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ALLIANT ENERGY CORP
Form U-1/A
July 12, 2001

(As filed July 12, 2001)

File No. 70-9891

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM U-1/A

Amendment No. 1
to
APPLICATION OR DECLARATION
UNDER THE
PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

ALLIANT ENERGY CORPORATION
ALLIANT ENERGY RESOURCES, INC. AND ITS SUBSIDIARIES
222 West Washington Avenue
Madison, Wisconsin 53703

(Names of companies filing this statement and addresses of
principal executive offices)

ALLIANT ENERGY CORPORATION

(Name of top registered holding company parent)

Edward M. Gleason, Vice President - Treasurer
and Corporate Secretary
Alliant Energy Corporation
222 West Washington Avenue
Madison, Wisconsin 53703

(Name and address of agent for service)

The Commission is requested to send copies of all notices, orders and
communications in connection with this Application or Declaration to:

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The Application or Declaration filed in this proceeding on May 18, 2001, is hereby amended and restated in its entirety to read as follows:

ITEM 1. DESCRIPTION OF PROPOSED TRANSACTION.

1.1 Introduction. Alliant Energy Corporation ("Alliant Energy") is a registered holding company under the Public Utility Holding Company Act of 1935, as amended (the "Act").¹ Its public-utility subsidiaries are Wisconsin Power and Light Company ("WP&L"), South Beloit Water, Gas and Electric Company, Interstate Power Company ("IPC"), and IES Utilities Inc ("IES") (collectively, the "Utility Subsidiaries"). Together, the Utility Subsidiaries provide public-utility service to approximately 930,000 electric and 398,000 retail gas customers in parts of Wisconsin, Iowa, Minnesota, and Illinois. Alliant Energy also indirectly holds 26% of the common stock of ATC Management Inc. and a 26% membership interest in American Transmission Company, LLC, which were formed to acquire, own and manage the transmission assets of WP&L and certain other Wisconsin electric utility companies.

Alliant Energy's direct non-utility subsidiaries include Alliant Energy Corporate Services, Inc. ("Alliant Services"), a subsidiary service company, and Alliant Energy Resources, Inc. ("AER"), which serves as the holding company for substantially all of Alliant Energy's non-utility investments and subsidiaries. AER owns seven principal direct subsidiaries which engage, directly and indirectly through other subsidiaries, in (i) providing environmental consulting and engineering services, (ii) the development, ownership and management of investments in affordable multi-unit housing properties, (iii) providing various financial services, including the origination and sale of mortgages for tax-advantaged affordable housing, (iv) energy-related businesses, including, among others, the brokering and marketing of electricity and natural gas, gas supply and fuel management services, oil and gas production, steam production and sale, and energy-management services, (v) owning and/or operating "foreign utility companies," as defined in Section 33 of the Act, (vi) transportation, and (vii) management of investments in telecommunications.

As used in this Application or Declaration, the term "Non-Utility Subsidiaries" means AER and each of its current and future direct and indirect non-utility subsidiaries, and the term "Subsidiaries" means the Utility Subsidiaries, Alliant Services, and any Non-Utility Subsidiaries.

1.2 Alliant Energy's Current Financing Authority. Alliant Energy's current financing authority is contained in three separate orders, as follows:

1.2.1 Merger Order (File No. 70-8891). Under the terms of the Merger Order, Alliant Energy is authorized to issue from time to time through December 31, 2001, up to 11 million shares of common stock, \$.01 par value per share ("Common Stock") through its dividend reinvestment and stock purchase plan, long-term equity incentive plan and certain other employee benefit plans

1 WPL Holdings, Inc., et al., Holding Co. Act Release No. 26856 (April 14, 1998) (the "Merger Order").

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(the "Stock Plans").² Through March 31, 2001, Alliant Energy has issued and sold 4,887,379 shares of Common Stock pursuant to the Stock Plans (including shares acquired by Alliant Energy in the open market).

1.2.2 Money Pool Order (File No. 70-9317). By order dated December

18, 1998,³ as modified and extended by order dated December 15, 2000⁴ (as modified and extended, the "Money Pool Order"), Alliant Energy is authorized to issue notes and/or commercial paper from time to time through June 30, 2004, and to fund separate money pools for intrasystem borrowings by Alliant Energy's utility and non-utility subsidiaries. Specifically, Alliant Energy is authorized to issue and sell notes and/or commercial paper in an aggregate principal amount at any time outstanding not to exceed \$1 billion ("Short-term Debt") and to utilize the proceeds of such borrowings to make loans through the system utility money pool to the Utility Subsidiaries and Alliant Services in an aggregate amount not to exceed \$475 million in 2001 and \$525 million through the remainder of the authorization period, and certain of the Utility Subsidiaries are authorized to make borrowings from and extend credit to each other through the utility money pool. Alliant Energy is also authorized to provide guarantees or other forms of credit support in an amount not to exceed \$600 million at any time outstanding on behalf of AER and other Non-Utility Subsidiaries to enable those companies to carry on in the ordinary course of their respective businesses. This guarantee authority has been used primarily to support AER's commercial paper program, which is used to fund the system non-utility money pool.

1.2.3 1999 Financing Order (File No. 70-9455). By order dated August

26, 1999,⁵ as modified by orders dated February 4, 2000⁶ and February 12, 2001⁷ (as modified, the "1999 Financing Order"), Alliant Energy, AER, and Alliant Energy's other direct and indirect Non-Utility Subsidiaries are authorized to engage in a program of financing and other related transactions for the period through December 31, 2001. Specifically, the Commission has authorized: (i) Alliant Energy to issue and sell from time to time up to 15 million shares of Common Stock; (ii) Alliant Energy to issue and sell up to \$400 million principal amount of unsecured debentures ("Debentures") at any time outstanding having a maturity of up to 40 years, provided that the aggregate amount of Debentures and Short-term Debt at any time outstanding may not exceed \$1.1 billion; (iii) Alliant Energy to enter into guarantees, obtain letters of credit, enter into expense agreements or otherwise provide credit support with respect to the obligations of its Subsidiaries as may be appropriate to enable such Subsidiaries to carry on in the ordinary course of business, in an aggregate

2 By supplemental order issued March 16, 2000 (Holding Co. Act Release No. 27156), the Commission authorized Alliant Energy to issue shares of Common Stock pursuant to a deferred compensation plan for directors, within the limits set forth in the Merger Order.

3 Holding Co. Act Release No. 26956.

4 Holding Co. Act Release No. 27304. In a separate proceeding (File No. 70-9837), Alliant Energy, IES and IPC are seeking approval for the merger of IPC into IES, in connection with which the separate money pool borrowing limits of IPC and IES would be combined.

5 Holding Co. Act Release No. 27069.

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6 Holding Co. Act Release No. 27130.

7 Holding Co. Act Release No. 27344.

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amount not to exceed \$1 billion outstanding at any one time;⁸ (iv) AER and other Non-Utility Subsidiaries to provide guarantees and other forms of credit support with respect to obligations of other Non-Utility Subsidiaries in an aggregate amount not to exceed \$300 million outstanding at any one time, exclusive of guarantees and other forms of credit support that are exempt under Rules 45(b) and 52 of the Act; (v) Alliant Energy and, to the extent not exempt under the Act, Non-Utility Subsidiaries to enter into interest rate hedges with respect to existing indebtedness and to enter into certain anticipatory interest rate hedging transactions; (vi) Alliant Energy and Non-Utility Subsidiaries to organize and acquire the securities of one or more financing subsidiaries ("Financing Subsidiaries") and, to the extent not exempt under Rules 45(b) and 52, to guarantee the obligations of such Financing Subsidiaries; (vii) Alliant Energy and AER to acquire the equity securities of one or more intermediate subsidiaries ("Intermediate Subsidiaries") that are organized exclusively for the purpose of acquiring, holding and/or financing the acquisition and ownership of securities of or interests in "exempt wholesale generators" ("EWGs"), as defined in Section 32 of the Act or "foreign utility companies" ("FUCOs"), as defined in Section 33 of the Act, "energy-related companies," as defined in Rule 58 ("Rule 58 Companies"), "exempt telecommunications companies" ("ETCs"), as defined in Section 34 of the Act, and other non-exempt non-utility companies as authorized in separate proceedings; (viii) AER and other Non-Utility Subsidiaries to invest up to \$345 million⁹ in certain categories of non-utility energy-related assets ("Energy Assets"), including gas and oil exploration properties, in the United States and Canada; (ix) AER and Non-Utility Subsidiaries to provide services and sell goods to each other at prices determined without regard to cost, subject to certain limitations; (x) AER and current or future Rule 58 Companies to engage in certain activities permitted under Rule 58 outside the United States, subject to certain limitations and to an ongoing reservation of jurisdiction; and (xi) AER and its current and future non-exempt Non-Utility Subsidiaries to pay dividends out of capital and unearned surplus, to the extent permitted under applicable corporate law and the terms of a credit agreement.

1.3 Summary of Requested Approvals. Alliant Energy and AER, on

behalf of itself and its direct and indirect non-exempt Non-Utility Subsidiaries (the "Applicants"), herein request approval for a program of external financing, credit support arrangements, and other related proposals for the period through December 31, 2004 ("Authorization Period"). It is intended that the authorization granted in this proceeding will replace and supersede the authorizations of the Applicants under the Merger Order (insofar as it relates to the issuance of Common Stock under shareholder and employee plans) and the 1999 Financing Order. The authorization of Alliant Energy and certain of the Utility Subsidiaries under the Money Pool Order is unaffected by this Application or Declaration, except that Alliant Energy's utilization of proceeds of Short-term Debt to make investments in EWGs and FUCOs would be subject to the EWG/FUCO Investment Limitation proposed in Item 1.15 below.

⁸ The guarantees authorized under the 1999 Financing Order are separate from and in addition to guarantees provided by Alliant Energy in accordance with the terms of the Money Pool Order, which, as indicated,

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primarily support AER's commercial paper program.

9 AER and Non-Utility Subsidiaries were initially authorized to invest up to \$125 million in Energy Assets and subsequently authorized to invest an additional \$220 million in Energy Assets.

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Specifically, the Applicants are requesting authorization for:

- (i) Alliant Energy to issue and sell from time to time Common Stock and preferred stock ("Preferred Stock") and, directly or indirectly through one or more Financing Subsidiaries, unsecured long-term debt securities ("Long-term Debt") and other forms of preferred or equity-linked securities in an aggregate amount at any time outstanding not to exceed \$1.5 billion.
- (ii) Alliant Energy to issue up to 8 million shares of Common Stock pursuant to its dividend reinvestment plan and incentive compensation and stock-purchase plans maintained for its and its Subsidiaries' officers and employees and non-management directors, such shares to be in addition to any shares of Common Stock issued under the authority requested in (i), above.
- (iii) Alliant Energy and Non-Utility Subsidiaries to make loans to any Non-Utility Subsidiary of Alliant Energy that is less than wholly owned at interest rates and maturities designed to provide a return to the lending company of not less than its effective cost of capital.
- (iv) Alliant Energy to issue guarantees and provide other forms of credit support ("Alliant Energy Guarantees") with respect to the securities or other obligations of its Subsidiaries in an aggregate principal or nominal amount not to exceed \$3 billion at any one time outstanding, in addition to any guarantees that are exempt pursuant to Rule 45(b), provided that the amount of any securities issued by a Financing Subsidiary of Alliant Energy that are guaranteed by Alliant Energy will not count against this limitation but will instead be counted against the overall financing authority requested in (i), above.
- (v) AER and other Non-Utility Subsidiaries to provide guarantees and other forms of credit support ("Non-Utility Subsidiary Guarantees") with respect to obligations of other Non-Utility Subsidiaries in an aggregate principal or nominal amount not to exceed \$600 million at any one time outstanding, in addition to any guarantees that are exempt pursuant to Rule 45(b) and Rule 52.
- (vi) Alliant Energy and, to the extent not exempt under Rule 52, any Non-Utility Subsidiary to enter into hedging transactions ("Interest Rate Hedges") with respect to existing indebtedness of such company in order to manage and minimize interest rate costs, and to enter into hedging transactions ("Anticipatory Hedges") with respect to

10 The amount of Alliant Energy Guarantees for which authorization is sought herein shall continue to be in addition to the \$600 million of credit support Alliant Energy may provide to AER and other Non-Utility Subsidiaries in accordance with the Money Pool Order.

anticipatory debt issuances in order to lock-in current interest rates and/or manage interest rate risk exposure.

