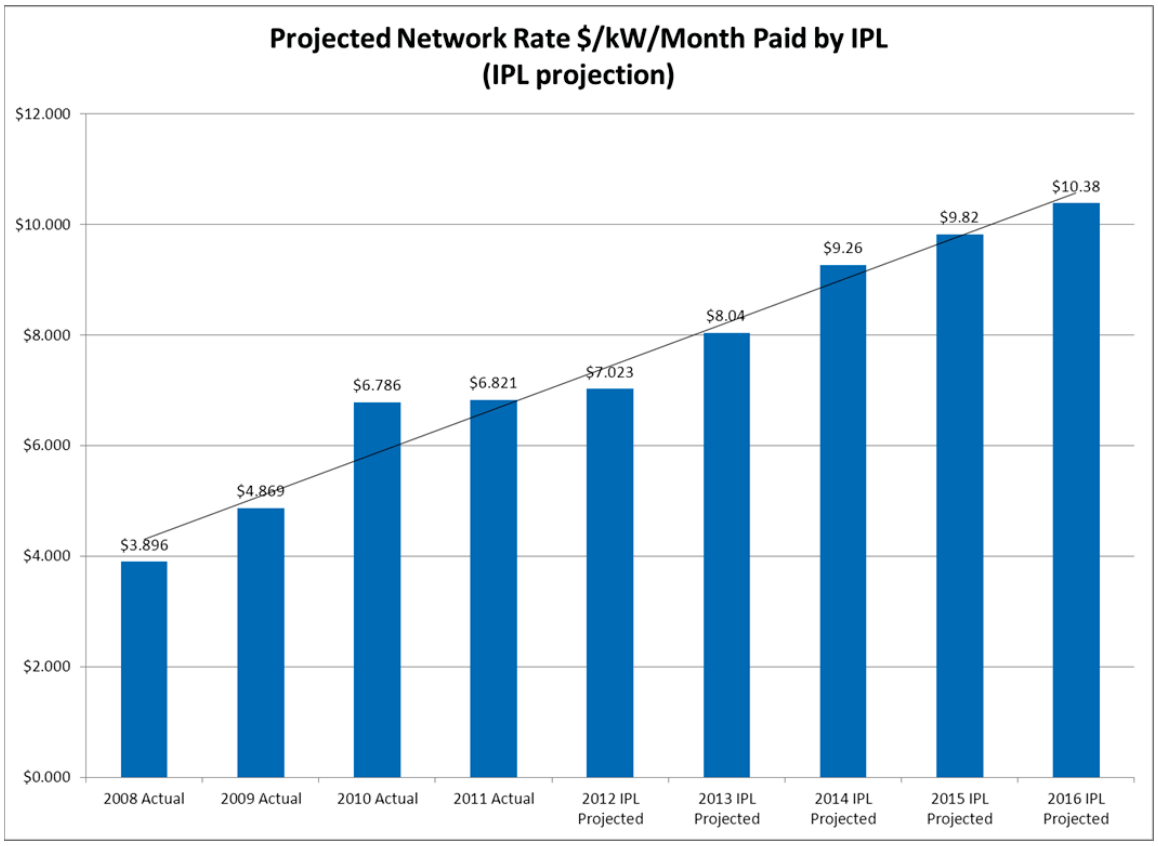


Figure 3 – IPL Projection of ITC-M Network Rates Paid by IPL

Results:

- From this analysis, IPL concluded that:
  - **The key driver impacting ITC-M rate increases is the new capital investment each year which rapidly adds to rate base.**
  - Capital projections in next one - two years appear to be resulting from specific planned projects, where years beyond appear to be in part a function of revenue requirement.
  - IPL continues to attempt reconciliation of capital project lists and costs for next the one-two years between publicly available information from ITC-M, MISO MTEP, and what is made available to IPL in joint planning meetings.

IPL also summarized MISO's Schedule 26 and Schedule 26A rate forecasts for large projects cost shared across the MISO footprint. The MISO forecasted charges and rates for Schedule 26 and Schedule 26A respectfully are illustrated and summarized in Figures 4 and 5 below.

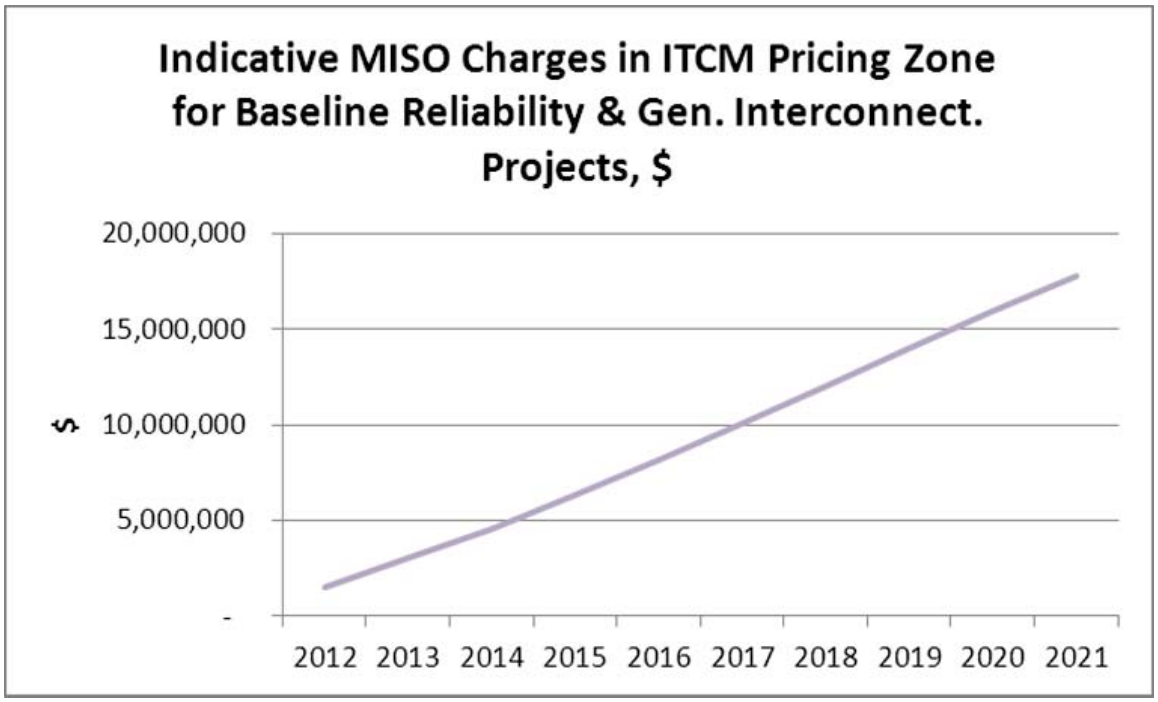


Figure 4 – MISO Schedule 26 Regional Project Rate Forecast

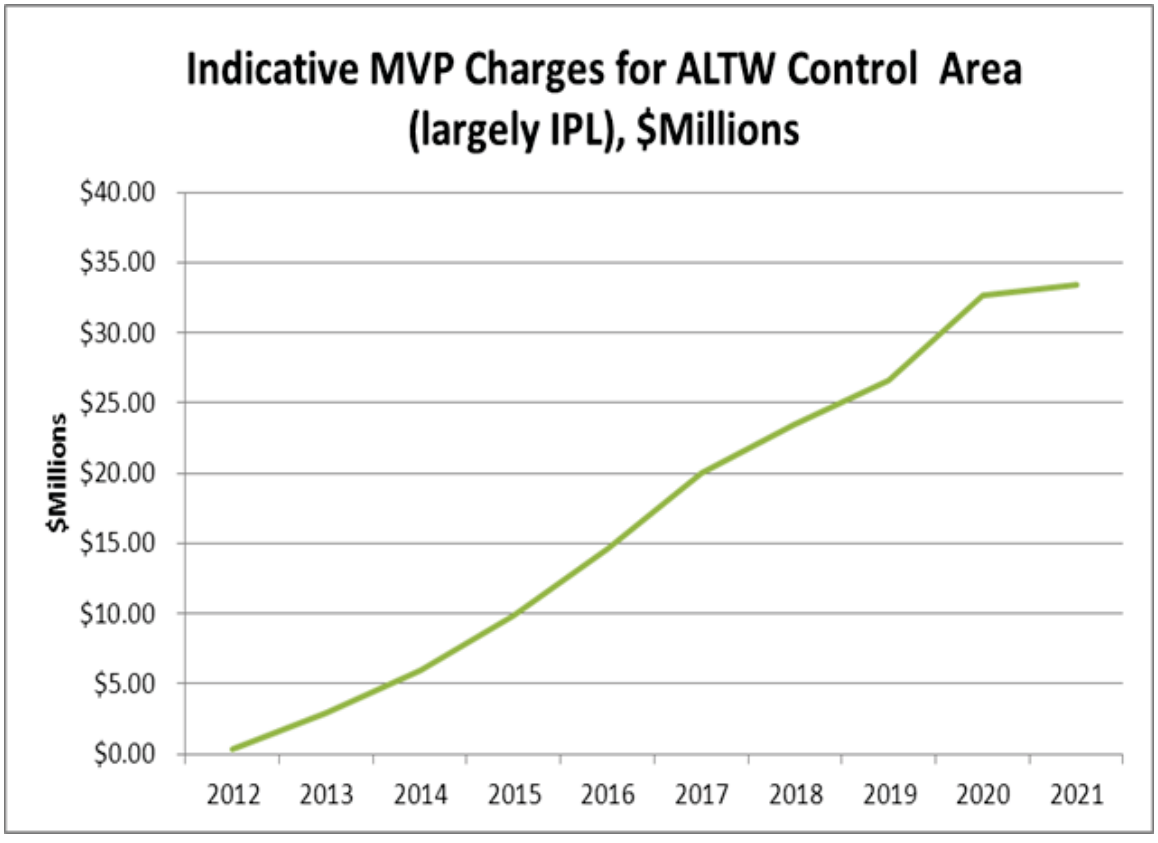


Figure 5 – MISO Schedule 26A Regional Project Rate Forecast

Results:

- In summary, IPL concluded that:
  - **Again, for the ITC-M rates forecast by IPL, the key driver is the new capital investment each year which rapidly adds to rate base.**
  - IPL's challenge and strategy continues to be influencing transmission cost by advocacy for IPL customers with ITC-M, MISO and through regulatory policy.
  - Specifically, IPL will continue to do so through:
    - Close coordination with ITC-M projects and costs;
    - Active engagement with the MTEP process at MISO on projects; and
    - Active engagement at FERC on cost allocation issues (such as ITC-M's Attachment FF and MISO Attachment O rate transparency).

7. Transmission Outage Performance and Operations Coordination

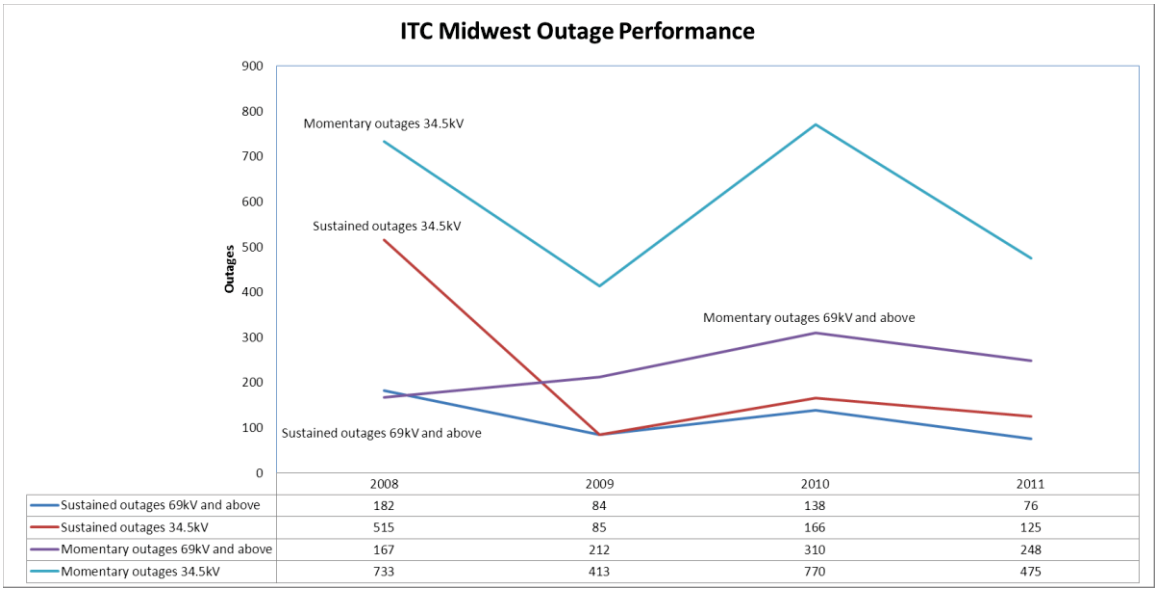
As part of the joint IPL - ITC-M Operations Committee, representatives of IPL's field operations and Distribution Dispatch Center meet monthly with their counterparts from ITC-M's field operations and Operations Control Room to discuss outage and response/restoration statistics and other operations-related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

Based on feedback from stakeholders, improved clarity of the overall ITC-M *reliability* performance is desired (vs. the emphasis on restoration performance that had been used previously).

Results include:

- **Introduction of reliability metrics.** Starting with the monthly meetings in January 2012, IPL and ITC-M now use a form of reliability statistics that ITC-M had developed.

- **Continued reduction in outage events over prior years.** From the reliability data provided by ITC-M, IPL produced the graph shown below in Figure 6. Through 2011, a general improvement trend in the number of sustained and momentary outages since the transmission sale and purchase is observed.



	2008	2009	2010	2011
Sustained outages 69kV and above	182	84	138	76
Sustained outages 34.5kV	515	85	166	125
Momentary outages 69kV and above	167	212	310	248
Momentary outages 34.5kV	733	413	770	475

Figure 6 – ITC-M System Reliability

- **Introduction of industry standard measures of customer outage experience (including SAIFI and SAIDI; transmission only).** These metrics are yet another means to monitor long term trends of both reliability and restoration performance. The graphics shown below in Figures 7 and 8 were compiled by IPL using IPL customer outage data and illustrate the customer reliability performance in terms of transmission only for the 10-year period 2001–2011.

  SAIFI (System Average Interruption Frequency Index) - Average number of outages experienced by all customers.

  SAIDI (System Average Interruption Duration Index) - Average length in minutes of outages for all customers.

  A general improvement trend in the number and duration of customer outages is also observed from this data since the transmission assets were acquired by ITC-M.

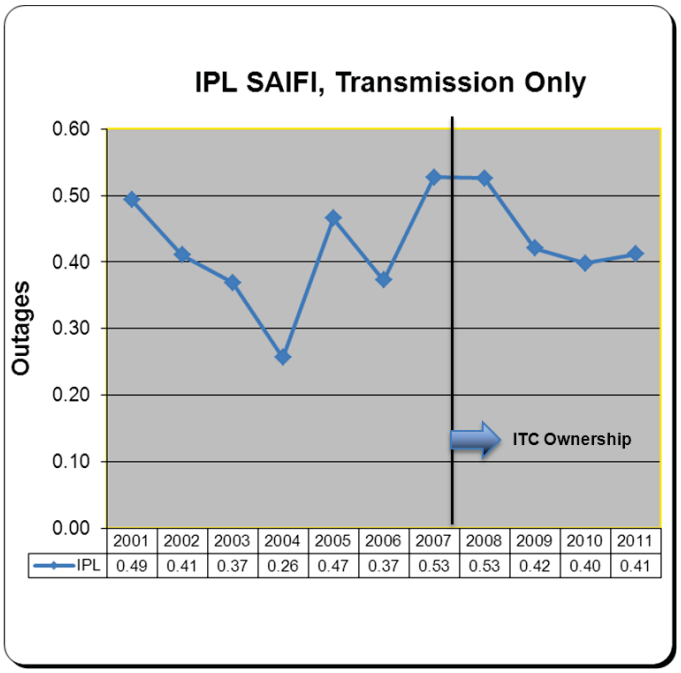


Figure 7 – Transmission Reliability, SAIFI (System Average Interruption Frequency Index) - Average number of outages experienced by all customers.

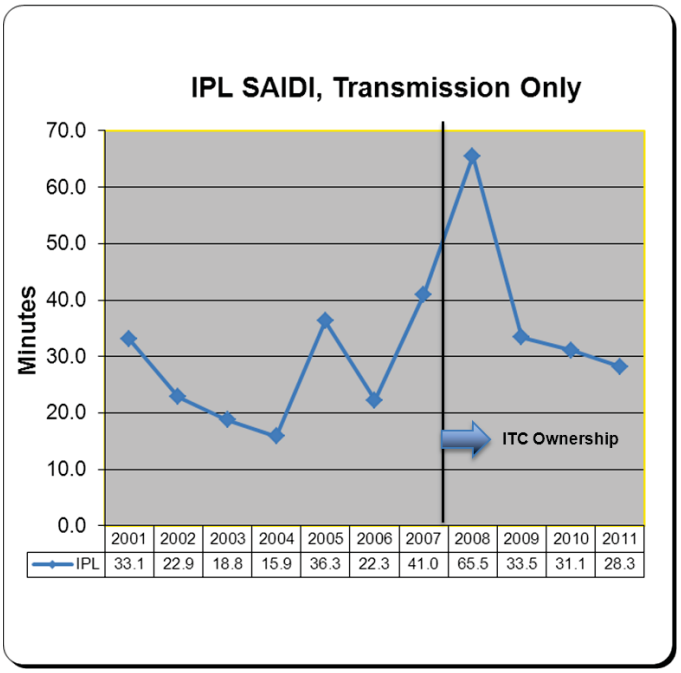


Figure 8 – Transmission Reliability, SAIDI (System Average Interruption Duration Index) - Average length in minutes of outages for all customers.

IPL attributes the improved reliability illustrated by these metrics in part to ITC-M's maintenance program, new and rebuilt lines and substations, and the 34.5 to 69kV rebuild and conversion program.

Results, continued:

- **Use of ITC-M analyses of momentary and sustained outages.** Based on feedback from customers, IPL recognized that some customers did not have knowledge of or understand that ITC-M performed analysis of momentary outages as well as sustained outages or undertook steps to improve line performance.

  ITC-M analyzes every outage event (including momentary outages) and determines a root cause for all sustained outages 69kV and above. ITC-M also identifies the poorest performing circuits, including 34.5kV. The results are used to prioritize maintenance and line rebuild activities.

  IPL now distributes monthly the ITC-M reliability metrics, outage event analysis and poor performing circuit information to IPL's field operations management team.

  From IPL's interactions and observations of ITC-M's operations, IPL is confident that ITC-M has been using sound performance analysis methods for maintenance and rebuilds project prioritization, and continues to refine the methods.

- **Process improvement to minimize impacts to large industrial customers from planned outages.** In 2011, IPL initiated a Lean Six Sigma project for process improvement of the planned outage coordination with ITC-M, particularly those planned outages that involve switching by or impact to IPL's large industrial customers. The project resulted in recognition by IPL and ITC-M of opportunities for improvement, but has not yet yielded definitive process redesign. It has, however, helped both organizations conclude that the coordination problems experienced have been associated with scheduling and coordination of ITC-M work of a maintenance nature, less so with rebuild or new facility construction. Both companies continue to evaluate potential process changes. In the meantime, the heightened awareness of the issues has increased coordination efforts on individual maintenance projects.

- **Improvement of communications with customers by IPL and ITC-M.** IPL's Account Management and ITC-M's Stakeholder Relations groups have coordinated and agreed on an overall IPL customer communications protocol. Several joint meetings with large IPL customers, IPL and ITC-M representatives have occurred in the last several months to discuss transmission issues or concerns. These meetings have been beneficial to

all involved, and IPL and ITC-M have agreed to continue these meetings at least annually with particular large transmission-connected customers.

Results, continued:

- **Joint addressing of specific customer concerns.** Since January 1, 2012, IPL and ITC-M have worked together to address several specific IPL customer issues and concerns. The following represent a couple of those more significant interactions, with the specific customer names omitted for confidentiality:

  - IPL and ITC-M have worked with a particular industrial customer since early 2009 to coordinate substantial power supply infrastructure work that has been occurring at the customers' facilities and associated ITC-M and IPL substations. Each party has had individual projects that are all related to the overall improvements and must be carefully coordinated with each other.

    In the course of project work this spring, IPL discovered some damage to ITC-M's transmission infrastructure that could negatively impact the IPL customer. In addition, the on-going ITC-M area line work, and the emergent maintenance need on a critical piece of ITC-M transmission equipment were problematic to the customer's production schedule, on-going supply reliability, and maintaining all parties' schedules for the already on-going project work. Through considerable negotiation, detailed planning and risk assessment, the parties agreed to revised project plans and emergent equipment maintenance scheduling. IPL has also assumed more of the asset ownership and project management responsibility in the interest of the customer. Project work continues.

  - Significant ITC-M substation equipment replacement and upgrade work required reduced transmission supply redundancy to a group of IPL customers. No customer outages were required. However, customers raised concerns about the duration of the work and resulting reduced reliability. IPL worked with ITC-M to allocate additional resources to return additional lines to service sooner. This reduced the reliability risk for the remainder of the project.

8. Other Transmission-Related Activity

Proposed Large Transmission Projects

A few large transmission projects have been previously announced which could impact the IPL service area. However, none of these projects have yet entered into the MISO MTEP process, nor is it known if they ever actually will. Only one project has had any new developments since those previously listed in IPL's

December 2011 Report. The Clean Energy Partners - Rock Island Clean Line (Clean Line) made application to FERC on November 8, 2011, seeking negotiated rate authority for the project (Rock Island Clean Line LLC Docket No. ER12-365-000).

Result:

- As noted in the December 2011 Report, IPL intervened in the Clean Line FERC docket November 2011, IPL opposed the project because "limited information that has been provided and an apparent lack of due diligence into the Project's potential affects [to the regional transmission system or IPL customer costs]."

  Clean Line responded in December 2011. Clean Line stated that it does not have to participate in an RTO planning process and it has appropriately advanced the interconnection issues with its PJM applications and that it expected the Project will be studied in the MISO MTEP 2012.

  FERC issued an Order in May 2012, approving Clean Line's filing with conditions, however noted it will go through the MISO and PJM study processes.

  IPL understands that the Clean Line project developers continue with the line right of way planning and acquisition.

Meeting Participation

IPL attended ITC-M's Spring Partners in Business meeting in Cedar Rapids on May 23, 2012, to learn more about status of planned projects, operating performance, tariff components, etc.

At IPL's request, ITC-M agreed to participate in and present at IPL's Summer Transmission Stakeholder Informational meeting in Cedar Rapids on June 5, 2012.

Safety

Representatives from IPL field operations have continued to attend ITC-M's quarterly, regional safety meetings. Likewise, ITC-M has had representatives attend IPL Safety Days events in early 2012.

MISO Emergency Response

ITC-M is responsible for annually preparing, updating, and drilling its System Restoration Plan (SRP). IPL participates in the MISO SRP drills and conducts after-drill reviews with ITC-M.

Result:

- The last drills were completed in May 2012, and both organizations noted that the coordination process continues to become smoother as refinements are made. ITC-M representatives participated with IPL in IPL's Distribution Dispatch Center in Cedar Rapids, IA and with Alliant Energy's Generation Dispatch Center in Madison, WI.

9. Stakeholder Informational Meeting

On June 5, 2012, in Cedar Rapids, IPL held its third Semi-Annual Transmission Stakeholder Informational meeting. The meeting was attended by 13 large customers and customer representatives. This meeting was developed based on feedback from the post-meeting survey of all the attendees of the first and second meetings held in 2011 and additional feedback from various stakeholders. The summary agenda topics discussed were:

- Transmission Planning Overview;
- IPL Projections of ITC Midwest and MISO Rates;
- ITC Midwest Update;
- Update on FERC and MISO Activity, IPL Involvement; and
- Transmission Reliability and Operations Update.

The meeting was also attended by 12 IPL representatives. Two representatives from ITC-M also participated and presented an update. Among the feedback, comments, questions and discussion generated were:

- Concern about the increasing ITC-M rates forecast by IPL and MISO shared cost project rates;
- Desire for better understanding of transmission rate forecasts as part of overall energy costs;
- Questions and concern about comparison to ITC-M rates to MidAmerican Energy and explanation of the differences;
- Concern about the ability of IPL to manage ITC-M and MISO costs, and thus the costs to IPL customers;
- Questions seeking more clarity about the reliability metrics presented; and
- Desire for continued concentration on issues and results.

More details, including the presentations from the June 5, 2012 Transmission Stakeholder Informational meeting are included in Appendix 12 to this Report.

10. Timetable of Events Influencing Transmission Rates

A timetable of events in 2012 which have influences on transmission rates and project planning are listed in Table 2 below.

Table 2 – Timetable of Events Influencing Transmission Rates

2012 Month	Description
January - December	IPL/ITC Planning & Project meetings
June	ITC-M 2011 True-up amount released ($10.17M credit to 2013 rates posted on June 1)
September	ITC-M preliminary 2013 Attachment O (MISO Schedule 9) rates released
September - December	• IPL analysis and evaluation of ITC-M Attachment O rates • Continued IPL feedback on ITC-M projects in MTEP 2012
November	IPL 2013 Transmission Rider Factors submitted to IUB
December	• IPL 2012 Transmission Rider Factors approval normally anticipated by Board • MISO Board of Directors consideration for approval of MTEP 20121 projects

Conclusion:

IPL continues to partner with ITC-M in day-to-day operations and planning for delivery of reliable and cost-effective electric service to IPL customers. Through this continued partnership, IPL strives to improve the reliability and manage costs of transmission service to IPL customers.

IPL's strategy and goal is to maintain active and vocal engagement with regulatory policy, MISO processes, and ITC-M planning and operations that impact transmission rates and that ultimately impact the costs to IPL customers.

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

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

Detailed Report - Introduction

IPL submits this semi-annual Report of its transmission-related activities, pursuant to the requirements of the Board's January 10, 2011, Final Decision and Order in Docket No. RPU-2010-0001, which conditionally allowed IPL to implement an automatic recovery mechanism for transmission costs. This Report provides details of IPL's activities in and results from managing its processes and relationship with ITC-M and influencing the transmission service levels and cost impacts to IPL customers. This report focuses on the following areas, with particular emphasis on activities and results since IPL's last semi-annual transmission report filed December 30, 2011 (December 2011 Report):

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

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

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

In this Report, IPL continues to emphasize results it has achieved on behalf of its customers. This report only addresses the most significant new and continued issues, actions and results affecting transmission service and cost since the last Report. The Report does not necessarily address *all* activity or previously reported items without new developments.

IPL is including the following new information in this Report in response to feedback and requests from stakeholders following IPL's December 15, 2011, Transmission Stakeholder Informational meeting:

- More detailed reporting on changes to ITC-M rates, drivers and reasonableness;
- More detailed reporting on changes to MISO transmission rates for regional projects (for example, Multi-Value Projects (MVPs));
- Two to five-year forecasts of rates for ITC-M and MISO regional transmission projects;
- Details of IPL activities to ensure MISO projects are selected on lowest reasonable cost basis and provide benefits to IPL customers commensurate with cost; and
- Improved clarity of ITC-M reliability performance.

IPL's continued strategy and goal is to influence transmission cost and service through its advocacy for IPL customers with ITC-M, MISO FERC, the Board and MPUC.

1. ITC-M Relationship Management

IPL has an internal management structure with designated groups and individuals to interface with ITC-M; developed to manage the overall relationship and coordination activities with ITC-M. The structure and processes described in the December 2011 Report are unchanged. This structure is provided in Figure 9 below.

As noted in the summary structure of Figure 9, the subcommittees meet monthly as well as on an as-needed basis. The Administrative Committee representatives are in contact on almost a weekly basis to discuss various issues. The Executive Committee representatives meet on a quarterly basis.

Internal to IPL, the IPL Executive Stakeholder Team representatives, chaired by IPL President Tom Aller, meet monthly with staff to review status of various transmission issues and provide oversight and direction to IPL's overall transmission strategy and relationship management with ITC-M. This includes monitoring developments with and directing responses to ITC-M, the Federal Energy Regulatory Commission (FERC), the Board, and the Minnesota Public Utilities Commission (MPUC) events, issues, processes and regulatory policies that impact ITC-M rates and, ultimately, the cost to IPL customers.

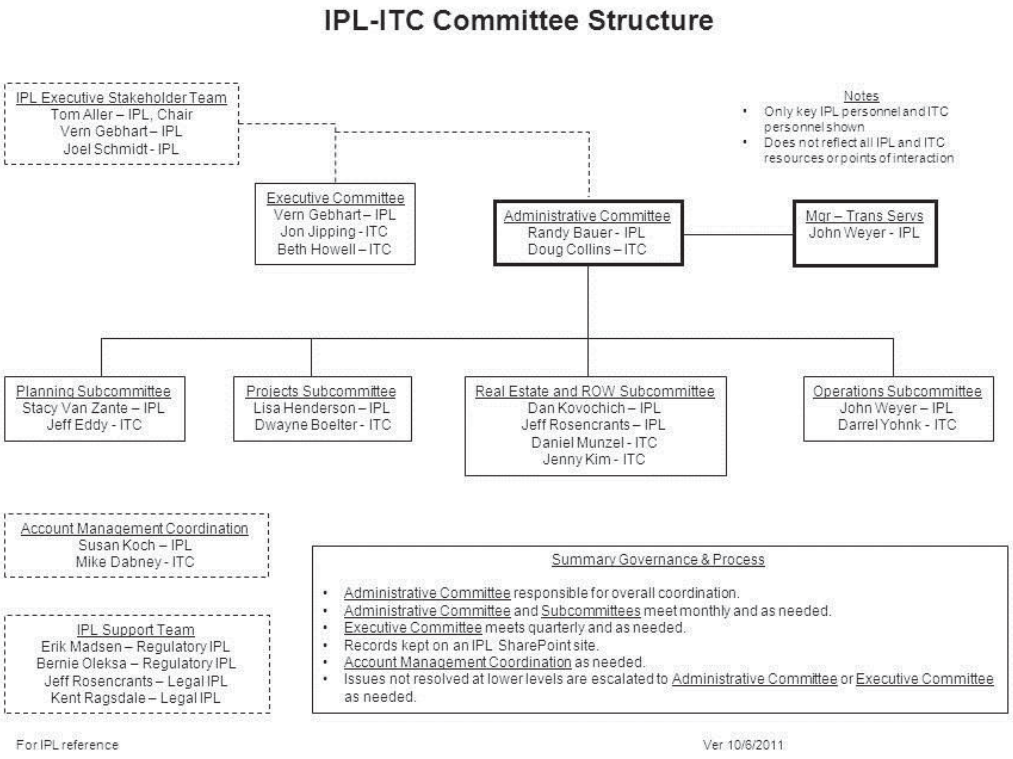


Figure 9. – IPL/ITC-M Committee Structure

Results from the internal IPL Executive Stakeholder Team since January 1, 2012 include:

- **Addressing ITC-M's Attachment FF Generator Interconnection Cost Allocation** – Planning and directing IPL efforts with ITC-M, MISO, and the FERC to change the current ITC-M Attachment FF cost allocation process for new generation to be consistent with the majority of other MISO transmission owners. See more detailed background discussion under *Section 4. MISO Activity, IPL Participation*.

Regarding Administrative Committee and Executive Committee interactions since January 1, 2012:

- There have been no significant issues at either the Administrative or Executive Committee levels beyond routine matters. The relationship between IPL and ITC-M continues to evolve. The companies continue to work together on resolution of operational issues as well as planning issues.

Numerous other informal interactions occur at all levels within IPL, and IPL and ITC-M, on daily and weekly frequencies to support activities such as transmission outage coordination, outage investigation, transmission and distribution

construction and maintenance, planning for future work, customer coordination and communication.

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

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

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

- the Board;
- the MPUC; and
- the FERC.

IPL will make 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.

IPL performs a daily and weekly review of all new filings by ITC-M through the Board's Electronic Filing System, the MPUC's eDockets system, and the FERC Online systems. IPL's Transmission 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 a 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 proposes supports reliability and aging infrastructure projects identified by IPL.

- Oppose:
    - The proposed generation interconnection projects shift costs from generators to IPL customers;
    - The proposed project does not materially improve reliability; or

  - The proposed project would make IPL customers responsible for a disproportionate amount of the costs.

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

IPL reviews all projects, starting at the planning level, with ITC-M and continues to review these projects throughout the various MISO and regulatory processes. IPL takes advantage of multiple opportunities to provide input and feedback to influence the reliability, efficiency and/or cost impact of these projects. Ultimately, IPL has the ability to intervene in the appropriate state regulatory process should it not prevail at prior steps in the review and approval process. While IPL considers this to be a last-step action, the state regulatory intervention process affords IPL the ability to provide its position in multiple venues. Analysis of some of these projects originated when IPL owned the transmission assets, so duplicative analysis is avoided.

Since IPL's December 2011 Report, IPL has reviewed 10 new dockets filed by ITC-M with the Board, and has provided responses as needed in the appropriate forums for seven. A summary of IPL's review of new ITC-M filings to the IUB is provided in Table 3 on the proceeding page.

