

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: IES UTILITIES INC. and INTERSTATE POWER COMPANY	DOCKET NO. SPU-01-8
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ORDER TERMINATING DOCKET

(Issued November 30, 2001)

PROCEDURAL HISTORY

On July 10, 2001, IES Utilities Inc. (IES) and Interstate Power Company (Interstate), hereinafter collectively referred to as Applicants, filed with the Utilities Board (Board) a proposal for reorganization pursuant to Iowa Code §§ 476.76 and 476.77 (2001). Applicants are both public utility subsidiaries of Alliant Energy, Inc.

Applicants propose to reorganize their transmission operations and transfer operational control of substantial portions of their transmission facilities to the Midwest Independent Transmission System Operator, Inc. (MISO). Specifically, Applicants propose to transfer operational control of all facilities consisting of network facilities above 100 kV and network transformers whose two highest voltages are above 100 kV. Currently, MISO is scheduled to be operational on or after December 15, 2001.

On August 17, 2001, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a statement indicating it had resolved all its outstanding issues through discovery. Two other groups, the Iowa Consumers

Coalition (ICC) and the Large Energy Group Intervention Alliance (LEGIA), intervened in the docket. On August 28, 2001, the Board issued an order accepting the filing, commencing an investigation, setting a hearing date and procedural schedule, and extending the 90-day decision deadline by an additional 60 days pursuant to Iowa Code § 476.77(2).

Neither ICC nor LEGIA submitted prefiled testimony or any other prefiled statement opposing the reorganization. Consumer Advocate did not submit prefiled testimony but filed an exhibit containing responses to various discovery requests. A hearing was held on November 5, 2001. Pursuant to agreement of the parties, no post-hearing briefs were submitted.

STATUTORY FACTORS

Iowa Code § 476.77(3) lists the following factors that the Board may consider in its review of a proposal for reorganization:

- a. Whether the board will have reasonable access to books, records, documents, and other information relating to the public utility or any of its affiliates.
- b. Whether the public utility's ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure, is impaired.
- c. Whether the ability of the public utility to provide safe, reasonable, and adequate service is impaired.
- d. Whether ratepayers are detrimentally affected.
- e. Whether the public interest is detrimentally affected.

In this reorganization, the important questions are the impacts of the reorganization on the utility's ability to provide reasonable and adequate service, on the utility's ratepayers, and on the public interest generally.

The Board will discuss each of the five statutory factors. In reviewing this reorganization, the Board finds that it will continue to have reasonable access to books and records. Ownership of the transmission assets is not being transferred, and the Board will have the same access it does now to Applicants' books and records. In addition, Applicants will continue to follow the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts after the reorganization. (Tr. 3).

Applicants' ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure, will not be impaired. Because transmission ownership is not being transferred, essentially nothing is happening in this reorganization from a financial perspective. All financings, both debt and equity, will remain unchanged. (Tr. 8).

There was no evidence to indicate Applicants' ability to provide safe, reasonable, and adequate service would be impaired by the reorganization. The specific functions that will be transferred to MISO are tariff administration, market monitoring, security coordination, transfer capability calculations, open-access same time information system (OASIS) management, and regional planning. Physical operation of the system, including switching, engineering, maintenance, construction, and protection will remain with Applicants and therefore retail service should not be impacted. (Tr. 32-33). In fact, regional planning and operation should enhance the transmission system and the delivery of reliable retail electric service.

Finally, no evidence was presented to support a finding that ratepayers or the public interest will be detrimentally affected by this reorganization. Applicants' witness Collins testified that the merger is Applicants' attempt to comply with Federal Energy Regulatory Commission (FERC) Orders 2000 and 2000A, which require electric utilities to join an operational regional transmission organization (RTO) meeting FERC requirements by December 15, 2001. In addition, the reorganization allows Applicants to meet commitments made to FERC when FERC approved the 1997 merger of the Alliant Energy operating companies: IES Utilities Inc., Interstate Power Company, and Wisconsin Power and Light. (Tr. 16). The testimony indicated that MISO was the most viable option to meet the FERC commitments. (Tr. 17).

FERC's encouragement of RTOs should facilitate open-access transmission and eliminate "pancaked" rates, which occur when electricity must travel across more than one utility's transmission system. (Tr. 19). FERC has proclaimed that RTOs like MISO must be independent of market participants, appropriate in scope and configuration, have operational control over transmission facilities, and have exclusive authority to maintain short-term reliability. (Tr. 18).

There is a charge for the services that MISO provides. Applicants would be subject to MISO charges that would be initially capped at \$0.15/MWh. Applicants will seek recovery of any such charges in their next rate case. Pursuant to Consumer Advocate's exhibit, it appears that the Board would be preempted by federal law from disallowing the inclusion of these charges.

It is not unreasonable for MISO to charge for the services it provides. The Board had some concern, because of Applicants' expressed intent to transfer or

lease ownership of their transmission assets to a for-profit transmission entity called Translink, that there could be duplicative charges. However, the testimony indicates that there would be no duplication of charges between MISO and Translink and that Applicants would only pay each entity for the services received. (Tr. 46-48). While there may be other concerns with Translink, those concerns can be explored when Applicants file for a reorganization with respect to that transaction.

The Board notes that the RTO process remains in a state of flux. MISO's original tariff did not place any existing bundled retail load under the MISO tariff for at least a six-year transition period and did not apply the MISO charges to bundled retail transmission. FERC Order No. 453, issued October 11, 2001, purports to require all service using MISO-controlled facilities to be provided under the MISO tariff and therefore be assessed the MISO charges. (Ex. 102). The Board has asked FERC for rehearing of that order. These alterations to the original MISO concept, if upheld on rehearing, could impact the Board's view of this reorganization and constitute a material change to the reorganization proposal.

CHANGES TO THE PROPOSAL

The Board understands that to date no material conditions or changes to Applicants' proposal have been imposed by any other state or federal agency reviewing this reorganization. The Board will reach its conclusions based upon the reorganization proposal submitted to it. Any material changes in the proposed reorganization may change the basis for the conclusions the Board has reached and may require submission of a revised proposal. Therefore, if there are any material

changes to the proposed reorganization prior to final closing, Applicants will be required to file a copy of those changes with the Board, including an analysis of the impact of the changes. In particular, Applicants will be required to file a copy of the FERC order on rehearing of FERC Order No. 453, along with an analysis of whether anything in that order constitutes a material change. The Board will then determine whether a new proposal for reorganization must be filed.

CONCLUSION

Based upon the testimony and evidence filed pursuant to Iowa Code § 476.77 (2001) and 199 IAC chapter 32, and the transcript of hearing, including the exhibit filed by Consumer Advocate, the Board finds the Applicants have established the proposed reorganization is not contrary to the interests of ratepayers and the public interest. The Board also finds the other statutory factors are satisfied. Therefore, the reorganization proposed by Applicants will be permitted to take place by operation of law and this docket will be terminated.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. Docket No. SPU-01-8 is terminated. The application for reorganization filed by IES Utilities Inc. and Interstate Power Company on July 10, 2001, is not disapproved.

2. Applicants shall promptly file with the Board any material changes to the proposed reorganization that occur prior to final closing of the reorganization. In particular, the FERC order on rehearing shall be filed with the Board. Any filing shall include an analysis of the impact of any changes.

3. Motions and objections not previously granted or sustained are denied or overruled. Any argument not specifically addressed in this order is rejected either as not supported by the evidence or as not being of sufficient persuasiveness to warrant comment.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper _____
Executive Secretary

Dated at Des Moines, Iowa, this 30th day of November, 2001.