

ISSUE DATE: November 3, 2000

DOCKET NO. E,G-001/PA-00-385

ORDER APPROVING MERGER, AS CONDITIONED

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott  
Edward A. Garvey  
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Marshall Johnson  
LeRoy Koppendrayer

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of Interstate Power Company's  
Petition for Approval of a Proposed Merger  
Between IPC and IES Utilities, Inc.

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**PROCEDURAL HISTORY**

On March 24, 1997, the Commission issued its ORDER APPROVING MERGER WITH CONDITIONS. In its Order, the Commission approved Interstate Power Company's (Interstate's or the Company's) petition to merge with IES Industries, Inc. and WPL Holdings, Inc. (Docket No. E,G-001/PA-96-184). As a result of the merger, Wisconsin Power&Light, IES Utilities (IES), and Interstate became wholly owned subsidiaries of the company that is currently Alliant Energy Corporation (Alliant).<sup>1</sup>

On March 31, 2000, Interstate filed a request for approval to merge Interstate and IES into Interstate Power and Light Company (IP&L).

On September 20, 2000, the Minnesota Department of Commerce (the Department) filed comments. Based on its analysis, the Department concluded that the merger appears to be consistent with the public interest and recommended that the Commission approve the merger subject to several specified conditions.

The Commission met on October 26, 2000 to consider this matter.

**FINDINGS AND CONCLUSIONS**

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<sup>1</sup> Alliant Energy's public utility operations serve approximately 908,000 electric and 388,000 retail gas customers in Wisconsin, Iowa, Minnesota and Illinois. Alliant's direct non-utility subsidiaries include Alliant Energy Corporate Services, Inc., a subsidiary service company, and Alliant Energy Resources, Inc., which serves as the holding company for substantially all of Alliant Energy's investments in non-utility subsidiaries.

## **I. INTERSTATE'S PETITION**

Interstate, a wholly-owned subsidiary of Alliant, has requested approval to merge with IES, another wholly-owned subsidiary of Alliant. Interstate stated that, if the Commission approves the Company's proposal (Agreement and Plan of Merger) IPC would merge into IES, with the surviving corporation renamed Interstate Power and Light Company. As part of the transaction, all shares of IPC common stock would be cancelled and shares of IP&L common stock would be issued and all debt currently issued and outstanding by the companies would remain outstanding after the merger, with IP&L assuming all debt, liabilities and other obligations of the existing IPC.

Interstate further explained that under the companies' Agreement and Plan of Merger, the merger would be accounted for in a manner similar to a pooling of interests, the headquarters of IP&L would be in Cedar Rapids, Iowa, and the new company would operate as a combination electric and gas utility in Minnesota, Iowa and Illinois.

In support of its request, Interstate asserted that the merger would result in more competitive rates over the long term and offer shareholders greater financial strength and financial flexibility and would enable IP&L to consolidate administrative functions of IES and IPC, reducing non-labor corporate and administrative expenses. Interstate projected approximately \$2.7 million in net present valued cost savings realized over ten years due to the merger. Interstate stated that the merged entity would not change the System Coordination and Operating Agreement (SCOA) and the costs allocated to the Alliant Energy utilities. Consequently, Interstate argued, its Minnesota customers receiving bundled serves would not experience any rate changes due solely to the Interstate/IES merger.

In addition, Interstate promised not to change the Company and fuel costs allocated to Interstate under the System Coordination and Operating Agreement (SCOA) and charged to Interstate's Minnesota customers under the Minnesota fuel clause. Finally, Interstate argued that the merger would not degrade operations, reliability or service and would not prevent the general ability of federal and state regulators to review the companies' costs, operations and resource plans.

## **II. THE DEPARTMENT'S COMMENTS AND RECOMMENDATION**

The Department noted that Interstate has requested approval under the applicable statutes and rules, has used the appropriate accounting methodology, and has substantially complied with all the filing requirements.

The Department stated that because the majority of the merger savings were achieved by Interstate and IES in the previous merger, only *de minimis* savings remain to be achieved by this merger.<sup>2</sup> The Department further noted that all equity for Interstate and IES has been obtained at the holding company level since the previous merger and that this will not change as a result of the Interstate and IES merger. The Department also noted that there will be an insignificant change from Interstate's 1999 actual common equity of 47 percent to the merged IP&L common equity of 45.8 percent.