Table 3 – New ITC-M Filings with Iowa Utilities Board

Week Of	Docket No.	Short Description	IPL Action Taken	Reason
01/01/2012	E-21092	Amendment No. 6 Notice of Completion of Franchised Line Construction	No Action Required	Routine reporting of ITC
01/29/2012	E-21984	Notice of Non-Completion of Construction and Petition for Extension of Time	No Action Required	Routine reporting of ITC
02/05/2012	E-20994	Amendment No. 6 Petition for Amendment of Electric Franchise to Erect, Maintain and Operate an Electric Transmission Line in Linn County, Iowa	Letter of Support sent on 7/19/11 stands for this project	Part of 34-69kV conversion plans
02/12/2012	E-22078	Petition for an Electric Franchise to Erect, Maintain and Operate an Electric Transmission Line in Washington County, Iowa	Letter of Support sent 4/6/12	Requesting new franchise on existing line per advisement of IUB
02/19/2012	E-21220	Amendment No. 7 Petition for Amendment of Franchise to Erect, Maintain and Operate an Electric Transmission Line in Benton County, Iowa	Letter of Support sent on 7/19/11 stands for this project	Part of 34-69kV conversion plans
02/26/2012	E-22028	Notice of Completion of Franchise Line Construction	No Action Required	Routine reporting of ITC
03/04/2012	E-20994	Amendment No. 8 Petition for Amendment of Franchise to Erect, Maintain and Operate an Electric Transmission Line in Linn County, Iowa	Letter of Support sent on 7/19/11 stands for this project	Part of 34-69kV conversion plans
03/04/2012	E-21017	Amendment No. 4, Petition for an Amendment to an Electric Franchise to Erect, Maintain and Operate an Electric Transmission Line in Buchanan County, Iowa	Letter of Support sent on 12/5/11 stands for this project	Part of 34-69kV conversion plans
03/04/2012	E-21220	Amendment No. 8 Petition for Amendment of Franchise to Erect, Maintain and Operate an Electric Transmission Line in Benton County, Iowa	Letter of Support sent on 7/19/11 stands for this project	Part of 34-69kV conversion plans
05/27/2012	E-22086	Petition for Franchise to Erect, Maintain and Operate an Electric Transmission Line in Dubuque County, Iowa	letter of support sent 6/13/12	Franchise renewal

In Minnesota, ITC-M filed on June 19, 2012 for an extension of time to file required information with the Commission regarding the Salem-Lore-Hazelton line. IPL has taken no action. No other filings have occurred to the MPUC since IPL's December 2011 Report.

IPL has not opposed any ITC-M filings at the Board or MPUC since the December 2011 Report.

Other, on-going dockets involving or potentially affecting ITC-M but not necessarily initiated by ITC-M in the various jurisdictions are also reviewed on a

regular basis. Any IPL involvement in those proceedings is described in *Section 3. Transmission Regulatory Activity, IPL Engagement*, below.

3. Transmission Regulatory Activity, IPL Engagement

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

Since January 1, 2012, IPL notes the following most significant Board and FERC activity, and IPL's engagement:

1) **MISO compliance plan for FERC Order No. 1000** (Docket Numbers RM10-23-000 & RM10-23-001).

   This Order addresses planning and cost allocation on a regional and interregional basis. There are four major components with specific requirements:

   - Regional transmission planning requirements;
     - Must adopt Order No. 890 principles;
     - Must evaluate alternative transmission solutions and non-transmission solutions; and
     - Must consider public policy requirements.
   - Interregional transmission planning requirements;
     - Neighboring transmission planning regions must share information and coordinate and jointly evaluate interregional transmission facilities.
   - Elimination of the federal right of first refusal (ROFR); and
     - Related only to facilities subject to regional cost allocation;
     - Remove from FERC-jurisdictional tariffs and agreements the federal right of first refusal to construct transmission facilities selected in a regional transmission plan for purposes of cost allocation;
     - ROFR retained on local facilities or where costs are borne locally; and
     - Does not affect state or local laws or regulations with respect to construction of transmission facilities, including but not limited to authority over siting or permitting of transmission facilities.
   - Transmission cost allocation principles (regional and interregional)
     The Final Rule adopts six principles for regional or interregional projects:
     - Costs allocated "roughly commensurate" with benefits;
     - No involuntary cost allocation to non-beneficiaries;

- FERC must approve any benefit-cost ratio that requires a hurdle exceeding 1.25 unless FERC approves a higher ratio;
- Costs must be allocated solely within the region unless those outside voluntarily assume costs;
- Method and data requirements for determining benefits must be transparent; and
- Different methods may be chosen for different types of facilities (e.g., reliability, congestion relief, public policy).

All public utility transmission providers, including ITC-M, must make compliance filings with the FERC within 12 months of the effective date of the Final Rule (August 11, 2011). Compliance filings for interregional transmission coordination and interregional cost allocation, including that of MISO, are required within 18 months of the effective date. As a transmission customer, IPL is not required to make any compliance filings under this order.

In general, IPL supports the rationale and direction of the Order and anticipates the benefits will include better planning with the consideration of more solutions and developers and lower transmission costs.

Results:

- IPL is participating in the MISO Stakeholder process to formulate MISO's compliance and implementation plan. Specifically, IPL's position has been communicated to MISO and includes the following:
  - The ROFR should be retained on Baseline Reliability Projects (BRP), including projects eligible for cost sharing across the MISO footprint.
    - The driver for BRP projects is reliability, as such, it is important to ensure that the construction of these projects is accomplished in a timely manner. The time to complete planning is a concern that has been raised with both the sponsorship and competitive bidding approaches. In addition, incumbent Transmission Owners (TOs) have the requirement to maintain compliance with reliability standards within their respective footprints.
  - Separate procedures should be used for the proposal of projects and the subsequent selection of the developer (i.e. competitive bidding approach). Advantages include:
    - More efficient process;
    - Focus on determining the right project;
    - Drives developers towards lowest cost solutions;
    - Preservation of MTEP process; and
    - Avoidance of litigation.

- Project submittal
  - Open to all registered MISO stakeholders that are in good standing with MISO, NERC and FERC.
- Developers should be prequalified based on the following criteria:
  - Reliability;
  - Cost controls;
  - Financing capability;
  - Quality construction;
  - Regulatory and right of way experience; and
  - Registered TO with MISO.
- MISO should lead the process of evaluating solutions to transmission needs;
- Selection of developers of needed projects can be handed to states (if desired by state);
- Selection of developer by MISO should be based on the following criteria:
  - Costs and identified assumptions;
  - Narrow route proposal identifying potential joint facilities;
  - Cost containment plan; and
  - Proposed project schedule and ability to meet expected in service date.
- Cost caps should be used.
  - Recovery of costs above caps set must be explained, verified and accepted through a transparent stakeholder process.

2) ITC-M Section 203 Filing (Docket No. EC12-95-000)

On April 30, 2012, ITC-M filed at FERC for authorization under Section 203 of the Federal Power Act (FPA), seeking to acquire from Southern Minnesota Municipal Power Agency (SMMPA) certain 161 kV assets located at the Hayward and Adams Substations in Minnesota. ITC-M stated it views this acquisition as prudent by both parties. This is due to SMMPA owning very limited assets in both of these ITC-M substations and the purchase will eliminate logistical and administrative issues associated with cost sharing of shared features of these substations. ITC-M stated that any effect on the transmission rate as a result of the acquisition will be de minimis.

Results:

- On May 21, 2012, IPL filed a motion to intervene and comment, asking for more analysis concerning the effect on the joint rate zone, as well as additional analysis concerning operational efficiency and reliability benefits of the proposed transaction. IPL

expressed concern that due to differences in the ITC-M and SMMPA cost structures, the acquisition will have the effect of increasing ITC-M's revenue requirement, and thus increase cost to IPL and IPL customers with no additional benefits received.

On June 5, 2012, ITC-M filed a motion for leave and answer, in response to IPL's concerns. ITC-M stated that, because the SMMPA assets are already in the ITC Midwest joint zone rate and due to differences in SMMPA's and ITC Midwest's Attachment O rate formulas, the acquisition will result in a reduction in the zonal revenue requirement for the joint zone, and thus a reduction in charges for IPL.

IPL is not necessarily in agreement with ITC-M's analysis in their response. IPL will continue to monitor the docket.

3) **Entergy integration in MISO** (Docket Numbers ER12-480-000 and ER11-3728-000)

Entergy announced its intent to join MISO in April 2011.

Results:

- As noted in IPL's June 30, 2011 Report to the Board, Alliant Energy Corporate Services, Inc. (AECS, service company affiliate of IPL and Wisconsin Power and Light Company; "Alliant Energy Operating Companies") intervened on June 24, 2011. IPL intervened to participate in this proceeding, which addressed MISO's proposed waiver of the MISO tariff pertaining to the planning and cost allocation of Network Upgrades. AECS was concerned about the potential cost impacts on the customers of the Alliant Energy Operating Companies, including those of IPL.

  In an Order issued on September 27, 2011, FERC denied the request for the tariff waiver. FERC found that MISO's proposal should be submitted via a properly-supported Section 205 filing with tariff sheets. On November 28, 2011, MISO filed revised tariff language that would facilitate Entergy's integration into MISO by, in part, establishing a 5 year transition period in which transmission costs would not be shared between the current MISO footprint and the current Entergy region. FERC subsequently approved MISO's plan to establish this five-year transition period. During the transition period MISO intends to plan the two regions to "comparable" levels. IPL will be monitoring this planning closely and will be looking for MISO to appropriately prove to stakeholders that the two regions are comparable before any cost sharing begins. From IPL's perspective, potential benefits of the Entergy

integration include lower allocation of administrative costs, more resources in the market and more market diversity. However, the lack of physical interconnection to allow power to flow between Entergy and MISO is an issue. The biggest risk remains the potential transmission cost allocations. State regulatory approvals are still needed for four of the five Entergy companies involved. The main issue with getting Entergy region commissions' approval is related to retaining Section 205 filing rights (ability to propose tariff changes).

IPL continues to monitor this proceeding.

Somewhat related, but separate from the Entergy integration into MISO, is ITC Holdings' announcement on December 5, 2011, that it intended to acquire the transmission assets of Entergy. ITC Holdings has indicated publicly that it expects to make the necessary regulatory filings by mid-summer 2012, and that it expects to close the transaction in 2013. The Entergy integration into MISO is not a prerequisite to the acquisition of the Entergy transmission assets by ITC Holdings.

Results:

- Through its Executive and Administrative Committee communications, IPL expressed to ITC-M its concern that ITC-M could potentially subsidize the cost of the transaction. Further, IPL expressed its expectation to ITC-M that its parents' purchase of Entergy's transmission assets will not negatively impact IPL's, and ultimately its customers, cost of transmission service. ITC-M has indicated verbally to IPL that it does not expect the transaction will result in negative cost impacts or changes in service levels for transmission customers in the ITC-M footprint, including IPL.

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

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

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

FERC is requesting comments on the matter.

Results:

- IPL submitted comments to FERC on June 22, 2012. In these comments, IPL suggested improvements in the above-noted areas of concern. IPL's comments are provided as Appendix 1. IPL comments noted that, with IPL's transmission service substantially delivered through the ITC-M system, 85-90% of IPL's total transmission costs are a direct result of ITC-M rates. Further, these costs are transparent to IPL end-use retail customers as a separate line item on their IPL bills. IPL's analysis and projections of ITC-M rates reveal that IPL's forecasted increases are largely driven by increases in ITC-M rate base. Those rate base increases, in turn, are driven by continued capital expenses forecast by ITC-M. It is difficult even to reconcile the planned projects to the annual projected capital expenditures, much less to evaluate their relative need, quantifiable benefits, and priority as determined by ITC-M and MISO. IPL seeks greater detail and transparency from both ITC-M and MISO in the determination of Attachment O rates. Specifically, more information should be provided regarding the need for, quantifiable benefits of, priority of, and reasonableness of each of the components, especially individual project capital cost. The need for such detail and transparency have been expressed and emphasized in feedback from IPL customers in view of the historical and IPL forecast of continued and rapid rise in ITC-M rates.

5) ITC-M Attachment FF

See more detailed background discussion under *Section 4. MISO Activity, IPL Participation,* below.

Results:

- IPL is currently developing a filing to be initiated at FERC seeking change to ITC-M's Attachment FF implementation. This filing will request that ITC-M's implementation be changed to be consistent with the majority of MISO, where the generation interconnect customer assumes the cost of network upgrades.

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

In 2011, FERC conducted an audit of ITC Holding's compliance with FERC's regulations and the conditions established in the 2007 FERC order approving the acquisition of IPL's transmission assets. On September 30, 2011, FERC issued an order that identified certain findings and recommendations of FERC regarding the accounting treatment for the acquisition. The issues largely appear to reflect a difference in opinion regarding the accounting treatment for tax effects of amortized goodwill

related to the acquisition of the transmission assets and an over-accrual of AFUDC. The order instructed ITC-M to cease the recording of the tax effects of amortized goodwill, make correcting entries for the over-accrual of AFUDC and to adjust formula rate billings for both. On October 31, 2011, ITC Holdings and ITC-M (collectively "ITC") filed a request for FERC review of certain contested issues. ITC did indicate it would cease recording of the tax effects of amortized goodwill, but contests certain other items from the order. On December 29, 2011, FERC issued its Notice of Paper Hearing Procedure.

Results:

- On February 13, 2012, IPL filed comments that, in summary, emphasized that any conflict between ITC-M and FERC accounting policies must be resolved in favor of customers. IPL's filed comments are included as Appendix 2 of this Report.

  Others, including the Board and the Office of Consumer Advocate, also filed comments in support of FERC's findings.

  On May 11, 2012, FERC issued an Order that essentially reaffirmed its earlier findings, and required ITC to make a filing of its compliance plan within 60 days.

  ITC Holdings has acknowledged in its Securities and Exchange Commission (SEC) 10K and 10Q filings that FERC's findings have the potential to result in adjustments to ITC-M's annual revenue requirement calculations and corresponding refunds for 2008 through 2010. IPL awaits the compliance plan filing by ITC, and will continue to monitor and evaluate potential impacts on IPL and IPL customer costs. It is IPL's intention that any refunds that may result from this FERC audit will be flowed through to IPL customers via IPL's transmission rider.

Consistent with its strategy to maintain active and vocal engagement with regulatory policy activity that potentially impacts transmission rates, the resulting actions noted above have been taken by IPL since January 1, 2012.

4. MISO Activity, IPL Participation

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

IPL participates in various committees and meetings at MISO pertaining to transmission topics. Specifically, IPL is an active participant and voting

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

A summary of the various MISO committees IPL participates in is provided in Figure 10 below. This is largely the same structure described in IPL's December 2011 Report, with minor personnel changes. Transmission project planning-related MISO committees are shaded. In addition, IPL's Chairman and Chief Executive Officer (CEO) Pat Kampling serves on the Edison Electric Institute (EEI) MISO CEO's Group.

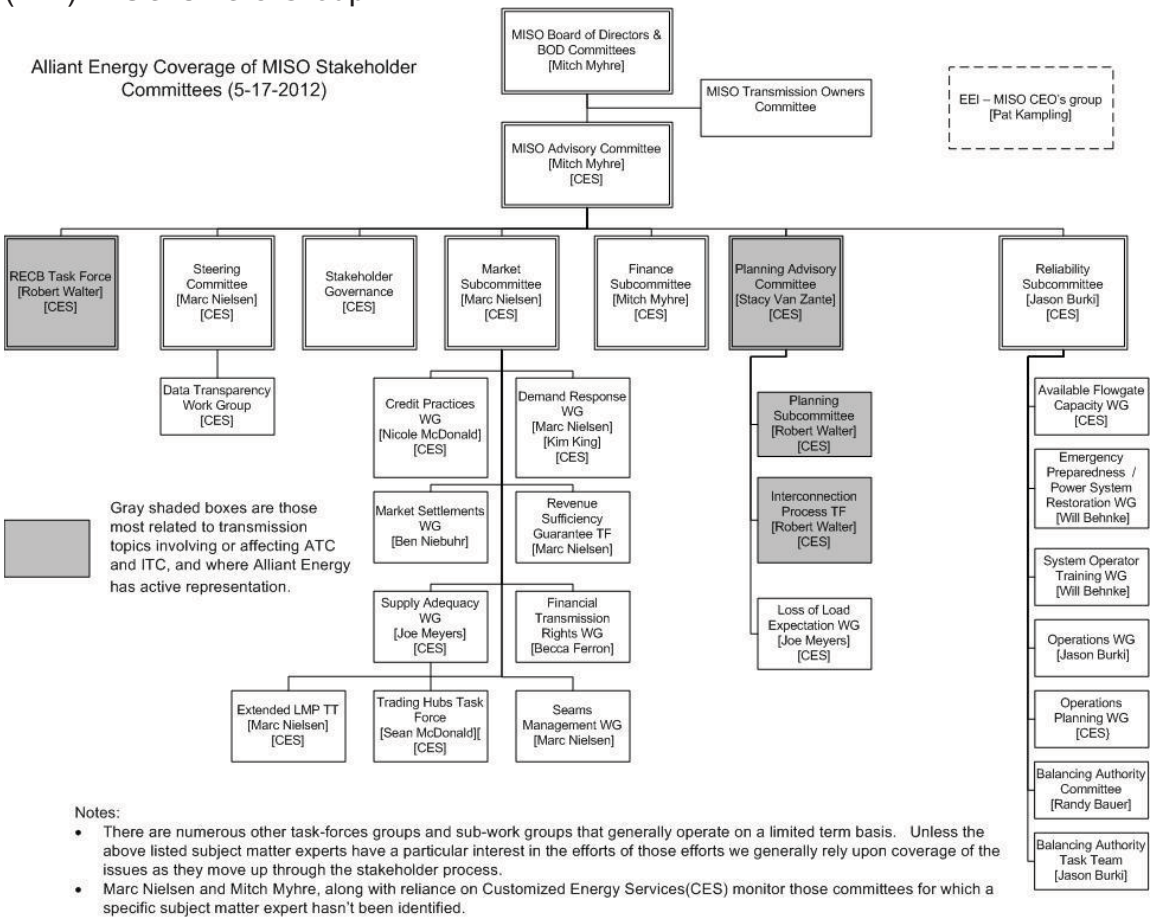


Figure 10 - Alliant Energy involvement at MISO

1) **A significant annual activity that IPL participates in is the MISO Transmission Expansion Plan (MTEP) process, which includes the Candidate Multi-Value Projects (MVPs).**

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

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

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

Consistent with its annual planning process, MISO released its pre-plan MTEP 12 project list in September 2011. IPL has evaluated all of the MTEP 2012 projects proposed, including those of ITC-M through its participation in the MTEP process, and provided feedback to ITC-M and MISO. IPL will continue to be actively involved at MISO as the MTEP 2012 project list continues to be studied and refined. The MTEP 12 details can be found on MISO's website, (URL: midwestiso.org). These include projects proposed by ITC-M as noted in the ITC-M Fall Partners in Business Meeting Presentation, publicly available.
(URL:
http://oasis.midwestiso.org/documents/itcm/Oct%202011%20Master%20FINAL%2010.11.12.pdf).

In the pre-plan MTEP 12 project list, there were 168 projects identified totaling roughly $1.877 billion, of which 32 were ITC-M projects totaling $151.77 million.

Results:

- In 2011, IPL reviewed those projects proposed for MTEP 12 and provided comments to MISO:
  - IPL generally did not take a position on projects unrelated to IPL, including those of ITC-M.
  - IPL generally supported projects that would improve reliability to IPL customers or the interconnected system, including those of ITC-M.
  - IPL supported ITC-M projects related to the conversion of the 34.5kV and 115kV systems.
  - IPL opposed ITC-M ownership of one project. ITC-M proposed building a transmission substation, at its cost, to exclusively supply a retail industrial customer that is not IPL's customer. The cost would have been predominantly recovered from IPL through ITC-M's rates. IPL felt that the cost should be responsibility of the utility serving the customer, not ITC-M. (Customer and other utility name intentionally withheld for their confidentiality.)

MTEP 12 will be finalized by MISO and presented to the MISO Board of Directors for approval in December 2012. MISO has not identified a new portfolio of Candidate MVP projects for MTEP12. IPL continues to monitor initiation and progress of the MTEP 11 MVPs. MISO will start the MTEP 13 process in September 2013.

Of the 17 MVPs from MTEP 11, four (numbers 3, 4, 5 and 7) involve ITC-M. IPL reviewed and commented on these four MVPs in its December 2011 Report to the Board. No new changes in status have occurred with these particular projects since then.

2) IPL is engaging MISO stakeholder process for Attachment FF concerns

Results:

- IPL has communicated its concerns to ITC-M regarding its implementation of the MISO Attachment FF. In this tariff, the costs of generator interconnections are reimbursed to generators and, thus, passed on to IPL customers through ITC-M's rates. IPL contends that IPL customers are significantly and unfairly disadvantaged. IPL has requested ITC-M to consider changing this policy to be consistent with the majority of MISO; with that policy, generator interconnection customers fund 100% of network upgrades rated below 345kV and 90% for those rated above 345kV needed to connect to the transmission

system. ITC-M has declined to make such a change, instead noting the professed benefits of the current ITC-M policy to IPL and its customers through support of regional wind generation development and overall economic development, and stating that the reimbursement policy is consistent with FERC policy. IPL's FERC legal counsel contacted MISO, who advised IPL to engage the MISO stakeholder process by first bringing the issue to the MISO Planning Advisory Committee (PAC). In its April 25, 2012, presentation to the PAC, IPL requested guidance on the proper MISO stakeholder forum to advance the issue. The PAC took the issue to the MISO Steering Team Committee (STC) on May 17, 2012, and IPL was able to provide comments. The STC advised IPL that MISO could not address the disputed issue between IPL and ITC-M. MISO planning staff further discussed with IPL and MISO legal counsel, confirming that MISO could not offer relief to IPL.

IPL estimates that ITC-M has added roughly $150M to its rate base related to its Attachment FF implementation. This translates into roughly $24M of annual revenue requirement for ITC-M, $19M of which is the approximate incremental impact to IPL customers as compared to the rest of MISO. ITC-M's projections of future capital expenditures note approximately $150M of rate base investment from 2012-2016. IPL's estimates this additional rate base investment would more than double the estimated impact to IPL's customers through ITC-M's revenue requirements (from $19M to over $40M).

Results:

- IPL is currently developing a Section 206 filing to be initiated at FERC seeking change to ITC-M's Attachment FF implementation. This filing will request that ITC-M's implementation be changed to be consistent with the majority of MISO, where the generation interconnect customer assumes the cost of network upgrades.

In summary, similar to its approach with regulatory policy activity, IPL likewise maintains active and vocal engagement with MISO processes that potentially impact transmission rates, while recognizing the need to maintain reliability at reasonable cost and fair cost allocation.

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

IPL personnel from various levels of authority routinely meet with ITC-M, from the executive level to engineering and operations, to discuss issues pertaining to

project planning. These projects involve large capital projects, capital maintenance and routine operations and maintenance (O&M) projects.

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

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

Operating as the Planning Subcommittee (Figure 1), IPL's Transmission and Delivery System Planning departments meet monthly with ITC-M's Planning department. The two companies meet to coordinate conceptual planning, studies and work scope development.

Results include:

- **Lean Six Sigma (LSS) Rapid Improvement (RI) event joint efforts with ITC-M.** IPL and ITC-M jointly recognize there is sometimes a lack of clarity in joint planning/design/construction processes between the companies, including forms, communications, budgets, etc. This leads to challenges in schedules for design and construction as well as impacts on budgeting for each company. IPL initiated a LSS project in November 2011 to address this issue. ITC-M was invited and agreed to participate. The joint project reached a major milestone in early May 2012 when a RI event was held over two days to focus on the process flow, refining the process and documenting along the way. The event promoted a more clearly defined process of interaction between both companies from the early stages of planning through work scope development, engineering design, project management, construction and closure of a project. The results of this effort are:
    - Formal communication with notices of receipt that will promote both companies working off the most recent information.
    - Alignment on work plans through integration of ITC-M project information into IPL's project database.
    - Engineering alignment through earlier release of projects by IPL to match with ITC-M design schedules.
    - Budget alignment on multi-year plans through monthly meetings.

  In 2011 IPL requested and ITC Midwest provided a multi-year project list. In 2012 ITC Midwest and IPL have been meeting monthly where plans are shared and updated to better align budgets.

Currently, the project team is finalizing the process map, with the objective to set clear responsibilities and expectations between IPL and ITC-M regarding transmission project scope, schedule and cost on an individual project basis. Controls are being designed to maintain the process integrity over time. Currently, the LSS project is targeted for completion and full implementation in July 2012.

Results continued:

- **34kV to 69kV conversions and other projects completed.** ITC-M completed several 34.5 to 69kV conversion projects in the last several months, as presented at ITC-M's Spring Partners in Business Meeting. (Link: ITC Midwest Partners in Business Spring Meeting Presentation, May 23-24, 2012) These completed projects include:
  - Rose Hollow;
  - Grand Mound;
  - North Grand Jct. to Paton REC;
  - Boone to Jewell;
  - West Branch to West Liberty;
  - Monmouth to Monmouth;
  - Otter Creek to Radcliff;
  - Truro Tap;
  - Quasqueton REC to Quasqueton Jct.;
  - Andrew Sub Tap;
  - Alden Rural;
  - Monticello to Amber; and
  - Shady Grove to Brandon.

In 2012 IPL and ITC-M have begun monthly meetings to better align budgets, as noted in item 1. Support of ITC-M's 12 year rebuild plan is a priority for both IPL and ITC-M; this monthly meeting is intended to eliminate budget discrepancies. In addition it is the goal of IPL to support the 18 year conversion schedule. This is a priority as there are certain reliability and operational benefits associated with conversion to 69kV. Currently IPL feels that it is on track to meet the 18 year conversion schedule and that ITC-M is on track to meet the 12 year rebuild schedule and the 18 year conversion schedule.

ITC-M reports that it is on pace to meet the 12-year 34.5 to 69kV upgrade schedule with cooperation from its customers and in concert with its needs and resources.

In addition, ITC-M noted the following system projects that have been completed in recent months and have been placed in service, with the benefits as noted:

- Lore – Seippel Road 69kV Rebuild;
  - 2.67 miles of 69kV line increased capacity to 77 MVA

- Marshalltown – Boone Jct. Path Converted to 161kV;
  - Increased line capacity
- Freeborn – Hayward 161kV Rebuild;
  - Increased line capacity to 446 MVA
- Washington 69kV Substation Rebuild;
  - Improved protection scheme and replaced equipment in poor condition
- New Glenworth 161/69kV Source to Hayward Area;
  - Allows for three new 69kV circuits to serve the area
- PCI – River Run 161kV Line;
  - Allows ITC to retire several 34.5kV lines and is part of the Cedar Rapids area improvements
- Beaver Rock 69kV Switching Station;
  - Provides an additional source for the CIPCO 69kV system
- Added Cap Bank at Leon; and
  - Eliminates the need to run combustion turbines for voltage support
- Iowa Falls Industrial Transformer Replacement.
  - Increases capacity ensuring within limit

Results continued:

- **Update on lessons learned from July 2011 wind event.** Early in the morning of July 11, 2011, 130 mph straight-line winds created a path of destruction 30-miles wide and 70-miles long in central and east central Iowa. IPL and ITC-M each performed a "lessons learned" evaluation independent of one another following this event. This type of evaluation is standard practice for each company following such an event. IPL and ITC-M met face to face at the IPL facilities in Cedar Rapids to share results of those evaluations. ITC-M has designated an employee to be the official storm liaison with IPL and will report to the Distribution Dispatch Center at IPL's facility. The role of this position will be to better coordinate outage restoration efforts through sharing more information and participation in IPL's Restoration Event Organization conference calls. The companies also took the opportunity to provided updated contact information to one another.

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.

Continued close coordination between the IPL and ITC-M planning and project management organizations has resulted in cost-effective, improved reliability of the overall transmission and distribution system.

6. IPL Projections of ITC Midwest and MISO Rates

Following IPL's December 15, 2011, Transmission Stakeholder Informational meeting, IPL received various comments and requests from stakeholders. These comments and requests were predominately provided by the Iowa Consumer's Coalition (ICC). The ICC's formal request is attached as Appendix 3 to this Report.

In short, these comments and requests from ICC to IPL were for:

- More detailed reporting on changes to ITC-M rates, drivers and reasonableness;
- More detailed reporting on changes to MISO transmission rates for regional projects (for example, MVPs);
- Two to five-year forecasts of rates for ITC-M and MISO regional transmission projects;
- Details of IPL's activities to ensure MISO projects are selected on lowest reasonable cost basis and provide benefits to IPL customers commensurate with cost; and
- Improved clarity of ITC-M reliability performance.

IPL's responses to ICC are provided in Appendices 4-6. IPL had developed an internal model to forecast and illustrate the ITC-M rate formula components over time. IPL used publicly available information from ITC-M's published Attachment O rates, true-ups, investor presentations, and IPL's own forecast of load and offsets to ITC-M revenue requirements.

In order to develop more representative and accurate forecasts of ITC-M rates, IPL had a standing request to ITC-M for an update to its five-year capital forecasts and its revenue requirements projections. Both of these had been previously provided by ITC-M in December 2011 with the then-best available information, but were known to be dated information. The new five-year capital forecast became available in February with the ITC Holdings investor reporting of 2011 year-end earnings. Additionally, ITC-M provided an explanation on the differences between the new capital forecast and the previous 2010 forecast. The capital forecast is summarized in Figure 11 below.

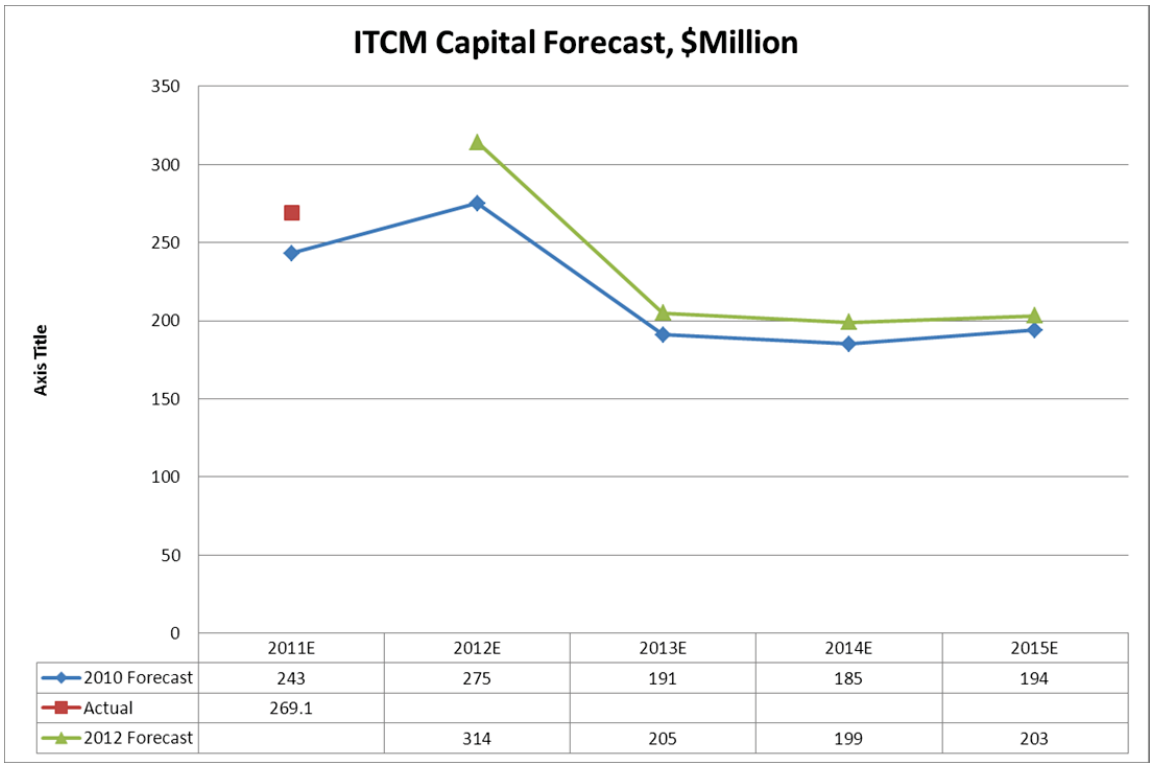


Figure 11 – ITC-M Capital Expense Forecast

ITC Midwest explained that the increase in new capital forecast over the prior forecast in Figure 11 is due to:

- Shifts in various project expenditure timing for 2011.
- Salem-Hazelton 345kV and Marshalltown-Nuthatch 161kV projects in 2012.
- Line clearance mitigation for NERC alert and various project timing for 2013 and beyond.

ITC-M provided its revenue requirements projections to IPL in March 2012 and subsequently posted publicly on the ITC-M OASIS system at MISO. This information is shown in Figures 12 and 13 below.

