

October 10, 2014

IOWA UTILITIES BOARD

STATE OF IOWA
DEPARTMENT OF COMMERCE
IOWA STATE UTILITIES BOARD

IN RE:

APPLICATION OF MIDAMERICAN
ENERGY COMPANY FOR A
DETERMINATION OF
RATEMAKING PRINCIPLES

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DOCKET NO. RPU-2014- 0002

REQUEST FOR APPROVAL OF RATEMAKING PRINCIPLES

COMES NOW MidAmerican Energy Company (“MidAmerican” or “Company”) and, pursuant to Iowa Code §476.53 (2013), files this Application of MidAmerican Energy Company for a Determination of Ratemaking Principles (“Ratemaking Principles Application”) to request that the Iowa Utilities Board (“Board”) specify in advance the ratemaking principles that will apply to MidAmerican’s proposed Wind IX Iowa Project (“Wind IX”). This Ratemaking Principles Application consists of two volumes, one volume addressing the Iowa Code §476.53 (2013) statutory requirements for a determination of ratemaking principles, and addressing the proposed rules for a new Chapter 41 of the Board’s rules, in Docket No. RMU-01-11¹, and the other volume containing the supportive testimony and exhibits of eight witnesses.² Due to certain time constraints and circumstances set out in Paragraph 13, below, and in the direct testimony of Adam L. Wright, MidAmerican respectfully requests an expedited review and ruling on its Ratemaking Principles Application, by January 15, 2015.

¹ In Re: Ratemaking Principles Proceeding, Docket No. RMU-01-11, Order Commencing Rule Making, 2001 Iowa PUC LEXIS 462 (September 14, 2001). This Board rejected the proposed rules in “Order Terminating Rulemaking,” 2002 Iowa PUC LEXIS 214 (May 24, 2002)

² Information for which MidAmerican seeks confidential treatment is contained in a separate binder.

In support of this request for approval of ratemaking principles MidAmerican states:

1. Summary. In this Ratemaking Principles Application, MidAmerican seeks the Board's approval of ratemaking principles that are substantially similar to those previously approved by the Board in one or more of MidAmerican's eight (8) prior wind power projects (collectively these projects will be referenced as "Wind Power Projects"). With the successful development, construction and operation of the Wind Power Projects, the Company now seeks to build upon its successes through the development of further economic, rate-regulated wind production in Iowa, consistent with MidAmerican's efforts to meet customer needs, including without limitation: the need to comply with federal and state environmental policies (current and projected), customer pricing needs, fuel diversity needs, Iowa economic development needs, the need to comply with Iowa energy policy, and the need to meet customer requirements for energy supply. MidAmerican witnesses Adam Wright and Neil Hammer testify regarding these needs and how Wind IX addresses the needs; they also testify that Wind IX has the potential to reduce projected capacity deficits, although no capacity contribution is included as part of MidAmerican's financial benefits analysis of Wind IX, since the MISO interconnection studies that may make these resources eligible as capacity resources are ongoing.

2. Certificate of Public Convenience and Necessity. On June 6, 2003, pursuant to 199 Iowa Admin. Code Chapter 4, the Board issued its Declaratory Order, in Docket No. DRU-03-3, holding that MidAmerican was not required under Iowa Code §476A.1 and §476A.2 to obtain a generating certificate prior to commencing construction of the original Wind Power Project.³ MidAmerican believes that all the relevant facts and law with respect to the Wind IX project are indistinguishable from those on which the declaratory order in Docket No. DRU-03-3 was based.⁴ Like the Wind Power Projects, Wind IX will be built in accordance with a design that

³ In Re: MidAmerican Energy Company, Docket No. DRU-03-3, Declaratory Order, 2003 Iowa PUC LEXIS 227 (June 6, 2003)

⁴ Id.

results in no single collector or gathering line being connected to 25 MW, or more, of nameplate generating capacity. Therefore, MidAmerican believes it is reasonable to rely upon the declaratory ruling issued in Docket No. DRU-03-3 with respect to Wind IX.⁵

3. Required Board Findings. In Iowa Code §476.53(3)(c) (2013) the Board is charged with making two findings when determining the appropriate ratemaking principles applicable to a given generating facility: (1) that the utility has in effect a Board-approved energy efficiency plan as required under Iowa Code §476.6 (19) (2013); and (2) that the utility has considered other sources for long-term electric supply and determined that the proposed facility is reasonable when compared to the other feasible alternative sources of supply.