- (vii) Alliant Energy and its Non-Utility Subsidiaries to change the terms of the authorized stock capitalization of any other Subsidiary, provided that, if such Subsidiary is less than wholly owned, all other shareholders consent to such change.
- (viii) Alliant Energy and the Non-Utility Subsidiaries to acquire the equity securities of one or more Financing Subsidiaries and to guarantee the securities issued by such Financing Subsidiaries, to the extent not exempt pursuant to Rule 45(b) and Rule 52, and Financing Subsidiaries to transfer the proceeds of any financing to its parent or as directed by its parent.
- (ix) Alliant Energy and AER to acquire, directly or indirectly, the equity securities of one or more Intermediate Subsidiaries organized exclusively for the purpose of acquiring, financing, and holding the securities of one or more existing or future Non-Utility Subsidiaries, including but not limited to EWGs, FUCOs, Rule 58 Companies, and ETCs, provided that Intermediate Subsidiaries may also engage in preliminary project development activities and provide management, administrative, operating and technical services to such entities; and to consolidate or otherwise reorganize all or any part of their direct or indirect investments in Non-Utility Subsidiaries.
- (x) AER, directly or through one or more Non-Utility Subsidiaries, to expend up to \$800 million at any one time outstanding to construct or acquire Energy Assets that are incidental and related to the energy marketing and oil and gas production operations of its subsidiaries, and/or the securities of one or more existing or new companies substantially all of whose physical properties consist or will consist of Energy Assets, provided that the acquisition and ownership of such Energy Assets would not cause AER or any of its Non-Utility Subsidiaries to be or become an "electric utility company" or "gas utility company," as defined in Sections 2(a)(3) and 2(a)(4), respectively.
- (xi) AER and other Non-Utility Subsidiaries to provide services and sell goods to each other at fair market prices, subject to certain proposed limitations.
- (xii) Non-Utility Subsidiaries to engage in certain categories of energy-related activities outside the United States, subject to certain proposed limitations.
- (xiii) AER and other Non-Utility Subsidiaries to pay dividends out of capital and unearned surplus and/or acquire, retire or redeem securities issued to associate companies to the extent allowed under applicable law and the terms of any credit or security instruments to which they may be parties.

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(xiv) Alliant Energy to increase its "aggregate investment" limit in EWGs and FUCOs to \$1.75 billion (the "EWG/FUCO Investment Limitation").

1.4 Use of Proceeds. The proceeds from the financings authorized by

the Commission pursuant to this Application or Declaration will be used for general corporate purposes, including (i) financing, in part, investments by and capital expenditures of Alliant Energy and its Non-Utility Subsidiaries, including, without limitation, the funding of future investments in EWGs, FUCOs, and Rule 58 Companies, (ii) the acquisition, retirement or redemption by Alliant Energy or any Non-Utility Subsidiary of any of its own securities, and (iii) financing working capital requirements of Alliant Energy and the Subsidiaries.

The Applicants represent that no financing proceeds will be used to acquire the equity securities of any new subsidiary unless such acquisition has been approved by the Commission in this proceeding or in a separate proceeding or in accordance with an available exemption under the Act or rules thereunder, including Sections 32 and 33 and Rule 58. Alliant Energy states that the aggregate amount of proceeds of financing and Alliant Energy Guarantees approved by the Commission in this proceeding, together with proceeds of financing authorized in the Money Pool Order, used to fund investments in EWGs and FUCOs will not, when added to Alliant Energy's "aggregate investment" (as defined in Rule 53) in all such entities at any point in time, exceed the EWG/FUCO Investment Limitation proposed herein. Further, Alliant Energy represents that the proceeds of financing and Alliant Energy Guarantees and Non-Utility Guarantees utilized to fund investments in Rule 58 Companies will be subject to the limitations of that rule. Lastly, Alliant Energy represents that it will not seek to recover through higher rates of any of the Utility Subsidiaries losses attributable to any operations of its Non-Utility Subsidiaries.

Alliant Energy further represents that it will maintain common equity as a percentage of its consolidated capitalization (inclusive of short-term debt) at 30% or above during the Authorization Period, and will also maintain common equity as a percentage of capitalization of each of the Utility Subsidiaries at 30% or above during the Authorization Period.

1.5 Description of External Financing Program.

1.5.1 Alliant Energy External Financing. Alliant Energy requests

authority to issue and sell from time to time Common Stock and Preferred Stock and, directly or indirectly through one or more Financing Subsidiaries, Long-term Debt and other forms of preferred or equity-linked securities in an aggregate amount at any time outstanding not to exceed \$1.5 billion. Alliant Energy contemplates that such securities would be issued and sold directly to one or more purchasers in privately-negotiated transactions or to one or more investment banking or underwriting firms or other entities who would resell such securities without registration under the Securities Act of 1933 in reliance upon one or more applicable exemptions from registration thereunder, or to the public either (i) through underwriters selected by negotiation or competitive bidding or (ii) through selling agents acting either as agent or as principal for resale to the public either directly or through dealers.

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(a) Common Stock. Alliant Energy may issue and sell Common Stock,

or options, warrants or other stock purchase rights exercisable for Common

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Stock, pursuant to underwriting agreements of a type generally standard in the industry. Public distributions may be pursuant to private negotiation with underwriters, dealers or agents, as discussed below, or effected through competitive bidding among underwriters. In addition, sales may be made through private placements or other non-public offerings to one or more persons. All such Common Stock sales will be at rates or prices and under conditions negotiated or based upon, or otherwise determined by, competitive capital markets.

Specifically, Alliant Energy may issue and sell Common Stock through underwriters or dealers, through agents, or directly to a limited number of purchasers or a single purchaser. If underwriters are used in the sale of Common Stock, such securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Common Stock may be offered to the public either through underwriting syndicates (which may be represented by a managing underwriter or underwriters designated by Alliant Energy) or directly by one or more underwriters acting alone. Common Stock may be sold directly by Alliant Energy or through agents designated by Alliant Energy from time to time. If dealers are utilized in the sale of Common Stock, Alliant Energy will sell such securities to the dealers, as principals. Any dealer may then resell such Common Stock to the public at varying prices to be determined by such dealer at the time of resale. If Common Stock is being sold in an underwritten offering, Alliant Energy may grant the underwriters thereof a "green shoe" option permitting the purchase from Alliant Energy at the same price of additional shares then being offered solely for the purpose of covering over-allotments.

Alliant Energy may also issue Common Stock or options, warrants or other stock purchase rights exercisable for Common Stock in public or privately-negotiated transactions in exchange for the equity securities or assets of other companies, provided that the acquisition of any such equity securities or assets has been authorized in a separate proceeding or is exempt under the Act or the rules thereunder (specifically, Rule 58).

Alliant Energy also proposes to issue Common Stock and/or purchase shares of its Common Stock (either currently or under forward contracts) in the open market for purposes of reissuing such shares at a later date under plans that are maintained for stockholders, officers and employees, and nonemployee directors. Currently, Alliant Energy maintains three plans under which it may directly issue or purchase in the open market shares of Common Stock, which are described as follows (and referred to collectively as the "Stock Plans"):

- o Alliant Energy Corporation Long Term Equity Incentive Plan. The Long -----
Term Equity Incentive Plan ("Incentive Plan") is intended to promote the success and enhance the value of the company by linking the personal interests of plan participants to those of Alliant Energy's shareowners, and by providing plan participants with an incentive for outstanding performance. The Incentive Plan provides for grants of stock options, restricted stock and performance units/shares with respect to Common Stock. The Incentive Plan is administered by the compensation and personnel committee of the Alliant Energy's Board of

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Directors, which selects from all eligible employees those to whom awards should be granted under the terms of the Incentive Plan. Alliant Energy has registered 3,800,000 shares of Common Stock for

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issuance or delivery under the Incentive Plan. See Registration Statement on Form S-8, incorporated by reference herein as Exhibit C-1.

- o Alliant Energy Corporation 401(K) Savings Plan. The Alliant Energy

Corporation 401(K) Plan ("401(K) Plan") permits eligible employees to make deferred cash contributions through payroll deductions in any amount from 1% of compensation up to 15% of compensation, subject to the annual limit on contributions prescribed under the Internal Revenue Code. Alliant Energy system companies currently provide matching contributions equal to 50% of an employee's contribution, up to a maximum of 3% of an employee's compensation. Employee contributions may be invested in one or more investment funds, including the Alliant Energy Common Stock Fund. Matching contributions are all invested in the Alliant Energy Common Stock Fund. Alliant Energy has registered 1,200,000 shares of Common Stock for issuance or delivery under the 401(K) Plan. See Registration Statement on Form S-8, incorporated by reference herein as Exhibit C-2.

- o Alliant Energy Corporation Shareowner Direct Plan. The Alliant Energy

Corporation Shareowner Direct Plan ("Direct Plan") provides participants with a convenient way to purchase shares of Common Stock and to reinvest all or a portion of the dividends received on their shares of Common Stock. Persons not presently owning shares of Common Stock may become Direct Plan participants, assuming certain qualifications are met, by making an initial cash investment of not more than \$120,000. Participants may acquire additional shares of Common Stock by making optional cash investments in amounts of not less than \$25 per investment nor more than \$120,000 per calendar year, inclusive of any initial investment. Participants who are employees of Alliant Energy or its Subsidiaries may also acquire additional shares of Common Stock by making optional cash investments via payroll deductions. Optional cash investments made through payroll deductions may not be more than \$120,000 per calendar year, inclusive of any initial investment and any optional cash investments made by means other than payroll deduction. The price of shares of Common Stock purchased from Alliant Energy (i.e., newly-issued shares) is equal to the --- average (computed to four decimal places) of the high and low sales prices of shares of Common Stock as reported on the New York Stock Exchange Composite Tape on the applicable investment date or, if no trading occurs on the applicable investment date, a price determined with reference to the next preceding date on which the Common is traded on the New York Stock Exchange. The price of shares of Common Stock purchased for participants on the open market or in privately negotiated transactions will be the weighted average price of all such shares purchased for the applicable investment date. Alliant Energy has registered 7,000,000 shares of Common Stock for issuance under the Direct Plan. See Registration Statement on Form S-3, incorporated by reference herein as Exhibit C-3.