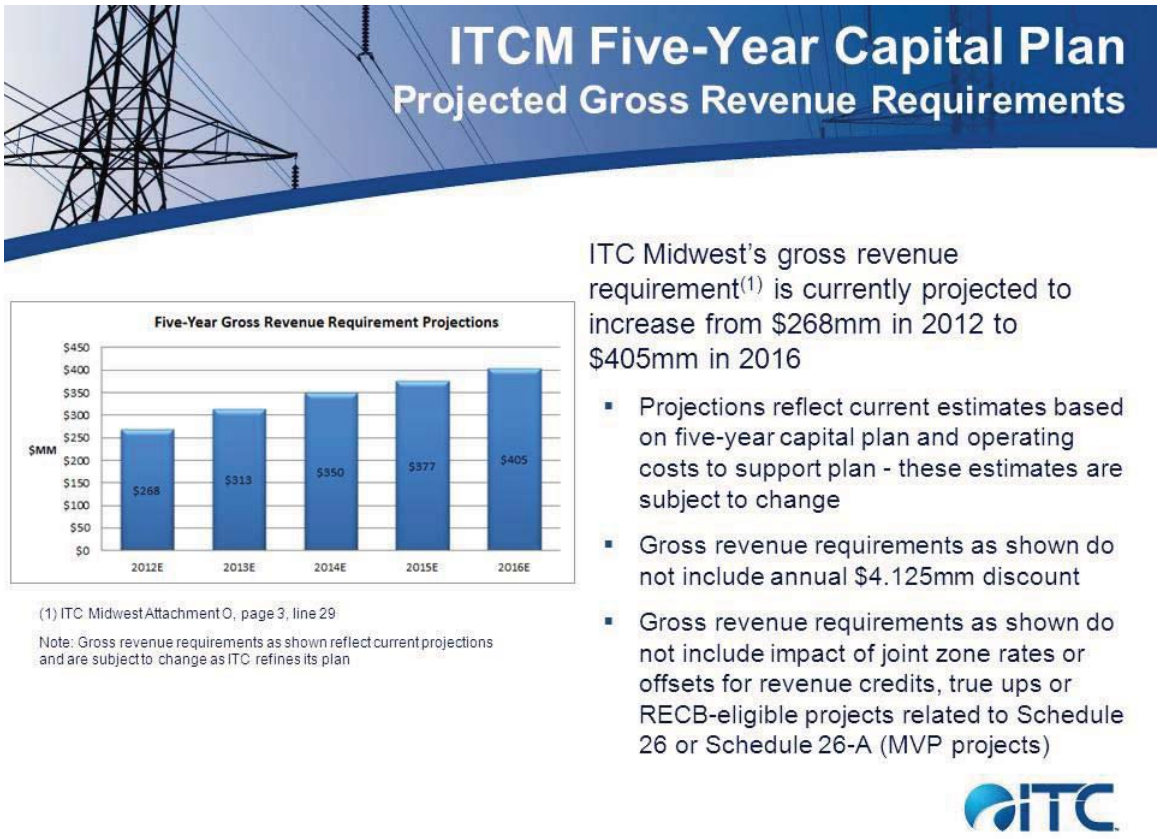


Figure 12 – ITC-M Projected Gross Revenue Requirements

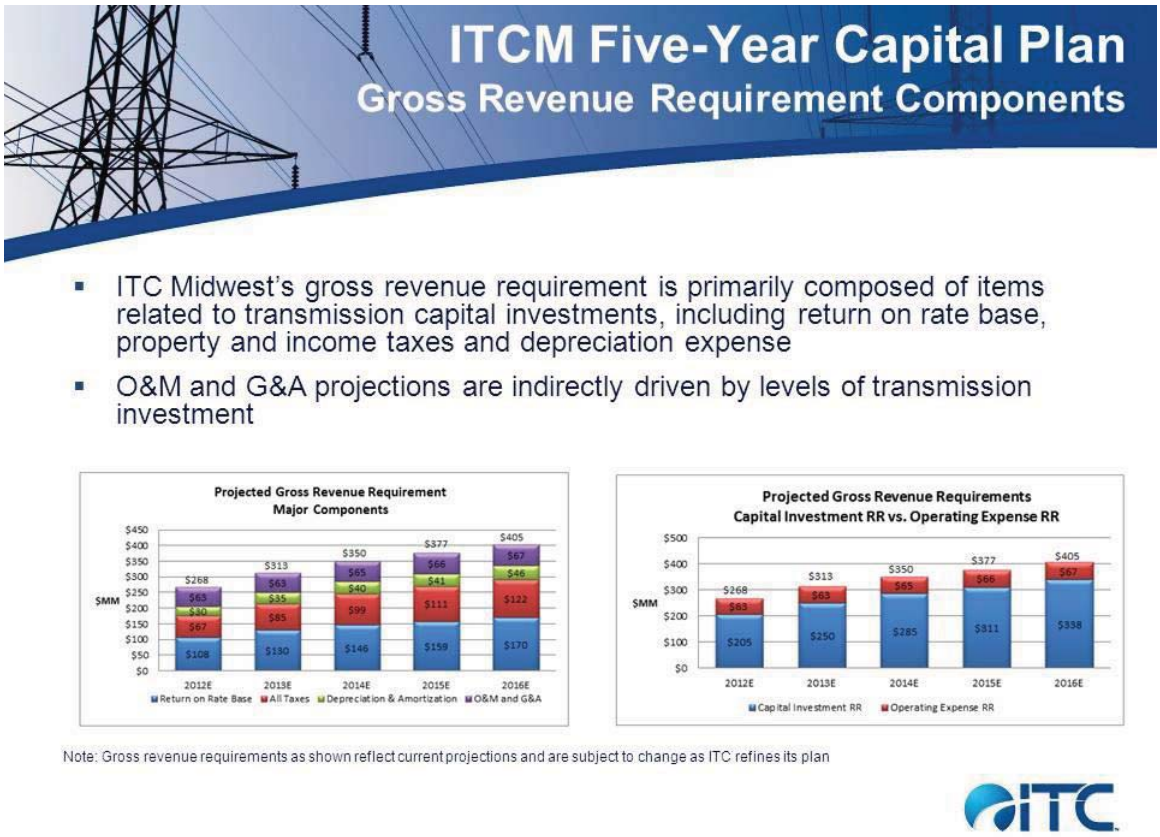


Figure 13 – ITC-M Projected Gross Revenue Requirement Components

From the ITC-M projected revenue requirement information, IPL updated its rate forecast modeling of ITC-M rates. In order to develop accurate forecasts of ITC-M rates and to assist with responding to some of the specific questions of stakeholders, IPL formally requested specific additional information from both ITC-M and MISO. IPL's letters requesting this information are included with this Report as Appendices 9 and 7, respectively.

The responses from ITC-M and MISO are included with this Report as Appendices 10 and 8, respectively. Both responses affirmed information that had been communicated previously but neither response provided any new substantive information to improve the quality of the IPL's forecasts and answers to.

IPL's forecast modeling of ITC-M rates yielded the Rate Base Projections and the Network Rate Projections Paid by IPL in Figures 14 and 15 below. IPL's 2013 rate forecast for ITC-M projection includes the approximate $10 million true-up credit announced on May 31, 2013 by ITC-M. Preliminary analysis of the true up shows that it is largely due to greater revenue offsets for regional projects and higher load than originally forecast by ITC-M, somewhat offset by higher gross

plant in service and higher O&M expense due to NERC line clearance compliance work.

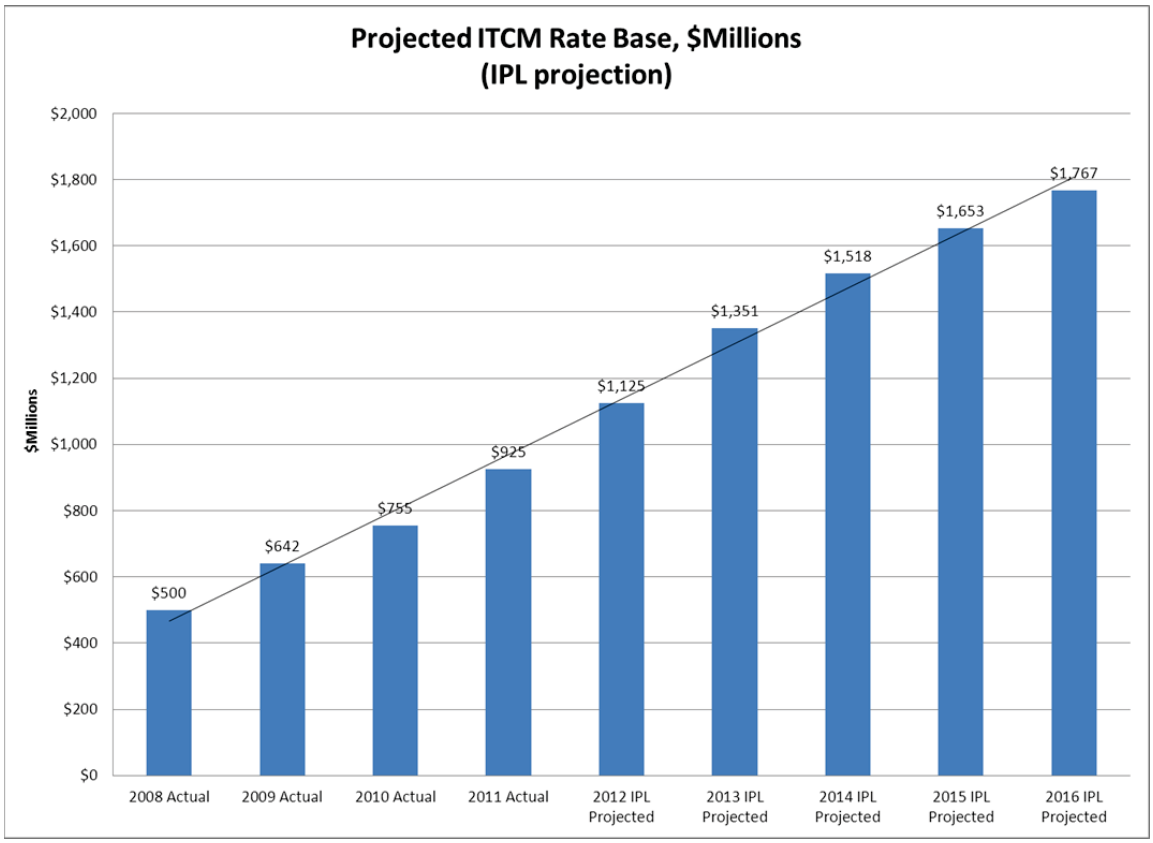


Figure 14 – IPL Projection of ITC-M Rate Base

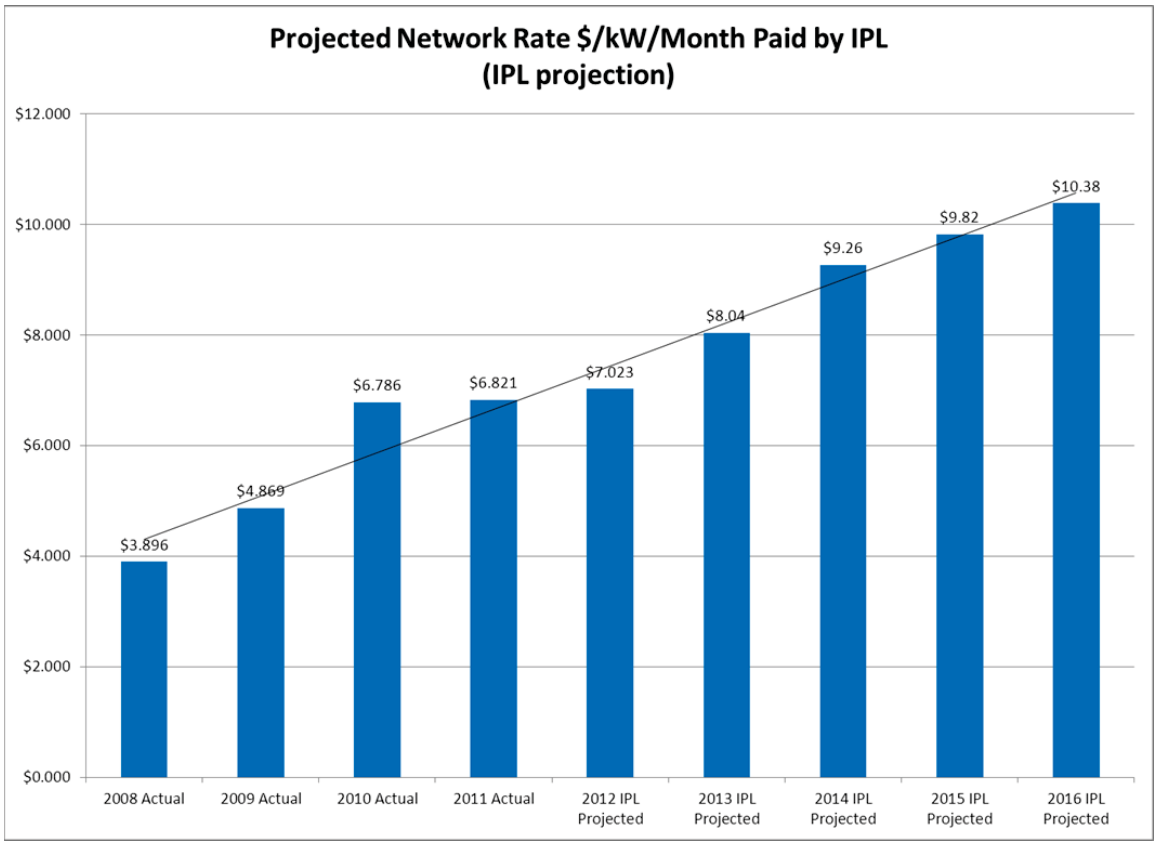


Figure 15 – IPL Projection of ITC-M Network Rates Paid by IPL

Results:

- From this analysis, IPL concluded that:
  - **The key driver impacting ITC-M rate increases is the new capital investment each year which rapidly adds to rate base.**
  - No dramatic year-to-year jumps in rate components such as O&M, A&G, depreciation or taxes are observed. These components generally follow changes in rate base.
  - Near term capital projections appear to result from specific planned projects, while long term projections appear to be in part a function of revenue requirement.
  - IPL continues efforts on reconciliation of capital project lists and costs for the near term plans through publicly available information from ITC-M, MISO MTEP, and what is made available to IPL in joint planning meetings.

IPL also summarized MISO's Schedule 26 and Schedule 26A rate forecasts for large projects cost shared across the MISO footprint. The MISO forecasted charges and rates for Schedule 26 and Schedule 26A respectfully are illustrated and summarized in Figures 16 and 17 below.

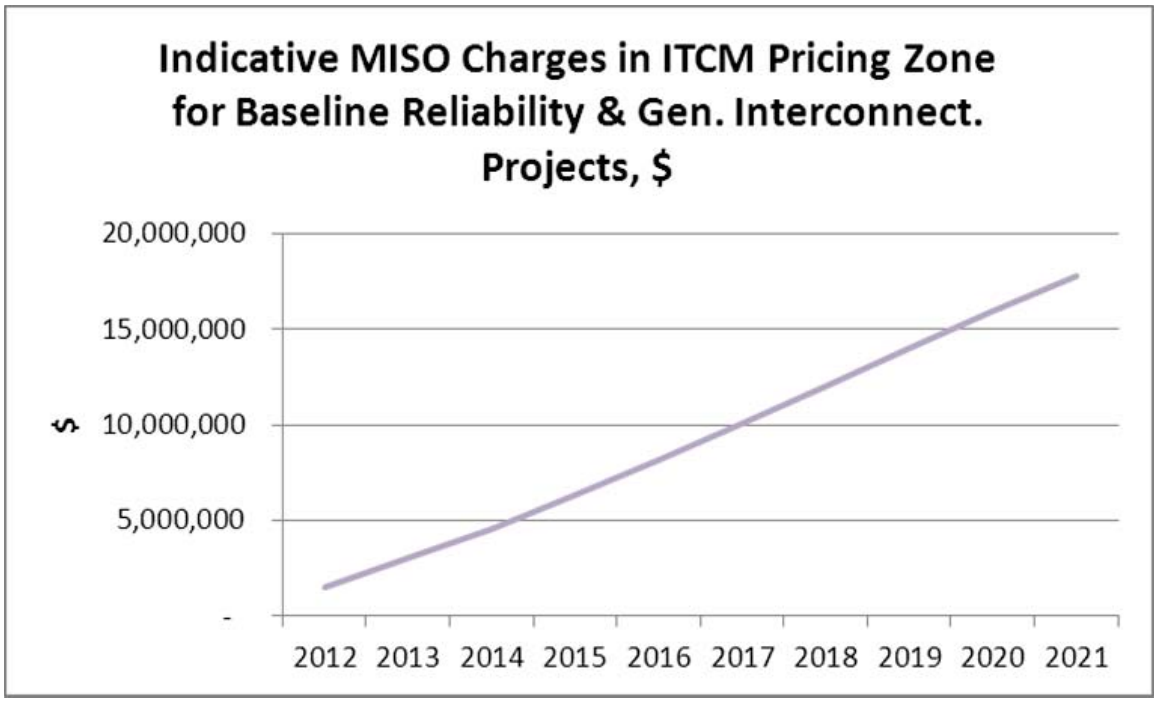


Figure 16 – MISO Schedule 26 Regional Project Rate Forecast

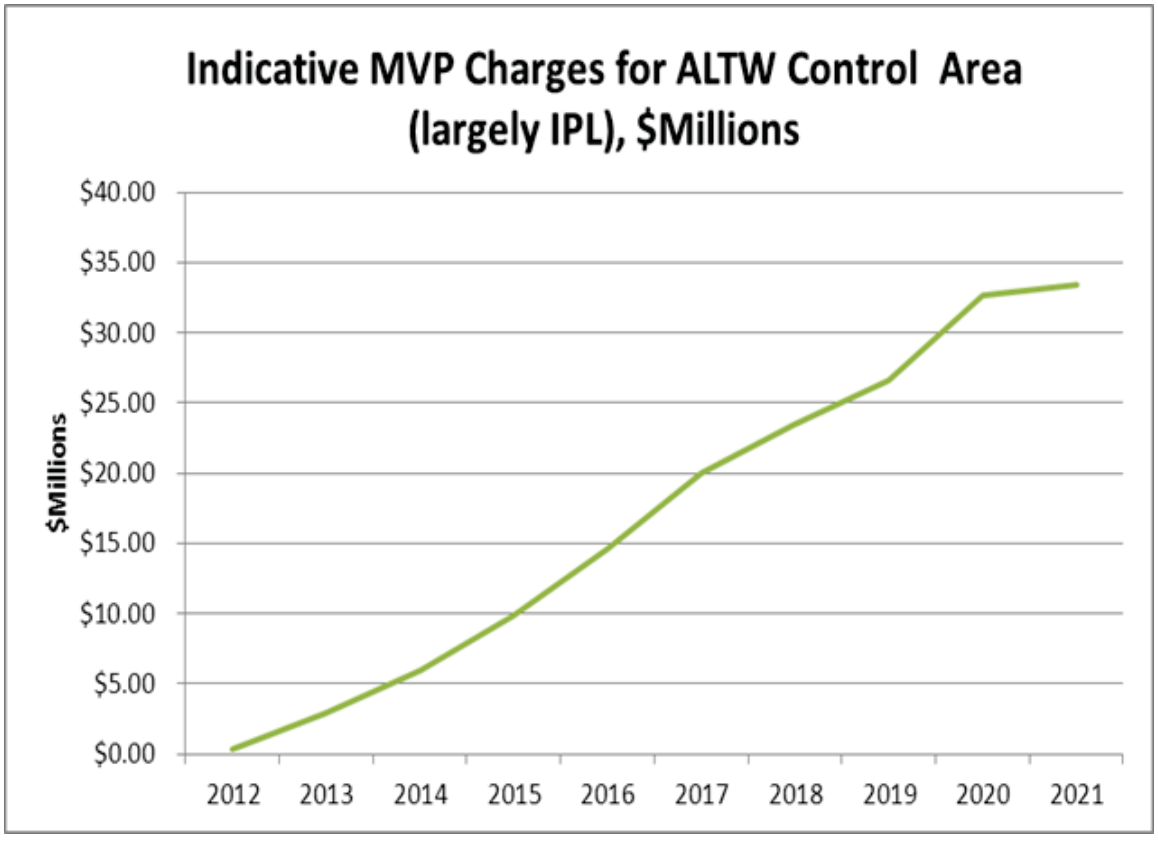


Figure 17 – MISO Schedule 26A Regional Project Rate Forecast

When reviewing MISO's forecasts in Figures 16 and 17, it should be recognized that:

- These costs are projected by MISO.
- While the costs of the MVPs shown in Figure 17 increase through 2021, they then decrease as the projects are put into service and have begun depreciating.
- While both the Schedule 26 and 26A rates are components of IPL transmission costs and increasing, they collectively are an order of magnitude less than ITC Midwest costs.
- IPL's influence on MISO costs is through:
  - Close coordination with ITC Midwest on projects and costs
  - Active engagement with the MTEP process at MISO on projects
  - Active engagement at FERC on cost allocation issues (such as ITC Midwest's Attachment FF and MISO Attachment O rate transparency discussed later)

Results:

- In summary, IPL concluded that:
  - **Again, for the ITC-M rates forecast by IPL, the key driver is the new capital investment each year which rapidly adds to rate base.**
  - IPL's challenge and strategy continues to be influencing transmission cost by advocacy for IPL customers with ITC-M, MISO and through regulatory policy.
  - Specifically, IPL will continue to do so through:
    - Close coordination with ITC-M projects and costs;
    - Active engagement with the MTEP process at MISO on projects; and
    - Active engagement at FERC on cost allocation issues (such as ITC-M's Attachment FF and MISO Attachment O rate transparency).

More expansive detail on IPL's analysis and response to stakeholder questions can be found respectively in Appendices 4, 5 and 6 to this Report.

7. Transmission Outage Performance and Operations Coordination

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

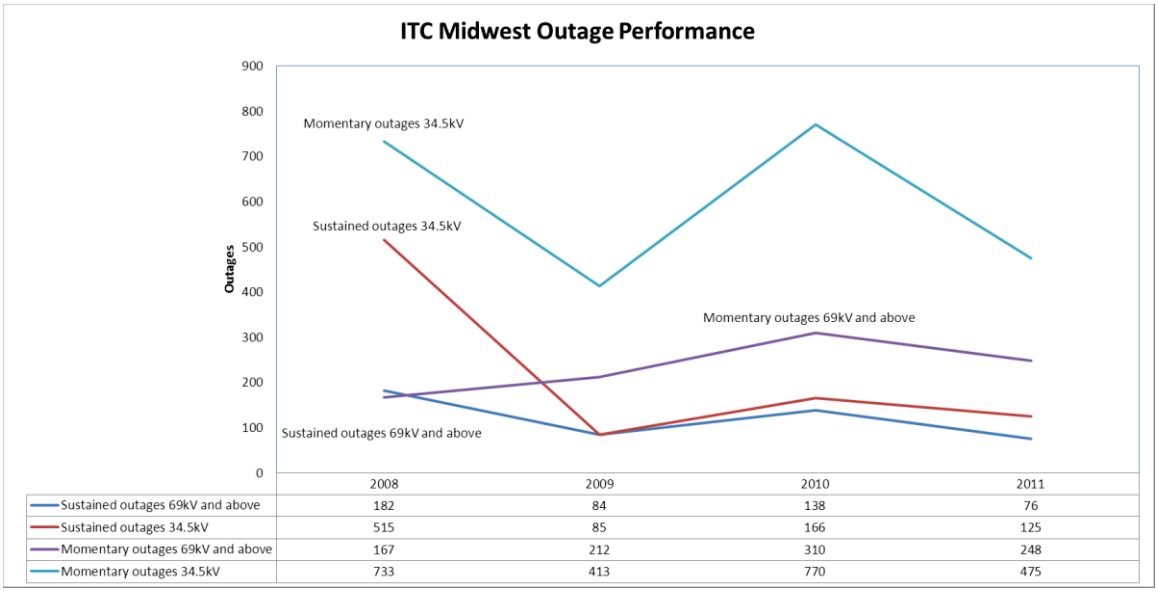
After the transition of 69kV and above transmission operations to ITC-M in December 2008, IPL worked with ITC-M to help monitor and improve

transmission outage restoration times for sustained outages. ITC-M agreed to a 2011 goal of 63% of transmission outages restored within 90 minutes, which is the average level of performance achieved by IPL in 2005 through 2007, the three years prior to ITC-M's acquisition of IPL's transmission assets. IPL and ITC-M have observed improved, and now consistently stable, restoration performance at near or above this level. However, based on feedback from stakeholders, improved clarity of the overall ITC-M *reliability* performance is desired.

Results include:

- **Introduction of reliability metrics.** From stakeholder feedback and the observed improvement in restoration performance, both IPL and ITC-M have now de-emphasized the joint monitoring of the restoration performance metric, although it is since compiled monthly by IPL and reviewed by both companies in the joint Operations Committee meetings. In the fall of 2011, IPL requested that ITC-M share a form of reliability statistics that ITC-M had developed. The reporting was refined and formally used starting with the monthly meetings in January 2012, where the emphasis has shifted to reliability performance tracking.

- **Continued reduction in outage events over prior years.** From the reliability data provided by ITC-M, IPL produced the graph shown below in Figure 18. Through 2011, a general improvement trend in the number of sustained and momentary outages since the transmission sale and purchase is observed. Overall, there is evidence of reduction in sustained outages 69kV and above. The year 2010 data is considered abnormal due to the number and severity of weather events, as noted on the graphic. 2008 performance was also severely impacted by weather events, most notably flooding. A modest increase in momentary outages might be attributed to improved maintenance, including an aggressive vegetation program by ITC-M. Therefore, some events that may have resulted in sustained outages in the past are now only momentary.



	2008	2009	2010	2011
Sustained outages 69kV and above	182	84	138	76
Sustained outages 34.5kV	515	85	166	125
Momentary outages 69kV and above	167	212	310	248
Momentary outages 34.5kV	733	413	770	475

Figure 18 – ITC-M System Reliability

Results, continued:

- **Introduction of industry standard measures of customer outage experience (SAIFI, SAIDI and CAIDI; transmission only).** These metrics are yet another means to monitor long term trends of both reliability and restoration performance. The graphics shown below in Figures 19, 20, and 21 were compiled by IPL using IPL customer outage data and illustrate the customer reliability performance in terms of transmission only for the 10-year period 2001–2011. These metrics reflect a consistent means of measuring the customer transmission outage frequency and duration both before and after ITC-M purchased the transmission system in December of 2007. 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.

  SAIFI (System Average Interruption Frequency Index) - Average number of outages experienced by all customers.

  SAIDI (System Average Interruption Duration Index) - Average length in minutes of outages for all customers.

  CAIDI (Customer Average Interruption Duration Index) - Average length in minutes of outages for all customers who experienced an outage. Also = SAIDI/SAIFI.

  A general improvement trend in the number and duration of customer outages is also observed from this data since the transmission assets were acquired by ITC-M.

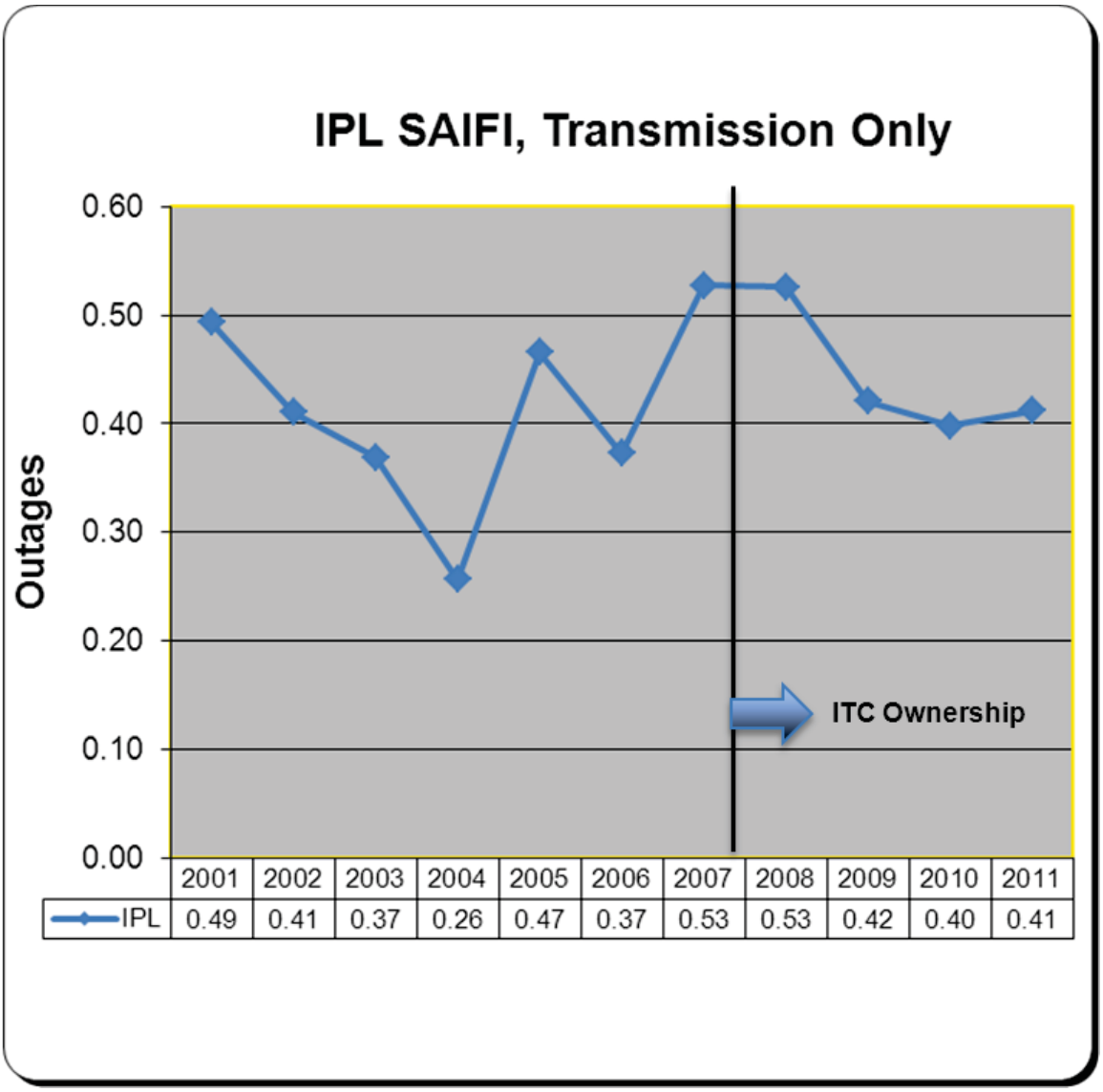


Figure 19 – Transmission Reliability, SAIFI (System Average Interruption Frequency Index) - Average number of outages experienced by all customers.

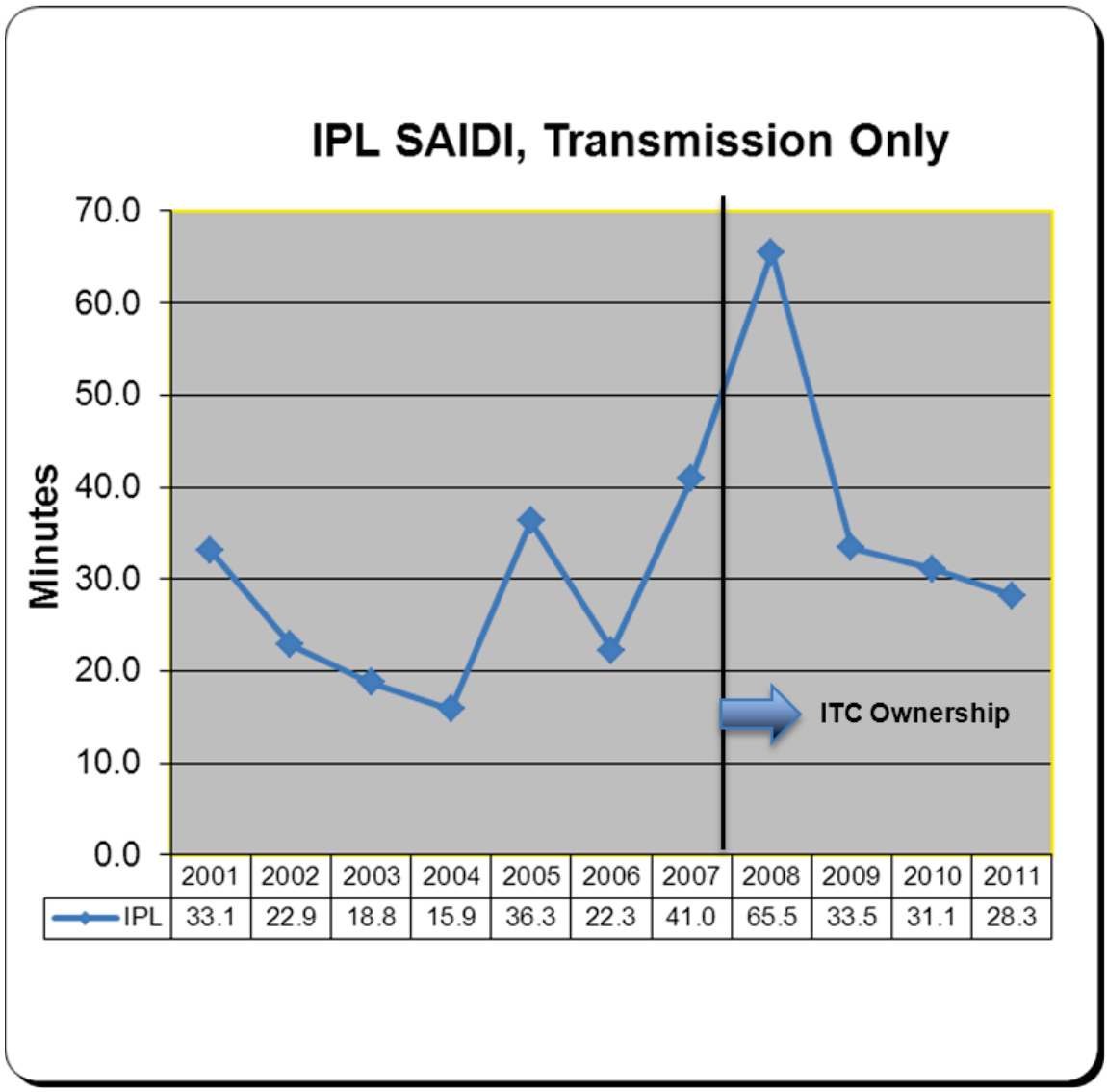


Figure 20 – Transmission Reliability, SAIDI (System Average Interruption Duration Index) - Average length in minutes of outages for all customers.