4. Energy Efficiency Plan. The testimony of MidAmerican witness Michael Fehr demonstrates that MidAmerican has in effect a Board-approved Energy Efficiency Plan (“Plan”) as required by Iowa Code §476.6 (19) (2013). MidAmerican currently has in effect a 5-year Plan (2014 – 2018) which was approved by the Board, on December 16, 2013, in Docket No. EEP-2012-0002, with subsequent Board acceptance of compliance filings (i.e., Plan changes per a settlement agreement with other parties, and an updated benefit-cost study) on June 10, 2014. This Plan is currently in its first year of implementation, so no actual annual results from the Plan are available at this time. The Board’s orders of approval of this Plan are provided as Fehr Exhibit __ (MCF-1), Schedules 1 and 2, attached to Mr. Fehr’s testimony. Mr. Fehr’s testimony demonstrates MidAmerican’s ongoing commitment to effectively implement its Plan.

Prior to 2014, MidAmerican had been implementing its 2009-2013 plan (“Previous Plan”), approved by the Board in Docket No. EEP-08-2. MidAmerican’s actual 2013 Previous Plan expenditures of \$64,644,394 exceeded its budget for electric customers by \$9,991,394

⁵ Because no Certificate of Public Convenience and Necessity is required for the Wind IX Iowa Project, Iowa Code §476.53 (4) (a) (2013) is inapplicable.

(18%) for the year 2013. This clearly demonstrates that MidAmerican effectively implemented the Previous Plan. This point is further demonstrated by the fact that MidAmerican has had actual Previous Plan expenditures of \$245,285,540, or 101% of the budgeted amount for electric customers, in the years 2009-2013, which resulted in electric savings, between 2009 and 2013, of some 1,167,162,105 kWh, or 85% of overall planned electric savings for the period, and has shaved MidAmerican's peak load, between 2009 and 2013, by approximately 540 MW (which is approximately 110% of the goal). The foregoing results are substantial given the fact that the years 2009-2013 encompass an economic downturn in the U.S. that is the most significant one since the Great Depression, as Mr. Fehr testifies.

5. Alternatives for Long-Term Electric Supply. The testimonies of MidAmerican witnesses Neil Hammer and Adam Wright demonstrate that MidAmerican has in recent years undertaken commitments for: (a) a 540 MW gas-fired combined cycle combustion turbine generating facility (the Greater Des Moines Energy Center, or "GDMEC"); (b) a new 790 MW coal-fired generating facility (Walter Scott Energy Center Unit 4, or "WSEC-4"), and (c) the Wind Power Projects. MidAmerican now proposes to expand its wind generation by up to 162 MW.⁶ MidAmerican witnesses Hammer and Wright testify that Wind IX will meet customer needs across a wide range of fronts, including the following:

- Environmental compliance needs: Increasing the supply of zero-emissions electricity to meet expected regulatory requirements limiting carbon and other emissions and effluents;
- Customer pricing needs: Providing revenue streams and avoided costs that are likely to offset the costs of Wind IX and provide a source of energy that can displace energy from carbon-based generation resources;

⁶ Determination of the exact size of Wind IX must await completion of transmission studies, final site design, and project economics, as explained in the testimony of MidAmerican witness Adam Wright.

- Fuel diversity needs: Reducing dependence on fossil fuels and insulating customers from more volatile fuel-cost sources of energy and potential fuel transportation cost changes;
- Economic development needs: Promoting economic development in Iowa;
- Iowa energy policy needs: Supporting Iowa's role as a renewable energy leader; and
- Energy needs: Increasing the supply of low cost energy.

The proposed Wind IX project is expected to meet all of these customer needs. Also, Wind IX has the potential to reduce projected capacity deficits, although the capacity is not a part of the financial benefits analysis since the MISO interconnection studies, that may make these resources eligible as capacity, are not yet completed.

The testimonies of MidAmerican witnesses indicate that Wind IX would be a meaningful new source of energy production that is environmentally beneficial, that will offer system benefits (e.g., greater fuel diversity), that complies with Governor Branstad's desire to expand renewable generation in Iowa, and that can be added at little to no cost to the Company's retail customers. Mr. Hammer testifies that Wind IX compares favorably to other long-term options for meeting customer needs, when evaluated in terms of his 9-factor analysis (i.e., cost, cost robustness, environmental reasonableness, system reliability, economic development, geopolitical uncertainty, flexibility/optionality, diversity, and resource availability/stability). Mr. Hammer's testimony further demonstrates that Wind IX is a reasonable option for long-term electric supply when compared to the other feasible alternative sources of supply.