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Alliant Energy proposes to issue shares of its Common Stock, as well as stock options, "phantom" stock awards, restricted stock awards, and other Common Stock-based awards in an aggregate amount of up to 8 million shares (as such number may hereafter be adjusted to reflect any stock split) in order to satisfy its obligations under the Stock Plans. Shares of Common Stock issued or

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purchased for delivery under the Stock Plans may either be newly issued shares, treasury shares or shares purchased in the open market. Alliant Energy will make open-market purchases of Common Stock in accordance with the terms of or in connection with the operation of the Stock Plans pursuant to Rule 42. Alliant Energy also proposes, within the limitations set forth herein, to issue and/or purchase shares of Common Stock pursuant to these existing Stock Plans, as they may be amended or extended, and similar plans or plan funding arrangements hereafter adopted without any additional Commission order. Stock transactions of this variety would thus be treated the same as other stock transactions permitted pursuant to this Application or Declaration.

(b) Preferred Stock, Long-term Debt and other Preferred or

Equity-Linked Securities. Preferred Stock or other types of preferred or

equity-linked securities may be issued in one or more series with such rights, preferences, and priorities as may be designated in the instrument creating each such series, as determined by Alliant Energy's board of directors. All such securities will be redeemed no later than 50 years after the issuance thereof. The dividend rate on any series of Preferred Stock or other preferred or equity-linked securities will not exceed at the time of issuance 500 basis points over the yield to maturity of a U.S. Treasury security having a remaining term equal to the term of such securities. Dividends or distributions on Preferred Stock or other preferred or equity-linked securities will be made periodically and to the extent funds are legally available for such purpose, but may be made subject to terms which allow the issuer to defer dividend payments or distributions for specified periods. Preferred Stock or other preferred or equity-linked securities may be convertible or exchangeable into shares of Common Stock.

Long-term Debt of a particular series (a) may be convertible into any other securities of Alliant Energy, (b) will have a maturity ranging from one to 50 years, (c) will bear interest at a rate not to exceed at the time of issuance 500 basis points over the yield to maturity of a U.S. Treasury security having a remaining term equal to the term of such Long-term Debt, (d) may be subject to optional and/or mandatory redemption, in whole or in part, at par or at various premiums above the principal amount thereof, (e) may be entitled to mandatory or optional sinking fund provisions, (f) may provide for reset of the coupon pursuant to a remarketing arrangement, and (g) may be called from existing investors by a third party. The maturity dates, interest rates, redemption and sinking fund provisions and conversion features, if any, with respect to the Long-term Debt of a particular series, as well as any associated placement, underwriting or selling agent fees, commissions and discounts, if any, will be established by negotiation or competitive bidding.

Except in accordance with a further order of the Commission in this proceeding, Alliant Energy will not issue any Long-term Debt or Preferred Stock or other type of preferred or equity-linked securities unless such securities are rated at the investment grade level as established by at least one nationally recognized statistical rating organization, as that term is used in

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paragraphs (c)(2)(vi)(E), (F) and (H) of Rule 15c3-1 under the Securities Exchange Act of 1934. It is requested that the Commission reserve jurisdiction over the issuance by Alliant Energy of any such securities that are rated below investment grade.

1.5.2 Non-Utility Subsidiary Financings. Alliant Energy, through AER

and other Non-Utility Subsidiaries, will continue to be active in the development and expansion of energy-related or otherwise functionally-related, non-utility businesses. In order to finance investments in such competitive businesses, it will be necessary for AER and other Non-Utility Subsidiaries to have the ability to engage in financing transactions that are commonly accepted for such types of investments. It is believed that, in almost all cases, financings by AER and other Non-Utility Subsidiaries will be exempt from Commission authorization pursuant to Rule 52(b). Any securities issued by AER or any other Non-Utility Subsidiary, directly or indirectly through any Financing Subsidiary, would be in addition to securities issued by Alliant Energy, as described in Item 1.5.1, above.

In order to be exempt under Rule 52(b), any loans by Alliant Energy to a Non-Utility Subsidiary or by any Non-Utility Subsidiary, including a Financing Subsidiary, to another Non-Utility Subsidiary must have interest rates and maturities that are designed to parallel the lending company's effective cost of capital. However, in the limited circumstances where the Non-Utility Subsidiary making the borrowing is not wholly owned by Alliant Energy, directly or indirectly, authority is requested under the Act for Alliant Energy or AER or any other Non-Utility Subsidiary, as the case may be, to make such loans to such subsidiaries at interest rates and maturities designed to provide a return to the lending company of not less than its effective cost of capital. If such loans are made to a Non-Utility Subsidiary, such company will not sell any services to any associate Non-Utility Subsidiary unless such company falls within one of the categories of companies to which goods and services may be sold on a basis other than "at cost," as described below in Item 1.12. Furthermore, in the event any such loans are made, Alliant Energy will include in the next certificate filed pursuant to Rule 24 in this proceeding substantially the same information as that required on Form U-6B-2 with respect to such transaction.¹¹

1.6 Guarantees.

1.6.1 Alliant Energy Guarantees. Alliant Energy requests

authorization to enter into guarantees, obtain letters of credit, enter into expense agreements or otherwise provide credit support (collectively, "Alliant Energy Guarantees") with respect to the securities or other obligations of any Subsidiary as may be appropriate to enable such Subsidiary to carry on in the ordinary course of its business, in an aggregate principal amount not to exceed \$3 billion outstanding at any one time, excluding any forms of credit support that are exempt under Rule 45(b), provided however, that the amount of any Alliant Energy Guarantees in respect of obligations of any Subsidiaries shall also be subject to the limitations of Rule 53(a)(1) or Rule 58(a)(1), as

¹¹ The Commission has previously authorized substantially similar proposals. See e.g., Entergy Corporation, et al., Holding Co. Act Release No. 27039 (June 22, 1999); NiSource Inc., Holding Co. Act Release No. 27265 (Nov. 1, 2000).

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applicable. The Alliant Energy Guarantees proposed to be provided herein are in addition to guarantees by Alliant Energy authorized in the Money Pool Order. Alliant Energy requests authority to charge each Subsidiary a fee for providing credit support that is determined by multiplying the amount of the Alliant Energy Guarantee provided by the cost of obtaining the liquidity necessary to perform the guarantee (for example, bank line commitment fees or letter of credit fees, plus other transactional expenses) for the period of time the guarantee remains outstanding.

1.6.2 Non-Utility Subsidiary Guarantees. In addition, AER and other -----

Non-Utility Subsidiaries request authority to enter into guarantees, obtain letters of credit, enter into expense agreements or otherwise provide credit support (collectively, "Non-Utility Subsidiary Guarantees") with respect to the securities or other obligations of any other Non-Utility Subsidiary (including any EWG, FUCO, or Rule 58 Company) as may be appropriate to enable such Non-Utility Subsidiary to carry on in the ordinary course of its business in an aggregate principal amount not to exceed \$600 million outstanding at any one time, excluding any guarantees and other forms of credit support that are exempt pursuant to Rule 45(b) and Rule 52(b), provided however, that the amount of any Non-Utility Subsidiary Guarantees in respect of obligations of any Rule 58 Companies shall also be subject to the limitations of Rule 58(a)(1). The Non-Utility Subsidiary providing any such credit support may charge its associate company a fee for each guarantee provided on its behalf determined in the same manner as specified above.

1.7 Hedging Transactions. -----

1.7.1 Interest Rate Hedges. Alliant Energy, and to the extent not -----

exempt pursuant to Rule 52, the Non-Utility Subsidiaries, request authorization to enter into interest rate hedging transactions with respect to existing indebtedness ("Interest Rate Hedges"), subject to certain limitations and restrictions, in order to reduce or manage interest rate cost. Interest Rate Hedges would only be entered into with counterparties ("Approved Counterparties") whose senior unsecured debt ratings, or the senior unsecured debt ratings of the parent companies of the counterparties, as published by Standard and Poor's Ratings Group, are equal to or greater than BBB, or an equivalent rating from Moody's Investors Service, Fitch Investor Service or Duff and Phelps.

Interest Rate Hedges will involve the use of financial instruments commonly used in today's capital markets, such as interest rate swaps, caps, collars, floors, and structured notes (i.e., a debt instrument in which the principal and/or interest payments are indirectly linked to the value of an underlying asset or index), or transactions involving the purchase or sale, including short sales, of U.S. Treasury Securities. The transactions would be for fixed periods and stated notional amounts. Fees, commissions and other amounts payable to the counterparty or exchange (excluding, however, the swap or option payments) in connection with an Interest Rate Hedge will not exceed those generally obtainable in competitive markets for parties of comparable credit quality.

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1.7.2 Anticipatory Hedges. In addition, Alliant Energy and the -----

Non-Utility Subsidiaries request authorization to enter into interest rate hedging transactions with respect to anticipated debt offerings (the

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"Anticipatory Hedges"), subject to certain limitations and restrictions. Such Anticipatory Hedges would only be entered into with Approved Counterparties, and would be utilized to fix and/or limit the interest rate risk associated with any new issuance through (i) a forward sale of exchange-traded U.S. Treasury futures contracts, U.S. Treasury Securities and/or a forward swap (each a "Forward Sale"), (ii) the purchase of put options on U.S. Treasury Securities (a "Put Options Purchase"), (iii) a Put Options Purchase in combination with the sale of call options on U.S. Treasury Securities (a "Zero Cost Collar"), (iv) transactions involving the purchase or sale, including short sales, of U.S. Treasury Securities, or (v) some combination of a Forward Sale, Put Options Purchase, Zero Cost Collar and/or other derivative or cash transactions, including, but not limited to structured notes, caps and collars, appropriate for the Anticipatory Hedges.

Anticipatory Hedges may be executed on-exchange ("On-Exchange Trades") with brokers through the opening of futures and/or options positions traded on the Chicago Board of Trade ("CBOT"), the opening of over-the-counter positions with one or more counterparties ("Off-Exchange Trades"), or a combination of On-Exchange Trades and Off-Exchange Trades. Alliant Energy or a Non-Utility Subsidiary will determine the optimal structure of each Anticipatory Hedge transaction at the time of execution.

The Applicants represent that each Interest Rate Hedge and Anticipatory Hedge will qualify for hedge accounting treatment under generally acceptable accounting practices ("GAAP"). The Applicants will also comply with the then existing financial disclosure requirements of the Financial Accounting Standards Board associated with hedging transactions.¹²

1.8 Changes in Capital Stock of Subsidiaries. The portion of an

individual Subsidiary's aggregate financing to be effected through the sale of stock to Alliant Energy or other immediate parent company during the Authorization Period pursuant to Rule 52 and/or pursuant to an order issued in this proceeding cannot be ascertained at this time. The proposed sale of capital securities may in some cases exceed the then authorized capital stock of such Subsidiary. In addition, the Subsidiary may choose to use capital stock with no par value. Also, a Subsidiary may wish to engage in a reverse stock split to reduce franchise taxes or for other corporate purposes. As needed to accommodate such proposed transactions and to provide for future issuances of securities, the Applicants request authority to change the terms of any Subsidiary's authorized capitalization by an amount deemed appropriate by Alliant Energy or other parent company, provided that, if a Subsidiary is not wholly owned, the consent of all other shareholders has been obtained for such change. A Subsidiary would be able to change the par value, or change between par value and no-par value stock, without additional Commission approval. Any such action by a Utility Subsidiary would be subject to and would only be taken upon the

12 The Commission has previously authorized substantially similar proposals. See 1999 Financing Order; also see New Century Energies, Inc., et al., Holding Co. Act Release No. 27000 (April 7, 1999); and Ameren Corp., et al., Holding Co. Act Release No. 27053 (July 23, 1999).