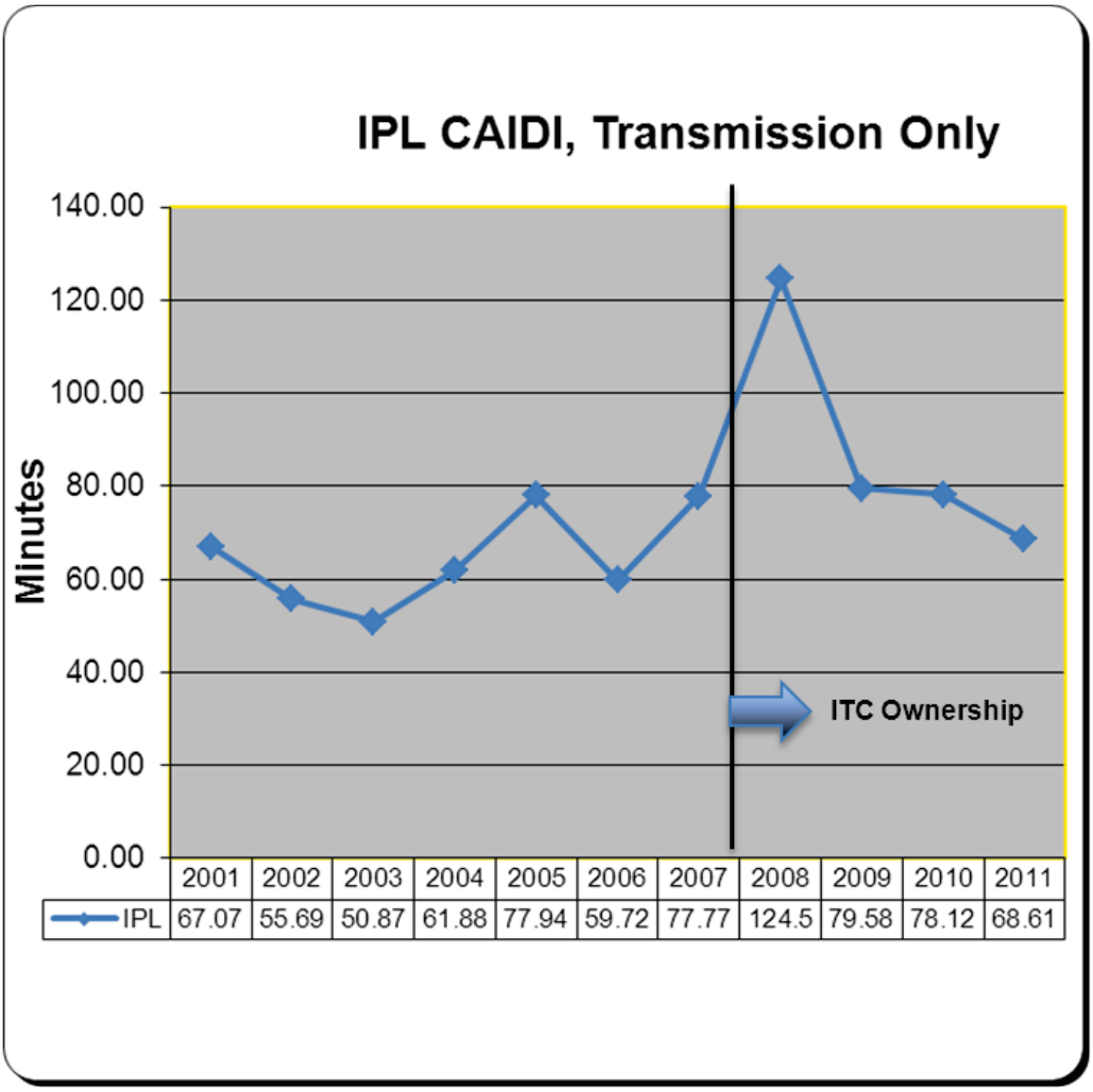


Figure 21 – Transmission Reliability, CAIDI (Customer Average Interruption Duration Index) - Average length in minutes of outages for all customers who experienced an outage. Also = SAIDI/SAIFI.

IPL attributes the improved reliability illustrated by these metrics in part to ITC-M's maintenance program, new and rebuilt lines and substations, and the 34.5 to 69kV rebuild and conversion program.

Results continued:

- **Use of ITC-M analyses of momentary and sustained outages.** Based on feedback from customers, IPL recognized that some customers did not have knowledge of or understand that ITC-M performed analysis of

momentary outages as well as sustained outages or undertook steps to improve line performance.

ITC-M analyzes every outage event (including momentary outages) and determines a root cause for all sustained outages 69kV and above. The cross-functional Operations Committee, internal to ITC-M, reviews each outage, cause, and identifies corrective actions. The internal ITC-M Operations Committee also identifies the poorest performing circuits, including 34.5kV. The results are used by ITC-M Planning and Asset Management departments to prioritize maintenance and line rebuild activities.

IPL now distributes monthly the ITC-M reliability metrics, outage event analysis and poor performing circuit information to IPL's field operations management team.

From IPL's interactions and observations of ITC-M's operations, IPL is confident that ITC-M has been using sound performance analysis methods for maintenance and rebuilds project prioritization, and continues to refine the methods.

Results continued:

- **Process improvement to minimize impacts to large industrial customers from planned outages.** In 2011, IPL initiated a Lean Six Sigma project for process improvement of the planned outage coordination with ITC-M, particularly those planned outages that involve switching by or impact to IPL's large industrial customers. ITC-M was invited to participate and has willingly done so. The project resulted in recognition by IPL and ITC-M of opportunities for improvement, but has not yet yielded definitive process redesign. It has, however, helped both organizations conclude that the coordination problems experienced have been associated with scheduling and coordination of ITC-M work of a maintenance nature, less so with rebuild or new facility construction. IPL's ability to allocate and schedule resources and coordinate with customers to support ITC-M maintenance activity is challenged unless there is adequate notice given and the opportunity provided to evaluate alternatives. A recent IPL customer event has helped ITC-M better understand the issue and renewed emphasis and commitment has been placed on resolving it. Both companies continue to evaluate potential process changes. In the meantime, the heightened awareness of the issues has increased coordination efforts on individual maintenance projects.

  In order to further facilitate IPL's, IPL customers' and ITC-M's coordinated maintenance activities, IPL's Account Management personnel continue to collect IPL large customer plant outage and maintenance schedules, and

refine the process for doing so. IPL then proactively, confidentially, and with the customer's permission, shares these schedules with ITC-M in an effort to optimize ITC-M maintenance activities to minimize inconvenience or unplanned outage risk for these IPL customers.

Results continued:

- **Improvement of communications with customers by IPL and ITC-M.** IPL's Account Management and ITC-M's Stakeholder Relations groups have coordinated and agreed on an overall IPL customer communications protocol. Several joint meetings with large IPL customers, IPL and ITC-M representatives have occurred in the last several months to discuss transmission issues or concerns, some proactively coordinated by IPL and ITC-M, others at customers' request. These meetings have been beneficial to all involved, and IPL and ITC-M have agreed to continue these meetings at least annually with particular large transmission-connected customers.

- **Joint addressing of specific customer concerns.** Since January 1, 2012, IPL and ITC-M have worked together to address several specific IPL customer issues and concerns. The following represent a couple of those more significant interactions, with the specific customer names omitted for confidentiality:

  - IPL and ITC-M have held joint monthly project review meetings with representatives of a particular industrial customer since early 2009 to review the substantial power supply infrastructure work that has been occurring at the customer's facilities and associated ITC-M and IPL substation facilities. This work has included various replacements of transformers and switchgear, capacitor bank and controls installation, line moves, underground feeder installation, and substation flood wall/berm installation. Each party has had individual projects that are all related to the overall improvements and must be carefully coordinated with each other. The project meetings ensure that the parties are aligned, and will continue for the foreseeable future on a monthly basis or more frequently as needed.

    In the course of project work this spring, IPL discovered some damage to ITC-M's transmission infrastructure that could negatively impact the IPL customer. In addition, during ITC-M area line work, the customer's generation was taken off line for unplanned maintenance and an area transmission line was highly loaded for a short time. Resolution required the customer to adjust its load distribution and temporarily bring back its generation. Lastly, a maintenance need emerged on a critical piece of ITC-M transmission equipment serving the same customer, and efforts to

schedule repair for both the damage and maintenance needs, were problematic to the customer's production schedule, on-going supply reliability, and maintaining all parties' schedules for the already on-going project work. These numerous challenges were encountered and resolved in a relatively short period of a few weeks. Through considerable negotiation, detailed planning and risk assessment, the parties agreed to revised project plans and emergent equipment maintenance scheduling. Regarding the project work, IPL has assumed more of the asset ownership and project management responsibility in the interest of the customer. Project work continues.

- Significant ITC-M substation equipment replacement and upgrade work required reduced transmission supply redundancy to a group of IPL customers. IPL worked with ITC-M to reduce the risk of the planned work. IPL, through its normal processes, notified large IPL customers of the temporary reliability situation. No customer outages were required. Customers raised concerns, particularly about the duration of the work and resulting reduced reliability. IPL worked with ITC-M to allocate additional resources and accelerated the work to return additional lines to service sooner. This reduced the reliability risk for the remainder of the project.

Please note that these are only a representative sample of interactions with IPL customers of all sizes where IPL has worked closely with ITC-M to maintain and improve reliability, and to manage cost impacts to customers.

8. Other Transmission-Related Activity

Proposed Large Transmission Projects

A few large transmission projects have been previously announced which could impact the IPL service area. However, none of these projects have yet entered into the MISO MTEP process, nor is it known if they ever actually will. Only one project has had any new developments since those previously —listed in IPL's December 2011 Report. That project is the Clean Energy Partners - Rock Island Clean Line (Clean Line).

Clean Line made application to FERC on November 8, 2011, seeking negotiated rate authority for the project (Rock Island Clean Line LLC Docket No. ER12-365-000).

Result: As noted in the December 2011 Report, IPL intervened in the Clean Line FERC docket on November 29, 2011, In this proceeding, IPL opposed the project because "limited information that has been provided and an apparent lack

of due diligence into the Project's potential affects [to the regional transmission system or IPL customer costs]."

Clean Line submitted its response in the FERC docket on December 14, 2011. In its response, Clean Line stated that, under FERC Order No. 1000, it does not have to participate in an RTO planning process and it has appropriately advanced the interconnection issues related to the Project with its PJM applications. Clean Line also expressed its expectation that the Project will be studied in the MISO MTEP 2012 as a "no harm study".

FERC issued an Order on May 22, 2012, approving Clean Line's filing with the exception of Clean Line's proposal to give preference to renewable energy in an open season capacity allocation process. FERC granted deference to Clean Line's response, noting that the project will go through the MISO and PJM reliability and interconnection study processes.

IPL understands that the Clean Line project developers continue with the line right of way planning and acquisition.

Meeting Participation

IPL attended ITC-M's Spring Partners in Business meeting in Cedar Rapids on May 23, 2012, to learn more about status of planned projects, operating performance, tariff components, etc. The presentation from this meeting is publicly available.
(URL:
http://oasis.midwestiso.org/documents/itcm/2012%20Spring%20Partners%20In%20Business%20FINAL.pdf).

At IPL's request, ITC-M agreed to participate in and present at IPL's Summer Transmission Stakeholder Informational meeting in Cedar Rapids on June 5, 2012.

Safety

Representatives from IPL field operations have continued to attend ITC-M's quarterly, regional safety meetings. Likewise, ITC-M has had representatives attend IPL Safety Days events in early 2012. These continue to be good opportunities for each organization's staff to get to know its counterparts, foster stronger working relationships and to learn more about each other's work and safety practices.

MISO Emergency Response

ITC-M is responsible for annually preparing, updating, and drilling its System Restoration Plan (SRP). This involves significant coordination and involvement with Local Distribution Companies (LDCs) such as IPL. IPL participates in the MISO SRP drills and conducts after-drill reviews with ITC-M.

The latest drills were successfully completed in May 2012, and both organizations noted that the coordination process continues to become smoother as refinements are made. ITC-M representatives participated with IPL in IPL's Distribution Dispatch Center in Cedar Rapids, IA and with Alliant Energy's Generation Dispatch Center in Madison, WI.

IPL and ITC-M periodically share key contact information, as well as structures and processes related to the transmission and distribution aspects of each company's disaster recovery plans. Representatives of each company are designated to participate in each other's disaster recovery coordination, if called upon.

9. Stakeholder Informational Meeting

On June 5, 2012, in Cedar Rapids, IPL held its third Semi-Annual Transmission Stakeholder Informational meeting. The meeting was attended by 13 large customers and customer representatives. This meeting was developed based on feedback from the post-meeting survey of all the attendees of the first and second meetings held in 2011 and additional feedback from various stakeholders. The summary agenda topics discussed were:

- Transmission Planning Overview;
- IPL Projections of ITC Midwest and MISO Rates;
- ITC Midwest Update;
- Update on FERC and MISO Activity, IPL Involvement; and
- Transmission Reliability and Operations Update.

The meeting was also attended by 12 IPL representatives. Two representatives from ITC-M also participated and presented an update. Among the feedback, comments, questions and discussion generated were:

- Concern about the increasing ITC-M rates forecast by IPL and MISO shared cost project rates;
- Desire for better understanding of transmission rate forecasts as part of overall energy costs;
- Questions and concern about comparison to ITC-M rates to MidAmerican Energy and explanation of the differences;
- Concern about the ability of IPL to manage ITC-M and MISO costs, and thus the costs to IPL customers;
- Questions seeking more clarity about the reliability metrics presented; and
- Desire for continued concentration on issues and results.

More details, including the presentations from the June 5, 2012 Transmission Stakeholder Informational meeting are included in Appendix 12 to this Report.

Several questions were asked at the previous Stakeholder Informational meeting in December 2011 and were addressed in a follow-up Q&A sent to meeting attendees on February 1, 2012. The follow-up Q&A is included as Appendix 11 of this Report.

10. Timetable of Events Influencing Transmission Rates

A timetable of events in 2012 which have influences on transmission rates and project planning are listed in Table 4 below.

Table 4 – Timetable of transmission events influencing transmission rates

2012 Month	Description
January - December	IPL/ITC Planning & Project meetings
June	ITC-M 2011 True-up amount released ($10.17M credit to 2013 rates posted on June 1)
September	ITC-M preliminary 2013 Attachment O (MISO Schedule 9) rates released
September - December	• IPL analysis and evaluation of ITC-M Attachment O rates • Continued IPL feedback on ITC-M projects in MTEP 2012
November	IPL 2013 Transmission Rider Factors submitted to IUB
December	• IPL 2012 Transmission Rider Factors approval normally anticipated by Board • MISO Board of Directors consideration for approval of MTEP 20121 projects

Appendix 1 – IPL Filed Comments to FERC in Docket No. EL12-35-000, Investigation of MISO Formula Rate Protocols

Appendix 2 – IPL Filed Comments to FERC in Docket No. PA10-13-000, FERC Audit of ITC Holdings

Appendix 3 – Iowa Consumers Coalition Request Letter to IPL

Appendix 4 – IPL Response to Iowa Consumers Coalition

Appendix 5 – IPL Spreadsheet Analysis and Forecast of ITC-M and MISO Rates

Appendix 6 – IPL Supplemental Slides for Response to ICC

Appendix 7 – IPL Request Letter to MISO for Additional Data

Appendix 8 – MISO Response Letter to IPL

Appendix 9 – IPL Request Letter to ITC-M for Additional Data

Appendix 10- ITC-M Response Letter to IPL

Appendix 11 – Follow up Q&A to December 15, 2011 Stakeholder meeting

Appendix 12 – Stakeholder Informational Meeting Information

Appendix 1 – IPL Filed Comments to FERC in Docket No. EL12-35-000, Investigation of MISO Formula Rate Protocols

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Investigation of MISO Formula Rate Protocols	**)** **)**	**Docket No. EL12-35-000**

MOTION TO INTERVENE AND COMMENTS OF INTERSTATE POWER & LIGHT COMPANY

I. INTRODUCTION

Pursuant to Rules 211, 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("FERC" or "Commission"), 18 C.F.R. §§ 385.211, 385.212 and 385.214, Interstate Power and Light Company ("IPL") respectfully files this motion to intervene and provide comments in the above-captioned docket. The Commission's order in this docket on May 17, 2012, initiated an investigation of the Midwest Independent System Operator, Inc. ("MISO") and individual MISO transmission owners' formula rate protocols on file with the Commission. In the May 17th order the Commission expressed its concern that MISO's current formula rate protocols may be deficient in several respects, and thus may lead to unjust and unreasonable rates. IPL shares this concern and applauds the Commission for taking this matter under consideration.

IPL is a load-serving entity ("LSE") that owns and operates electric facilities engaged in the generation, purchase, distribution and sale of electric power and energy to approximately 525,000 electric customers in Iowa and southern Minnesota. IPL is a Transmission Dependent Utility ("TDU") by virtue of the fact that it sold its transmission assets (34.5 kV and above) in December 2007 to ITC-Midwest LLC ("ITC-Midwest").

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IPL continues to provide monitoring and control to the 34.5 kV system as a subcontractor under a FERC accepted agreement. IPL is a MISO market participant and incurs costs associated with the purchase of transmission service within the MISO market. IPL is a transmission customer of ITC-Midwest.

IPL strives to have open and frequent communication with its customers. IPL includes, on its bill, a separate line item for transmission service from MISO in order to be transparent with its customers. In the last 13 months IPL has held 3 open meetings with its customers to obtain feedback on issues related to transmission rates and service. From these recent meetings, IPL has learned that its customers continue to expect:

- more transparency in the make-up of transmission costs as well as drivers and rational for increases in costs;
- supporting evidence that the benefits associated with increases in transmission costs are quantified and that the benefits received are commensurate with the costs paid; and
- an improved dispute resolution processes which allows for stakeholders to effectively be able to voice their concerns.

Ensuring sufficient transparency and stakeholder involvement with transmission costs flowing through the MISO formula rates is vital for maintaining just and reasonable rates for electric customers. As such, IPL appreciates the opportunity to comment on these significant issues.

IPL and its customers have a direct and substantial interest in this docket, and IPL is submitting these comments as IPL and its customers will be directly affected by the

outcome. IPL's participation is in the public interest due to its unique obligations as a public utility providing the sole source of electric service in its service territories. No other party can adequately represent IPL's interests before the Commission.

II. COMMUNICATIONS

IPL requests that all communications regarding these comments be addressed to the following persons:

Kent M. Ragsdale
Managing Attorney - Regulatory
Alliant Energy Corporate Services, Inc.
Street: 200 First Street S.E
Cedar Rapids, IA 52406-0351
Telephone: 319-786-7765
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John W. Weyer II
Manager - Transmission Services
Alliant Energy Corporate Services, Inc.
Street: 200 First Street S.E
Cedar Rapids, IA 52406-0351
Telephone: 319-786-7112
E-Mail: JohnWeyer@alliantenergy.com

IPL also requests that Messrs. Ragsdale and Weyer be placed on the Commission's official service list for this docket.

III. BACKGROUND

IPL Transmission Asset Sale to ITC-Midwest

On January 18, 2007, IPL and ITC-Midwest signed an Asset Sale Agreement ("ASA") for the sale and purchase of all of IPL's transmission facilities, which are those facilities with voltages of 34.5 kilovolts ("kV") and above. All regulatory approvals were received and the transaction closed on December 20, 2007. This sale places IPL and its customers in a very unique position on this issue as IPL is no longer a transmission owner ("TO") but rather a customer of transmission services. IPL now receives most of its transmission services from ITC-Midwest, an independent for-profit, transmission-only company.

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ITC-Midwest Rate Attachment O

ITC-Midwest uses MISO's Transmission and Energy Markets Tariff (TEMT) Attachment O formula rate. Attachment O is a formulaic cost-of-service model that is completed annually by most transmission owning members of MISO based primarily on historic data from the FERC Form 1. One critical aspect of the ITC-Midwest rate construct is the use of projected financial data rather than historic FERC Form 1 data.

The resulting rates posted on MISO's Open Access Same-Time Information System (OASIS) each year. Attachment O and company-specific variations to Attachment O are specified on tariff sheets in MISO's TEMT. Completion of Attachment O results in the development of the network transmission service revenue requirement for any particular calendar year. This allows for adjustment of transmission rates to reflect changing operational data and financial performance, including the amount of network load on the transmission system, operating expenses and capital expenditures.

Attachment O is a detailed formulaic calculation which can be generally summarized and understood as follows:

Rate Base

x Rate of Return

= Return Requirement

+ Operations & Maintenance Expenses

+ Depreciation

+ Taxes Other than Income Taxes

+ Income Taxes

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= Gross Revenue Requirement for Network Transmission Service

- Rent Credits

- Point-to-Point Revenue Credits

= Net Revenue Requirement for Network Transmission Service

÷ Load

= Rate for Network Transmission Service

ITC-Midwest's Attachment O results in a projected rate that will be charged each year commencing on January 1, and then a true-up component of the rate will be charged commencing on January 1 of the first calendar year following the filing of the Form 1 for the projected rate period.

The ITC-Midwest true-up adjustment is computed as the difference between actual revenue requirement for transmission service and actual revenues for transmission services for load associated with transactions included in the divisor of Attachment O, as follows:

+ Actual Revenue Requirement

- Actual Revenues

= True-Up Adjustment for Under- (Over-) Recovery of revenue requirement

IV. COMMENTS

Scope of Participation

IPL supports interested parties such as state commissions and retail customers being able to participate in the exchange of information relating to transmission formula rate costs. This participation should allow for a meaningful opportunity for interested

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stakeholders to assess the formula rate input data and to question or challenge: (i) the accuracy or reasonableness of the inputs; (ii) the prudence of the costs to be recovered; and (iii) the resulting annual true-up.

Transparency

IPL's transmission service is substantially delivered through the transmission system of ITC-Midwest; 85-90% of IPL's total transmission costs are a direct result of ITC-Midwest's rates as calculated by its Attachment O. During 2008, for the first full year of asset ownership and operations, ITC-Midwest used the MISO Attachment O network rate previously used by IPL. In the following two years, ITC-Midwest's Attachment O network rate and resulting cost to IPL increased. The actual, effective network rates for ITC-Midwest for the first four years of operation are as follows:[1]

	2008 Actual	2009 Actual	2010 Actual	2011 Actual
ITC-Midwest Network Rate $/kW/Month	$3.896	$4.869	$6.786	$6.634

Despite a moderation of the effective network rate in 2011, an IPL projection of ITC-Midwest rates for the next few years continues to show substantial increases. IPL has prepared a forecast of ITC-Midwest rates based upon a variety of publicly available documents provided by ITC, primarily ITC projections of revenue requirements and return on rate base and other variables forecast by IPL. The forecasts by IPL result in the following:

[1] Network rates reflect ITC-Midwest Attachment O Rates and True Ups, as posted on the ITC-Midwest OASIS.

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	2012 ITC-Midwest Projected	2013 IPL Projected	2014 IPL Projected	2015 IPL Projected	2016 IPL Projected
ITC-Midwest Network Rate $/kW/Month[2]	$6.79	$7.79	$8.99	$9.52	$10.06

Higher rates do not alone equate to unreasonable rates, however, there must be sufficient transparency regarding the costs incurred in order for customers and other stakeholders to determine that the benefits being received are commensurate with the costs. This need for transparency is heighted considering the cost increases that IPL and its customers have experienced and continue to experience.

IPL's analysis and projections of ITC-Midwest rates reveal that forecasted rate increases are largely driven by ITC-Midwest's increasing rate base. Those rate base increases in turn are driven by continued capital expenditures as forecasted by ITC-Midwest. For example, after reaching just over $300 million in 2012, ITC-Midwest's own capital expenditure forecast remains at approximately $200 million per year for 2013-2015.[3] ITC-Midwest does provide some insight into the specific projects and costs that comprise this capital expenditure forecast in conjunction with its announcement and posting of the next year's Attachment O rate[4], and through its submittals of proposed projects to MISO in the annual MISO Transmission Expansion

[2]See attached affidavit of John W. Weyer II in regards to IPL's 2013-2016 projected ITC-Midwest network rate.

[3]ITC Holding Corp. 4th Quarter Feb 22, 2012 Conference Call & Webcast (http://investor.itc-holdings.com/events.cfm)

[4]http://oasis.midwestiso.org/documents/itcm/Oct%202011%20Master%20FINAL%2010.11.12.pdf

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Plan (MTEP)[5].

However, it is difficult to reconcile these projects to the annual projected capital spend much less their demonstrated need, quantifiable benefits, and priority for construction as determined by ITC-Midwest and MISO. IPL has made efforts in this regard through cross checking the MTEP projects against the list of projects provided in ITC-Midwest's Partners in Business presentations against project lists provided directly from ITC-Midwest to IPL. However, for 2012 IPL identifies a $65 million dollar gap between the list of projects compiled ($235 million) as compared to ITC-Midwest's 2012 capital plan ($314 million). While operations and maintenance (O&M), administrative and general (A&G), depreciation and tax expense are all projected by ITC-Midwest to remain relatively stable in proportion to overall revenue requirements[6], it remains a challenge to determine the reasonableness of each of these components in terms of comparison to other transmission owners, given that ITC-Midwest is rather unique as an independent transmission company.

IPL acknowledges ITC-Midwest has exhibited an increasing degree of transparency to its rate components through its Attachment O and true up postings, however, more information is necessary to understand the quantifiable benefits ITC-Midwest customers are receiving associated with the transmission rates they pay to ensure those costs are just and reasonable. IPL recommends that under its Attachment O protocols ITC-Midwest supply the following:

[5] https://www.midwestiso.org/Planning/TransmissionExpansionPlanning/Pages/TransmissionExpansionPlanning.aspx

[6] http://oasis.midwestiso.org/documents/itcm/Response%20to%20Customer%20Requests%20Regarding%20Five%20Year%20Capital%20Plan.pdf

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- a line item by line itemization of components of the revenue requirement,
- a detailed quantification of the expected benefits provided by the project or portfolio of projects, including resolution of NERC criteria violations, reduced congestion, improved reliability, replacement of aging infrastructure; and
- a complete copy of all analyses and studies relied upon by ITC-Midwest to provide the detailed quantification of expected benefits.

To further increase transparency, IPL also recommends the following items be required by ITC-Midwest's Attachment O protocols.

1. Each year, aligned with the determination of the true-up adjustment, when the TO meets, face to face, with all customers subject to its formula rate to review the formula rate true-up for the prior calendar year (the "Trued-Up Year") the meeting should provide:
   a) a detailed review of inputs of the formula calculations that determine the true-up adjustment as captured in the true-up presentations posted annually,
   b) an analysis for comparison of the detailed inputs from a) to the detailed inputs from the original Attachment O for the forecasted rate of that Trued-Up Year,
   c) an analysis for comparison of the divisor that determined the actual revenues to that used in the original Attachment O for the forecasted rate of that True-Up Year,

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d) specific cost data for each component analyzed sufficient to identify the driver behind the variance that resulted in the true-up,

e) an identification of the differences between the trued-up and the preceding year's trued-up rate,

f) a description of what, if any, impact the over (under) recovery from the Trued-Up Year may cause to the current year actual revenue requirement; and

g) a description of cost control methodologies used on projects and operations.

2. During the true-up period interested parties should have the right to serve reasonable informational and document requests. ITC-Midwest should make a good faith effort to respond to such requests within 15 business days.

3. To allow customers to more accurately forecast transmission expenses, each year ITC-Midwest should provide a 5-year (non-binding) projection of its formula rates. Since the transmission rate changes annually, IPL customers expect IPL and ITC-Midwest to provide a forecast of that rate so that the customers can project future utility costs. IPL's large industrial customers have indicated to IPL and ITC-Midwest their desire for more transparent forecasts.

4. An annual analysis on reliability data to determine a performance trend should be performed by ITC-Midwest. Such data should be provided in a format that can be shared with IPL's customers. Using this trend data in conjunction with the costs analysis information, ITC-Midwest should develop quantifiable benefits

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associated with the annual expenses in order to allow for determination of the just and reasonableness of its rates.

5. Practices and processes should be developed and followed by ITC-Midwest in regular day-to-day business decisions that promote prioritization of work based on the benefits provided to the ultimate end user. Such benefits can include risk reduction or reliability improvements and to the extent the risk of not doing work impacts IPL's customers. IPL must be consulted to ensure optimal solutions are selected for the system and the customer.

6. Independent transmission companies should be subject to a management audit every 2 to 3 years for the purpose of evaluating processes and costs to ensure the above items are being met, that management processes are reasonable as well as suggestions for improvement.

Challenge Procedures

The main challenge procedure that is currently available to customers receiving costs from transmission formula rates in MISO is a formal Section 206 filing under the Federal Power Act ("FPA"). This is an option which IPL has exercised in the past. On November 18, 2008, IPL filed a complaint with FERC against ITC-Midwest pursuant to section 206 of the FPA, seeking relief from ITC-Midwest's alleged improper implementation of its formula rate for transmission service for 2009 and beyond (FERC Docket No. EL09-11-000). IPL did not object to ITC-Midwest's formula rate itself or to ITC-Midwest's application of its formula rate on a forward-looking basis. IPL asserted, however, that ITC-Midwest's formula rate implementation is improper. IPL argued that ITC-Midwest has included millions of dollars in excess projected O&M and A&G

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expenses in its transmission service charges for 2009. IPL also stated that it understood that ITC-Midwest was booking extraordinary cost increases to its O&M and A&G accounts in 2008 that it will charge to customers in 2010 through the true-up component of its formula rate construct. IPL argued that the inclusion of those excess expenses in the formula rate will cause ITC-Midwest to assess unjust and unreasonable transmission service charges in 2009 and later years. IPL also claimed that ITC-Midwest has failed to satisfy its obligations under its annual rate calculation and true-up procedures to provide adequate information to IPL about its expenditures and rate calculations. IPL also challenged the methodology ITC Holdings used to allocate non-directly assigned A&G costs to ITC-Midwest.

IPL requested FERC to set ITC-Midwest's transmission service charges established under its formula rate in Attachment O of the Midwest ISO Tariff for investigation and hearing and establish a refund effective date of January 1, 2009. IPL claimed that ITC-Midwest bears an ongoing burden to demonstrate that its formula rate produces just and reasonable transmission service charges. IPL further asserted that if the Commission does not investigate ITC-Midwest's implementation of its formula rate, it will discourage vertically-integrated utilities from transferring their systems to independent transmission companies out of concern that they will put themselves and their customers at a disadvantage arising from inattentive regulatory oversight.

In its Order, dated April 16, 2009, (127 FERC ¶ 61,043) FERC denied the relief requested in IPL's Section 206 complaint. The Commission concluded that IPL did not provide *prima facie* evidence proving that ITC-Midwest's proposed O&M and A&G expenses were, or will be, imprudently incurred and therefore should not be charged to

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IPL. FERC also concluded that IPL did not provide sufficient evidence in support of its allegation that ITC-Midwest's projected and true-up transmission rates are unjust and unreasonable, and therefore that a hearing was not warranted.

On May 15, 2009, IPL filed a request for rehearing and argued that FERC erred in shifting the burden of proof as to whether ITC-Midwest's rates were just and reasonable, from ITC-Midwest, under FPA section 205, to IPL, under FPA section 206. On May 19, 2011, FERC issued its order denying IPL's Motion for Rehearing. (135 FERC ¶ 61,162).

IPL's first-hand experience in attempting to challenge formula rate transmission costs shows the difficulty and extremely high bar of proof which is required in order to be successful. IPL's experience was one of frustration. As noted above, FERC dismissed IPL's complaint due to a lack of evidence, however short of ITC-Midwest agreeing to provide the evidence IPL sought in support of its claim, IPL had no ability to collect additional evidence to support its filing. IPL's lack of access to information presents a continued impediment to meaningful review of ITC-Midwest's cost structure.