The Department also stated that the Commission's regulatory authority over IP&L's regulated operations in Minnesota will not be affected by the proposed merger, provided the Commission adopts three conditions (a, b, and d) imposed on the previous merger:<sup>3</sup>

- a. Up to and during Interstate's next rate case, the Company will not claim federal preemption regarding any cost of service item charged to Interstate under the Coordination Agreement, if the Commission disallows recovery for the item on the grounds of imprudence.
- b. Prior to or during the next electric rate case, Interstate will convene a meeting of interested parties to discuss and recommend ways to amend the Coordination Agreement or otherwise resolve the parties' regulatory oversight concerns.
- d. Interstate will not claim federal preemption regarding any cost of service item under the Coordination Agreement until: i) the Commission finds that an acceptable alternative to the Coordination Agreement has been agreed upon by the parties; or ii) the Commission finds that this merger condition is no longer necessary or appropriate.

Regarding the potential for rate changes as a result of rate consolidation, the Department compared the rates for Interstate's Minnesota customers, its Iowa customers, and IES's customers at various levels of Residential, Commercial and Industrial usage. The Department noted that there are some significant rate differences between the various rate schedules and recommended that prior to approval of any future consolidation of rates, the new company (IP&L) should be required to demonstrate that rate consolidation is consistent with the public interest.

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<sup>2</sup> The Department stated that after the first two years of post Interstate/IES merger operations, the Minnesota jurisdictional savings would be approximately \$12,000.

<sup>3</sup> *In the Matter of the Petition by Interstate Power Company for Approval to Merge with IES Industries, Inc. and WPL Holdings, Inc.*, Docket No. E,G-001/PA-96-184, ORDER APPROVING MERGER WITH CONDITIONS (March 24, 1997), page 9.

The Department noted that Interstate has agreed that the merger conditions applied by the Commission to the previous merger should continue to apply to this merger, with the exception of one condition (Commission approval of Interstate's proposal to acquire Wisconsin Power & Light's water properties in Ripon, Wisconsin) which the Department stated was not relevant to the current merger.

Based on its analysis, then, the Department concluded that the merger appears to be consistent with the public interest and recommends that the Commission approve the merger subject to certain conditions: all the conditions imposed when the Commission approved the previous merger, except the condition relating to the water properties in Ripon, Wisconsin, and with the addition of one more condition, as discussed above: that prior to the Commission approving any future consolidation of rates, the new company (IP&L) will demonstrate that the consolidation of rates is consistent with the public interest.

### **III. COMMISSION ANALYSIS AND ACTION**

The Commission finds that Interstate has requested approval under the applicable statutes and rules, has used the appropriate accounting methodology, and has substantially complied with all the filing requirements.

Regarding the substance of Interstate's petition, the Commission has reviewed this matter, including the Department's recommendation, and finds that conditioned as recommended by the Department, the proposed merger is consistent with the public interest. The Commission will, accordingly, approve it.

### **ORDER**

1. The merger between Interstate and IES is approved, subject to the following conditions:
  - a. Up to and during IP&L's next rate case, the Company will not claim federal preemption regarding any cost of service item charged to Interstate under the Coordination Agreement, if the Commission disallows recovery for the item on the grounds of imprudence.
  - b. Prior to or during the next electric rate case, IP&L will convene a meeting of interested parties to discuss and recommend ways to amend the Coordination Agreement or otherwise resolve the parties' regulatory oversight concerns.
  - c. At least six months prior to expiration of the rate freeze period, IP&L will meet with interested parties to discuss a Coordination Agreement.
  - d. IP&L will not claim federal preemption regarding any cost of service item under the Coordination Agreement until: i) the Commission finds that an acceptable alternative to the Coordination Agreement has been agreed upon by the parties; or ii) the Commission finds that this merger condition is no longer necessary or appropriate.
  - e. IP&L will not seek recovery of any acquisition price over book value. This will

preclude rate recovery of any acquisition premium, whether considered as good will or as an acquisition adjustment.

- f. IP&L will identify its merger-related costs in its Jurisdictional Annual Reports filed with the Department for the next eight years.
  - g. The Commission approves a freeze of IP&L gas and electric rates for four years from the effective date of the merger in Docket No. E,G001/PA-96-184, with an exception for extraordinary events, clarified and conditioned as follows:
    - i. The category of extraordinary events should exclude those events that are due to the risks normally borne by shareholders.
    - ii. Proposed exceptions due to extraordinary events must be accompanied by sufficient evidence.
    - iii. Filings for exceptions due to extraordinary events must include events that would lower rates, as well as those that would raise rates.
    - iv. Requests for exceptions for any reason are limited to one filing per year.
  - h. Prior to the Commission approving any future consolidation of rates, the Company will demonstrate why the consolidation of rates is consistent with the public interest.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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