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receipt of any necessary approvals by the state commission in the state or states where the Utility Subsidiary is incorporated and doing business.¹³

1.9 Financing Subsidiaries. Alliant Energy and the Non-Utility

Subsidiaries request authority to acquire, directly or indirectly, the equity securities of one or more Financing Subsidiaries, which would be organized specifically for the purpose of facilitating the financing of the authorized and exempt activities (including exempt and authorized acquisitions) of Alliant Energy and the Non-Utility Subsidiaries through the issuance of long-term debt or equity securities, including but not limited to monthly income preferred securities, to third parties, and to transfer the proceeds of such financings to or as directed by the Financing Subsidiary's parent. Alliant Energy may, if required, guarantee or enter into expense agreements in respect of the obligations of any Financing Subsidiary that it organizes. The Non-Utility Subsidiaries may also provide guarantees and enter into expense agreements, if required, on behalf of such entities pursuant to Rules 45(b)(7) and 52, as applicable. The amount of any securities issued by a Financing Subsidiary of Alliant Energy would be counted against the limitation on the amounts of similar types of securities that Alliant Energy is authorized to issue directly, as set forth in this Application or Declaration or in an order or orders issued in any other proceeding. To avoid double counting, however, any such credit support provided by Alliant Energy would not also be counted against the limitation on Alliant Energy Guarantees, as set forth in Item 1.6.1, above.¹⁴

1.10 Intermediate Subsidiaries and Subsequent Reorganizations.

Alliant Energy and AER propose to acquire, directly or indirectly, the securities of one or more Intermediate Subsidiaries, which would be organized exclusively for the purpose of acquiring, holding and/or financing the acquisition of the securities of or other interest in one or more EWGs or FUCOs, Rule 58 Companies, ETCs or other non-exempt Non-Utility Subsidiaries (as authorized in this proceeding or in a separate proceeding), provided that Intermediate Subsidiaries may also engage in development activities and administrative activities relating to such subsidiaries. To the extent such transactions are not exempt from the Act or otherwise authorized or permitted by rule, regulation or order of the Commission issued thereunder, Alliant Energy requests authority for Intermediate Subsidiaries to engage in development activities ("Development Activities") and administrative activities ("Administrative Activities") relating to such subsidiaries.

Development Activities will be limited to due diligence and design review; market studies; preliminary engineering; site inspection; preparation of bid proposals, including, in connection therewith, posting of bid bonds; application for required permits and/or regulatory approvals; acquisition of site options and options on other necessary rights; negotiation and execution of contractual commitments with owners of existing facilities, equipment vendors, construction

13 The Commission has previously authorized substantially similar proposals. See Conectiv, Inc., Holding Co. Act Release No. 26833 (Feb. 26, 1998); and NiSource Inc, Holding Co. Act Release No. 27265 (Nov. 1, 2000).

14 The Commission has previously authorized substantially similar proposals. See The Southern Company, Holding Co. Act Release No. 27134 (Feb. 9, 2000) and NiSource Inc., Holding Co. Act Release No. 27265 (Nov. 1, 2000).

firms, power purchasers, thermal "hosts," fuel suppliers and other project contractors; negotiation of financing commitments with lenders and other third-party investors; and such other preliminary activities as may be required in connection with the purchase, acquisition, financing or construction of facilities or the acquisition of securities of or interests in new businesses. Administrative Activities will include providing ongoing personnel, accounting, engineering, legal, financial, operating, technical and other support services necessary to manage Alliant Energy's investments in Non-Utility Subsidiaries.

An Intermediate Subsidiary may be organized, among other things, (1) in order to facilitate the making of bids or proposals to develop or acquire an interest in any EWG or FUCO, Rule 58 Company, ETC or other non-exempt Non-Utility Subsidiary; (2) after the award of such a bid proposal, in order to facilitate closing on the purchase or financing of such acquired company; (3) at any time subsequent to the consummation of an acquisition of an interest in any such company in order, among other things, to effect an adjustment in the respective ownership interests in such business held by Alliant Energy or AER and non-affiliated investors; (4) to facilitate the sale of ownership interests in one or more acquired non-utility companies; (5) to comply with applicable laws of foreign jurisdictions limiting or otherwise relating to the ownership of domestic companies by foreign nationals; (6) as a part of tax planning in order to limit Alliant Energy's exposure to U.S. and foreign taxes; (7) to further insulate Alliant Energy and the Utility Subsidiaries from operational or other business risks that may be associated with investments in non-utility companies; or (8) for other lawful business purposes.

Investments in Intermediate Subsidiaries may take the form of any combination of the following: (1) purchases of capital shares, partnership interests, member interests in limited liability companies, trust certificates or other forms of equity interests; (2) capital contributions; (3) open account advances with or without interest; (4) loans; and (5) guarantees issued, provided or arranged in respect of the securities or other obligations of any Intermediate Subsidiaries. Funds for any direct or indirect investment in any Intermediate Subsidiary will be derived from (1) financings authorized in this proceeding; (2) any appropriate future debt or equity securities issuance authorization obtained by Alliant Energy from the Commission; and (3) other available cash resources, including proceeds of securities sales by AER or other Non-Utility Subsidiary pursuant to Rule 52. To the extent that Alliant Energy provides funds or guarantees directly or indirectly to an Intermediate Subsidiary which are used for the purpose of making an investment in any EWG or FUCO or a Rule 58 Company, the amount of such funds or guarantees will be included in Alliant Energy's "aggregate investment" in such entities, as calculated in accordance with Rule 53 or Rule 58, as applicable.¹⁵

In addition, to the extent that such transactions are not otherwise exempt under the Act or Rules thereunder,¹⁶ Alliant Energy requests approval to consolidate or otherwise reorganize all or any part of its direct and indirect

15 The Commission has previously authorized substantially similar proposals. See 1999 Financing Order; see also New Century Energies, Inc., et al., Holding Co. Act Release No. 27000 (April 7, 1999); and Ameren Corp., et al., Holding Co. Act Release No. 27053 (July 23, 1999).

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16 Sections 12(c), 32(g), 33(c)(1) and 34(d) and Rules 43(b), 45(b), 46(a) and 58, as applicable, may exempt many of the transactions described in this paragraph.

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ownership interests in Non-Utility Subsidiaries, and the activities and functions related to such investments. To effect any such consolidation or other reorganization, Alliant Energy or AER may wish to either contribute the equity securities of one Non-Utility Subsidiary to another Non-Utility Subsidiary (including a newly formed Intermediate Subsidiary) or sell (or cause a Non-Utility Subsidiary to sell) the equity securities or all or part of the assets of one Non-Utility Subsidiary to another one. Such transactions may also take the form of a Non-Utility Subsidiary selling or transferring the equity securities of a subsidiary or all or part of such subsidiary's assets as a dividend to an Intermediate Subsidiary or to another Non-Utility Subsidiary, and the acquisition, directly or indirectly, of the equity securities or assets of such subsidiary, either by purchase or by receipt of a dividend. The purchasing Non-Utility Subsidiary in any transaction structured as an intrasystem sale of equity securities or assets may execute and deliver its promissory note evidencing all or a portion of the consideration given. Each transaction would be carried out in compliance with all applicable U.S. or foreign laws and accounting requirements, and any transaction structured as a sale would be carried out for a consideration equal to the book value of the equity securities being sold.¹⁷

1.11 Additional Investments in Energy Assets. AER and other

Non-Utility Subsidiaries request authority to make additional investments in non-utility energy assets in the United States and Canada, specifically including natural gas production, gathering, processing, storage and transportation properties, facilities and equipment, liquid oil reserves and storage facilities, and associated facilities (collectively, "Energy Assets"), that are incidental to the ongoing oil and gas exploration and production and energy marketing, brokering and trading operations of AER's subsidiaries. AER requests authorization to invest up to \$800 million (the "Investment Limitation") at any one time outstanding during the Authorization Period in such Energy Assets or in the equity securities of existing or new companies substantially all of whose physical properties consist or will consist of such Energy Assets.¹⁸ Such Energy Assets (or equity securities of companies owning Energy Assets) may be acquired for cash or in exchange for Common Stock or other securities of Alliant Energy, AER, or other Non-Utility Subsidiary of AER, or any combination of the foregoing. If Common Stock of Alliant Energy is used as consideration in connection with any such acquisition, the market value thereof on the date of issuance will be counted against the proposed Investment Limitation. The stated amount or principal amount of any other securities issued as consideration in any such transaction will also be counted against the Investment Limitation. Under no circumstances will AER or any oil or gas production or energy marketing subsidiary acquire, directly or indirectly, any assets or properties the ownership or operation of which would cause such companies to be considered an "electric utility company" or "gas utility company" as defined under the Act.

¹⁷ The Commission has previously authorized substantially similar proposals. See Columbia Energy Group, Inc., Holding Co. Act Release No. 27099

(Nov. 5, 1999), Entergy Corporation, et al., Holding Co. Act Release No. 27039

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(June 22, 1999), and NiSource Inc., Holding Co. Act Release No. 27265 (Nov. 1,

2000).

18 Companies whose physical properties consist of Energy Assets may also be currently engaged in energy (gas or electric or both) marketing activities. To the extent necessary, Applicants request authorization to continue such activities in the event they acquire such companies.

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It is the intention of AER to add to the existing base of Energy Assets held by its subsidiaries as and when market conditions warrant, whether through acquisitions of specific assets or groups of assets that are offered for sale, or by acquiring existing companies that own significant physical assets in the areas of gas production, processing, storage, and transportation. Ultimately, it is AER's objective to control a substantial portfolio of Energy Assets that would provide the Alliant Energy system with the flexibility and capacity to compete for sales in all major markets in the United States and Canada.