The alternative option for challenging costs is through MISO's dispute resolution procedures contained in Attachment HH. Under MISO's Attachment HH procedures disputes that are not settled in the Informal Dispute Resolution process will be considered for mediation by the Alternative Dispute Resolution Committee. If the parties to a dispute are still not able to resolve the issue the mediator will provide a non-binding recommendation on resolution of the dispute. If arbitration is then desired to reach a binding decision Attachment HH provides a general process that is to be followed. Parties to arbitration may seek further review by FERC of the decision. While

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the Attachment HH process provides another option for raising a complaint it does not provide for challenges to be resolved in a binding manner efficiently.

To allow stakeholders to effectively express their concerns IPL recommends that ITC-Midwest's Attachment O protocols allow interested parties to bring forth challenges related to Attachment O to the TO and that all parties be required to resolve challenges in good faith. If a challenge cannot be resolved within 60 days then the complaint should be filed at FERC. Within 21 days of a compliant filing the TO should be required to file its response. In this formal proceeding the TO should bear the burden of proving that it has reasonably applied the terms of the formula rate and true-up calculations.

Conclusion

The additional challenge procedures suggested, as well as the additional analysis and information that IPL has requested be provided to stakeholders, is necessary in order for a proper review of transmission costs to be performed. Considering the independent structure of ITC-Midwest, IPL feels these requirements must be included in ITC-Midwest's Attachment O protocols to ensure access to necessary information is accomplished. It is essential that customers have reasonable assurance that costs being incurred are commensurate with the benefits received.

WHEREFORE, for the reasons discussed above, IPL respectfully requests that the Commission consider its comments herein.

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Respectfully submitted,

Interstate Power & Light Company

/s/ Kent M. Ragsdale

Kent M. Ragsdale
Managing Attorney - Regulatory
Alliant Energy Corporate Services, Inc., on
behalf of Interstate Power & Light Company

June 22, 2012

STATE OF IOWA)
) SS.
COUNTY OF LINN)

COMMENTS PROVIDED BY INTERSTATE POWER AND LIGHT IN FERC DOCKET EL12-35-000
DATED JUNE 22, 2012

JOHN W. WEYER II

John Weyer, Manager - Transmission Services, for Interstate Power and Light ("IPL") being duly sworn, deposes and says that the projected network rate of ITC-Midwest LLC for the years 2013-2016 included in IPL's comments filed in docket EL12-35-000 were prepared under my supervision and control and are true, complete and accurate to the best of my knowledge, information and belief.

John W. Weyer II

Subscribed and sworn to before me
this 22nd day of June, 2012.

KATHLEEN J FAINE
COMMISSION NUMBER 721015
MY COMMISSION EXPIRES
2-20-2015

Notary Public, Linn County, Iowa
My Commission expires 2-20-2015

Docket No. EL12-35-000

CERTIFICATE OF SERVICE

In accordance with 18 C.F.R. § 385.2010, I hereby certify that I have on this 22nd day of June, 2012, caused a copy of the foregoing Comments of Interstate Power & Light Company to be sent to each person designated on the official service list compiled by the Secretary of the Commission in Docket Number EL12-35-000.

/s/ Kent M. Ragsdale

Kent M. Ragsdale
Managing Attorney - Regulatory
Alliant Energy Corporate Services, Inc.,
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Appendix 2 – IPL Filed Comments to FERC in Docket No. PA10-13-000, FERC Audit of ITC Holdings

UNITED STATES OF AMERICA

FEDERAL ENERGY REGULATORY COMMISSION

ITC Holdings Corp. **Docket No. PA10-13-000**

INITIAL MEMORANDUM

On December 29, 2011, the Federal Energy Regulatory Commission (Commission) issued its Notice of Paper Hearing Procedure, in the above-referenced docket. This notice was in response to a request filed on October 31, 2011, by ITC Holdings Corp. (ITC) and ITC Midwest LLC (ITC Midwest) for Commission review of certain findings and recommendations in the September 30, 2011, Audit Report (Audit Report) issued by the Director of the Office of Enforcement in this docket.

ITC's and ITC Midwest's October 31, 2011, request challenges the Audit Report's findings that ITC Midwest "improperly recovered from customers through formula rate billings amounts associated with the tax effects of amortized goodwill reported in Account 211, Miscellaneous Paid-In Capital, and also over-accrued its allowance for funds used during construction (AFUDC)."

In accordance with the December 29, 2011, Notice and rule 41.3 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 41.3), Interstate Power and Light Company (IPL) hereby submits its Initial Memorandum in the above captioned docket.[1]

A. Introduction

[1] ITC's and ITC Midwest's October 31, 2011, request sought the Commission's review under the shortened procedures outlined in Commission rule 41.3. IPL understands that those shortened procedures do require a formal intervention by interested parties. If IPL's understanding is incorrect, then IPL requests the Commission to consider this memorandum to also constitute IPL's request for formal intervention in Docket. No. PA10-13-000.

IPL is a public utility that serves approximately 700,000 electric retail customers in Iowa and Minnesota. IPL is a wholly-owned subsidiary of Alliant Energy Corporation, a holding company that also owns Wisconsin Power and Light Company, an electric and gas public utility in Wisconsin.

ITC Midwest is an independent transmission company that owns and operates the transmission system formerly owned by IPL. ITC Midwest is a subsidiary of ITC, a public company that also owns two other independent transmission companies, International Transmission Company d/b/a ITC*Transmission* (ITC*Transmission*), and Michigan Electric Transmission Company (METC). ITC Midwest was formed to purchase and operate IPL's transmission system.

The Commission Staff recently completed an audit of ITC. As a result of the audit of ITC, the Commission audit staff identified certain noncompliance with Commission rules. The Audit Report also identified the following noncompliance circumstances with the Commission's order, in Docket No. EC07-89-000[2]:

> (1) ITC Holdings did not obtain approval from its Board of Directors for dividend payments and equity infusions between ITC Holdings and ITC Midwest, as required by its own internal procedures; and
>
> (2) ITC Holdings did not provide timely notification to the Commission when a shareholder or shareholder group had acquired five percent or more of its common stock.

IPL understands that ITC has agreed to both of these findings.

Of greater importance to IPL, the Commission audit staff states it also had concerns with ITC Midwest's determination to include in its formula rate estimated tax

[2] The purpose of Commission Docket No. EC07-89-000 was to consider ITC Midwest's acquisition of IPL's transmission assets. On December 3, 2007, the Commission issued its Order approving ITC Midwest's acquisition of IPL's transmission facilities (*ITC Holdings Corp., et al.,* 121 FERC ¶ 61,229).

benefits ($128 million) associated with goodwill related to the acquisition of IPL transmission facilities.

In 2009 and 2010, ITC Midwest passed $18 million of the tax effect of amortized goodwill through its formula rate. The Commission audit staff contends that this action was inconsistent with ITC's application for authorization to purchase IPL's transmission facilities and approval of proposed transmission service rates. This contention, by the Commission audit staff, is based on ITC's explicit statement that it is not seeking recovery of any acquisition premium in rates, which the Commission reiterated in its order.[3] The Commission audit staff concluded that ITC Midwest should not have included the tax benefits associated with goodwill in its formula rate and recommended accounting adjustments and refunds to ITC Midwest's formula rate customers, which includes IPL. (Audit Report at pp. 15-16). ITC is contesting this Audit Report recommendation.

B. Background

IPL formerly owned the transmission system now owned and operated by ITC Midwest. In January 2007, IPL entered into an asset sale agreement with ITC Midwest under which IPL agreed to sell its transmission system to ITC Midwest. IPL completed the sale of its transmission system to ITC Midwest on December 20, 2007, following receipt of Commission approval under FPA § 203,[4] approvals from the Illinois Commerce Commission, the Iowa Utilities Board (IUB), the Minnesota Public Utilities Commission (MPUC), and the Missouri Public Service Commission, and satisfaction of other conditions. When IPL owned the system, it comprised approximately 6,800 miles

[3] *ITC Holdings Corp., et al.,* 121 FERC ¶ 61,229 at P 124 (2007).
[4] *ITC Holdings Corp., et al.*, 121 FERC ¶ 61,229 (2007) (*ITC Holdings*).

of transmission lines and associated substations and infrastructure located in Iowa, Minnesota, Missouri, and Illinois. Since the sale of its transmission system to ITC Midwest, IPL is a transmission dependent utility and IPL's load is responsible for approximately 85% of ITC Midwest's revenue requirement.

ITC Midwest is a transmission-owning member of the Midwest Independent Transmission System Operator, Inc. (MISO) and has adopted MISO's Attachment O formula rate methodology to recover its transmission revenue requirement.[5] Under ITC Midwest's formula rate, ITC Midwest annually projects its transmission revenue requirement and establishes charges for transmission service on the basis of its projections, and then it trues-up its actual revenue collection with its actual cost of service and collects or refunds the difference in the following year with interest.[6]

Before it sold its transmission system to ITC Midwest in 2007, IPL was a transmission-owning member of MISO and established its rates for transmission service through MISO's EMT Attachment O formula rate methodology.[7] IPL's Attachment O formula rate used historical inputs rather than ITC Midwest's use of a projected revenue requirement. In connection with its acquisition of the IPL system, ITC Midwest agreed to maintain, through 2008, the charges for transmission service on the former IPL system in effect based on IPL's MISO EMT Attachment O as established on June 1, 2007. ITC Midwest's true-up for calendar year 2008 was based on its Commission Form 1 filed in April 2009. The 2008 true-up amount, as based upon the April 2009 Commission Form 1, would be part of ITC Midwest's projected revenue requirement for 2010.

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[5] Id.
[6] ITCM's Attachment O is part of the MISO Energy and Markets Tariff (EMT).
[7] *ITC Holdings* at P 50.

Starting January 1, 2008, ITCM's transmission service charges became subject to true-up in the year following the filing of ITC Midwest's FERC Form 1 with information as to its actual revenue requirement for 2008.[8] Starting January 1, 2009, ITC Midwest's charges for transmission service changed to reflect its projected revenue requirement for 2009.[9] In subsequent years, on January 1 ITC Midwest changes its transmission service to reflect its projected revenue requirement for that year. This projected revenue requirement includes the true-up amount for the year prior to the calculation of the true-up amount in April of each year.

In Docket No. ER07-887-000, ITC Midwest sought Commission acceptance, under FPA § 205, of ITC Midwest's rate construct under MISO EMT Attachment O. In that filing and in responsive pleadings, ITC Midwest proffered prepared testimony and narrative explanation about its proposed rate methodology. Of particular relevance to this matter, ITC Midwest proposed that its weighted cost of capital, to be used in its formula rate, would be derived based on ITC Midwest's actual capital structure, the equity component of which ITC Midwest was targeting to be 60 percent.[10]

C. FERC Staff Audit Report

The Audit Report contends ITC Midwest must comply with its hold harmless provisions for customers, as outlined in the Commission's December 7, 2007, Order in Docket No. EC07-89-000 et al. In particular, the Commission audit staff points to the ITC hold harmless commitment that no acquisition premium will be recovered in rates. (Audit Report at p. 6).

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[8] Id.
[9] Id.
[10] *ITC Holdings* at P 16.

As further described in the Audit Report, the Commission audit staff contends that ITC Midwest's Attachment O formula rate billings for the tax effects of amortized goodwill associated with its acquisition of transmission facilities were deficient. As support for this conclusion, the Audit Report states:

- ITC Midwest should not have reported in its Form 1 the tax effects of amortized goodwill in Account 211, Miscellaneous Paid-In Capital, since it represented in a rate filing with the Commission that it would not recognize goodwill or the related accumulated deferred income taxes (ADIT) in its FERC books and records. The Commission relied upon this representation in approving the transaction;

- ITC Midwest represented in a filing with the Commission that it would not seek rate recovery of the acquisition premium. Goodwill is a significant portion of the acquisition premium. ITC Midwest reported in its Form 1 the tax effects of amortized goodwill in Account 211. The accounting used by ITC Midwest overstated its equity and affected the calculation of its actual capital structure used to set rates. This resulted in the over-billing of customers; and

- ITC Midwest used the excessive amounts of equity in determining its AFUDC rate. This resulted in ITC Midwest accruing too much AFUDC and recovering excessive amounts of AFUDC from customers. (Audit Report at p. 11).

The Audit Report (at p. 12) notes that, in its Application in Docket Nos. EC07-89-000 and ER07-887-000 seeking authorization to purchase IPL's transmission facilities and approval of proposed transmission service rates, ITC claimed:

> [T]he Transaction will have no adverse impact on rates. ITC Midwest offers standard ratepayer commitments consistent with the Commission's precedents. Specifically, ITC Midwest is *not* seeking recovery of any acquisition premium in rates. (May 11, 2007, Application in Docket Nos. EC07-89-000 and ER07-887-000, p. 5)

The Audit Report also contends that this ITC Midwest representation was relied upon in the Commission Order authorizing the transaction. (*ITC Holdings Corp., et al.,* 121 FERC ¶ 61,229 at P 124 (2007)).

The Audit Report (at p. 14) also relies on various ITC Midwest submissions in Docket No. AC08-128-000, by which ITC Midwest requested approval of proposed journal entries relating to the acquisition of IPL's transmission facilities. These proposed journal entries reflected, among other items, ITC Midwest's accounting for the recognition of goodwill related to the transaction on its books. Additionally, ITC Midwest submitted corresponding journal entries removing the goodwill and related equity amounts from its books. The Audit Report noted that in the proposed journal entries, ITC Midwest stated that:

> Goodwill and corresponding equity amounts are excluded from the FERC books and records, as ITC Midwest did not seek recovery of the goodwill amounts established in the Transaction. Additionally, any accumulated deferred income taxes relating to this goodwill will be excluded from the FERC books and records.

During the course of its audit, the Commission audit staff discovered that, ITC Midwest's accounting system, used to prepare its Form 1 filed with the Commission and financial statements submitted to the Securities and Exchange Commission (SEC) reflected accounting transactions based on generally accepted accounting principles (GAAP) rather than the accounting requirements based on the Commission's Uniform System of Accounts (USOA). (Audit Report at p. 15).

According to the Audit Report (p. 15), for GAAP accounting and SEC reporting purposes only, ITC Midwest maintains a balance for goodwill in Account 186, Miscellaneous Deferred Debits. In addition, the Commission audit staff determined that, for GAAP accounting and reporting purposes, ITC Midwest maintains a balance for Accumulated Deferred Income Taxes (ADIT) associated with the goodwill in Account

283, Accumulated Deferred Income Taxes-Other. The ADIT balance increases as goodwill is amortized for income tax purposes.

The Audit Report also observed that when preparing the Form 1 and other Commission reports, ITC Midwest adjusted its GAAP-based account balances to ensure that goodwill was not included by debiting Account 211 of the USOA and crediting Account 186 of the USOA. The Audit Report found this accounting adjustment was reasonable because it effectively eliminates the financial reporting of goodwill and related equity balances in the Commission Form 1 and was consistent with the accounting approved in Docket No. AC08-128-000. (Audit Report at p. 15).

Further, the Audit Report claims that ITC Midwest removed the GAAP-based ADIT balances associated with goodwill recorded in Account 283 of the USOA by debiting this account and crediting Account 211. The Commission audit staff indicated that this accounting adjustment would be reasonable if it eliminated the financial reporting of the ADIT associated with goodwill from the Commission Form 1. While ITC Midwest did not report the ADIT associated with goodwill in Account 283 in the Form 1, the Commission audit staff determined that ITC Midwest did report such amounts in Account 211 in Commission Form 1. The Commission audit staff determined that this accounting essentially increased ITC Midwest's equity balances. (Audit Report at p. 15).

> The estimated total tax benefit associated with goodwill related to the acquisition is approximately $128 million. In 2007, ITC Midwest began the process of recording the tax effects of amortized goodwill in Account 211. Audit staff found that ITC Midwest recorded credits in Account 211 of approximately $9 million per year that reflect the tax effects of amortized goodwill. As of December 31, 2009, ITC Midwest had a cumulative credit of $18 million recorded in Account 211. Consequently, because Account 211 is a component of equity, ITC Midwest's accounting had the effect of increasing the total equity balance reported in its Form 1. If ITC Midwest continues this accounting treatment, by the end of the 15-year tax amortization period for

> goodwill, its equity would increase by approximately $128 million and its customers would be billed rates based on the increased equity under the formula rate mechanism. (Audit Report at pp. 15-16).

The Commission audit staff determined that ITC Midwest's reporting of the tax effects of goodwill in the Commission Form 1 was not consistent with its commitment to exclude goodwill and the related ADIT from its FERC books and records. Further, the Audit Report contends that ITC Midwest's accounting was not consistent with the letter order approving the proposed journal entries. (Audit Report at p. 16).

According to the Audit Report, ITC Midwest's accounting treatment of goodwill produced two negative consequences for its customers, including IPL. First, the Audit Report contends that since ITC Midwest recovers its cost-of-service through a formula rate, due to improper reporting of the tax effects of amortized goodwill in the Commission Form 1, ITC Midwest incorrectly determined its actual capital structure and applied a higher overall rate of return to rate base. This error, according to the Commission audit staff, resulted in customers paying too much through formula rate billings.

The second negative impact relates to ITC Midwest's allowance for funds used during construction (AFUDC) rate. ITC Midwest used the equity and debt account balances from its Commission Form 1 to calculate its AFUDC rate. ITC Midwest uses its AFUDC rate to calculate the amount of AFUDC to include as a component of the cost of construction. The Commission audit staff determined that ITC Midwest used the inflated equity balances, described above, in determining the AFUDC rate applied to its construction costs. This produced an excessive AFUDC rate which resulted in ITC

Midwest's utility plant accounts being overstated leading to the recovery of excessive amounts of AFUDC from its customers. (Audit Report at p. 17).

The Commission audit staff's recommended remedies included:

- ITC Midwest should cease recording the impact of the tax effects of amortized goodwill its Commission books and records and refrain from reflecting the tax effects of amortized goodwill in the Commission Form 1; and
- Further, of particular interest to IPL, ITC Midwest should adjust formula rate billings, as appropriate, for amounts inappropriately recovered from customers associated with the tax effects of amortized goodwill and related over-accrual of AFUDC, compute interest on the adjustments and file a refund analysis with the Commission. (Audit Report at p. 18).

D. ITC's Response

In its July 5, 2011, response to the draft audit report, ITC Midwest identified several GAAP accounting standards that it believes supports its recognition of tax benefits associated with the amortization of goodwill for tax purposes as an increase of equity balances in its Commission Form 1. Moreover, ITC Midwest contended that its accounting treatment is appropriate because it must recognize the economic effects of the income tax benefits of goodwill amortization in its financial statements. ITC Midwest also explained that it is required, for GAAP reporting purposes, to reflect tax deductions that occur due to amortization of goodwill and that it is also appropriate to reflect the tax deductions for FERC reporting purposes.

ITC disagreed with the Commission audit staff's finding of non-compliance in relating to ITC Midwest's accounting treatment for ADIT related to goodwill. According to ITC, its accounting treatment is appropriate and did not result in an "inflated" equity balance that had an effect on ITC Midwest's rates. ITC contended that the contribution

of current tax benefits, and not the removal of ADIT effects, results in equity being recorded. ITC argued that it cannot retroactively undo those equity contributions to ITC Midwest.

Some of the key arguments that ITC advanced included representations that the accounting treatment for ADIT on goodwill was not selected to "evade the commitment not to recover the ITC Midwest acquisition premium in rates." (ITC's July 5, 2012, Response, p. 2). ITC contended that the accounting treatment for ADIT on goodwill does not result in any economic gain to ITC nor negatively impact customers. ITC also contends that ITC Midwest specifically identified the existence of ADIT on goodwill as part of its Journal Entry filings "in order to be open and transparent with the accounting for the acquisition and to describe how ADIT on goodwill would be treated going forward." (Id.) ITC argued that the Journal Entry filing explicitly specified ITC Midwest's treatment of goodwill and the deferred tax effects of goodwill.

For further support, ITC noted that the Commission acknowledged that the USOA is not a complete body of accounting principles and standards, and the Commission's accounting principles and standards are based on GAAP unless specific departures are required.

Continuing its GAAP argument, ITC noted that:

> ITC Midwest was explicit in its Journal Entry filing that it was removing the goodwill and ADIT on goodwill from the FERC books, which was a departure from GAAP. However, no departure from GAAP for treatment of the current tax effects is necessary; and therefore, no such departures were identified by ITC Midwest or the Chief Accountant in approving ITC Midwest's journal entries. (Id. at p. 4)

In contending that its accounting convention did not harm customers, ITC argues that if the contribution of the tax benefits of the goodwill from ITC to ITC Midwest is

deemed to be inappropriate, ITC Midwest would be required to make higher income tax payments to ITC. ITC stated that this would cause it to infuse additional equity to ITC Midwest and the result would be the same credit amount charged to equity. (Id. at p. 6) ITC contends that "the transaction which gives rise to equity is the contribution of current tax benefits, not the elimination of ADIT liabilities on the balance sheet as the Draft Audit Report contends." (Id.)

E. Argument

IPL believes the issue at hand relates to the proper application of one of the Commission's fundamental rate principles -- rates for captive customers should be established on costs to serve. More specifically, cost-based rates should be based on an original cost rate base. The recovery of an acquisition premium from customers is anathema to this principle. An informative discussion of the interplay between acquisition premium and the proper establishment of rates can be found in the Commission's Order Denying Rehearing in *Locust Ridge Gas Company* (29 FERC P 61052, 1984 WL 58517 (F.E.R.C.), October 15, 1984):

> The Commission's long-standing policy on property acquisitions is to allow a purchaser to record acquisitions at the lesser of (i) the depreciated original cost or (ii) the actual purchase price. In the situation where a jurisdictional company pays more for property than the depreciated original cost of that property, the Commission generally has permitted only the depreciated original cost to be recorded on the company's books. The excess acquisition payments are recorded in a separate account to be amortized as a "below the line" item and so are not recovered through rates.
>
> For example, in *United Gas Pipe Line Co.*, 25 FPC 26 (1961), [footnote omitted] the Commission denied rate base treatment for amounts paid by United in excess of the original cost of certain properties. The Commission determined that such amounts could not be automatically included in rate base. If United wanted rate base treatment of additional amounts, the Commission stated, United would have to prove that benefits, equal to the excess acquisition costs and measurable in dollars, were conferred on its

> ratepayers. [footnote omitted] To hold otherwise would be to permit an increase in the rate base associated with a facility simply through a change in ownership of the facility. A change in ownership alone does not increase the service value of a facility and so provides no basis for increasing the associated rate base and depreciation.

The May 11, 2007, Application in Docket Nos. EC07-89-000 and ER07-887-000 recognized the Commission's long standing principle that acquisition premiums are not to be recovered from customers:

> As noted above, the Transaction includes an acquisition premium of approximately $300 million. Pursuant to Section 7.6(b) of the Asset Sale Agreement (Exhibit I), there will be no recovery in ITC Midwest's rates of any goodwill or transaction premium. The Commission has previously relied on the commitment not to recover any acquisition premium in rates in finding that a transaction under Section 203 would not adversely affect transmission rates. (p. 19 of the Application).

The reference to Section 7.6(b) of the Asset Sale Agreement is instructive. Section 7.6(b) of the Asset Sale Agreement reads in part:

> Buyer agrees that it shall not seek approval for the recovery of any acquisition premium as part of any of the Required Regulatory Approvals and that the denial by a Governmental Entity of the opportunity for the recovery of any acquisition premium shall not constitute a Material Adverse Effect; provided that, for the avoidance of doubt, Seller will elect to treat the transaction as a taxable asset sale.

IPL specifically bargained for this provision. IPL believes that the Commission, and relevant state regulatory commissions,[11] may have rejected the sale outright

[11] The MPUC's Order authorizing the sale noted:

> The ALJ found that as a condition of the Joint Petitioners' Asset Sale Agreement (ASA) and as reaffirmed by ITC in this proceeding, ITC will not attempt to recover the Acquisition Premium through its rates. The ALJ acknowledged that the parties dispute the proper characterization of the acquisition premium and the gain that IPL will receive from the sale. The ALJ also found, however, that the Joint Petitioners have committed that the ratepayers will not pay any portion of the Acquisition Premium in ITC's rates and that going forward, the book value of the Transmission Assets will be deducted from IPL's rate base and the same amount added into ITC Midwest's rate base. Thus, the ALJ found, ratepayers will not pay capital costs for the Transmission Assets that have already been recovered from them.[footnote omitted]

without this customer protection being provided upfront. The Audit Report notes that the Commission relied on this ITC commitment in authorizing the sale. IPL, and ultimately its customers, relied on this commitment. IPL regards the ratepayer protection commitments, proffered as part of Docket Nos. EC07-89-000 and ER07-887-000, to be the ordinary course of business in any transaction where the sales price exceeds the net original costs of the jurisdictional assets being sold.

Consequently, it is not surprising that the prepared direct testimony of Joseph L. Welch, ITC's President and CEO, submitted with the May 11, 2007, Application in Docket Nos. EC07-89-000 and ER07-887-000, acknowledged that under Commission policy "a buyer of such assets, including ITC Midwest, may not seek recovery of the acquisition premium." (Exhibit No. IT-1, p. 8).

There are other recent Commission cases where this principal has been affirmed. For instance, in *MidAmerican Energy Holdings Company, et al.*, 113 FERC ¶61,298 (2005) the Applicants committed that "[t]o the extent the purchase price is allocable to specific assets or liabilities of PacifiCorp or its subsidiaries whose fair values differ from their carrying amounts, such differences will be recorded at Holdings and not pushed down to PacifiCorp. Therefore, any acquisition premium (the excess of consideration paid for PacifiCorp over the net book value of assets) resulting from the Proposed Acquisition will be recorded at the books of Holdings which will insulate ratepayers from such costs." Application in Docket No. EC05-110, Volume I, at p. 35

The ALJ concluded that the Joint Petitioners have shown by a preponderance of the evidence that the Transaction protects Minnesota ratepayers from paying capital costs for transmission assets that have already been recovered.(*In the Matter of the Joint Petition for Approval of the Transfer of Transmission Assets of Interstate Power and Light Company and ITC Midwest LLC*, MPUC Docket No. E-001/PA-07-540, Order Approving Transfer of Transmission Assets, With Conditions, February 7, 2008, p. 5.)

(July 22, 2005), *citing MidAmerican Energy Co.,* 85 FERC ¶ 61,354 at p. 62,369 (1998), where the Commission found that a similar commitment not to push down the acquisition premium "will prevent an adverse effect on transmission . . .rates arising from the recognition of a premium paid in excess of the book value of the facilities."

Also, the May 11, 2007, Application, in Docket Nos. EC07-89-000 and ER07-887-000 (p. 21) contended that the rate effects of the IPL sale to ITC "are comparable to the rate effects resulting from the disposition of ITC*Transmission* by DTE Energy in 2003[12] and the disposition of METC by Consumers Energy in 2002.[13] Just as in those cases, no recovery in rates of any acquisition premium is being sought." Of critical importance, these two cases involved other ITC subsidiaries.

Another recent case authorizing the transfer of assets where the purchaser agreed not to seek recovery of any goodwill or transaction premium in the rates was *Michigan Electric Transmission Company, LLC*, FERC Order 116 FERC ¶ 61,271. In the *Michigan Electric Transmission* case, the Commission noted:

> Applicants also emphasize that they have agreed not to seek recovery of any acquisition premium associated with the Transaction through rates. They argue that this is similar to the *American Transmission Company LLC* case, [108 FERC ¶ 62,140 (2004).] in which the Commission approved the acquisition of jurisdictional facilities where ratepayer protection was provided because facilities were transferred at their current net book value. (*Id.* at Para. 38).

Another Commission docket involving the sale of transmission assets where the applicants committed not to seek to recover the merger acquisition premium was *Consolidated Edison, Inc.*, 94 FERC ¶ 61,079 (2001).

[12] *ITC Holdings Corp.*, 102 FERC ¶ 61,182, at P 44, *reh'g denied,* 104 FERC ¶ 61,033 (2003).
[13] *Trans-Elect, Inc.*, 98 FERC ¶ 61,142, *order on reh'g*, 98 FERC ¶ 61,368 (2002).

As noted earlier, ITC has cited certain GAAP accounting standards to support its position. However, as explained by the Commission audit staff, ITC Midwest must report its financial information to the Commission in accordance with the Commission's USOA and other Commission accounting releases and interpretations and orders. (Audit Report p. 16). IPL concurs with the Audit Report's contention that "ITC Midwest is required to exclude the goodwill and related ADIT from rates." (Id).

Part of the fundamental dispute between ITC and the Commission audit staff hinges on the accounting mechanism ITC employed to fulfill its commitment that ITC Midwest's customers are protected from rates that reflect the acquisition premium. IPL understands that ITC Midwest intended to honor this commitment by implementing an accounting convention intended to remove goodwill and related ADIT amounts from its USOA books and records, which would prevent the acquisition premium from being included in customers' rates. However, the Commission audit staff contends that "ITC Midwest's accounting for this transaction did not remove the ADIT related to goodwill from the FERC books and records; instead, it reclassified the amounts from the deferred income tax account to the equity account." (Id).

In its July 5, 2011, Response to the Commission audit staff's draft report, ITC contends that its accounting treatment for ADIT on goodwill and tax benefits is immaterial. ITC's support for this claim is the assertion that "ITC Midwest manages its actual capital structure to target 60 percent equity and 40 percent debt, as authorized by the Commission in the Transaction Order." (July 5, 2011, Response p. 7). It appears to IPL that the crux of the dispute between ITC and the Commission audit staff relates to the apparent conflict between ITC's commitment to customers, that the acquisition

premium would not be included in rates, and ITC's desire to manage its equity ratio to meet the 60 per cent target, as authorized by the Commission.

ITC argues that ITC Midwest has a mechanism to insure it meets the 60 percent equity ratio. "Each month, ITC Midwest takes into account ALL transactions that are recorded to equity or debt accounts (including the Journal Entries made to remove ADIT on goodwill), and takes the necessary actions to bring the actual capital structure to 60/40." (Id). ITC concludes that "whatever accounting transactions affect debt or equity, ITC Midwest manages its capital structure to arrive at a 60/40 balance." (Id).

IPL believes that ITC's commitment to customers, that the acquisition premium would not be recovered in rates, cannot be subservient to ITC's quest that ITC Midwest shall have a 60 per cent equity ratio each month. It appears, in the eyes of the Commission audit staff, that the customer protection commitment, that the acquisition premium will not be recovered in rates, has been undermined by ITC's accounting practices. ITC argues that this is really immaterial because it could have used other means to arrive at the 60 percent equity ratio balance. As illustrated earlier in this memorandum, ITC's commitment to not charge customers for the acquisition premium is a fundamental principle required by original cost ratemaking. Any ambiguity between ITC's accounting practices and any of the customer protection commitments offered in Docket Nos. EC07-89-000 and ER07-887-000, must be resolved in favor of customers.

IPL understands ITC's contention that, ab initio, it could have achieved its desired 60 percent equity ratio in another fashion. ITC contends that its journal entry filings provided the Commission notice regarding how it was intending to manage the accounting of the tax benefits related to goodwill. However, these contentions do not

override the express commitment that IPL bargained for, and upon which the Commission relied, that customers would not be charged for the acquisition premium.

A review of the Audit Report shows that there was not a clear understanding between the Commission and ITC on the accounting for goodwill and the effect of its proposed journal entries. As a consequence, the overriding commitment to protect customers from the acquisition premium must prevail.

IPL concedes that ITC Midwest's accounting processes appear to be compliant with GAAP standards. However, any conflict between GAAP accounting and the Commission's accounting policies must be resolved in favor of customers, especially when considering the Commission's long standing policy prohibiting the recovery of acquisition premiums.

There is another reason why the Commission must be vigilant in protecting customers in this dispute. ITC Midwest uses a formula rate based upon projected costs and revenues and is able to automatically increase rates on an annual basis without review by the Commission. This rate process is very different than the typical rate case methodology used by state retail commissions.

In fact, in the proceedings before the IUB, a number of intervenors argued against the sale basing their opposition, in part, on the fact that the annual inputs to ITC Midwest's Attachment O formula rate are not filed with the Commission or subject to any regulatory review. (*Interstate Power and Light Company and ITC Midwest LLC*, IUB Docket No. SPU-07-11, Order Terminating Docket and Recommending Delineation of Transmission and Local Distribution Facilities, September 20, 2007, p. 16)

There is a strong expectation from IPL and its retail customers that the Commission will insure that its formula rate process will not be used to undermine the customer protections that were promised in Docket Nos. EC07-89-000 and ER07-887-000.

F. Conclusion

For the reasons outlined above, IPL supports the Audit Report's conclusion that ITC Midwest should:

1. Cease recording the impact of the tax effects of amortized goodwill related to the acquired transmission facilities in its FERC books and records. Also, refrain from reflecting the tax effects of amortized goodwill in the Form 1.
2. Remove the overstated equity amounts associated with the tax effects of amortized goodwill reported in Account 211. File all correcting entries and supporting documentation with the Division of Audits within 30 days of the issuance of a final audit report in this docket.
3. Record and file, with supporting documentation, all correcting entries and calculations to correct all account balances affected by the over-accrual of AFUDC.
4. Adjust formula rate billings, as appropriate, for amounts inappropriately recovered from customers associated with the tax effects of amortized goodwill and related over-accrual of AFUDC. Compute interest on the adjustments in accordance with 18 C.F.R. § 35.19a. File a refund analysis with the Commission within 30 days of the issuance of a final audit report in this docket.

