UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midwest Municipal Transmission Group, *Complainant* *v*. Interstate Power and Light Company, and Midwest Independent Transmission System Operator, Inc., *Respondents*	Docket No. EL07-____

OFFER OF SETTLEMENT OF
MIDWEST MUNICIPAL TRANSMISSION GROUP

Midwest Municipal Transmission Group ("MMTG") hereby files an offer to settle the complaint that it is filing today, and which this offer accompanies. The complaint, filed pursuant to Federal Power Act § 206, 18 U.S.C. § 824e and 18 C.F.R. § 385.206, concerns the stated return on equity component of the formula rate used in determining the annual transmission revenue requirement ("ATRR") of Interstate Power and Light Company ("IPL"), and the resulting rates charged by the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO" or "MISO") for network transmission service to unbundled transmission customers serving loads located in its "Alliant West" zone.

Pursuant to 18 C.F.R. § 385.602(b), MMTG presents the following Offer of Settlement. It is subject to withdrawal at any time prior to acceptance, and should be deemed withdrawn, null, and void if not accepted within 60 days. Consistent with typical practice in Settlement Judge proceedings at the Commission, the Offer is presented at a term sheet level of detail, to be fleshed out through detailing negotiations or a compliance filing. It is subject to the Rule 602(e), 18 C.F.R. § 385.602(e), prohibition on admission into evidence.

I. EXPLANATORY STATEMENT

The Offer's basis is that as part of a settlement MMTG is conditionally willing[1] to continue paying rates that reflect a 12.38% rate of return on equity, even though that rate exceeds IPL's current cost of such capital, but is not willing to have that above-cost rate serve as the platform atop which ITC Midwest would erect even higher rates as an "incentive." Instead, any ITC Midwest claim to above-cost incentive rate treatment (including but not limited to any claim pursuant to Order 679[2] for rates that encourage transco formation or new facility construction) should be deemed to be amply satisfied by the difference between the below-12.38% ROE that might have resulted from this proceeding and the 12.38% ROE embodied in the Offer.[3]

Accordingly, if the Offer were timely accepted and made effective, MMTG would withdraw the accompanying Complaint and, consequently, the ROE for the IPL zone would not hereby be decreased below the currently-effective 12.38% level. In exchange, it would be established that this 12.38% level will not serve as a platform for higher incentive-based returns to IPL or any successor in ownership (including ITC Midwest, if its pending acquisition application is approved). Instead, 12.38% would become a conditionally-penetrable ceiling on the applicable ROE: the ROE could go higher, but only on strictly cost-based grounds. That is, the ceiling could be penetrated only by establishing that the actual cost of equity capital invested

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[1] To be clear, MMTG's willingness to settle on this basis is not a concession that the differential between a cost-based, single-digit ROE and a settlement-continued 12.38% ROE would be just and reasonable as a litigated outcome. Rather, it reflects the value of early certainty and of litigation cost savings.

[2] *Promoting Transmission Investment Through Pricing Reform*, Order 679, 71 Fed. Reg. 43,294 (July 31, 2006), III F.E.R.C. Stat. & Regs. ¶ 31,222 (to be codified at 18 C.F.R. §§ 35.34-35.35), *on reh'g*, Order No. 679-A, 72 Fed. Reg. 1,152 (Jan. 10, 2007), III F.E.R.C. Stat. & Regs. ¶ 31,236, *clarified*, 119 F.E.R.C. ¶ 61,062 (2007) ("Order 679").

[3] Outside the context of a settlement offer, of course, MMTG does not concede that the difference between IPL's actual cost of transmission capital and 12.38% is a reasonable incentive.

in transmission by IPL or its successor, identified as accurately as feasible and with no incentive or other bias towards a result above actual cost, exceeds 12.38%.

This conditionally-penetrable ceiling would apply as a limitation on the ROE until the end of the fifth full calendar year following acceptance. The ending of this limitation period would not by itself result in any rate change, but the settlement bar to seeking a higher ROE on incentive grounds would be lifted. At that point, rights to seek a higher ROE and rights to oppose such an increase would each be unrestricted. The basis for offering a five-year duration is twofold. First, one year of retaining the ROE at 12.38% rather than reducing it to 8.74% (which reduction MMTG would forego under the Offer) is roughly equivalent to five years of a 50 basis-point-increase for RTO participation, commensurate with the bonus that the Commission approved for New England transmission owners and at one time had approved for Midwest ISO transmission owners. Second, that is not an unreasonable duration for which to restrict rights to seek rate increases, as evidenced by the fact the IPL-ITC Asset Sale Agreement includes an even longer period (seven years) during which IPL made commitments as to its position regarding ITC's rates.

II. TERMS OF OFFER

The Offer's terms are as follows.

1. Acceptance of the Offer would establish a conditionally-penetrable ceiling of 12.38% on the ROE applicable in the area that presently constitutes the Alliant West zone. This ceiling could be penetrated only by establishing that the actual cost of equity capital invested in transmission by IPL or its successor (*e.g.*, ITC Midwest), identified as accurately as feasible and with no incentive or other bias towards a result above actual cost, exceeds 12.38%.

2. This conditionally-penetrable ceiling would apply as a limitation until the end of the seventh full calendar year following acceptance.

3. In accepting the Offer, IPL would agree that any disposition to ITC Midwest or other purchaser of its transmission system would include the conditionally-penetrable 12.38% ceiling restriction so as to effectively apply that ceiling restriction to the

successor and any further successors. Such agreement may require an ITC-accepted modification to the IPL-ITC Asset Sale Agreement; if so, ITC's agreement to such modification would be a precondition of Offer acceptance, and thereby bind ITC Midwest.

4. Upon timely acceptance of the Offer, MMTG's Complaint herein would be deemed withdrawn.

III. TARIFF SHEETS

Under 18 C.F.R. § 385.602(c)(2), an offer of settlement that proposes a change to a filed rate should include "any proposed change" in the form of tariff sheets. However, this requirement is not applicable because the Offer terms would have the effect of retaining an existing filed rate.

Respectfully submitted,

/s/ David E. Pomper

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July 31, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have on this 31st day of July, 2007, caused the foregoing document to be sent to

- Respondents;
- Iowa Utilities Board;
- Minnesota Public Utilities Commission; and
- Each addressee (including representatives of ITC Midwest) who is on the service list for any of the following proceedings.
  - The FERC proceedings (Docket Nos. EC07-89 and ER07-887) concerning the proposed transmission asset sale from respondent IPL to ITC Midwest and the future rates for transmission over those facilities;
  - The Iowa Utilities Board proceedings related to that sale, IUB Docket No. SPU-07-11; and
  - The Minnesota Public Utilities Commission proceedings related to that sale, MPUC Docket No. E-0001/PA-07-540.

Service on respondents is being effected electronically; service to other addressees is being effected electronically where email addresses are available and otherwise by other expedited means. Because each entity that considers itself materially affected by FERC-jurisdictional transmission rates in the Alliant West zone of the Midwest ISO presumably is represented in one or more of these proceedings, such service satisfies the requirements of 18 C.F.R. § 385.206(c).

/s/ David E. Pomper

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