1.12 Sales of Services and Goods Among AER and Other Non-Utility

Subsidiaries of Alliant Energy. AER and other Non-Utility Subsidiaries propose

to provide services and sell goods to each other at fair market prices determined without regard to cost, and therefore request an exemption (to the extent that Rule 90(d) does not apply) pursuant to Section 13(b) from the cost standards of Rules 90 and 91 as applicable to such transactions, in any case in which the Non-Utility Subsidiary purchasing such goods or services is:

- (i) A FUCO or foreign EWG that derives no part of its income, directly or indirectly, from the generation, transmission, or distribution of electric energy for sale within the United States;
- (ii) An EWG that sells electricity at market-based rates which have been approved by the Federal Energy Regulatory Commission ("FERC"), provided that the purchaser is not one of the Utility Subsidiaries;
- (iii) A "qualifying facility" ("QF") within the meaning of the Public Utility Regulatory Policies Act of 1978, as amended ("PURPA") that sells electricity exclusively (a) at rates negotiated at arms'-length to one or more industrial or commercial customers purchasing such electricity for their own use and not for resale, and/or (ii) to an electric utility company (other than one of the Utility Subsidiaries) at the purchaser's "avoided cost" as determined in accordance with the regulations under PURPA;
- (iv) A domestic EWG or QF that sells electricity at rates based upon its cost of service, as approved by FERC or any state public utility commission having jurisdiction, provided that the purchaser thereof is not one of the Utility Subsidiaries; or
- (v) A Rule 58 Company or any other Non-Utility Subsidiary that (a) is partially-owned, provided that the ultimate purchaser of such goods or services is not a Utility Subsidiary or Alliant Services (or any other entity within the Alliant Energy system whose activities and operations are primarily related to the provision of goods and services to the Utility Subsidiaries, (b) is engaged solely in the

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business of developing, owning, operating and/or providing services or goods to Non-Utility Subsidiaries described in clauses (i) through (iv) immediately above, or (c) does not derive, directly or indirectly, any material part of its income from sources within the

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United States and is not a public-utility company operating within the United States.¹⁹

1.13 Activities of Energy-Related Subsidiaries Outside the United

States. The Applicants, on behalf of any current or future Non-Utility

Subsidiaries, request authority to engage in certain energy-related, non-utility, activities outside the United States. Such activities include:

- (i) the brokering and marketing of electricity, natural gas and other energy commodities ("Energy Marketing");
- (ii) energy management services ("Energy Management Services"), including the marketing, sale, installation, operation and maintenance of various products and services related to energy management and demand-side management, including energy and efficiency audits; facility design and process control and enhancements; construction, installation, testing, sales and maintenance of (and training client personnel to operate) energy conservation equipment; design, implementation, monitoring and evaluation of energy conservation programs; development and review of architectural, structural and engineering drawings for energy efficiencies, design and specification of energy consuming equipment; and general advice on programs; the design, construction, installation, testing, sales and maintenance of new and retrofit heating, ventilating, and air conditioning ("HVAC"), electrical and power systems, alarm and warning systems, motors, pumps, lighting, water, water-purification and plumbing systems, and related structures, in connection with energy-related needs; and the provision of services and products designed to prevent, control, or mitigate adverse effects of power disturbances on a customer's electrical systems; and
- (iii) engineering, consulting and other technical support services ("Consulting Services") with respect to energy-related businesses, as well as for individuals. Such Consulting Services would include technology assessments, power factor correction and harmonics mitigation analysis, meter reading and repair, rate schedule design and analysis, environmental services, engineering services, billing services (including consolidation billing and bill disaggregation tools), risk management services, communications systems, information systems/data processing, system planning, strategic planning, finance, feasibility studies, and other similar services.

The Applicants request that the Commission (i) authorize Non-Utility Subsidiaries to engage in Energy Marketing activities in Canada and reserve jurisdiction over Energy Marketing activities outside of Canada pending

¹⁹ The Commission has previously authorized substantially similar proposals. See 1999 Financing Order; also see Entergy Corporation, et al.,

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Holding Co. Act Release No. 27039 (June 22, 1999) and NiSource Inc, Holding Co.

Act Release No. 27265 (Nov. 1, 2000).

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completion of the record in this proceeding,²⁰ (ii) authorize Non-Utility Subsidiaries to provide Energy Management Services and Consulting Services anywhere outside the United States,²¹ and (iii) reserve jurisdiction over other energy-related, non-utility, activities of Non-Utility Subsidiaries outside the United States, pending completion of the record.

1.14 Payment of Dividends Out of Capital and Unearned Surplus and

Acquisition, Retirement or Redemption of Securities. AER also proposes, on

behalf of itself and each of its current and future non-exempt Non-Utility Subsidiaries that such companies be permitted to pay dividends out of capital and unearned surplus (including revaluation reserve) and/or acquire, retire, or redeem securities that AER or any Non-Utility Subsidiary has issued to any associate company, to the extent permitted under applicable corporate law and the terms of any applicable credit or security agreements.

AER anticipates that there will be situations in which it or one or more Non-Utility Subsidiaries will have unrestricted cash available for distribution in excess of any such company's current and retained earnings. In such situations, the declaration and payment of a dividend would have to be charged, in whole or in part, to capital or unearned surplus. As an example, if AER (directly or indirectly through an Intermediate Subsidiary) purchases all of the stock of an EWG or FUCO, and following such acquisition, the EWG or FUCO incurs non-recourse borrowings some or all of the proceeds of which are distributed to the Intermediate Subsidiary as a reduction in the amount invested in the EWG or FUCO (i.e., return of capital), the Intermediate Subsidiary (assuming it has no earnings) could not, without the Commission's approval, in turn distribute such cash to AER for possible distribution to Alliant Energy.

Similarly, using the same example, if an Intermediate Subsidiary, following its acquisition of all of the stock of an EWG or FUCO, were to sell part of that stock to a third party for cash, the Intermediate Subsidiary would again have substantial unrestricted cash available for distribution, but (assuming no profit on the sale of the stock) would not have current earnings and therefore could not, without the Commission's approval, declare and pay a dividend to its parent out of such cash proceeds.

Further, there may be periods during which unrestricted cash available for distribution by AER or another Non-Utility Subsidiary exceeds current and retained earnings due to the difference between accelerated depreciation allowed

20 The Commission has previously authorized substantially similar proposals. See 1999 Financing Order; also see Southern Energy, Inc., Holding Co.

Act Rel. No. 27020 (May 13, 1999) (supplemental order amending prior order to permit registered holding company subsidiary to engage in power and gas marketing activities in Canada and reserving jurisdiction over such activities outside the United States and Canada).

21 The Commission has previously authorized substantially similar

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proposals. See 1999 Financing Order; also see Columbia Energy Group, et al.,

Holding Co. Act Release No. 26498 (March 25, 1996); and Cinergy Corp., Holding

Co. Act Release No. 26662 (February 7, 1997).

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for tax purposes, which may generate significant amounts of distributable cash, and depreciation methods required to be used in determining book income.

Finally, even under circumstances in which a Non-Utility Subsidiary has sufficient earnings, and therefore may declare and pay a dividend to its immediate parent, such immediate parent may have negative retained earnings, even after receipt of the dividend, due to losses from other operations. In this instance, cash would be trapped at a subsidiary level where there is no current need for it.

Likewise, AER or any Non-Utility Subsidiary may also wish to utilize freely distributable cash to acquire, retire or redeem any securities of which it is the issuer that are held by any associate company. Such transactions, which are not exempt under Rule 42, are a means to reduce the capitalization of a company and serve essentially the same purpose as a dividend paid out of capital or unearned surplus.

AER, on behalf of itself and each current and future non-exempt Non-Utility Subsidiary represents that it will not declare or pay any dividend and/or acquire, retire or redeem any securities of which any such company is the issuer that are held by an associate company out of capital or unearned surplus in contravention of any law restricting the payment of dividends or the terms of any credit or security agreements.²²

1.15 Investments in EWGs and FUCOs. Alliant Energy requests authority

to use the proceeds of authorized financing and Alliant Energy Guarantees to make investments in EWGs and FUCOs in an amount which, when added to Alliant Energy's existing "aggregate investment," would not exceed \$1.75 billion. Based on Alliant Energy's "aggregate investment" as of March 31, 2001 (approximately \$355.9 million), this would enable Alliant Energy to make incremental investments in EWGs and FUCOs of about \$1.39 billion.

Alliant Energy believes that, at this stage of the restructuring of the electric industry both in this country and abroad, it is critical that it have greater flexibility to invest in EWGs and FUCOs in order to create maximum shareholder value. In this country, many utilities are divesting generation assets, creating expansion opportunities for Alliant Energy outside of the Utility Subsidiaries' service territories. In this connection, Alliant Energy made a strategic decision to seek to expand the scope and size of its commodity services business.²³

Alliant Energy anticipates using a significant portion of the additional requested authority to invest in domestic EWGs. These projects have become increasingly attractive and important to Alliant Energy's strategic operations as a result of industry restructuring encouraged by the FERC, the implementation of the Energy Policy Act of 1992 ("Energy Policy Act"), state legislatures, and state regulatory authorities.

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22 The Commission has previously authorized substantially similar proposals. See 1999 Financing Order; also see NiSource Inc., Holding Co. Act

Release No. 27265 (Nov. 1, 2000).

23 Alliant Energy's commodity services business consists of both generation assets and energy marketing operations.

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The achievement of this goal would be facilitated by Alliant Energy having greater flexibility to purchase generating assets outside of the Utility Subsidiaries' service territories. Because of the integration requirements of the Act, the generating assets that Alliant Energy may seek to acquire would likely need to be qualified as EWGs. Outside of the United States, investment opportunities exist due to privatizations being pursued by various foreign governments as well as an expanding need for new electricity generating resources in emerging markets. Any "utility assets" that Alliant Energy seeks to acquire outside of the United States would likely need to be qualified either as EWGs or FUCOs.

All of Alliant Energy's present investments in FUCOs are structurally segregated from the Utility Subsidiaries, a policy that would also apply to any prospective investments in EWG's. No Utility Subsidiary has extended credit or sold or pledged its assets directly or indirectly to any FUCO, and the indebtedness of Alliant Energy's existing FUCO projects is not otherwise recourse to any Utility Subsidiary. Alliant Energy will not seek recovery through higher rates to the Utility Subsidiaries' utility customers in order to compensate Alliant Energy for any possible losses that it may sustain on investments in EWGs or FUCOs or for any inadequate returns on such investments.

Alliant Energy has obtained letters or, in one case, an order from each of the four public service commissions that have jurisdiction over the rates and service of the Utility Subsidiaries certifying that such commissions have the authority and resources to protect ratepayers of the Utility Subsidiaries from the effects of Alliant Energy's investments in EWGs and FUCOs, and that they intend to exercise such authority. These determinations, which will be filed herewith as Exhibits H-2, H-4, H-6 and H-8, were predicated upon Alliant Energy's proposal to increase its "aggregate investment" in EWGs and FUCOs to 100% of its "consolidated retained earnings." Alliant Energy is seeking new determinations from each of the four public service commissions predicated upon an "aggregate investment" limit of \$1.75 billion and intends to file such determinations as Exhibits H-10, H-12, H-14 and H-16.

Alliant Energy's request for a higher "aggregate investment" limit is warranted for all of the following reasons:

- o With the passage of the Energy Policy Act, Congress recognized that investment in generation projects, apart from those owned or operated by vertically-integrated public utilities, is consistent with the efficient operation of a registered public-utility holding company system such as Alliant Energy's. Congress created an exemption for EWGs in order to promote such investment.
- o Since the passage of the Energy Policy Act and the April 24, 1996 adoption of FERC Order 888, which provides for electric power transmission service on a nondiscriminatory basis, "functionally unbundled" from power generation, there has emerged a vigorous United States (and North American) energy market where all domestic operating

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generating plants have transmission access to wholesale and retail markets.

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- o Since the passage of the Energy Policy Act, AER has developed an energy trading and marketing joint venture called Cargill-Alliant LLC ("Cargill-Alliant") apart from its traditional public-utility operations, which greatly lessens the risk of investment in EWGs.
- o Since the passage of the Energy Policy Act, several states (including Illinois) have effectively restructured electric power service in order to provide for the generation and sale of electric power through market competition rather than exclusively through vertically integrated, rate-regulated, public-utility companies. This restructuring has resulted in new opportunities for marketing electric power generated by EWGs.
- o A substantial demand exists for ownership and operation of generation divested from public utility systems in many States.
- o A substantial increase in the value assigned to reliability has developed in the wake of recent and anticipated capacity shortages in California and the Northeast, with impacts that extend well beyond those regions.
- o A substantial demand exists for new generating capacity both within the United States and globally.
- o Since the enactment of the Energy Policy Act, a substantial international energy market has emerged. Effective participation within this market requires substantial portfolio diversification among types of projects and among countries and investment at levels sufficient to secure the advantages of economies of scale.
- o The additional authority sought herein will enable Alliant Energy to pursue growth opportunities consistent with the Energy Policy Act and Alliant Energy's goal of growing shareholder value at a faster growth rate than would occur solely as a result of Alliant Energy's regulated public-utility operations. Alliant Energy seeks thereby to minimize its overall cost of capital.
- o Alliant Energy's investments to date in FUCOs have been on a diversified basis, and have given Alliant Energy experience in operating in deregulated energy markets.