Lastly, In IPL's last electric rate case (IUB Docket No. RPU-2010-0001), the IUB authorized IPL to implement a transmission rider (Rider) on a pilot basis. This Rider is reconciled on an annual basis so that revenues collected from customers are equal to the incurred transmission costs. This Rider was put into effect in February 2011. Therefore, IPL advises the Commission that refunds that IPL receives as a result of this

matter, related to the period when the Rider was in effect, and attributable to its Iowa retail jurisdiction, will be returned to its Iowa retail customers.

WHEREFORE, for the reasons discussed above, Interstate Power and Light Company respectfully requests that the Commission accept its Initial Memorandum in this proceeding.

Respectfully submitted,

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Dated: February 13, 2012

CERTIFICATE OF SERVICE

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

Dated at Cedar Rapids, Iowa, this 13th day of February, 2012.

/s/ Kent M. Ragsdale (filed electronically)

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Appendix 3 – Iowa Consumers Coalition Request Letter to PL

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March 20, 2012

Via E-Mail

Kent M. Ragsdale
Managing Counsel – Regulatory
Interstate Power & Light Company
200 First Street, S.E.
Cedar Rapids, IA 52401-1409

Re: Follow-up Regarding Iowa Consumers Coalition Comments Regarding IPL's Monitoring of ITC-Midwest

Dear Kent:

We would like to follow up with you regarding the comments we made on behalf of the Iowa Consumers Coalition (ICC) during the December 15, 2011 Transmission Stakeholder Informational meeting and subsequently in our December 16, 2011 e-mail memorandum to John Weyer of Interstate Power & Light Company (IPL), a copy of which is attached. We appreciate IPL largely capturing these comments on page 63 of IPL's December 30, 2011 "Semi-annual Report to the Iowa Utilities Board Regarding Transmission-Related Activities." In the interest of being proactive and ensuring that our comments are addressed reasonably in advance of the June 2012 Transmission Stakeholder Informational meeting, we would like to inquire into what actions IPL has initiated to address the concerns that were raised in our comments. Specifically, we would like to know how IPL plans to address the following concerns that we have previously raised:

- Providing detailed reporting on its monitoring of ITC-Midwest's proposed changes to the inputs to the ITC-Midwest formula transmission rate, including, but not limited to:
  - Reporting on the amount of the proposed change in the ITC-Midwest transmission rate;
  - Reporting on the key drivers underlying changes in the rate; and
  - Reporting on IPL's findings in regard to the reasonableness of ITC-Midwest's proposed changes to the inputs to the ITC-Midwest formula transmission rate and what actions IPL is taking to address any portion of the changes that IPL believes to be unreasonable.

- Providing similar detailed reporting on changes to MISO's transmission charges applicable to IPL for MISO Base Reliability Projects, Market Efficiency Projects and Multi-Value Projects.[1]

- Providing 2 to 5 year forecasts of: (i) ITC-Midwest's future transmission rates, and (ii) MISO's expected transmission charges for recovery of the cost of regional transmission projects.[2]

- Reporting in detail what IPL is doing in the MISO stakeholder process to ensure all MISO Base Reliability Projects, Market Efficiency Projects and Multi-Value Projects whose costs are allocable to IPL are being selected and pursued on a lowest reasonable cost basis.

- Reporting in detail what IPL is doing to ensure the MISO Multi-Value Projects that are being pursued are in fact as a group providing a net benefit to IPL's retail electric customers that is commensurate with the cost of these facilities that is being allocated to IPL's retail electric customers.[3]

- Providing improved clarity in its reporting of ITC-Midwest's reliability performance.[4]

We would appreciate any update IPL can provide us regarding its efforts to address these concerns. We would also be glad to discuss these concerns further with IPL to the extent IPL feels that such additional discussion would be helpful.

As we indicated in December, the ICC considers the December 15, 2011 presentations and the December 30, 2011 Semi-annual Report to be a significant improvement over the presentations and report provided in June 2011. As we noted in December, we are in particular

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[1] We recognize that these charges are currently relatively small, but they are expected to become much more substantial over time.

[2] As we have previously indicted, we recognize these forecasts will be only as good as the information that is reasonably available to IPL.

[3] For example, while MISO is now providing a forecast benefit-to-cost ratio for what it designates as an Iowa zone, it is not clear that this benefit-to-cost ratio is that which will be expected for Load Serving Entities such as IPL or whether much of the forecast benefit for the Iowa zone will be instead seen in the form of lower operating costs for independent generators in the Iowa load zone.

[4] In particular, the reporting needs to be clearer in regard to whether ITC-Midwest's reliability performance is increasing or decreasing, and whether the performance is an increase or decrease versus IPL's own transmission reliability performance prior to the sale of the transmission system to ITC-Midwest.

pleased that IPL is now working very hard to improve the coordination of transmission outages with its large industrial customers. We hope this progress will continue with IPL's addressing of the concerns raised by ICC this past December.

If you have any questions or concerns, please do not hesitate to contact us.

Sincerely yours,

Daniel E. Frank
Attorney for
Iowa Consumers Coalition

cc: Maurice Brubaker (BAI)
James R. Dauphinais (BAI)
Randy Bauer (Alliant / IPL)
John Weyer (Alliant / IPL)
Erik Madsen (Alliant / IPL)

Attachment (page 1 of 2)

Frank, Dan

From: Frank, Dan
Sent: Friday, December 16, 2011 5:21 PM
To: Weyer, John
Cc: James R. Dauphinais (jdauphinais@consultbai.com); Maurice Brubaker (mbrubaker@consultbai.com)
Subject: RE: IPL Transmission Stakeholder Mtg presentation & survey

Hi, John - We wanted to get to back to you today regarding yesterday's stakeholder meeting and IPL's draft of its upcoming semi-annual report to the Iowa Utilities Board regarding transmission-related activities.

First, we wanted to note on behalf of the Iowa Consumers Coalition that we think that yesterday's presentations and the new draft report are a significant improvement over those of this past June and that they reflect much of the feedback that you received on the June presentations and report. In particular, we are pleased that IPL is now working very hard to improve the coordination of transmission outages with its large industrial customers. We are hopeful that this will prevent a reoccurrence of the outage coordination issues that ICC's members experienced during the spring of 2011.

While we believe the current presentations and draft report are a significant improvement versus those of this past June, as we noted yesterday, we believe there are some areas that still need improvement. These are as follows:

- IPL should report in detail on its monitoring ITC-Midwest's proposed changes to the inputs to the ITC-Midwest formula transmission rate. This should include:
  - Reporting on the amount of the proposed change in the ITC-Midwest transmission rate;
  - Reporting on the key drivers underlying changes in the rate (e.g., for 2012, a $37.3 million increase in ITC-Midwest's transmission revenue requirement is being offset by the removal of a one-time true up charge of $23.6 million and the addition of a one-time true up credit of $3.7 million; the $37.3 million transmission revenue requirement increase in turn is being driven by a 6.4% increase in transmission O&M and a 24.3% increase in transmission rate base); and
  - Reporting on IPL's findings in regard to the reasonableness of ITC-Midwest's proposed changes to the inputs to the ITC-Midwest formula transmission rate and what actions IPL is taking to address any portion of the changes that IPL believes to be unreasonable.
- IPL should provide similar detailed reporting on changes to MISO'\'s charges for Base Reliability Projects, Market Efficiency Projects and Multi-Value Projects. While these charges are currently relatively small, they are expected to become much more substantial over time.
- IPL should provide 2 to 5 year forecasts of: (i) ITC-Midwest's future transmission rates and (ii) MISO's expected charges to recover the cost of regional transmission projects. We recognize these would simply be forecasted values and would not be able to anticipate true-up charges and credits. We also recognize these forecasts will be only be as good as the information that is reasonably available to IPL.
- IPL should report in detail what it is doing in the MISO stakeholder process to ensure all MISO Base Reliability Projects, Market Efficiency Projects and Multi-Value Projects whose costs are allocable to IPL are being selected and pursued on a lowest reasonable cost basis.
- IPL should detail what is doing to ensure the MISO Multi-Value Projects that are being pursued are in fact as a group providing benefits to IPL'\'s customers that are commensurate with the costs of these facilities that are being allocated to IPL'\'s customers. For example, while MISO is now providing a forecasted benefit to cost ratio for what it designates as an Iowa

Attachment (page 2 of 2)

zone, it is not clear that this benefit to cost ratio is that which will be expected for Iowa Load Serving Entities such as IPL or whether much of the forecasted benefit for the Iowa zone will instead be seen in the form of lower operating costs for independent generators in the Iowa zone.

- IPL should improve the clarity of its reporting regarding ITC-Midwest'\'s reliability performance. In particular, it needs to be clearer whether reliability performance is increasing or decreasing , and whether the performance is an increase or decrease versus IPL'\'s own performance prior to the sale of the transmission system to ITC-Midwest.

Thank you for your consideration of the foregoing. If you have any questions or concerns, please do not hesitate to contact us.

Kind regards,
Dan

Daniel E. Frank | *Partner*

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From: Weyer, John [mailto:JohnWeyer@alliantenergy.com]
Sent: Fri 12/16/2011 12:28 PM
To: undisclosed-recipients
Subject: IPL Transmission Stakeholder Mtg presentation & survey

Thank you all for attending our Winter Transmission Stakeholder meeting in Cedar Rapids yesterday afternoon. We appreciate your discussion and feedback.

The presentation slides are attached.

Please take a few moments to provide your feedback on the meeting via the survey at https://www.surveymonkey.com/s/P38K7RK. It will likely take 10 minutes or less to complete.

The survey will be available for the next week, through Friday, December 23th. I recognize that some may be out of the office for the holidays in this timeframe, however we'd very much like your feedback while the meeting is fresh in your mind. Your feedback is important to us so that we provide useful information to you as efficiently and effectively as possible.

We will send out a follow up in January to the various questions and requests we heard yesterday.

Thanks again for your interest, attendance, participation, and your business.

We wish you all safe and pleasant holidays,

John Weyer
Manager - Transmission Services
319-786-7112
johnweyer@alliantenergy.com

Appendix 4 – IPL Response to Iowa Consumers Coalition

Alliant Energy – Interstate Power and Light (IPL) Responses to

Iowa Consumers Coalition (ICC) Regarding IPL's Monitoring of ITC-Midwest

Background

A number of comments and requests were provided via email to John Weyer of IPL from Dan Frank representing the Iowa Consumers Coalition, following the December 15, 2011 Transmission Stakeholder Informational meeting hosted by IPL. These items were reiterated via letter to Kent Ragsdale of IPL on March 20, 2012, and enumerated by IPL as follows, with IPL responses.

ICC Comments and IPL Responses

…Specifically, we would like to know how IPL plans to address the following concerns that we have previously raised:

1. Providing detailed reporting on its monitoring of ITC-Midwest's proposed changes to the inputs to the ITC-Midwest formula transmission rate, including, but not limited to:

   a. Reporting on the amount of the proposed change in the ITC-Midwest transmission rate;

   b. Reporting on the key drivers underlying changes in the rate; and

   c. Reporting on IPL's findings in regard to the reasonableness of ITC-Midwest's proposed changes to the inputs to the ITC-Midwest formula transmission rate and what actions IPL is taking to address any portion of the changes that IPL believes to be unreasonable.

   IPL Response

   The ITC Midwest (ITCM) true up from 2011 to be applied to 2013 rates is expected to be finalized by ITCM in June 2012. ITCM has indicated to IPL that a leading indicator of the true up resulting from 2011 can be found in the ITC Holdings 10K for 2011, and pointed to the specific reference which is $1,532,000. This is the smallest magnitude of true up experienced by IPL to date, and IPL considers it to be in a reasonable range. IPL will reassess the true up when it is final, and comment at the June Stakeholder's meeting (if final at that time) and in June semi-annual report to the Iowa Utilities Board (IUB).

   The ITCM formula rate for 2013 is expected to be finalized by ITCM in September 2012. For the December Stakeholder's meeting and the December semi-annual report to the Iowa Utilities Board (IUB), IPL will analyze and comment on the new rate.

   Provided with this response is a spreadsheet which summarizes:

   - IPL analysis of the past and current past rates of ITCM and components, as well as IPL's forecast of future ITCM rates and components through 2016.

- The ITCM revenue requirements projection through 2016, requested by IPL and received in March 2012.
- ITCM's updated 5 year capital provided by ITC Holdings in their February 22, 2012 earnings call for investors.
- Forecasted MISO transmission charges applicable to IPL for MISO Base Reliability Projects, Market Efficiency Projects and Multi-Value Projects resulting from the 2011 MISO Transmission Expansion Plan (MTEP 2011) approved by the MISO board of directors in December 2011.

In the accompanying spreadsheet and graphs, one can observe the various historical, current, and future ITCM rate components of rate base, allowed return, O&M and A&G expense, depreciation and taxes. From this analysis, IPL concludes that the key driver impacting the rate increases is the annual capital expended which results in a rapidly increasing rate base.

Observing the large amounts of capital forecasted for 2011 and 2012, and the overall increase from the previous 5 year plan, IPL asked ITCM for further explanation. ITCM responded, indicating that:

- 2011: $17M increase for project with projected spend in late 2010 delayed until early 2011. In addition, some projects not budgeted for 2011 that did incur capital spend. Somewhat offset by a delay in capital spend on the Salem-Hazelton 345kV line.
- 2012: Increase primarily due to some Salem-Hazleton 345kV line work from 2011 to 2012. In addition, some spend for the Marshalltown-Nuthatch 161kV project was pulled forward.
- 2012 and beyond: $14M for the NERC alert (line clearance) issued in 2011 as well as some planned project timing changes.

Among other questions, IPL has provided a written request to ITCM for further breakout of the current base capital plan and generator interconnections components for each year as accompanies this document; however a final response has not yet been received from ITCM. Absent this detail of projects and projected costs by year, IPL attempts to gain insight into ITCM's plans from:

- The ITCM projects and costs listed in the MTEP 2011 project list. (These do not include 34.5 to 69kV projects.)
- Project cost and timing information presented by ITCM in its Spring and Fall Partners in Business meetings.
- Specific project coordination information, exchanged by each company's planning groups. Many ITCM transmission projects require IPL distribution work (substations, under build, etc.) that IPL must plan and budget for, thus the close coordination on those projects affecting IPL, including 34.5 to 69kV projects.

For the ITCM projects which IPL closely and continually coordinates with, IPL challenges directly any priorities, specifications, timing, or costs that IPL feels are unreasonable or impose unnecessary cost to IPL and its customers. These discussions occur through the monthly planning coordination meetings with representatives of each company and through numerous informal coordination activities on a more frequent basis. Some examples of such challenges and cost impacts have been outlined in the semi-annual reports to the IUB. It should be noted

that when IPL is successful in challenging ITCM on its project priorities, specifications, timing or other cost related aspects-- this does not necessarily translate into a direct and measurable savings in terms of reduced cost (rates) to IPL customers. Rather, it is likely that ITCM utilizes those "savings" to accomplish other project work as they will plan to spend the budgeted capital for a given year. However, these "savings" achieved through our close coordination are considered by IPL to be a way to be the best value for our customers of the cost of ITCM's spend.

In addition as noted in the semi-annual reports, IPL continues to be active in the regulatory venues and at MISO on such issues as the FERC transmission return on equity inquiry, the FERC audit of ITCM, ITC's implementation of Attachment FF in MISO (current activity), etc.-- all which may have indirect or direct impact on ITCM rates.

Finally, in another approach to assessing the reasonableness of ITCM rates, IPL has compared ITCM's rates to those of ATC. This comparison is represented in the supplemental slides accompanying this response. From this comparison, IPL makes the a few key observations:

- Capital spending is somewhat comparable
- ATC rate base is much larger, and growing more rapidly
- ITCM has far less load over which to spread costs than ATC, contributing to the larger annual rate changes

2. Providing similar detailed reporting on changes to MISO's transmission charges applicable to IPL for MISO Base Reliability Projects, Market Efficiency Projects and Multi-Value Projects.[1]

IPL Response

In the accompanying spreadsheet are two tabs which list MISO's project transmission charges for MISO Base Reliability Projects, Market Efficiency Projects (both collected under Schedule 26), and Multi-Value Projects (MVPs, collected under Schedule 26A). As MISO produces updates to these costs, IPL will continue to monitor and evaluate cost impacts to IPL customers, and provide feedback to MISO.

IPL has participated through the MISO Stakeholder process in the various MISO transmission committees that have influenced and determined the MVP cost allocation methodology and MTEP 2011 project composition, where the first MVPs have been proposed and approved. Further, while IPL is satisfied with the MVP cost allocation methodology where the MVP benefits and costs are analyzed as a portfolio, IPL had proposed an injection/withdrawal basis as an even more appropriate means to allocate costs of individual projects. IPL filed comments in-line with this view at FERC when the current MVP methodology was filed for and subsequently approved.

As additional MVPs are proposed and evaluated in future MTEPs, IPL will continue to monitor cost impacts to IPL and its customers, and engage the relevant MISO committees to provide

[1] We recognize that these charges are currently relatively small, but they are expected to become much more substantial over time.

feedback as needed. The supplemental slides accompanying this response include more detail about the MISO MTEP process and IPL's involvement.

In particular, IPL will monitor any changes in scope, timing, or cost of those four specific MVPs that ITCM is involved with, providing feedback to ITCM and MISO as needed. IPL has previously indicated its support of these specific projects since the MVPs have shown appropriate benefit to cost ratios for the portfolio, and since elements of these project plans have been in various stages of formulation and evaluation for their reliability and economic benefits for several years.

3. Providing 2 to 5 year forecasts of: (i) ITC-Midwest's future transmission rates, and (ii) MISO's expected transmission charges for recovery of the cost of regional transmission projects.[2]

   IPL Response

   As noted in 1 above, provided with this response is a spreadsheet which summarizes:
   - IPL analysis of the past and current past rates and components of ITCM, as well as IPL's forecast of future ITCM rates and components through 2016.
   - The ITCM revenue requirements projection through 2016, requested by IPL and received in March 2012.
   - ITCM's updated 5 year capital provided by ITC Holdings in their February 22, 2012 earnings call for investors.
   - Forecasted MISO transmission charges applicable to IPL for MISO Base Reliability Projects, Market Efficiency Projects and Multi-Value Projects resulting from the 2011 MISO Transmission Expansion Plan (MTEP 2011) approved by the MISO board of directors in December 2011.

4. Reporting in detail what IPL is doing in the MISO stakeholder process to ensure all MISO Base Reliability Projects, Market Efficiency Projects and Multi-Value Projects whose costs are allocable to IPL are being selected and pursued on a lowest reasonable cost basis.

   IPL Response

   IPL reviewed in 2010 those projects proposed for MTEP 2011 and provided comments to MISO:
   - IPL generally did not take a position on projects unrelated to IPL, including those of ITCM.
   - IPL generally supported projects that would improve reliability to IPL customers or the interconnected system, including those of ITCM.
   - IPL opposed ITCM costs to support a couple of DPC initiated projects.
   - IPL opposed what we considered to be excessive specification and costs for a proposed ITCM 69kV rebuild project, and one of the proposed MVP 345kV projects specified for 765kV construction.

[2] As we have previously indicted, we recognize these forecasts will be only as good as the information that is reasonably available to IPL.

IPL reviewed in 2011 those projects proposed for MTEP 2012 and provided comments to MISO:

- IPL generally did not take a position on projects unrelated to IPL, including those of ITCM.
- IPL generally supported projects that would improve reliability to IPL customers or the interconnected system, including those of ITCM.
- IPL supported ITCM projects related to the conversion of the 34.5kV and 115kV systems.
- IPL opposed ITCM ownership of one project.

MTEP12 will be finalized by MISO and presented to the MISO board of directors for approval in December of 2012.

As noted in response to 2 above, IPL has participated through the MISO Stakeholder process in the various MISO transmission committees that have influenced and determined the MVP cost allocation methodology and MTEP project composition. IPL supports the current MVP cost allocation methodology where the MVP benefits and costs are analyzed as a portfolio.

As additional MVPs are proposed and evaluated in future MTEPs, IPL will continue to monitor cost impacts to IPL and its customers, and engage the relevant MISO committees to provide feedback as needed.

MISO is currently examining the benefit-to-cost ratio to be used for non-MVP reliability and economic projects subject to cost sharing. It is currently 1.25, which FERC has supported. IPL provided comments in 2011 to FERC Return on Equity Notice of Inquiry, indicating our preference for a ratio of 1.5, which maximize benefits-to-costs and minimize projects potentially subject to cost changes that could put the benefits at risk. IPL has expressed its support to MISO of a 1.5 minimum benefit-to-cost ratio.

In addition, IPL is participating in MISO's compliance document drafting in response to FERC's Order 1000, specifically the issue of Right of First Refusal (ROFR). IPL has provided comments on IPL's preferred means that projects are proposed by developers and if approved as a result of the MTEP process, are subsequently awarded to transmission developers (potentially including the incumbent transmission owners) who meet certain criteria including cost controls. These efforts are all oriented toward ensuring projects subject to cost sharing are evaluated, approved, awarded, and constructed at minimal cost, including costs to IPL customers.

5. Reporting in detail what IPL is doing to ensure the MISO Multi-Value Projects that are being pursued are in fact as a group providing a net benefit to IPL's retail electric customers that is commensurate with the cost of these facilities that is being allocated to IPL's retail electric customers.[3]

[3] For example, while MISO is now providing a forecast benefit-to-cost ratio for what it designates as an Iowa zone, it is not clear that this benefit-to-cost ratio is that which will be expected for Load Serving Entities such as IPL or whether much of the forecast benefit for the Iowa zone will be instead seen in the form of lower operating costs for independent generators in the Iowa load zone.

IPL Response

A related question was raised at the December 15 Winter 2011 Transmission Stakeholder Informational Meeting, and initially addressed in the Follow-up Q&A distributed afterwards:

Has MISO looked at more granularity than the Iowa sub region for cost-benefit analysis?

Answer: As noted by MISO at the Stakeholder meeting, MISO has not provided cost-benefit analysis on a sub-regional or individual transmission customer basis. MISO has kept such analysis to areas no smaller than the Load Resource Zones, as presented. Cost-benefit analysis of individual initiatives based on smaller geographic areas or individual participants diminishes the overall benefits on a regional basis. Further, FERC observes "…that requiring a utility-by-utility analysis of costs and benefits for MVPs would be inconsistent with the regional nature of RTOs" as noted in their Oct. 21, 2011 Order regarding MISO's MVP compliance filing.

IPL subsequently reiterated a form of this question to MISO in a letter that accompanies this response. MISO responded with the letter accompanying this response, affirming that these are the benefits expected by "all customers in the Iowa zone through Load Serving Entity participation" (such as IPL).

As noted in response to 2 above, IPL will continue to monitor cost impacts to IPL and its customers, and engage the relevant MISO committees to provide feedback as additional MVPs are proposed and evaluated in future MTEPs or changes occur to the currently approved MVPs.

6. Providing improved clarity in its reporting of ITC-Midwest's reliability performance.[4]

IPL Response

To date, IPL has emphasized reporting of transmission outage restoration metrics, consistent with its monitoring of ITCM processes and performance responding to outages. During 2011 as ITCM restoration performance was observed to have improved, was stable and consistent with IPL's prior performance; IPL requested ITCM to begin reporting their outage performance in terms of number of outages as indicator of reliability. ITCM initially shared a form of these metrics in the fall of 2011 and IPL worked with ITCM to better understand and refine them.

Beginning with 2012, ITCM now reports their monthly transmission reliability to IPL and it is reviewed jointly each month. Annualized data is represented in one of the supplemental slides that accompany this response. It has only been a few years since ITCM purchased IPL's transmission assets, and outage numbers are highly dependent on weather events, so there is not a clear and compelling improvement trend clearly evident yet. In addition, IPL did not track

[4] In particular, the reporting needs to be clearer in regard to whether ITC-Midwest's reliability performance is increasing or decreasing, and whether the performance is an increase or decrease versus IPL's own transmission reliability performance prior to the sale of the transmission system to ITC-Midwest.

outages in the same way as ITCM, so comparison to earlier IPL data does not provide additional insight. However, the reliability metrics do suggest that reliability is improving compared to prior ITCM and IPL performance. This is attributed in part to the maintenance practices of ITCM and transmission put into service resulting from new construction and rebuilds.

In an effort to compare current ITCM reliability to past IPL performance, the industry-standard metrics of SAIDI and SAIFI were considered by IPL. IPL has historically collected this data, and continues to do so. SAIDI and SAIFI for transmission events only in IPL from 2001 to YTD 2012 are represented in the supplemental slides accompanying this response. This analysis also suggests an improvement trend in reliability over prior ITCM and IPL performance, again likely in part due to the maintenance practices and new investment of ITCM.

Appendix 5 – IPL Spreadsheet Analysis and Forecast of ITC-M and MISO Rates

Appendix 5

ITC Midwest Rate Historical and Forecast Analysis

by IPL 06/01/2012

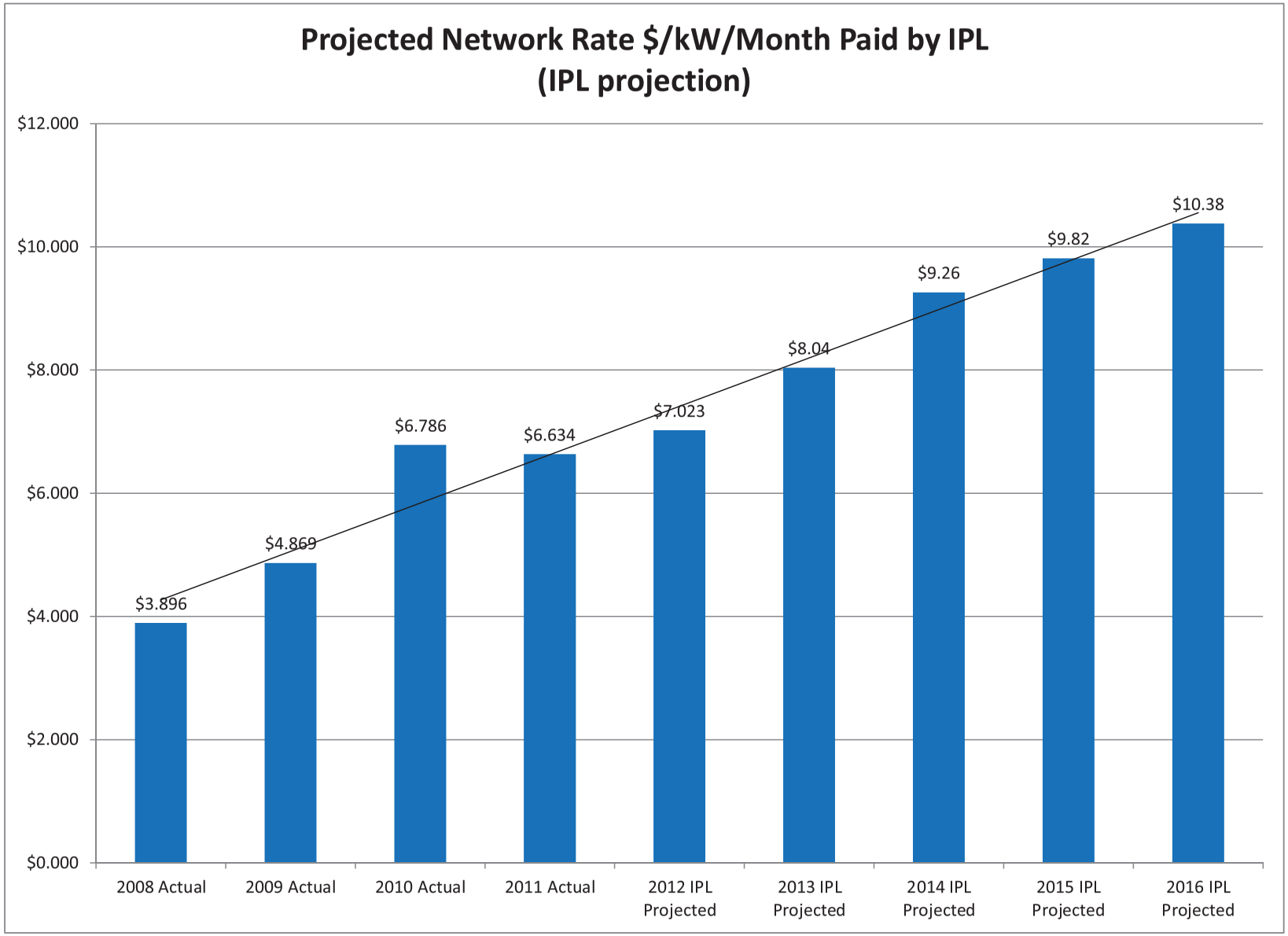
	Item	Historical 2008 Actual	2009 Actual	2010 Actual	2011 Actual	Forecast 2012 IPL Projected	2013 IPL Projected	2014 IPL Projected	2015 IPL Projected	2016 IPL Projected	Forecast Notes
	Rate Base	$500,062,276	$641,615,985	$754,552,323	$924,672,985	$1,124,854,260	$1,351,358,656	$1,517,679,722	$1,652,815,587	$1,767,161,320	A
X	Weighted Ag Cost of Capital	9.72%	9.81%	9.82%	9.60%	9.62%	9.62%	9.62%	9.62%	9.62%	B
=	Allowed Return	$48,609,081	$62,943,653	$74,117,391	$88,790,977	$108,210,395	$130,000,000	$146,000,000	$159,000,000	$170,000,000	C
+	O&M Expenses	$92,416,297	$108,178,761	$125,164,181	$145,482,778	$159,567,391	$183,000,000	$204,000,000	$218,000,000	$235,000,000	D
=	Gross Revenue Requirement	$141,025,378	$171,122,414	$199,281,572	$234,273,756	$267,777,786	$313,000,000	$350,000,000	$377,000,000	$405,000,000	C
+	GG Revenues offsets	$0	-$628,381	-$8,269,965	-$21,681,509	-$21,763,339	-$26,605,000	-$31,500,000	-$35,815,000	-$40,500,000	E
=	Gross RR including offsets	$141,025,378	$170,494,033	$191,011,607	$212,592,247	$246,014,447	$286,395,000	$318,500,000	$341,185,000	$364,500,000	
+	Revenue Credits (Point to Point)	-$5,070,368	-$4,612,943	-$5,713,353	-$5,236,034	-$3,994,000	-$3,394,000	-$3,394,000	-$3,394,000	-$3,394,000	F
+	True-Up	$0	$0	$53,067,697	$23,553,608	-$3,734,566	-$10,165,754				G
=	Net Revenue Requirement	$135,955,010	$165,881,090	$238,365,951	$230,909,821	$238,285,881	$272,835,246	$315,106,000	$337,791,000	$361,106,000	
+	Discount	$0	-$4,125,000	-$4,125,000	-$4,125,000	-$4,125,000	-$4,125,000	-$4,125,000	-$4,125,000	-$4,125,000	H
=	Net RR after Discount	$135,955,010	$161,756,090	$234,240,951	$226,784,821	$234,160,881	$268,710,246	$310,981,000	$333,666,000	$356,981,000	
	Net RR less true-up	$135,955,010	$161,756,090	$181,173,254	$203,231,213	$237,895,447	$278,876,000	$310,981,000	$333,666,000	$356,981,000	
+	SMMPA RR for joint rate zone				$4,737,161	$5,210,877	$5,731,965	$6,305,161	$6,935,677	$7,629,245	I
+	GRE RR for joint rate zone				$2,810,822	$2,579,252	$2,837,177	$3,120,895	$3,432,984	$3,776,283	I
=	Net RR for joint rate zone				$234,332,804	$241,951,010	$277,279,388	$320,407,056	$344,034,662	$368,386,528	
÷	Projected Network Load	34,899,000	33,224,000	34,520,000	35,324,000	34,452,000	34,493,342	34,596,822	35,050,041	35,491,671	J
=	Network Rate $/kW/Month	$3.896	$4.869	$6.786	$6.634	$7.023	$8.04	$9.26	$9.82	$10.38	K
	ITCM Network Rate w/o other systems RR	$3.896	$4.869	$6.786	$6.420	$6.797	$7.79	$8.99	$9.52	$10.06	L