Mr. Wright provides evidence that the cost caps for Wind IX will be reasonable when compared with the cost cap approved for MidAmerican's Wind VIII project. Mr. Yocum provides evidence that the projected costs and revenues of Wind IX are expected to yield a net benefit to MidAmerican's retail customers, over the 30-year life of the site, due to the

availability of additional, Project-related revenue streams (e.g., the production tax credit (“PTC”)). MidAmerican’s ownership of the Wind IX project would permit it to receive the full benefit of the PTC, the resulting renewable energy credits, as well as other benefits (e.g., avoided costs) addressed in the testimonies of Messrs. Hammer, Specketer and Yocum, thus allowing MidAmerican to pass on to customers the benefit of these supplemental revenue streams and avoided costs addressed in the testimony of Messrs. Hammer, Specketer and Yocum. Thus, the evidence shows that the Company has considered other sources for long-term electric supply and determined that the proposed Wind IX project is reasonable when compared to the other feasible alternative sources of supply.

6. MidAmerican’s Evidence. MidAmerican witnesses Adam Wright, Neil Hammer, Peter Schuster, Michael Fehr, Jennifer McIvor, Mark Yocum, Tom Specketer and Dr. James Vander Weide offer testimony and sponsor information demonstrating MidAmerican’s analysis of the Wind IX project. The testimony of these witnesses falls into the following categories:

General Information - Wright, Yocum, Hammer and Schuster

Economic Evaluation of the Project - Yocum, Hammer, Wright

Risk Mitigation Factors - Wright

Non-cost Factors - Wright, McIvor and Hammer

Proposed Ratemaking Principles - Wright, Specketer and Vander Weide

Consideration of Other Long-Term Supply Options - Hammer, McIvor

Energy Efficiency Plan - Fehr

7. System Reliability and Security. As the testimony of MidAmerican witness Neil Hammer demonstrates, the Wind IX sites will provide new sources of energy that will reduce dependence on fossil fuels and customer exposure to volatile-cost sources of energy. Moreover, the testimonies of MidAmerican witnesses Peter Schuster and Adam Wright demonstrate that Wind IX will be constructed and operated in a manner that is in accordance with the Midwest

Independent Transmission System Operator (“MISO”) requirements, which will ensure that the interconnection of the Wind IX sites will not degrade the adequacy, reliability, or operating flexibility of the existing transmission system from a regional or a local perspective.

8. Economic Development. As the testimony of MidAmerican witness Adam Wright establishes, the construction, maintenance and operation of the Wind IX sites will contribute to the economic development of the State of Iowa in a manner similar to the prior Wind Power Projects, and do so in a way that is consistent with the land use and environmental policies of this state (see the testimony of Jennifer McIvor). Wind IX will provide construction jobs similar to those that were created during construction of the prior Wind Power Projects, and the Project will generate significant local expenditures during construction, benefitting the economies of the communities located near each Project site. As Mr. Wright testifies, the economic effects from Wind IX are projected to be as follows: (i) local spending in Iowa is estimated to increase by approximately \$54 million in 2015 during the construction of Wind IX through construction worker spending and purchases of wind generator components from Iowa-based manufacturers; (ii) multiple communities will benefit from added tax base, which are estimated to be in excess of \$40 million over the 30-year life of the Project; (iii) landowners who host wind turbines or are otherwise included in the Project will receive annual payments totaling more than \$30 million over the 30-year life of the Project, which will make its way back into the local economy through incremental purchases to improve farming operations and make home improvements, etc.; (iv) both temporary and new permanent jobs arising from Wind IX, with construction payroll expected to be approximately \$5 million; (v) help in attracting new businesses to our state and encouraging existing businesses to expand, as with recent decisions by Facebook to locate a new facility in Altoona, Iowa, and by Google and Microsoft to expand their Iowa facilities, all of which were influenced by having a significant wind power portfolio on the MidAmerican system.

9. Reasonable Cost. The testimony of MidAmerican witness Adam Wright demonstrates the reasonableness of MidAmerican's projected cost caps for Wind IX, when compared to MidAmerican's Wind VIII Iowa Project. MidAmerican witness Mark Yocum has performed an economic analysis of Wind IX, taking into account both the projected benefits and costs of Wind IX. Mr. Yocum's analysis shows that the Wind IX project is projected to pay for itself over the 30-year period of its operational life (i.e., the revenues and avoided costs directly or indirectly associated with Wind IX are projected to be sufficient to pay the costs of constructing, placing into service, and operating Wind IX). MidAmerican believes it can construct Wind IX at or under the proposed cost cap.