Thus, in view of the current limitations on financing capacity under the Rule 53(a)(1), Alliant Energy requests that the Commission issue an order pursuant to Rule 53(c) under the Act to waive the investment limitation contained in Rule 53(a)(1), as applied to Alliant Energy, so that Alliant Energy may utilize the proceeds of the authorized financings and guarantees authorized by the Commission in this proceeding and in File Nos. 70-9317 to make investments in EWGs and FUCOs up to the proposed EWG/FUCO Investment Limitation. As demonstrated in Item 3, Alliant Energy satisfies the applicable standards under Rule 53(c) for the relief requested herein.

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1.15.1 Description of Current Portfolio of Projects. Alliant

Energy, through subsidiaries of AER, currently holds interests in various foreign electric generation and distribution utility companies that have been certified as FUCOs. Alliant Energy does not hold an interest in any EWG at this time, but is investigating several potential investments. The largest concentration of Alliant Energy's foreign investments is in Brazil, followed by New Zealand and Australia. Alliant Energy has also made relatively small investments in China and Mexico. As indicated, at March 31, 2001, Alliant Energy's "aggregate investment" in all of these entities was approximately \$355.9 million. A brief description of these projects, by country, follows:

(a) Brazil. In January 2000, AER acquired a non-controlling

interest in four Brazilian electric utilities that serve over 820,000 customers. As part of this investment, AER acquired a 49.1% ownership interest in Companhia Forca e Luz Cataguazes-Leopoldina ("Cataguazes"), which holds a majority interest in another electric utility company, Companhia de Electricidade de Nova Friburgo S.A. ("CENF"), and in an energy development company, Energisa S.A. ("Energisa"). As part of the same investment, AER also acquired a 45.6% interest in Energisa itself, which holds majority stakes in two other regulated utilities, Empresa Energetica de Sergipe S.A. ("Energipe") and Companhia Energetica de Borborema S.A. ("CELB").

In January 2001, AER indirectly purchased a 49% interest in Sociedade Anonima da Electrificacao da Paraiba ("SAELPA"), which serves more than 760,000 customers in the state of Paraiba, Brazil, where one of the Cataguazes distribution companies (CELB) is already located, surrounded by SAELPA. The SAELPA acquisition had been an agreed-upon target of the Alliant Energy/Cataguazes joint business plan and nearly doubled the Cataguazes customer base to 1.6 million customers in the fastest-growing Northeastern region of the country.²⁴

Additionally, AER, through Alliant Energy International, Inc., has agreed to participate with Cataguazes in developing two gas-fired generation plants in Brazil. The first, Usina Termoeletrica Juiz de Fora S.A., is an 82 MW simple cycle plant that is scheduled to go in service in November 2001, and to be upgraded to 103 MW as a combined cycle plant by December 2002.²⁵ The second, TermoSergipe S.A., is a 90 MW co-generation plant that is under development and scheduled to go in service by January 2003.

(b) New Zealand.²⁶ AER indirectly holds investments in two

FUCOs operating in New Zealand. AER owns 17.4% of the common stock of TrustPower Limited, which serves approximately 220,000 electric customers throughout New Zealand, supplying half of its load from its own hydroelectric and wind generation assets. In addition, AER indirectly owns approximately 10.2% of the common stock of Infrastructure & Utilities NZ Limited ("Infratil"), a New Zealand utility and infrastructure company. Infratil owns 26% of TrustPower.

(c) Australia.²⁷ AER indirectly owns 69.5% of Southern

Hydro Partnership, which owns and operates hydroelectric generating assets in

²⁴ See Form U-57 filed by Alliant Energy on January 30, 2001 (File No. 073-00091).

²⁵ See Form U-57 filed by Alliant Energy on January 30, 2001 (File No.

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073-00091).

26 See Form U-57 filed by Alliant Energy on August 20, 1999 (File No. 073-00091).

27 See Form U-57 filed by Alliant Energy on October 13, 1999 (File No. 073-00091).

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Australia with an aggregate generating capacity of 479 MW. These assets represent approximately 6% of the State of Victoria's total electricity generation capacity.

(d) China. AER indirectly holds investments in seven

different generating projects in China, of which four are in operation, as follows:

JIES Power and Heat Co. Ltd. 28 - AER indirectly owns a 50% interest

in JIES Power and Heat Co. Ltd. ("JIES"), a Chinese limited liability company that owns a co-generation plant consisting of three coal-fired 12 MW generating units. JIES supplies electricity and steam to the local municipal government which, in turn, sells and distributes the steam and power to various customers.

TIES Heat & Power Co. Ltd. 29 - AER indirectly owns a 30% interest in

Tongxiang TIES Heat & Power Co. Ltd. ("TIES"), a Chinese limited liability company that owns and operates a co-generation plant consisting of two coal-fired 12 MW generating units. TIES supplies electricity and steam to the local municipal government, which, in turn, sells and distributes the steam and power to various customers.

Peak Pacific Investment Co. Ltd. and Subsidiaries - AER indirectly

owns a 83% interest in Peak Pacific Investment Co. Ltd. ("Peak"), a Singapore project development company focused upon the combined heat and power market in China. Peak, in turn, holds interests in five generating subsidiaries, as follows:

1. Jinan Yaqing Heat and Power Co. Ltd. Peak owns 66.5% of

Jinan Yaqing Heat and Power Co. Ltd. ("Jinan"), which owns a 6 MW coal-fired generating unit and related steam production equipment. Jinan will sell electricity to the Jinan City Power Supply Bureau. The steam produced will be sold to the Jinan Development Zone Heat and Power Plant Industrial Company.

2. Shijiazhuang Chengfeng Heat and Power Co. Ltd. Peak owns

a 70% interest in Shijiazhuang Chengfeng Heat and Power Co. Ltd. ("Zhengding"), which is currently constructing a coal-fired cogeneration facility that will produce and supply both electricity and thermal energy. The generating facilities will consist of two 12 MW units. Completion of the facility is scheduled in 2001. Zhengding will sell electricity to the Zhengding County Sandianban. The steam produced will be sold to the Zhengding County Supply Company.

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3. Henan Yongfeng Electric Power Co. Ltd. Peak owns a 70%

interest in Henan Yongfeng Electric Power Co. Ltd. ("Gongyi I"), which owns a 50

28 See Form U-57 filed by IES Industries, Inc. (now, Alliant Energy Corporation) on January 3, 1997 (File No. 073-00053).

29 See Form U-57 filed by Alliant Energy on July 30, 1999 (File No. 073-00091).

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MW generating unit, the output of which is sold to the Gongyi Power Supply Company and the Henan YongAn Aluminum & Power Group Co. Ltd.

4. Henan Anfeng Electric Power Co. Ltd. Peak owns 70% of

Henan Anfeng Electric Power Co. Ltd. ("Gongyi II"), which owns a 50 MW generating unit, the output of which will be sold to the Gongyi Power Supply Company and the Henan YongAn Aluminum & Power Group Co. Ltd.

5. WuAn Peak Heat and Power Co. Ltd. Peak owns a 70%

interest in WuAn Peak Heat and Power Co. Ltd. ("WuAn"), which owns three coal-fired co-generation units having a combined 24 MW capacity, with an additional 12 MW unit under construction. WuAn sells electricity to the Handan Power Supply Company under a 20-year take-or-pay off-take agreement. Steam is sold to WuAn City Heating Company.

Peak also has two additional projects in advanced stages of development representing 104 MW of capacity. Additional projects in China are under development which could represent \$50-\$100 million of additional investment.

(e) Mexico. AER indirectly owns 100% of Alliant Energy Servicios

de Mexico, S. de R.L. de C.V. ("Servicios") and Alliant Energy Operaciones de Mexico, S. de R.L. de C.V. ("Operaciones"), which are both organized in Mexico.³⁰ Servicios and Operaciones have entered into agreements to operate the electrical distribution facilities of a non-affiliated company that serves a resort community known as Laguna del Mar, located in Puerto Penasco, Sonora, United Mexican States.

(f) Other Foreign Projects. Through a wholly-owned subsidiary,

Alliant Energy has invested, together with other unaffiliated investors, in a portfolio of small electricity generation projects fueled primarily from renewable energy resources that are located in emerging foreign markets. These projects will consist primarily of generating units in excess of 7 MW (net) and may also include related energy conservation and efficiency equipment. These projects will be developed in any of the emerging market nations eligible for International Finance Corporation financing which sponsors the Renewable Energy and Energy Efficiency Fund ("REEF"). The lead manager for the REEF is Energy Investors Fund. AER has invested or committed to invest approximately \$15 million in REEF.

1.15.2 Potential Investments in Additional Exempt Projects. Alliant

Energy intends to make substantial investments in EWGs (both domestic and foreign) and FUCOs and other independent power projects in order to expand the commodity services portion of its business, to augment uncertain growth in its domestic utility business, to diversify its asset portfolio, and to gain greater experience in operating in unregulated energy markets.

Alliant Energy has developed a strategy which requires it to expand the commodity services portion of its business. The commodity services business includes the generation and marketing of electricity. Alliant Energy has

30 See Forms U-57 filed by Interstate Energy Corporation on May 17, 1999 (File No. 073-00091).

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concluded that, in order to remain competitive in the rapidly evolving electric commodity markets, it must increase the size and scale of its commodity services business in order to gain the economies to defray the necessary, but significant, infrastructure costs. Moreover, Alliant Energy believes that this focus on the commodity services business is consistent with its demonstrated strengths in owning and operating electric generating plants on a low-cost basis. In addition, in order to expand its electricity marketing business, Alliant Energy believes that it will be necessary to acquire additional physical assets outside of the Utility Subsidiaries' existing service territories to support its marketing position. The assets that it acquires outside of the service territories of the Utility Subsidiaries but within the United States may need to be qualified as EWGs and, as such, will be subject to the Rule 53 investment limitations.

Investments in EWGs and FUCOs will enable Alliant Energy to continue to expand its business despite uncertain growth prospects in the service territories of the Utility Subsidiaries. Present projections indicate that the Utility Subsidiaries will continue to fund their operations and their construction expenditures primarily from internal sources of cash and sales of senior securities. Thus, acquisitions of EWGs and FUCOs present Alliant Energy with the opportunity to continue to grow through reinvestment of retained earnings in an industry sector in which Alliant Energy has more than a century of experience, while at the same time diversifying overall asset risk. In this connection, Alliant Energy's recently announced plans to invest in expanded generation within its existing service territory (1,200 MWs in Iowa over the next 10 years and 800 MWs in Wisconsin over a similar time frame, representing up to \$2.5 billion in capital expenditure) is also expected to be made through EWG subsidiaries rather than through the Utility Subsidiaries.

Alliant Energy's intended portfolio will be diversified by region and operating assets and, therefore, will have an increased potential for revenue growth and be less susceptible to adverse effects from any one particular market. Alliant Energy believes that its investments in EWGs and FUCOs will give Alliant Energy a larger and more diversified base for raising equity capital for future growth and expansion. Thus, investments in EWGs and FUCOs will help Alliant Energy remain competitive as competition increases in the United States electric utility industry. Such investments in EWGs and FUCOs will not have a negative effect on Alliant Energy's ability to make any additional equity investments in the Utility Subsidiaries that may be required in the future.