Source:
http://oasis.midwestiso.org/oasis/itcm

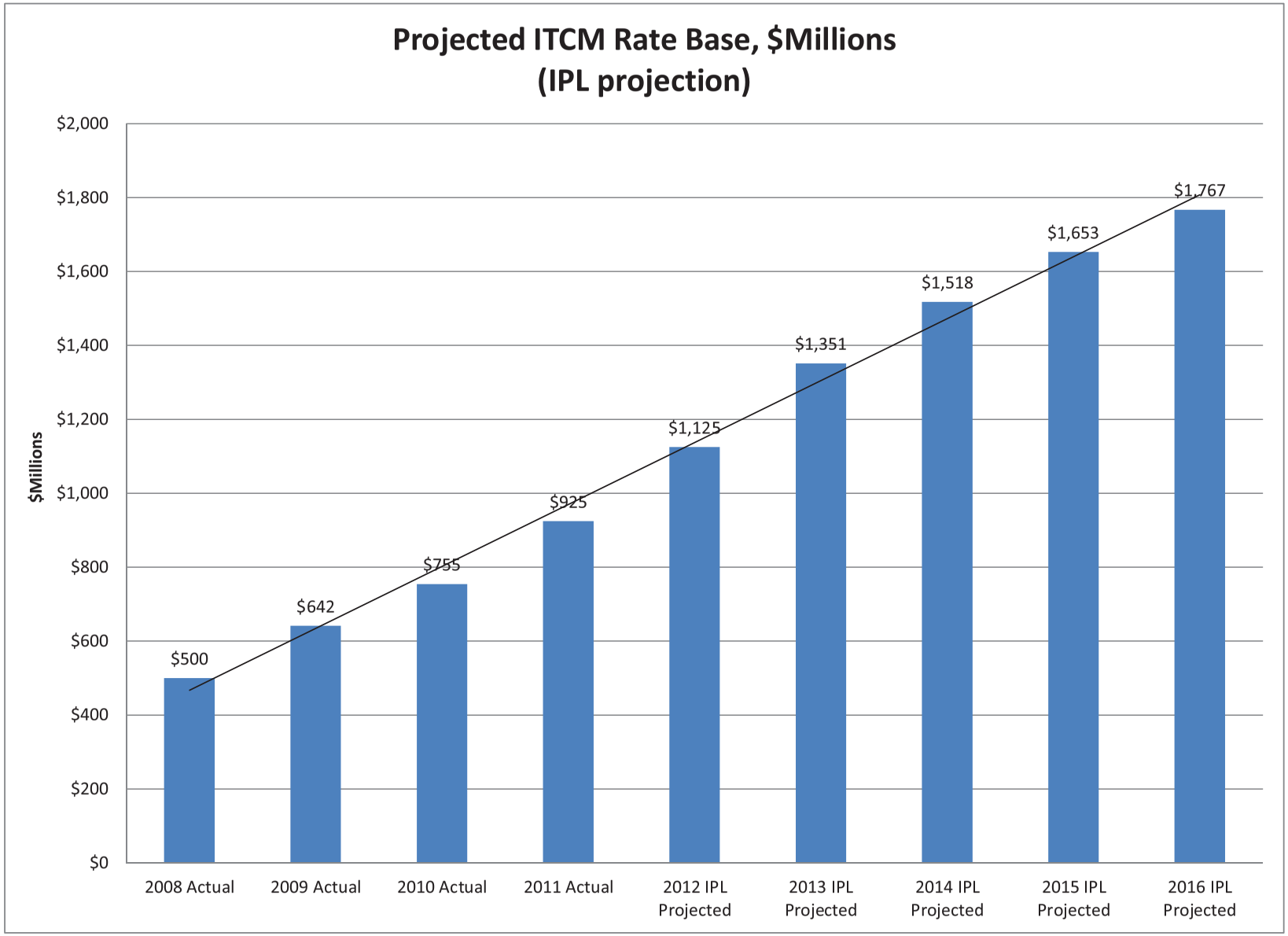
Forecast Notes

A	ITCM Forecast Rate Base Calculated by IPL 2013+
B	ITCM WACC assumed constant by IPL, 2013+
C	2013+ provided by ITCM and available at: http://oasis.midwestiso.org/documents/itcm/Response%20to%20Customer%20Requests%20Regarding%20Five%20Year%20Capital%20Plan.pdf
D	ITCM Forecast O&M Calculated by IPL
E	IPL assumes forecast GG Revenue offsets grow at 0.5%/year over 2012 (2012 GG = 8% of Gross RR)
F	IPL assumes forecast Revenue Credits (Point to Point) are constant, 2012+
G	2013 ITCM true up data from: http://oasis.midwestiso.org/documents/itcm/2011%20ITCM%20True%20Up%20Presentation.pdf
H	Per regulatory approval of asset sale, discount continues 8 yrs after increased ITCM rates (2009), following asset sale (2007 sale; 2008 rates held constant). Ends 2016.
I	ITCM published Attachment O rates do not include SMMPA, CMMPA, and GRE RRs in joing rate zone. IPL has projected SMMPA & GRE RRs to each grow 10%/yr and added them in to better reflect actual Network Rate paid by IPL. CMMPA RRs are very small and not projected here.
J	IPL assumes Joint Rate Zone Network Load divisor grows at same rate as IPL forecasted load (in kW-Year - divide by 12 to get 12 CP in kW-Month)
K	2008-2010 are actual ITC-M rates, not including SMMPA and GRE revenue requirements 2011-2016 is effective network rate paid by IPL when SMMPA and GRE revenue requirements are included
L	Reflects ITC-M rates only, historical and IPL forecast, without effect of SMMPA and GRE revenue requirements

Appendix 5


Projected Network Rate $/kW/Month Paid by IPL
(IPL projection)
$12.000
$10.000
$8.000
$6.000
$4.000
$2.000
$0.000
$3.896
$4.869
$6.786
$6.634
$7.023
$8.04
$9.26
$9.82
$10.38
2008 Actual
2009 Actual
2010 Actual
2011 Actual
2012 IPL Projected
2013 IPL Projected
2014 IPL Projected
2015 IPL Projected
2016 IPL Projected

Appendix 5

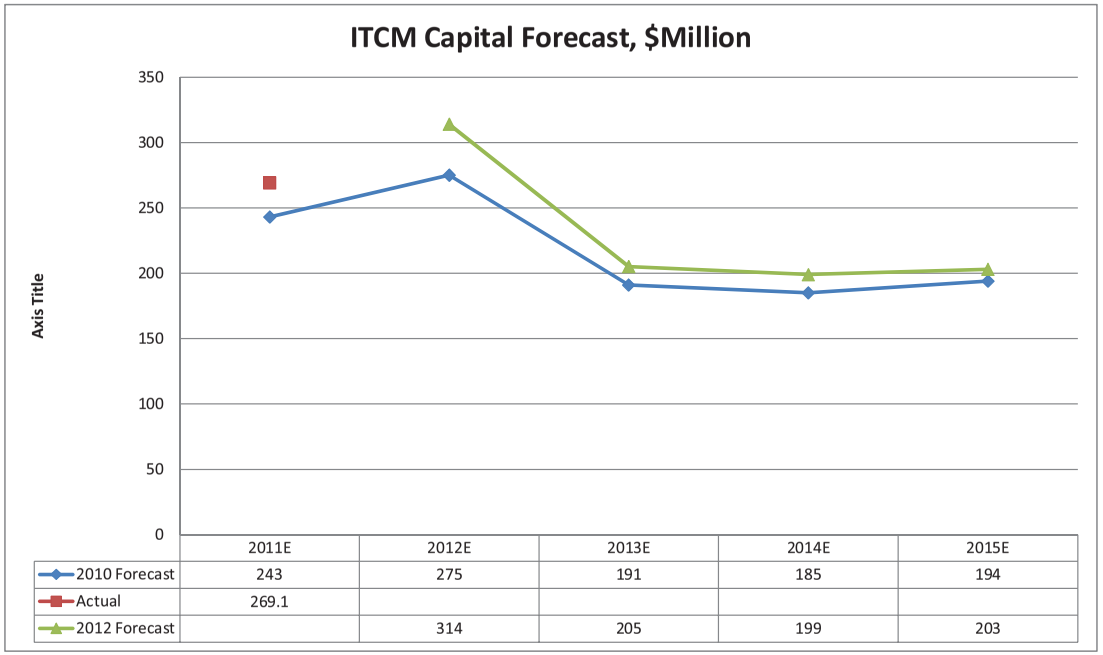

Projected ITCM Rate Base, $Millions
(IPL projection)
$Millions
$2,000
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
$500
$642
$755
$925
$1,125
$1,351
$1,518
$1,653
$1,767
2008 Actual
2009 Actual
2010 Actual
2011 Actual
2012 IPL Projected
2013 IPL Projected
2014 IPL Projected
2015 IPL Projected
2016 IPL Projected

Appendix 5

	Millions $ 2011E	2012E	2013E	2014E	2015E	2016E	Notes
2010 Forecast	243	275	191	185	194		A
Actual	269.1						B
2012 Forecast		314	205	199	203	207	C
% change	n/a	14%	7%	8%	5%	n/a	

Notes

A	http://oasis.midwestiso.org/documents/itcm/ITCM%20Customer%20Information%20Requests%2011_10_10.pdf
B	http://investor.itc-holdings.com/common/download/download.cfm?companyid=ITC&fileid=544460&filekey=53a6bf6f-eaa9-4ad1-a6fb-b780e30c4034&filename=ITC Q4 Presentation.pd
C	http://investor.itc-holdings.com/common/download/download.cfm?companyid=ITC&fileid=544460&filekey=53a6bf6f-eaa9-4ad1-a6fb-b780e30c4034&filename=ITC Q4 Presentation.pd

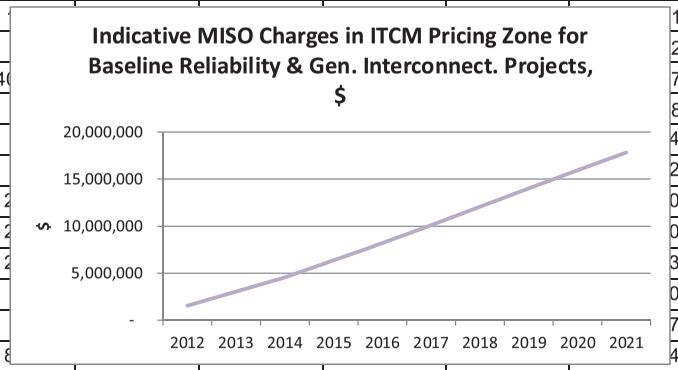


Appendix 5

Appendix A-2.1. *Indicative* Schedule 26 Annual Charges by MISO Pricing Zone for new MTEP 11 Approved Baseline Reliability Projects and Generation Interconnection Projects

SETTLEMENT OR RATEMAKING PURPOSES. THE VALUES ARE SUBJECT TO CHANGE DEPENDING UPON ACTUAL PROJECT COSTS INCLUDING CONSTRUCTION WORK IN PROGRESS,

	Year									
Pricing Zone	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
AMIL	18,468						1	431,193	424,328	417,462
AMMO	18,070						2	4,768,367	4,693,085	4,617,802
ATC	3,306,603	3,4					7	16,521,956	16,254,068	15,986,180
BREC	3,515						8	58,951	58,009	57,067
CWLD	671						4	11,244	11,064	10,884
CWLP	748						2	12,536	12,336	12,136
DPC	2,454	2					0	1,308,279	1,293,285	1,278,291
DUK	25,104	2					0	420,969	414,242	407,515
GRE	2,415	2					3	389,175	382,462	375,748
HE	1,442						0	24,180	23,794	23,407
IPL	6,319						7	105,958	104,265	102,572
ITC	88,192	8					4	421,917	415,019	408,122
ITCM	1,531,233	1,506,629	1,493,650	1,820,903	1,850,895	1,904,076	1,933,713	1,964,708	1,931,955	1,899,203
Culmulative	1,531,233	3,037,862	4,531,511	6,352,414	8,203,308	10,107,384	12,041,098	14,005,806	15,937,761	17,836,964
MDU	1,590	1,564	2,421	6,040	10,396	19,764	24,043	28,425	27,971	27,517
MEC	9,670	9,516	17,442	33,451	73,703	144,445	184,231	224,960	221,371	217,782
METC	16,603	13,544,878	29,645,680	29,224,907	31,957,180	31,570,383	31,130,437	30,691,567	30,202,183	29,712,799
MICH13A	1,565	1,540	2,383	4,095	8,411	17,662	21,903	26,245	25,826	25,406
MP	4,166	1,427,585	1,408,769	6,581,382	6,495,360	6,422,472	6,336,249	6,250,392	6,147,299	6,044,206
MPW	314	309	478	821	1,687	3,542	4,392	5,263	5,179	5,095
NIPS	7,196	7,081	10,958	18,827	38,672	81,204	100,702	120,666	118,738	116,810
NSP	20,408	211,263	231,522	4,377,802	4,429,811	4,546,162	4,597,187	4,650,958	4,575,714	4,500,470
OTP	3,000	14,176	15,620	3,597,185	3,550,890	3,514,054	3,467,613	3,421,367	3,365,992	3,310,618
SIPC	991	976	1,510	2,594	5,328	11,188	13,875	16,625	16,360	16,094
SMMPA	617	607	939	1,614	3,315	6,961	8,632	10,343	10,178	10,013
VECT	2,482	2,442	3,779	6,493	13,337	28,005	34,730	41,615	40,950	40,285
MISO Total	**6,605,068**	**23,373,517**	**41,544,322**	**59,191,560**	**66,881,357**	**76,807,120**	**81,314,383**	**85,933,668**	**86,713,434**	**87,460,447**

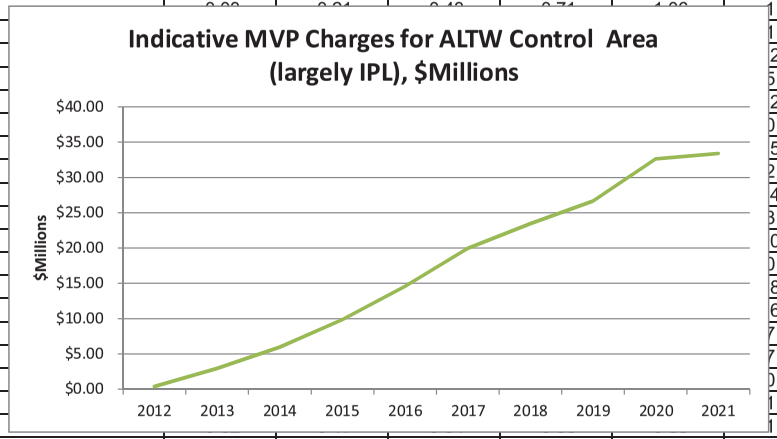


Source: https://www.midwestiso.org/_layouts/MISO/ECM/Redirect.aspx?ID=124422

Appendix 5

igure A-3.3 *Indicative* Annual M P Charges for Approved and Pending Approval M Ps by ocal Balancing Authority for 2012-2021 in Millions of 2011 ollars

BA	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
ALTE	0 23	1 82	3 68	6 07	9 01	12 32	14 46	16 44	20 12	20 59
ALTW	0 37	2 95	5 97	9 84	14 61	19 98	23 44	26 67	32 63	33 40
AMIL	0 85	6 86	13 88	22 90	33 97	46 47	54 52	62 02	75 90	77 67
AMMO	0 80	6 40	12 93	21 34	31 66	43 31	50 82	57 81	70 75	72 40
BREC	0 06	0 71	1 92	3 17	4 70	6 43	7 54	8 58	10 50	10 75
CIN	1 23	9 87	19 97	32 95	48 88	66 87	78 46	89 24	109 22	111 78
CONS	0 80	6 45	13 04	21 51	31 92	43 66	51 23	58 27	71 31	72 98
CWLD						1 45	1 70	1 94	2 37	2 42
CWLP						1 99	2 34	2 66	3 25	3 33
DECO						2 36	61 44	69 89	85 53	87 53
DPC						5 62	6 59	7 50	9 17	9 39
GRE						2 34	14 48	16 47	20 16	20 63
HE						0 40	0 47	0 53	0 65	0 67
IPL						5 32	17 98	20 45	25 03	25 61
MDU						2 65	3 11	3 54	4 33	4 44
MEC						4 03	28 20	32 07	39 25	40 17
MGE						3 43	4 03	4 58	5 61	5 74
MP						0 52	12 34	14 04	17 18	17 58
MPW						0 88	1 04	1 18	1 44	1 48
NIPS						8 92	22 20	25 25	30 90	31 62
NSP						6 80	54 91	62 46	76 44	78 23
OTP						7 83	9 18	10 45	12 78	13 08
SIGE						7 86	9 22	10 49	12 83	13 13
SIPC						0 00	0 00	0 00	0 00	0 00
SMP						1 68	1 97	2 24	2 74	2 80
UPPC						1 14	1 34	1 52	1 86	1 90
WEC	0 62	4 98	10 07	16 61	24 65	33 72	39 57	45 00	55 07	56 36
WPS	0 26	2 09	4 22	6 97	10 34	14 15	16 60	18 88	23 11	23 65
E ort a W eel T rou e clu i t o e i i i P M	0 21	1 67	3 38	5 58	8 28	11 33	13 29	15 12	18 50	18 93
Total	9 37	75 58	153 33	253 00	375 36	513 46	602 48	685 26	838 64	858 29



igure A-3.2 *Indicative* M P sage Rates for Approved and Pending Approval M Ps 2011 dollars

Year 2012-2021	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
I icative MVP U a e Rate MW	0 02	0 14	0 29	0 46	0 68	0 92	1 06	1 19	1 43	1 45

Year 2022-2031	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
I icative MVP U a e Rate MW	1 41	1 38	1 34	1 30	1 27	1 23	1 20	1 16	1 13	1 10

Year 2032-2041	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
I icative MVP U a e Rate MW	1 06	1 03	1 00	0 96	0 93	0 90	0 87	0 84	0 81	0 78

Year 2042-2051	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051
I icative MVP U a e Rate MW	0 75	0 73	0 70	0 67	0 64	0 62	0 59	0 57	0 54	0 52

Source: https://www.midwestiso.org/ layouts/MISO/ECM/Redirect.aspx?ID=124422

Appendix 6 – IPL Supplemental Slides for Response to ICC

Appendix 6

Supplemental Slides for Discussion with the Iowa Consumers Coalition

May 15, 2012

Appendix 6

Alliant Energy's Transmission Philosophy

- Alliant Energy supports additional transmission development to provide access to:
  - Efficient energy resources;
  - Ensure system reliability;
  - Support of public policy.

Appendix 6

Alliant Energy's Transmission Philosophy cont'd

- Transmission development must result in benefits that are commensurate with costs and should be in line with the following:
  - Must be justified by end-user customer economics;
  - Must be built to meet bulk power system reliability;
  - Responds to approved legislation that addresses public policy;
  - Should be based on reasonable future scenario planning in concert with generation plans for each region.

Appendix 6

Alliant Energy's Transmission Philosophy cont'd

- Transmission development must result in benefits that are commensurate with costs and should be in line with the following:
  - Transmission owners should focus on cost-effective and efficient operation of existing transmission that reduces impact customer costs;
  - Cost allocation of new transmission must have a direct and measureable alignment between cost causers and beneficiaries.

Appendix 6

Alliant Energy's Transmission Philosophy cont'd

- Transmission development must result in benefits that are commensurate with costs and should be in line with the following:
  - Transmission owners should focus on cost-effective and efficient operation of existing transmission that reduces impact customer costs;
  - Cost allocation of new transmission must have a direct and measureable alignment between cost causers and beneficiaries.

Appendix 6

MISO Planning and Cost Allocation

Allocation Category	Driver(s)	Allocation to Beneficiaries
Participants Funded ("Other")	Transmission Owner identified project that does not qualify for other cost allocation mechanisms.	Paid by requestor (local zone)
Generator Interconnection Project	Interconnection Request	Paid for by requestor; 345 kV and above 10% postage stamp to load
Market Efficiency Project [1]	Reduce market congestion when benefits are 1.2 to 3 times in excess of cost	Distribute to planning regions commensurate with expected benefit; 345 kV and above 20% postage stamp to load
Baseline Reliability Project	NERC Reliability Criteria	Primarily shared locally through Line Outage Distribution Factor Methodology; 345 KV and above 20% postage stamp to load
Multi Value Project	Address energy policy laws and/or provide widespread benefits across footprint	100% post stamp to load

1. Market Efficiency Project cost allocation methodology currently under review by stakeholders

Appendix 6

The MISO Planning Process

- ITC is a participants in the MISO Planning Process;
  - The goal of the MISO Planning Process is the development of comprehensive expansion plan that meets reliability needs, policy needs, and economic needs;
  - Alliant Energy also participates in the MISO Planning Process thru:
    - Planning Advisory Committee;
    - Planning Subcommittee;
    - Interconnection Process Task Force;
    - RECB Task Force;
    - Other Committees, Task Forces, or Working Groups that are created on an ad hoc basis.

Appendix 6

MISO Planning Advisory Committee (PAC)

- Alliant Energy Representative: Stacy Van Zante
- The PAC is a standing committee that:
  - Shall be a source of input to the Planning Staff concerning the development of the MISO Plan;
  - Provide sector views on:
    - Reliability;
    - Identification of economic, regulatory and business impacts;
    - Identification of potential solutions;
    - Sector points of view on cost allocation;
    - Subject matter expertise on policy issues;
    - Guidance to committees, task forces, and work groups.

Appendix 6

MISO Planning Subcommittee (PSC)

- Alliant Energy Representative: Robert Walter;
- The PSC is a standing committee that:
  - Provides stakeholder technical reviews of planning processes;
  - Provides stakeholder technical reviews of MISO MTEP;
  - Address emerging issues.

Appendix 6

MISO Interconnection Task Force (ITF)

- Alliant Energy Representative: Robert Walter;
- The ITF is a standing committee that:
  - Develop revised generator interconnection process procedures;
  - Goal is to reduce time and increase certainty;
  - Perform on-going review of the queue process to determine if future changes are required.

Appendix 6

MISO Regional Expansion and Criteria Benefits Task Force (RECBTF)

- Alliant Energy Representative: Robert Walter;
- The RECBTF is a standing committee that:
  - Reviews appropriateness of cost allocation methodologies;
  - Reviews appropriateness of eligibility criteria;
  - Reviews portfolio based methodologies;
  - Reviews technical drivers impacting analytics;
  - Review of MISO Order 1000 regional cost allocation discussions.

Appendix 6

So What Does It Mean?

- Projects that are planned and constructed by ITC are approved through the MISO planning process:
  - Exception is Participant Funded Projects:
    - Primarily 34kV in ITC;
  - ITC receives approval through the MTEP (MISO Transmission Expansion Plan) process:
    - MTEP is approved by MISO Board of Directors in December of each year;
  - Alliant Energy participates in the MISO planning process.

Appendix 6

Planning Outside of MISO

- The majority of planning outside of MISO is with ITC;
  - Primarily related to the 34 kV rebuild and conversion;
  - Study areas have been identified and prioritized;
    - Study groups are conducting studies:
      - Study group participants include:
        - ITC;
        - IPL;
        - CIPCo (where appropriate);
        - CIPCo Distribution Coops (where appropriate);
        - Other interested/affected parties as appropriate.

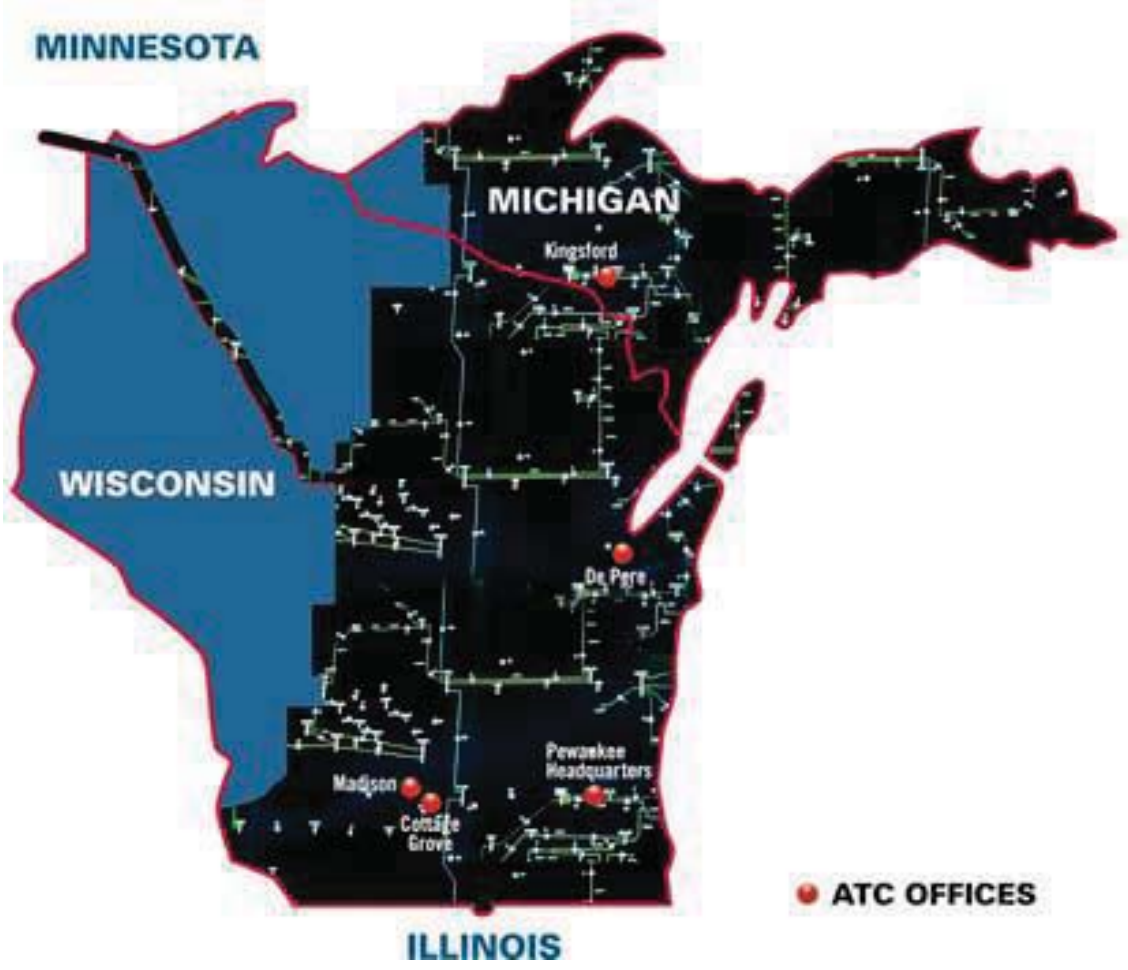
Appendix 6

Planning Outside of MISO

- A high level view of the process:
  - Study kick-off;
    - Agree on study objectives/goals/timeline;
  - Data Collection and Model Building;
    - Preliminary results;
      - Multiple planning analysis
        - Transmission planning modeling and analysis by ITC;
        - Distribution planning modeling and analysis by IPL;
      - Review of results by stakeholders;
    - Additional analysis based on stakeholder input;
      - Final review of results by stakeholders;
    - Recommendations and Plan of Action;
      - Final report.

Appendix 6

ATC Service Territory



Appendix 6

ITC Service Territory

Appendix 6

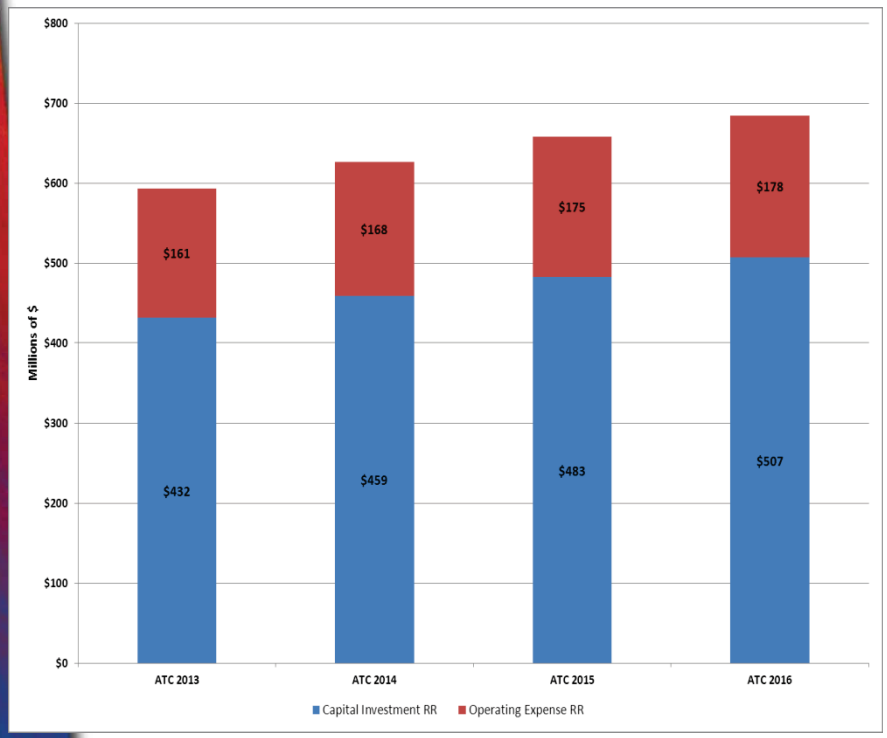
Our Transmission Providers at a Glance

	ATC	ITC
2011 Peak Load (in MW)	12,819	3,422
2012 Rate $/kw Month	$4.17	$6.80
Miles of Line	9,440	6,819
# of Substations	512	132
2012 Projected Gross Revenue	$594M	$268M

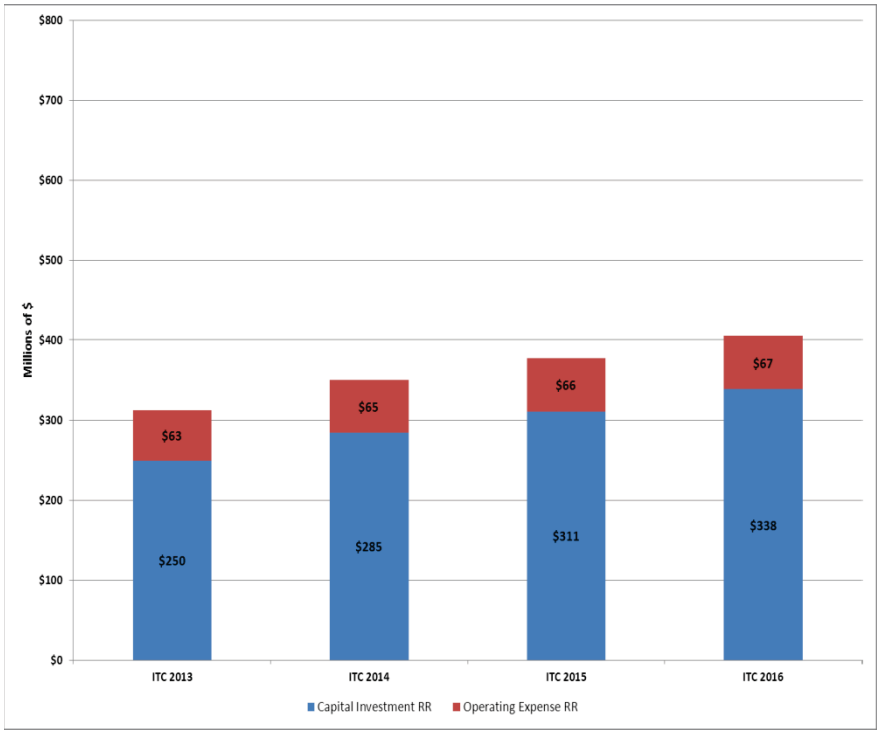
Appendix 6

Projected Revenue Requirements

ATC



ITC



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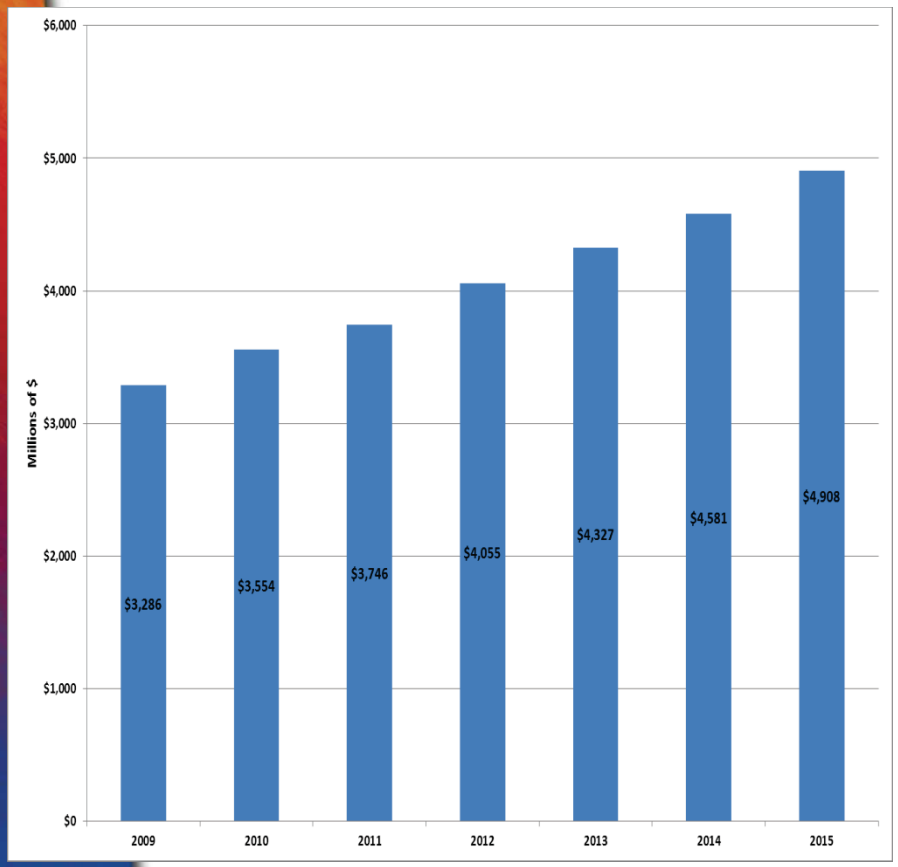
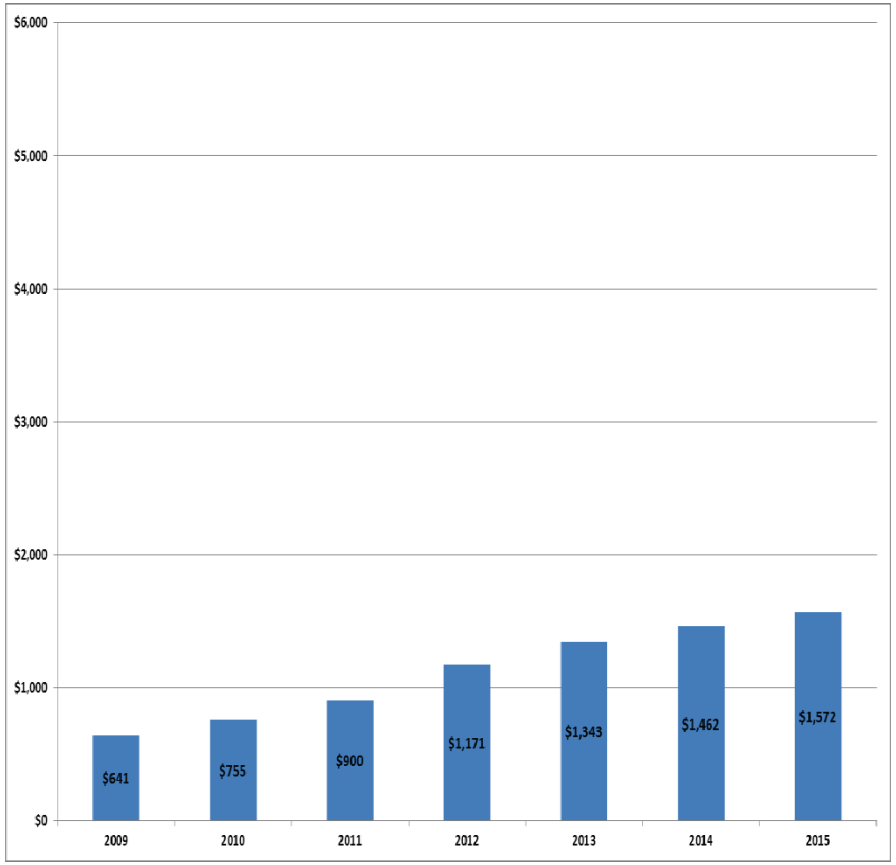
Appendix 6

