FILED WITH
Executive Secretary

January 15, 2014

IOWA UTILITIES BOARD

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE: REQUEST FOR INVESTIGATION INTO AVOIDED COST DETERMINATIONS	DOCKET NO. INU-2014-0001

REQUEST FOR INVESTIGATION INTO APPROPRIATE AVOIDED COST DETERMINATIONS

COMES NOW MidAmerican Energy Company ("MidAmerican") and submits its Request for Investigation into Appropriate Avoided Cost Determinations pursuant to 199 IAC Chapters 15 and 35 ("Request"), specific to electric energy and capacity,[1] pursuant to Settlement Point No. 22 of its Joint Motion for Approval of Non-Unanimous Partial Settlement Agreement ("Partial Settlement") submitted on August 26, 2013, in Docket No. EEP-2012-0002, and pursuant to the Iowa Utilities Board ("Board") Order issued on December 16, 2013 approving portions of the Joint Settlement ("EEP Order"). In support of its position, MidAmerican states as follows:

Background

1. The appropriate method for calculation and application of avoided cost determinations in the context of both the Public Utility Regulatory Policies Act ("PURPA") and the Board's regulations implementing PURPA and 199 IAC Chapter 15 and energy efficiency program ("EEP") proceedings (199 IAC Chapter 35) has generated an ongoing discussion. With specific regard to MidAmerican, the issue first arose in Docket No. TF-2012-0574, a periodic revision to MidAmerican's Rate QF Cogeneration and Small Power

[1] No party to Docket No. EEP-2012-0002 raised any issues with the avoided cost calculation for natural gas (199 IAC Chapter 35), and natural gas avoided cost calculations are not contemplated for the purposes of PURPA (199 IAC Chapter 15).

Production tariff ("Rate QF"). The proposed tariff revised MidAmerican's standard rates for purchases of energy and capacity from qualifying facilities ("QF") with a capacity of 100 kilowatts or less under the Board rules implementing PURPA. Various issues were raised by intervening parties in that docket, including whether utilities should use the same uniform avoided cost methodology for purchasing energy and capacity from QFs and for energy efficiency purposes, whether avoided cost calculations could be made more transparent, and identification of the most appropriate forum for addressing these issues. The parties to the tariff filing agreed to continue the discussion in Docket No. EEP-2012-0002, MidAmerican's 2012 energy efficiency proceeding. Revised Rate QF remains pending. However, Board approved Issue 22 of the Partial Settlement of MidAmerican's 2012 energy efficiency proceeding which calls for the OCA, MidAmerican and the Environmental Intervenors to address the issue of avoided costs in more detail, making a request by January 15, 2014 (Settlement Issue No. 22, at. pp-19-20). Other parties took no part in this issue. In its order, the Board described the avoided cost issue and the resolution proposed by the Partial Settlement as follows:

> Issue 22 is whether avoided cost timing or methodologies should be revised or addressed in this proceeding. MidAmerican, Consumer Advocate, and the Environmental Intervenors have settled this issue. Deere and ICEE took no position. The three signatories agreed to request an investigative proceeding before the Board to address the issue of avoided cost in more detail. Pursuant to the agreement, the three signatories are to submit the request, either singularly or jointly, by January 15, 2014.

(EEP Order at 61)

2. In approving this portion of the Joint Settlement, the Board stated:

> The Board believes it is appropriate to continue the discussion and will approve the settlement of Issue 22. The signatories requesting the investigative proceeding are to specify the issues they intend to address that have not already been addressed in either the tariff proceeding or the

> MidAmerican energy efficiency plan proceeding, specify their respective ongoing concerns, and propose solutions for discussion.

(EEP Order at 63)

3. MidAmerican's avoided energy costs for the purpose of the EEP are based on its biennial PURPA avoided cost reports submitted to the Board pursuant to 199 IAC Chapter 15.5(6)[2], adjusted as required by 199 IAC 35.9(7)"b" for use in an EEP. MidAmerican's avoided capacity costs in the EEP are based upon 199 IAC 35.9(6) and 35.9(7)"a." The Board approved MidAmerican's proposed avoided costs for use in the EEP and stated they would remain in effect until the next energy efficiency plan for purposes of consistency and continuity; thus any recommendations from an avoided cost investigation will not affect MidAmerican's current EEP. Therefore, the only outstanding issues with regard to the calculation and application of avoided cost determinations in the EEP proceeding are prospective.

4. There remains no Board decision, however, on MidAmerican's Rate QF. The Rate QF tariff avoided cost rates, like the EEP avoided cost determinations, are based on MidAmerican's biennial PURPA reports submitted to the Board pursuant to 199 IAC Chapter 15. MidAmerican's most recent report was filed on July 19, 2012. PURPA avoided cost rates are based on biennial PURPA avoided costs. Unlike the EEP rules, Chapter 15 does not provide prescriptive adjustments to the avoided energy cost determination, such as externalities. In addition, 199 IAC Chapter 35.9(6)"c" requires the use of a combustion turbine as a proxy for the next capacity addition to satisfy future capacity shortfalls regardless of the actual capacity additions reflected in a utility's Integrated Resource Plan. Finally, neither 199 IAC Chapter 15 nor 199 IAC Chapter 35 requires the utilization of

[2] MidAmerican timely filed its PURPA avoided cost report on June 28, 2012 and filed a revision on July 19, 2012. The avoided costs in the revised report form the basis of MidAmerican's EEP avoided costs.

avoided transmission and distribution costs; however, utilities have historically applied avoided transmission and distribution costs in the cost effectiveness modeling for EEPs. On p. 10 of the Additional Information it filed January 15, 2013, MidAmerican listed the differences between elements of its PURPA and EEP avoided costs.