Outside of the United States, Alliant Energy has and will likely continue

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to pursue investments in utility systems in regions such as South America, China, Australia and New Zealand. Alliant Energy believes that the creation and maintenance of value for its shareholders will depend on the Utility Subsidiaries' ability to continue successfully to operate their core business in the United States as that business becomes subject to increasing competition. Alliant Energy believes the experience it develops in markets that are already largely deregulated will ultimately help the long-term success of its core business. Alliant Energy expects that the experience gained from conducting business in these markets will provide Alliant Energy with greater insights into the market structures that produce efficient and equitable results for consumers and shareholders. These enhanced insights, in turn, will assist Alliant Energy and the Utility Subsidiaries effectively to shape and respond to the restructuring of the electric industry in the United States. Less obvious are

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the opportunities to exchange generation and commodity marketing technology across borders, whether distributed generation into markets where transmission is at a premium (China, Australia), hydro generation construction and operation know-how (including Brazilian small hydro plants and Australian large hydro peaking systems) where these might be effectively deployed, and wholesale electricity trading and hedging skills (including the Cargill-Alliant joint venture and the Southern Hydro partnership).

Specific uses of the expanded investment authority cannot be determined at this time. Although the potential opportunities for EWG and FUCO investment are numerous, until the authority is received, firm commitments cannot be made to acquire or develop any specific Project that requires Alliant Energy financing or credit support. Importantly, even with a higher "aggregate investment" limit, Alliant Energy will still have to be selective in its investment choices. At this time, Alliant Energy is considering both domestic and foreign projects. As noted above, selected projects will have been thoroughly evaluated using Alliant Energy's Capital Control Process, which is described below in Item 3.3.1.

1.16 Certificates of Notification. Alliant Energy proposes to file

certificates of notification pursuant to Rule 24 that report each of the transactions carried out in accordance with the terms and conditions of and for the purposes represented in this Application or Declaration. Such certificates would be filed within 60 days after the end of each of the first three calendar quarters, and 90 days after the end of the last calendar quarter, in which transactions occur. The Rule 24 certificates will contain the following information for the reporting period:

(a) Any sales of any Common Stock by Alliant Energy, the purchase price per share and the market price per share at the date of the agreement of sale;

(b) The total number of shares of Common Stock issued or issuable under options granted during the quarter under Alliant Energy's benefit plans or otherwise;

(c) If Common Stock has been transferred to a seller of securities of a company being acquired, the number of shares so issued, the value per share and whether the shares are restricted to the acquiror;

(d) The amount and terms of any Preferred Stock, Long-term Debt or other forms of preferred or equity-linked securities issued by Alliant Energy, directly or indirectly through a Financing Subsidiary, during the

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quarter;

(e) The amount of any Alliant Energy Guarantee or Non-Utility Subsidiary Guarantee issued during the quarter, and the company on whose behalf such guarantee was issued;

(f) The notional amount and principal terms of any Interest Rate Hedge or Anticipatory Hedge entered into during the quarter and the identity of the parties to such instruments;

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(g) The name, parent company, and amount invested in any new Intermediate Subsidiary or Financing Subsidiary during the quarter;

(h) The amount and a description of any Energy Assets acquired during the quarter;

(i) A list of Form U-6B-2 statements filed with the Commission during the quarter, including the name of the filing entity and the date of the filing;

(j) Consolidated balance sheets as of the end of the quarter, and separate balance sheets as of the end of the quarter for each company, including Alliant Energy, that has engaged in financing transactions authorized in this proceeding during the quarter.³¹

ITEM 2. FEES, COMMISSIONS AND EXPENSES.

The fees, commissions and expenses incurred or to be incurred in connection with the transactions proposed herein are estimated at \$20,000. The above fees do not include underwriting fees and other expenses that would be incurred in consummating specific financings, credit support arrangements, asset or stock acquisitions, or other transactions covered hereby, the amount of which cannot be estimated at this time. The Applicants represent that such fees and expenses will not exceed 5% of the proceeds of any financing or of the face amount of any credit support arrangement or of the consideration paid in connection with any acquisition.

ITEM 3. APPLICABLE STATUTORY PROVISIONS.

3.1 General. Sections 6(a) and 7 of the Act are applicable to the

issuance and sale of Common Stock, Preferred Stock, Long-term Debt and other forms of preferred and equity-linked securities by Alliant Energy or a Financing Subsidiary, and to Interest Rate Hedges, except to the extent that they may be exempt under Rule 52, and to Anticipatory Hedges. Section 12(b) of the Act and Rule 45(a) are applicable to the issuance of Alliant Energy Guarantees and Non-Utility Subsidiary Guarantees, to the extent not exempt under Rules 45(b). Sections 9(a)(1) and 10 of the Act are also applicable to Alliant Energy's or any Non-Utility Subsidiary's acquisition of the equity securities of any Financing Subsidiary or Intermediate Subsidiary, as well as to the acquisition of Energy Assets or the securities of companies substantially all of whose assets consist of Energy Assets, the acquisition, retirement or redemption securities held by any associate company of the issuer, and the activities of Rule 58 Companies outside the United States. Section 12(c) of the Act and Rule 46 are applicable to the payment of dividends from capital and unearned surplus

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by any Non-Utility Subsidiary. Section 13(b) of the Act and Rules 80 - 92 are

31 Any of the information described in items (a) through (j) that is provided under the 1933 Act or the 1934 Act may be incorporated by reference into the Rule 24 certificate.

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applicable to the sale of services and goods among Non-Utility Subsidiaries. Section 32 and Rules 53(c) are applicable to Alliant Energy's request for an increase in the amount of financing proceeds that it may invest in EWGs and FUCOs.

3.2 Compliance with Rules 53 and 54. The transactions proposed herein

are also subject to Rules 53 and 54. Under Rule 53(a), the Commission shall not make certain specified findings under Sections 7 and 12 in connection with a proposal by a holding company to issue securities for the purpose of acquiring the securities of or other interest in an EWG, or to guarantee the securities of an EWG, if each of the conditions in paragraphs (a)(1) through (a)(4) thereof are met, provided that none of the conditions specified in paragraphs (b)(1) through (b)(3) of Rule 53 exists. Rule 54 provides that the Commission shall not consider the effect of the capitalization or earnings of subsidiaries of a registered holding company that are EWGs or FUCOs in determining whether to approve other transactions if Rule 53(a), (b) and (c) are satisfied. These standards are met.

Rule 53(a)(1): Currently, Alliant Energy's "aggregate investment" in EWGs and FUCOs is approximately \$355.9, or approximately 32.6% of Alliant Energy's "consolidated retained earnings" for the four quarters ended March 31, 2001, including accumulated other comprehensive income (\$1.093 billion).

Rule 53(a)(2): Alliant Energy will maintain books and records enabling it to identify investments in and earnings from each EWG and FUCO in which it directly or indirectly acquires and holds an interest. Alliant Energy will cause each domestic EWG in which it acquires and holds an interest, and each foreign EWG and FUCO that is a majority-owned subsidiary, to maintain its books and records and prepare its financial statements in conformity with U.S. GAAP. All of such books and records and financial statements will be made available to the Commission, in English, upon request.

Rule 53(a)(3): No more than 2% of the employees of the Utility Subsidiaries will, at any one time, directly or indirectly, render services to EWGs and FUCOs.

Rule 53(a)(4): Alliant Energy will submit a copy of the Application or Declaration in this proceeding and each amendment thereto, and will submit copies of any Rule 24 certificates required hereunder, as well as a copy of Alliant Energy's Form U5S, to each of the public service commissions having jurisdiction over the retail rates of the Utility Subsidiaries.

In addition, Alliant Energy states that the provisions of Rule 53(a) are not made inapplicable to the authorization herein requested by reason of the occurrence or continuance of any of the circumstances specified in Rule 53(b).

3.3 Standards of Rule 53(c). Rule 53(c) provides that, in connection

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with a proposal to issue and sell securities to finance an investment in any EWG, or to guarantee the securities of any EWG, a registered holding company that is unable to satisfy the requirements of paragraph (a) or (b) of Rule 53 must "affirmatively demonstrate" that such proposal:

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will not have a substantial adverse impact upon the financial integrity of the registered holding company system; and

will not have an adverse impact on any utility subsidiary of the registered holding company, or its customers, or on the ability of State commissions to protect such subsidiary or customers.

The Commission has held that these same tests apply to a registered holding company when it seeks authorization to finance FUCO acquisitions.

As demonstrated below, the issuance of securities by Alliant Energy to finance investments in EWGs and FUCOs in an amount up to the proposed EWG/FUCO Investment Limitation will not result in any such adverse impacts, for all of the following reasons:

- o Alliant Energy subjects potential investments in EWGs and FUCOs to a series of project review screens designed to identify risks before any funds are committed. Once funds have been invested, Alliant Energy closely monitors project performance and uses a variety of techniques to mitigate specific risks. More generally, Alliant Energy's portfolio diversification approach serves to mitigate the risks presented by any single project.
- o Wherever practicable, Alliant Energy finances project investments with non-recourse debt and available cash, including cash that has been raised by Alliant Energy on the basis of the unrealized appreciation in the value of its significant minority ownership position in McLeodUSA Incorporated ("McLeod"), an ETC, which has enabled Alliant Energy to fund its investments in the Brazilian electricity sector.
- o Alliant Energy has a successful track record in developing foreign projects.
- o Credit ratings and other indicators attest that Alliant Energy and the Utility Subsidiaries are in sound financial condition. Importantly, the Utility Subsidiaries are not expected to need any funds from Alliant Energy in order to finance their capital requirements through at least 2005. In fact, Alliant Energy projects that new investment in generating assets in its four-state area will be made primarily through EWGs, and not the Utility Subsidiaries.
- o Just as with its existing investments, Alliant Energy will prudently finance new investments in a manner that will preserve the financial integrity of Alliant Energy and the Utility Subsidiaries. Alliant Energy has developed a comprehensive financial model addressing the expected financing and likely impacts of the proposed new investments, the results of which indicate that the financial performance of Alliant Energy will be enhanced without undermining the financial integrity of the Utility Subsidiaries. In this connection, Alliant Energy asked Merrill Lynch to perform a credit analysis focusing on the impact of financing by Alliant Energy on a recourse basis of additional investments in EWGs and FUCOs in the next five years. On

the basis of and subject to the matters set forth or referred to in its letter dated April 5, 2001, Merrill Lynch was of the view that, as of such date, the credit ratings of Alliant Energy and the Utility Subsidiaries would not be expected to fall below investment grade due to the increased investments contemplated in this Application or Declaration. Finally, Alliant Energy has represented that it will maintain a rating for all Long-term Debt that is at least investment grade.

- o The Utility Subsidiaries and their customers will remain insulated from the direct effects of Alliant Energy's project investments. In the first place, the Utility Subsidiaries will continue to have no involvement in financing the acquisition of any EWG or FUCO, except potentially in connection with the transfer of existing generating facilities owned by them to EWG affiliates in accordance with state restructuring requirements. Second, any transfer of such assets to EWG status will conform to the requirements of Section 32 of the Act, including the requirement in Section 32(c) for specific findings from Alliant Energy's state commissions. And third, Alliant Energy has represented that it will not seek recovery through higher rates to the Utility Subsidiaries' customers for any losses or inadequate returns from project investments.
- o Alliant Energy will meet with the commissioners and staff of the Wisconsin, Iowa, Minnesota and Illinois commissions, and obtain letters from such commissions stating that, based on the commitments of Alliant Energy and subject to the qualifications referred to or stated therein, Alliant Energy's request for increased "aggregate investment" limit will not have an adverse impact on their ability to protect the Utility Subsidiaries or their retail customers.