10. Environmentally Sound. The Wind IX sites will be environmentally sound. As Ms. McIvor's testimony demonstrates, Wind IX will have no air emissions and no wastewater effluent discharges, and because each wind turbine, and its associated access road, occupies only about four-tenths of an acre, a rather small amount of agricultural land will be taken out of production for Wind IX.

11. Ratemaking Principles. Having demonstrated that Wind IX is reasonable when compared to other generation alternatives, and that MidAmerican has a Board-approved Energy Efficiency Plan in effect, the Company qualifies for a Board determination of the ratemaking principles that will apply to Wind IX once its costs are included in regulated electric rates. The eight (8) ratemaking principles being proposed by MidAmerican may be found in Section 5.0 of the Application (Volume I of this filing).

12. Conclusion. MidAmerican's evidence demonstrates the reasonableness of the proposed ratemaking principles for the Wind IX Iowa Project. The Board is authorized to establish the said eight (8) ratemaking principles to govern MidAmerican's recovery of its costs for Wind IX over the lives of its respective facilities. Wind IX will be reasonable because it: (1) provides additional energy in an environmentally advantageous manner, and will not degrade the

adequacy, reliability, or operating flexibility of the existing transmission system from a regional or a local perspective; (2) is consistent with the policy objectives of Iowa Code §476.53 (2013); (3) represents an additional step toward achieving Governor Branstad's vision of more renewable generation in Iowa; (4) is projected to be constructed and operated at no net cost to MidAmerican's retail customers due to MidAmerican's ability to generate supplemental revenue streams and realize avoided costs from Wind IX; (5) is environmentally sound; and (6) provides substantial benefits to Iowa's economy.

13. Expedited Review and Ruling. MidAmerican respectfully requests the Board's expedited review and ruling on its Ratemaking Principles Application, by January 15, 2015, for the reasons stated in Mr. Wright's testimony. Approval by that date would enable MidAmerican to take full advantage of the federal Production Tax Credit ("PTC"), a prerequisite for the economics of the Project, and enable it to proceed with the development of Wind IX in a manner that ensures MidAmerican can take full advantage of economic opportunities to pursue new wind generation for its customers.

As MidAmerican witness Adam Wright testifies, the federal PTC has only been extended for wind projects which were under construction before January 1, 2014, which requirement can be satisfied through timely commencement of actual physical construction or by incurring 5% of the total cost of the project before January 1, 2014, and showing continuous progress toward completion. (Note: Per the IRS guidance, in order to satisfy the "incur 5% of the total cost" requirement, the wind developer must before January 1, 2014, also take delivery of the assets that represent the incurrence of 5% of the total project cost, directly or through a contractor, or have a reasonable expectation of taking delivery within 3.5 months of the date of payment). Mr. Wright further explains that MidAmerican must make "continuous effort to advance the project" in order to qualify for the PTC, and that the Internal Revenue Service has issued guidance stating that wind projects meeting the "begin construction" requirement, and that are placed in service

before January 1, 2016, will be deemed to have automatically satisfied the “continuous effort” requirement. MidAmerican has selected two (2) Wind IX sites that it believes will meet these requirements for automatic PTC qualification, and as Mr. Wright testifies MidAmerican believes it can complete Wind IX’s 162 MW, in addition to the 1,050 MW of Wind VIII assets, by December 31, 2015, if MidAmerican is able to obtain, by January 15, 2015, the ratemaking principles proposed in this Ratemaking Principles Application.

MidAmerican is currently proceeding with negotiation of certain contractual agreements in order to be in a position to take advantage of the current economic opportunities and tax benefits. Along with these opportunities, however, there are significant payments required of MidAmerican relating to turbine supply and other long lead-time purchases. It is important to minimize such payments and costs for our customers, and for MidAmerican, by receiving definitive ratemaking principles by January 15, 2015. Receipt of a ratemaking principles decision by that date will permit MidAmerican to make an informed final decision prior to incurring certain further payments. (See the testimony of Mr. Wright)

In the event the Board determines additional information is necessary, MidAmerican requests that the Board convene a technical conference or hearing as soon as possible after the Board docketed MidAmerican’s Ratemaking Principles Application.

WHEREFORE, MidAmerican requests the Board grant on an expedited basis this Ratemaking Principles Application pertaining to Wind IX, and approve the ratemaking principles proposed by MidAmerican.

Dated this 9th day of October, 2014.

Respectfully submitted,

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