Projected Rate Base

ATC



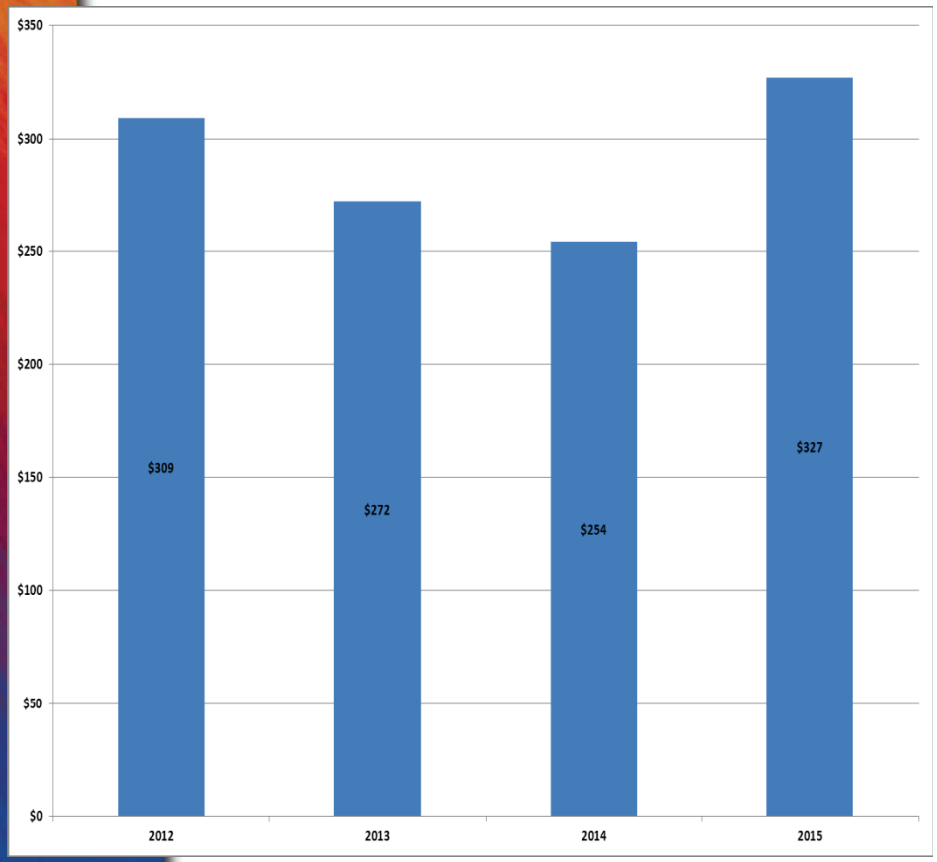
ITC



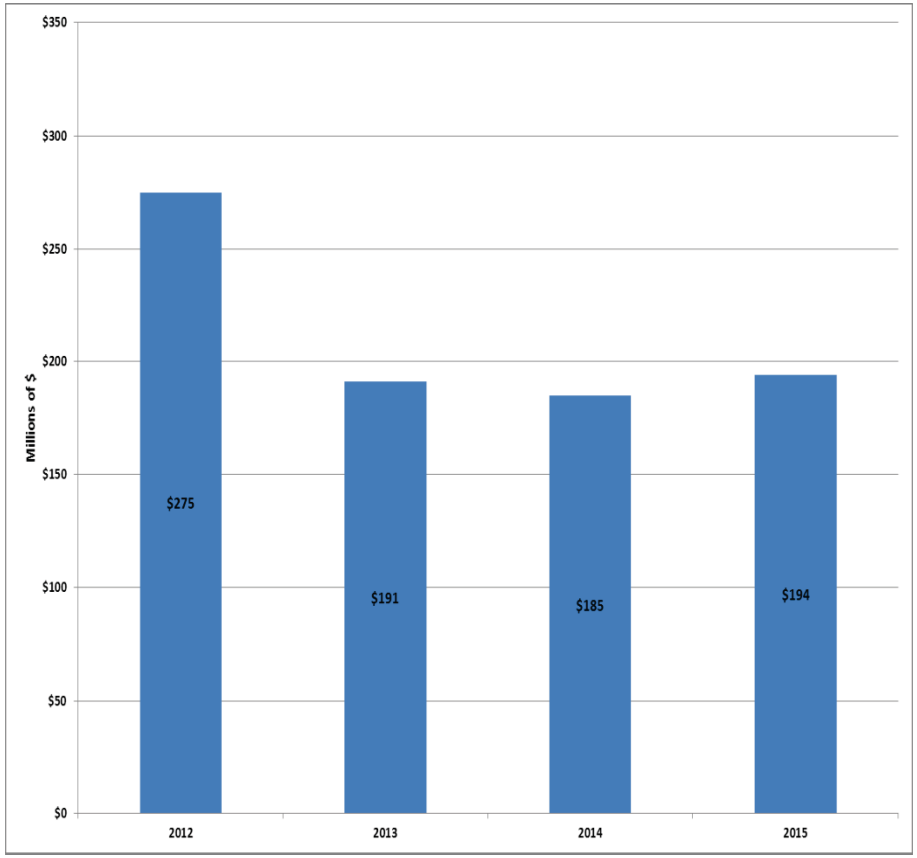
Appendix 6

Projected Capital Expenditures

ATC



ITC



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Appendix 6

Projected Transmission Rates

Year	ATC	ITC
2012	$4.17	$6.80
2013	$4.33	$7.75
2014	$4.41	$8.80
2015	$4.46	$9.32

- *ATC Projected Rates are provided by ATC and can be found on the ATC OASIS*
- *ITC Projected Rates were developed by IPL based upon publicly available data from ITC*

Appendix 6

ATC/ITC Comparison

ATC	ITC
Not truly an independent transmission provider	A truly independent transmission provider
Virtually no 3rd Party renewable activity	Significant 3rd Party renewable activity
No operating voltages below 69kV	Significant operating voltages below 69kV
ATC serves approximately 12,000MW of load	ITC serves approximately 3,500MW of load
WPL represents approximately 22% of ATC revenue	IPL represents approximately 90% of ITC revenue
2012 Rate is $4.17 per kw/month	2012 Rate is $6.80 per kw/month

Appendix 6

Attachment FF

- This is the tariff that results in network upgrades associated with generator interconnects:
- Currently ITC and ATC have different Attachment FF than the remainder of MISO;
- MISO requires interconnect customer to pay 100% of network upgrade costs for voltages <345 kV and 80% for voltages >345 kV;
  - ITC and ATC pay 100% of all network costs if:
    - The resource is a utility network resource or;
    - The resource has a PPA for its off take of at least one year in duration;
  - IPL estimates that this costs its customers $8-$10 million per year;
  - Based upon ITC's 5 year capital projections could rise to $30 million.
- Seeking to change the ITC Attachment FF to align with MISO.

Appendix 6

3rd Party Generation

- For discussion 3rd Party generation is defined as generation where the off-taker is not a network customer of the transmission provider

Item	ATC	ITC
MW of 3rd Party renewables connected to system	0	2,642
Estimated Capital Expenditure to support 3rd party renewables	$0	$116 M
Estimated Annual Revenue Requirement	$0	$14 M
# of 3rd Party Facilities	0	29
Average Estimated Monthly Cost per Customer	$0	$2.23

Reliability

Appendix 6

- Outage performance for 2011, through December 31:

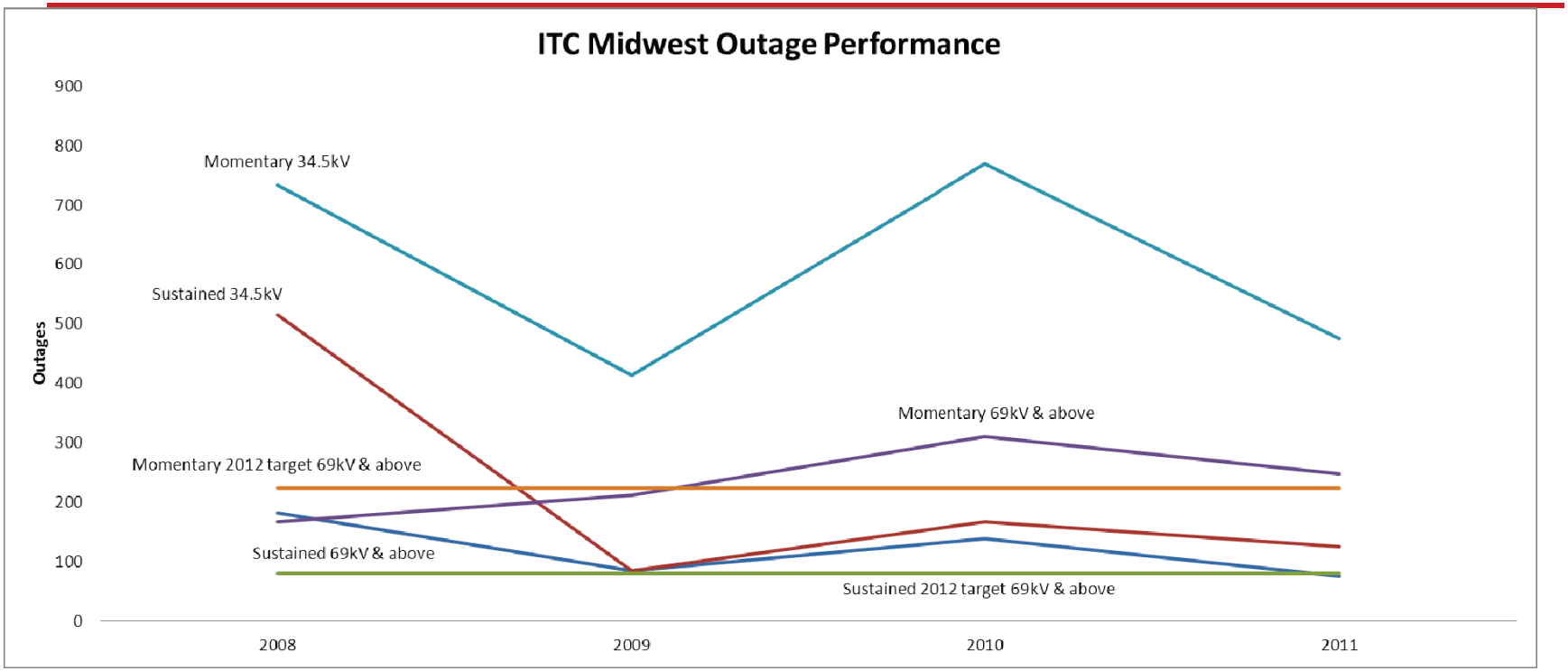
ITC Midwest				
	2008	2009	2010	2011
Sustained				
≥69kV	182	84	138	76
34.5kV	515	85	166	125
Momentary				
≥69kV	167	212	310	248
34.5kV	733	413	770	475
*ITC Midwest Restoration		56%	57%	78.1%

- *An increase in storm activity during 2010 has had a negative impact on system performance*
  - Highest level of thunderstorms observed since 1993
  - Ice event in January and multiple severe thunderstorms and tornados in June and July
    - 12 outages recorded between January 20-22
  - According to NOAA June 22nd and 25th both experienced 6 tornadoes a piece
    - 30 outages recorded in June, 22 recorded in July

***Includes ITCMW caused outages impacting all customers**

Appendix 6

Reliability

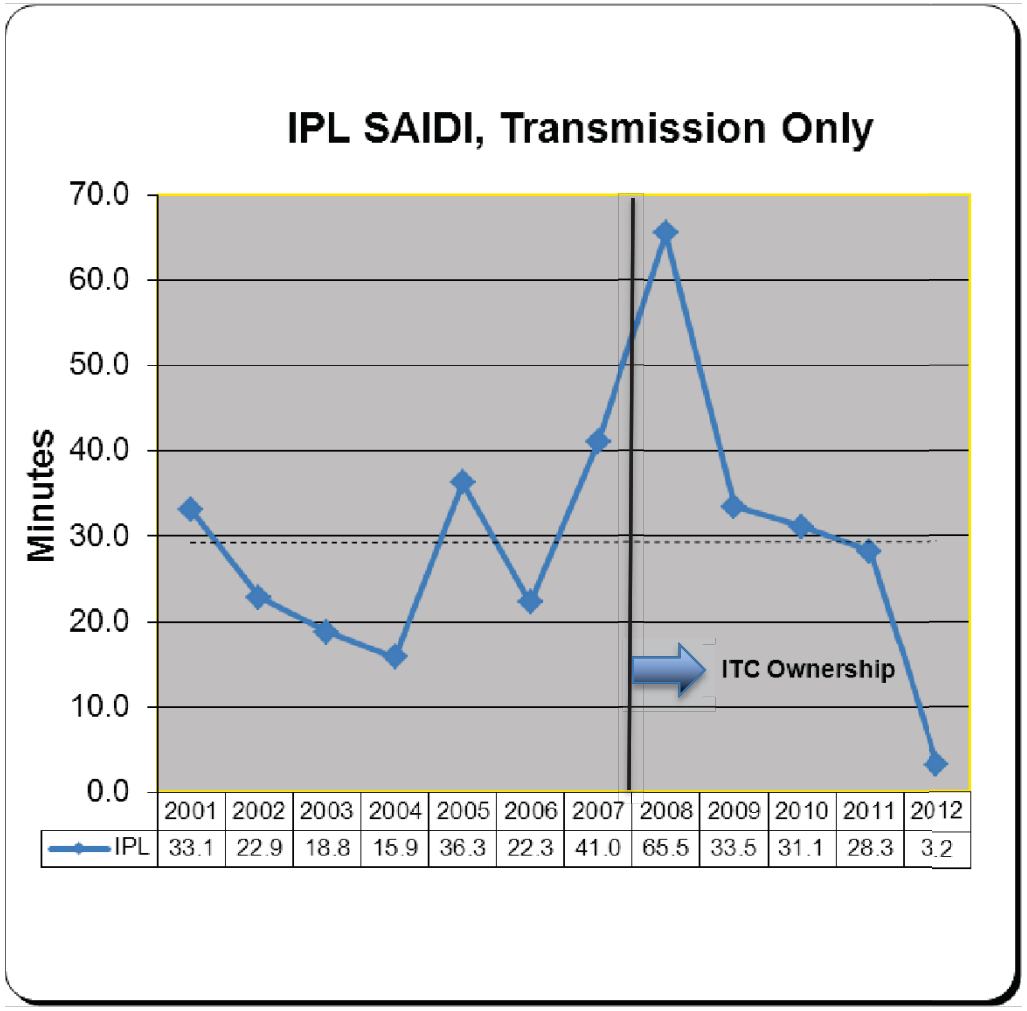


- Significant increase in storm activity during 2010
- Overall, reduction in sustained outages 69kV and above
- Modest increase in momentary outages might be attributed to improved maintenance, including aggressive vegetation program. Some events that may have resulted in a sustained outages in the past are now only momentary, resulting in fewer sustained outages.
- Source: ITC Midwest outage data

Appendix 6

Reliability

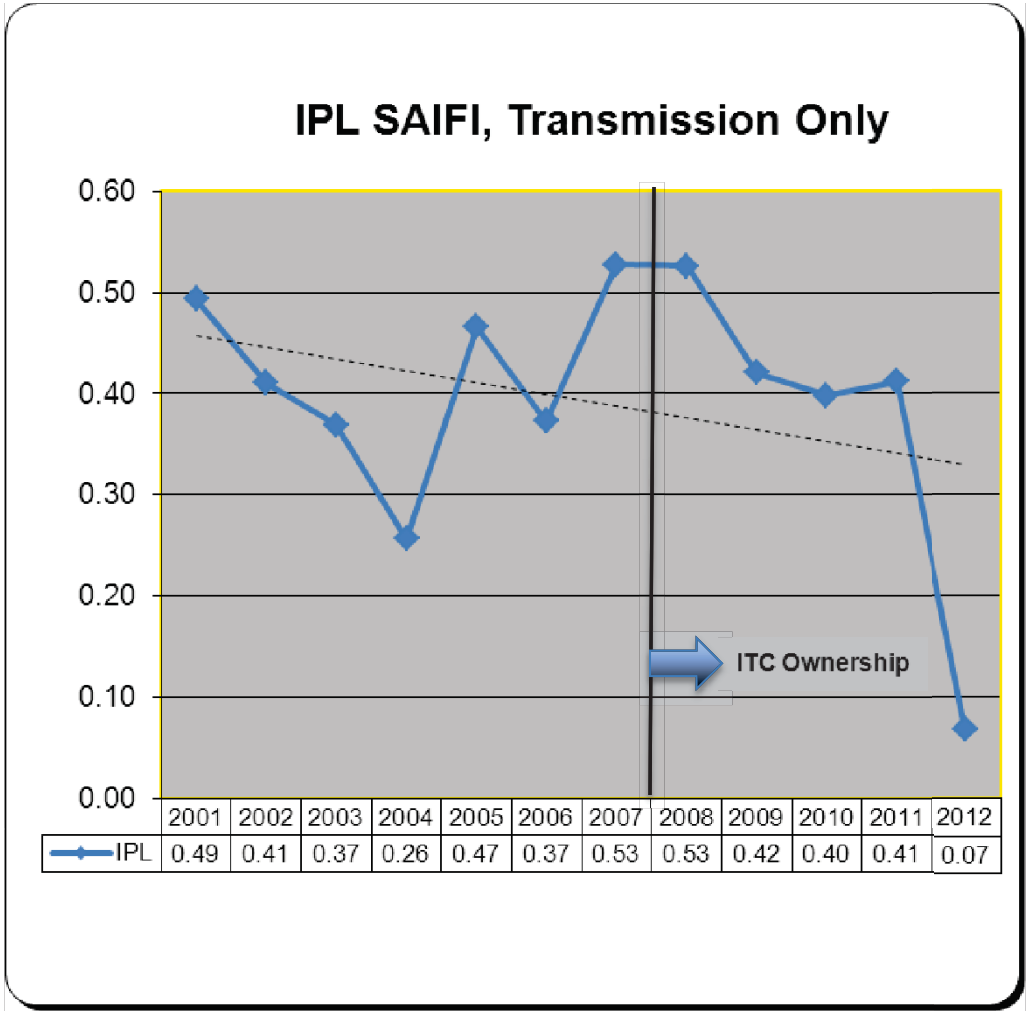
- SAIDI (System Average Interruption Duration Index) - Average length in minutes of outages in one year for all customers who experienced an outage.
- Excludes "major" events (i.e. 2007 ice storms, 2008 floods)
- Source: IPL customer outage data
- ITC Midwest assumed responsibility for operating 69kV and above transmission system on 12/15/2008.
- 2012 data is April YTD



Appendix 6

Reliability

- SAIFI (System Average Interruption Frequency Index) - Average number of outages experienced by customers in one year.
- Excludes "major" events (i.e. 2007 ice storms, 2008 floods)
- Source: IPL customer outage data
- ITC Midwest assumed responsibility for operating 69kV and above transmission system on 12/15/2008.
- 2012 data is April YTD



Appendix 7 – IPL Request Letter to MISO for Additional Data

Interstate Power and Light Co.
200 First Street SE
PO Box 351
Cedar Rapids, IA 52406-0351

May 1, 2012

Clair Moeller
Vice President of Transmission Asset Management
MISO
1125 Energy Drive
St. Paul, MN 55108

Dear Mr. Moeller:

As you may know, Alliant Energy – Interstate Power and Light Company (IPL) has a transmission rider in place as part of our retail rates in Iowa, approved by the Iowa Utilities Board and implemented in early 2011. In conjunction with that rider, we hold semi-annual transmission stakeholder informational meetings for our large customers where we provided updates on transmission regulation, ITC Midwest MISO activities and costs, and IPL activities to influence and manage transmission costs. We appreciated Laura Rauch's attendance from MISO and presentation about the Multi-Value Project portfolio at our last IPL Winter Transmission Stakeholders meeting on December 15, 2011 in Cedar Rapids.

From our various interactions with customers and other stakeholders, we know they are very attentive to the development of transmission projects subject cost sharing across MISO and are concerned about the projected rate impacts and what IPL is doing to minimize those costs. They have also specifically asked for forecasts of MISO's expected transmission charges for cost recovery of regional projects. We will continue to provide updates about MISO activities, IPL engagement with MISO, and specific cost projections using the data from the MISO Transmission Expansion Plan 2011 (MTEP 11) (MISO MTEP11 Appendices).

A specific question by a customer-stakeholder was asked at our December 15 meeting. That question and our response after the meeting follows:

> Question: Has MISO looked at more granularity than the Iowa sub region for cost-benefit analysis?
>
> Answer: As noted by MISO at the Stakeholder meeting, MISO has not provided cost-benefit analysis on a sub-regional or individual transmission customer basis. MISO has kept such analysis to areas no smaller than the Load Resource Zones, as presented. Cost benefit analysis of individual initiatives based on smaller geographic areas or individual participants diminishes the overall benefits on a regional basis. Further, FERC observes "…that requiring a utility-by-utility analysis of costs and benefits for MVPs would be

inconsistent with the regional nature of RTOs" as noted in their Oct. 21, 2011 Order regarding MISO's MVP compliance filing.

In subsequent communications with customer-stakeholders, the question persists. Specifically, we have been asked to accomplish:

> "Reporting in detail what IPL is doing to ensure the MISO Multi-Value Projects that are being pursued are in fact as a group providing a net benefit to IPL's retail electric customers that is commensurate with the cost of these facilities that is being allocated to IPL's retail electric customers. For example, while MISO is now providing a forecast benefit-to-cost ratio for what it designates as an Iowa zone, it is not clear that this benefit-to-cost ratio is that which will be expected for Load Serving Entities such as IPL or whether much of the forecast benefit for the Iowa zone will be instead seen in the form of lower operating costs for independent generators in the Iowa load zone."

As we noted in my November 2, 2011 letter to you regarding MVPs, Alliant Energy – IPL has been following the development of MVP projects closely, generally supports the cost allocation methodology in place, and appreciates the information and analysis that has been provided to stakeholders thus far in the process. We cautioned that a rigorous benefit-cost evaluation must be performed on all projects proposed and remain a paramount decision factor in determining which projects are selected for the portfolio. At the same time, we recognize as noted above in the Oct. 21, 2011 FERC Order in response to MISO's MVP compliance filing: "…that requiring a utility-by-utility analysis of costs and benefits for MVPs would be inconsistent with the regional nature of RTOs".

With this letter, we are asking your assistance to help IPL provide the best possible information to IPL customer-stakeholders. Specifically:

1. MISO has published the $ benefits expected across MISO from the MTEP 11-MVP portfolio under various categories (MTEP 11 Report, p 66). In addition, MISO has published the benefit to cost ratio across various zones of MISO for the MVP portfolio, including Zone 3 – IA of which IPL is part (MTEP 11 Report, p 72). We request that MISO provide to IPL the $ benefits and costs to Zone 3 – IA for the MVP portfolio in each of the categories noted in the overall benefits across MISO. Further, IPL requests those benefits and costs be quantified in terms of those associated with IPL customers, as part of the Zone 3 – IA vs. those associated with other load serving entities or independent generators as delineated in the customer-stakeholder question above.

2. Please verify that the costs used in the benefit to cost ratio analysis for MVPs reflect the ultimate cost that may be passed onto customers. IPL has concerns that in some cases, the higher rates of return available to potential transmission owners may ultimately be passed on to customers in MVP rates if the ultimate owner is different than the original, proposed transmission owner. For example, ITC Midwest is expected to be the part owner of four MVPs connected to the ITC Midwest system, however, they have indicated that the projects may ultimately be developed and owned by another ITC

Holdings subsidiary, Green Power Express, which has a higher FERC-authorized rate of return than ITC Midwest.

We appreciate your providing a response by May 9, 2012, as part of our on-going effort to manage customer transmission cost expectations and illustrate benefits to customers of ITC Midwest system investments as well as regional transmission projects subject to MISO region-wide cost allocation.

Thank you,

Randy Bauer
Director – Resource Planning
Alliant Energy – Interstate Power and Light Company (IPL)

Appendix 8 – MISO Response Letter to IPL

May 11, 2012

Randy Bauer
Director – Resource Planning
Alliant Energy – Interstate Power and Light Company (IPL)
200 First Street SE
PO Box 351
Cedar Rapids, IA 52406-0351

Dear Mr. Bauer:

Thank you for your recent letter to MISO regarding the MISO Multi Value Project portfolio. I appreciate the effort of you and your staff to illustrate the benefits of the Multi Value Project transmission investment to your customers and stakeholders, and I hope you find the information below useful.

Multi Value Project Portfolio Benefits

The Multi Value Project Portfolio provides the opportunity for MISO stakeholders across the footprint to realize benefits in excess of their costs. A table containing the quantified benefits accruing from the Multi Value Project portfolio for Iowa is shown below. As you noted in your letter, MISO does not provide a utility-by-utility analysis of the benefits. However, as these benefits reflect access to lower cost generation sources and reduction in capacity investment, all of the benefits described below may be realized by all customers in the Iowa zone through Load Serving Entity participation in the MISO energy market and planning processes.

Benefit Type[1]	Iowa Benefits, Low ($M)	Iowa Benefits, High ($M)
Congestion and Fuel Savings	938	3,264
Operating Reserves	2	8
Transmission Line Losses	20	34
System Planning Reserve Margin	89	442
Wind Turbine Investment	150	192
Future Transmission Investment	10	36

More specifically, Iowa consumers would benefit from

- Increased availability of low-cost energy to meet their needs
- Decreased operating reserve costs and charges
- Decreased transmission investment due to lessened energy losses under peak load conditions and reduced system planning reserve margins

[1] Benefit range driven by discount rate, load growth assumptions and whether a 20 or 40 year present value timeframe was used.

- Access to additional high-capacity wind areas, decreasing the number of wind turbines which must be constructed to meet a given renewable energy goal
- Future transmission investment savings, as incremental transmission buildout needs will be reduced by the Multi Value Project portfolio

Cost to Customers

MISO based the benefit-cost calculations on the expected total cost to customers. This required the translation of the portfolio's capital costs to an aggregate of the Annual Revenue Requirements for the 20 or 40 year timeframe of the analysis. To calculate the estimated Annual Revenue Requirement for each line in the portfolio, MISO used company specific data, including expected rates for operation and maintenance, depreciation, taxes and return on investment. For the Iowa projects which ITC Midwest was expected to own, these rates were based on the ITC Midwest Attachment O data, which includes a 12.38% return on equity.

MISO will continue to update the indicative annual charges for approved Multi Value projects on a bi-annual basis, and all updates will be posted on the MISO MTEP Studies webpage, shown at the link below. These updates will include the impact of all factors on the costs of the Multi Value Project portfolio to load, including those due to adjustments in line share ownership, capital cost estimates, or Attachment O data.

https://www.misoenergy.org/Planning/TransmissionExpansionPlanning/Pages/MTEPStudies.aspx

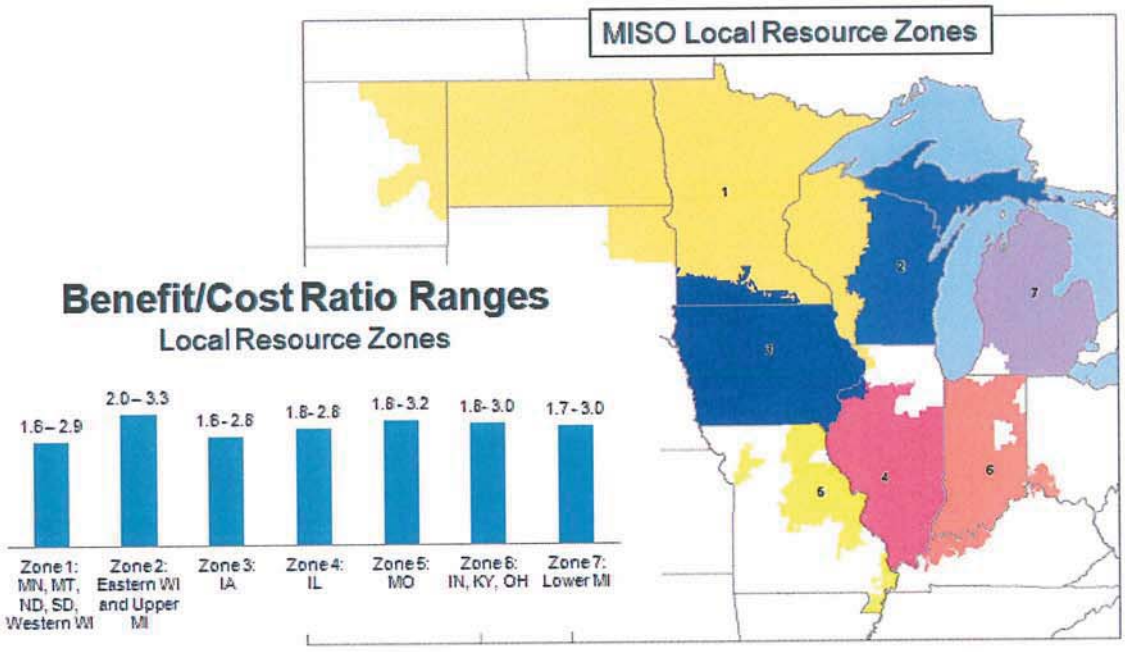
Please let me know if you would like to schedule a follow-up to discuss the MISO Multi Value portfolio benefits or any of the information provided in this letter.

Thank you,

Jennifer Curran
Executive Director, Transmission Strategy
MISO

MISO

Appendix



Benefit Type	Zonal Allocation Determinant
Congestion and Fuel Savings	Calculated by summing the decrease in operating costs for all generation within the zone, including benefits from increased net exports
Operating Reserves	Allocated on a load ratio share basis, to reflect the distribution of these costs in the MISO market
Transmission Line Losses	Allocated on a load ratio share basis, assuming that all generation would share evenly in the reduced energy losses and therefore the reduced buildout required
System Planning Reserve Margin	Allocated on a load ratio share basis, assuming that all generation would share evenly in the reduced buildout required
Wind Turbine Investment	Allocated based on expected need. This need was calculated as a weighted average of each zone's relative wind capacity factors and their renewable energy goals or mandates that could be sourced from out of state
Future Transmission Investment	Allocated based on the cost allocation method for high voltage baseline reliability projects. This assigned 80% of the costs based on each avoided upgrade's location and spread the remaining 20% of the costs on a load ratio share basis.