3.3.1 Project Review Procedures/Risk Mitigation Techniques.

Alliant Energy has adopted a comprehensive Capital Control Process to evaluate all new business opportunities, including potential investments in EWGs and FUCOs. Investments in EWGs and other independent power production facilities, particularly foreign EWGs and FUCOs, involve a variety of risks that historically have not been present in the traditional, regulated, electric utility industry in this country. Alliant Energy's Capital Control Process, which reflects pre-Merger best practices, identifies and addresses (i.e., limits and/or mitigates) these risks as they relate to both domestic and, more significantly, foreign projects. Following is a discussion of these procedures and risks.

(a) The Project Review Process. Every potential EWG (both

domestic and foreign) and FUCO investment opportunity (a "Project") considered by Alliant Energy is subjected to several stages of formal review to ensure both the alignment of the Project with Alliant Energy's strategic objectives and the appropriate assessment of the risks and rewards for the Project. This process is documented in Alliant Energy's Capital Control Process, which applies to the review of all new business opportunities, not solely to Projects. The Capital Control Process includes a detailed framework by which each phase of a Project's development cycle is analyzed. This process has been reviewed and approved by Alliant Energy's executive management and has been reviewed by Alliant Energy's Board of Directors.

Initially, at the conceptual stage in the assessment of a proposed Project, Alliant Energy, in conjunction with the Capital Control Process staff, must make a preliminary determination as to whether the Project is consistent with Alliant Energy's strategic objectives and whether the Project's risk to rewards ratio will be acceptable. If deemed to be consistent with Alliant Energy's strategic objectives and the results of the initial evaluation of the Project's risks to rewards ratio are acceptable, then the same parties are responsible for the preparation of a business concept document for the Project. The business concept document must address, at a minimum, a description of the business, the strategic fit with Alliant Energy's objectives, a preliminary market assessment, a description of the Project's competition, an initial financial analysis, critical success factors, risks, and exit strategies. Upon the completion of the business concept document, the Business Unit Management Team, comprised of top executives of Alliant Energy, must review it and make a determination that the Project is consistent with Alliant Energy's corporate strategic objectives, and, given the identified risks, has the requisite earnings potential to merit further review and development of a business case.

After Business Unit Management Team approval of the business concept, Alliant Energy, with the assistance of the applicable AER business unit staff, will develop a comprehensive business case for the Project. This business case, along with the results of the due diligence and risk assessment process performed in connection with the development of the business case, is to form the basis upon which the Alliant Energy Executive Review Committee and the Alliant Energy Board of Directors will consider the approval of the proposed investment in the Project. The business case is to be a comprehensive identification and analysis of the strategic, market, operational, and financial components of the Project. In addition to an assessment of the Project, it will also include the identification of an exit strategy and identify initial Project implementation steps. Its scope will be driven by the size, complexity, and risk associated with the Project.

As noted above, during the business case development phase of the Project review process, Alliant Energy will perform detailed Project due diligence and risk assessment using cross-functional Project Teams to identify and assess the major technical, financial, commercial, legal/regulatory and political risks associated with a particular Project, as well as potential mitigating factors. Those on the Project Team are responsible for conducting or assuring the adequacy of due diligence for a Project; they will work in conjunction with appropriate advisors, e.g., engineers, accountants, attorneys, investment bankers, in evaluating a Project. The Project Teams will be comprised of Alliant Energy personnel and other supporting personnel. Such supporting personnel may include outside consultants.

Upon completion of the business case, a summary of the findings as well as a recommendation on whether, and if so, how, to proceed will be presented to the Alliant Energy Executive Review Committee. Upon approval by the Alliant Energy Executive Review Committee, the investment will be assessed against pre-approved Board investment criteria to determine the level of additional approvals, if any, that may be required. Depending on the magnitude of the investment in a Project, full Board approval may be necessary.

The above process applies to all new Alliant Energy businesses including both foreign and domestic Projects. Due to the special risks associated with foreign Projects, additional factors are considered. Before Alliant Energy makes

any investment in a foreign country, the business case must include an analysis of country risk, which will be presented to and reviewed by the Alliant Energy Board of Directors. The analysis includes a review of the political and economic stability of the particular country, the government's commitment to private power, the extent to which there is a free market economy, the extent to which there is a developed local banking system, the legal and regulatory framework for private investment in electric or gas facilities, the local business support for long-term investment of private capital, currency conversion and repatriation, and the potential for future partial sales of the investment interest to other investors.³²

(b) Risk Mitigation Measures. For all Projects, Alliant Energy

will carefully and systematically evaluate the potential risks of a Project in connection with the development of the business case before Alliant Energy funds are committed. The risks evaluated include those discussed below. At the outset, Alliant Energy would note that the various risks identified below relating to Projects, generally, and foreign Projects, in particular, can be mitigated in appropriate cases through partnering with other entities. Moreover, partnering may enable Alliant Energy to spread development costs as well as risks, and to draw upon the resources and experience of others, in determining what Projects to pursue.

(1) Operating Risks. Alliant Energy limits Project

development efforts to technologies and industries with which it has existing competencies such as electric generation and the transmission and distribution of electricity and gas. Due diligence review of operating assumptions relating to a Project, including those relating to fuel supply and environmental effects, will be carried out by Alliant Energy personnel with experience in the technology being evaluated, supplemented as appropriate by the use of outside technical consultants. Where possible, the risk of changes in the price of fuel will be passed through to the purchaser of electricity under the negotiated terms of a long-term power sales agreement. Other operating risks may, as appropriate, be mitigated by equipment warranties and by casualty, business interruption and other forms of insurance. Further, operating risk may be mitigated in some instances by Alliant Energy's direct participation in the administration and operation of a Project; such direct involvement may enhance Alliant Energy's ability to identify and address developing and existing problems on a timely basis.

(2) Construction Risks. As discussed below, in the foreign

sector, Alliant Energy expects to focus on existing Projects as opposed to so-called "greenfield" projects. As a consequence, construction risks will not be a significant issue for most foreign Projects that Alliant Energy pursues. To

³² It should be noted that Alliant Energy's Capital Control Process may, in many cases, be replicated by the lenders who agree to provide construction or permanent debt financing on a non-recourse basis for a Project, since repayment of that debt will depend solely upon the success of a Project. Project debt maturities are commonly long-term, meaning that the lenders' exposure to the risks of a Project extends for many years after closing or completion of construction. Project debt instruments customarily contain a requirement for the establishment of plant overhaul or utility system maintenance, debt service and

other funded reserves, all of which are designed to preserve the asset and protect the financial performance of the Project against interruptions in revenues and other contingencies.

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the extent issues regarding construction risks arise, such risks are commonly mitigated by fixed-price contracts with milestones and performance guarantees (e.g., guaranteed heat rates and availability factors), backed by appropriate levels of liquidated damages. The creditworthiness and track record of the construction contractor is an important consideration in this regard. In those cases where Alliant Energy may serve as its own general construction contractor, it will look to pre-negotiated cost and damage provisions from sub-contractors, including, without limitation, equipment vendors, to protect against performance shortfalls, cost overruns and schedule delays.

(3) Commercial Risks. In competitive power markets

electricity prices are determined by the economic laws of supply and demand. Accordingly, Alliant Energy will conduct extensive investigations of the electricity markets in which Projects operate, either foreign or domestic. With respect to an EWG, Alliant Energy will seek to ensure that the EWG will be capable of providing electricity at competitive rates in a non-regulated environment. Alliant Energy will also assess the underlying economic parameters in specific markets to assure that there will be sufficient demand for the output of the EWG. In the past, most independent power projects have relied on or have had the ability to arrange a power purchase sales agreement for the entire output of a facility with a single power purchaser, normally the local utility company. Such commitments minimize the risk of variation in revenues, assuming that a facility meets expected operations. However, in the future it will likely not be possible to rely heavily on these types of agreements. Moreover, even where there is or where it is possible to arrange such a commitment, Alliant Energy may make an assessment of the creditworthiness of the power purchaser over the life of the Project and may seek to have a contingency plan in the event of defaults. Moreover, Alliant Energy will analyze the commitment to determine how it may be affected by operations, changes in regulatory law or other legal requirements, or other factors.

(4) Financial Risks. Alliant Energy will seek to mitigate

the financial risks of Projects in a variety of ways. Generally, it will seek to secure the maximum amount of permanent debt financing for Projects that is available at reasonable cost and that is, by its express terms, non-recourse to Alliant Energy. Non-recourse debt of a Project that is secured solely by its assets and revenues, and creditors have no ability to seek repayment upon default from Alliant Energy. This method of financing ensures that Alliant Energy's exposure to any Project is limited to the amount of its equity commitment, and that the Utility Subsidiaries would bear no risk of a Project's failure or financial distress.³³ In addition to the expected non-recourse nature of most Project debt financing, Project debt is carefully structured to meet, or match, the characteristics of the particular Project. For example, when the value of a Project depends on a long-term, fixed-price, power purchase agreement, the Project debt may be designed to be of a similar term, with scheduled debt payments covered by fixed charges (usually the capacity payment component in the contract). On the other hand, where there is no long-term, fixed source of revenue, the percentage of non-recourse debt financing should be smaller, so that financial risk is not increased by excessive debt levels.

33 However, from time to time in the future, Alliant Energy may agree to provide guarantees in connection with Project financings.

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(5) Interest Rate Risk. A specific financing risk is the

potential variability of interest rates. Interest rate variability can be addressed, in part, by borrowing on a fixed-rate basis or by purchasing financial instruments that fix or cap variable interest rates. The effects of interest rate volatility can be mitigated principally through two strategies: hedging and diversifying. Hedging techniques that Alliant Energy may utilize would limit the impact that rising interest rates have on floating rate debt instruments. Diversification implies that liabilities will be spread among short- and long-term debt instruments, as well as fixed and floating interest obligations.

(6) Foreign Currency Exchange Risk. There are several ways

in which Alliant Energy may address the foreign currency exchange risk element, depending on the status of the target country. Initially, Alliant Energy will seek to develop or acquire Projects where there is free convertibility of the local currency into U.S. dollars. In countries that do not have a history of stability in the management of their exchange policy, Alliant Energy may require that part or all of the revenue from a Project be payable in or indexed to hard currency (almost invariably, U.S. dollars). Back-up guarantees or other undertakings by the central government may be available to ensure that the U.S. dollar payments due under a power purchase agreement are actually made available by the central bank or ministry of finance. In other cases, some or all of the non-recourse Project debt may be borrowed in the same currency as the Project's revenues, thereby ensuring a match between debt service obligations and operating income. Where available, long-term currency swaps would provide a further hedging option for the equity component of the investment.

(7) Legal Risks. Legal risks will be addressed by careful

review of any investment by legal counsel, including local and international counsel where foreign Projects are concerned. Such legal reviews address regulatory and permitting risks, environmental risks, the adequacy and enforceability of guarantees or other contractual undertakings of third parties, the status of title to utility property, and the obligations inherent in the financing arrangements.

(8) Country Risks. Foreign investment can entail

country-specific risks related to political or economic performance. As indicated above, A