5. MidAmerican's avoided cost calculation methodology and the differences between PURPA and EEP applications have been described in great detail in various filings made in Docket No. TF-2012-0574 and IPL Docket No. TF-2012-0546. The most comprehensive explanation is in the filing submitted to the Board on January 15, 2013. Pages 10-14 of that filing describe the methods used to calculate PURPA and EEP avoided cost. EEP avoided costs were also discussed in detail in the testimony of O. Dale Stevens filed in the EEP docket.

6. A review of the documents filed on January 15, 2012 by MidAmerican and Interstate Power and Light Company (IPL) shows that both use a base calculation as the starting point for both types of avoided cost determinations. IPL and MidAmerican, however, use different methodologies to perform their base calculations. While there have been suggestions that uniformity in avoided costs should extend to the computer models and approaches used to develop avoided costs, both parties have explained that their methodologies and rationales for avoided cost computations are unique to the load characteristics of its customers, existing facilities, and generation portfolio.

7. Two issues have been identified by the Board in the avoided cost proceedings:

- Whether utilities should use the same uniform avoided cost methodology for purchasing energy and capacity from PURPA QFs and in EEP proceedings; and
- Whether avoided cost methodologies should be made more transparent.

(Board Order in Docket Nos. TF-2012-0546, TF-2012-0574, pp. 1-2, issued December 3, 2012.)

8. MidAmerican recommends that these two issues be the focus of the investigative proceeding. MidAmerican also recommends that this proceeding be conducted in a manner that allows for both written comment and collaborative workshops. All parties would benefit not only from written statements of positions for consideration, but also from bringing various avoided costs experts together to actively discuss:

- The merits of the avoided cost calculation methodologies employed;
- The pros and cons of consistent application of a uniform avoided cost calculation methodology among different utilities;
- The pros and cons of consistent use of a methodology in the context of both PURPA QFs and EEPs, and whether Iowa Administrative Code revisions would be required to make them consistent;
- The level of transparency of the inputs into the avoided cost calculations that is warranted (e.g., would full transparency require the release of confidential and/or proprietary information and would full transparency result in "information overload," particularly for detail-intensive software modeling programs); and
- The sophistication, in operation and output, of the various avoided cost software programs available.

9. Currently, MidAmerican takes the following general positions on the proposed topics, and will offer a more detail explanation of each position if the investigation is initiated:

- MidAmerican's PROMOD IV methodology most appropriate represents the costs and impacts for its own system;

- MidAmerican and IPL have unique generation blends and needs, overall system configurations, and internal policies that make different avoided cost calculation software and/or methodologies appropriate;
- The inherent differences in the uses of and time periods and/or horizons for calculation of the avoided costs necessitate different tempering of the PROMOD IV results for PURPA QFs and EEPs; and
- While MidAmerican recognizes the need for appropriate transparency of its energy cost calculations to the extent possible and practical, MidAmerican has concerns regarding the potential "information overload" the release of all data inputs and outputs could have (given its data-intensive PROMOD IV software), other parties' inability to replicate MidAmerican's calculations because of the sensitivities inherently involved, the potential release of licensed information, and the release of confidential contractual information that could impair its negotiating position for power purchases.
- MidAmerican is satisfied with the level of detail contained in both the inputs and outputs of its PROMOD IV modeling software, and would not be interested in this time in shifting to a different software or methodology. MidAmerican recognizes, however, that its forecasting position is unique to its system; other utilities may not find the same value in this level of detail that MidAmerican enjoys.

10. Prior filings in the EEP and PURPA avoided cost dockets have provided a great deal of background on MidAmerican and IPL avoided costs. The remaining issues – transparency and modeling - should be able to be resolved expeditiously. MidAmerican

proposes the following overall structure for a procedural schedule to address these issues on a timely basis:

- 45-60 days after Board order initiating investigations – Parties file comments providing information and data to address the five general issues arising out the transparency and modeling issues discussed above
- 30 days after initial comments – Reply comments due
- 30-60 days after reply comments – Workshop

11. This process should allow for full participation of all interested parties in a collaborative atmosphere. MidAmerican suggests that through this collaborative effort, even if the parties cannot reach a consensus, all participants should have even a greater understanding of and appreciation for the various considerations in avoided cost calculations and applications.

Conclusion

WHEREFORE, MidAmerican respectfully requests that the Board, utilizing the suggested procedural format, open an investigative proceeding to fully vet the following five subissues arising from the two general issues of avoided cost calculations and applications and their transparency:

- The merits of the avoided cost calculation methodologies employed;
- The pros and cons of consistent application of a uniform avoided cost calculation methodology;
- The pros and cons of consistent use of a methodology in the context of both PURPA QFs and EEPs;
- The level of transparency of the inputs into the avoided cost calculations that is warranted (e.g., would full transparency require the release of confidential and/or

proprietary information and would full transparency result in "information overload"); and

- The sophistication, in operation and output, of the various avoided cost software programs available.

Dated this 15th day of January, 2014.

Respectfully submitted,

MIDAMERICAN ENERGY COMPANY

By: */s/ Suzan M. Stewart*

Suzan M. Stewart
Managing Attorney
P.O. Box 778
Sioux City, IA 51102
Phone: (712) 277-7587
Fax: (712) 252-7396
smstewart@midamerican.com

Jennifer S. Moore
Senior Attorney
106 East Second Street
P.O. Box 4050
Davenport, IA 52801
Phone: (563) 333-8006
Fax: (563) 333-8021
jsmoore@midamerican.com