

5.0

Ratemaking Principles 41.3(5)

5.1

Iowa Jurisdictional Allocation

**FILED WITH
Executive Secretary 41.3(5)
October 10, 2014**

Principle:**IOWA UTILITIES BOARD**

The Wind IX Iowa Project will be allocated to Iowa in the same manner as the Greater Des Moines Energy Center, Walter Scott Jr. Energy Center Unit No. 4, and prior wind projects.

MidAmerican proposes to allocate the Wind IX Iowa Project (“Wind IX”) in the same manner as it has other new generation (Greater Des Moines Energy Center, Walter Scott Jr. Energy Center Unit No. 4, and previous wind projects), and in the same manner as the Board approved in Dockets SPU-05-9 and SPU-05-12. Wind IX would be built in response to Iowa energy policy, and therefore Iowa customers should receive the appropriate benefits of Iowa’s forward-looking energy policy.

Please also refer to the testimony of MidAmerican witness Tom Specketer as it pertains to this ratemaking principle.

5.2 Cost Cap

41.3(5)

Principle:

The cost cap for the Wind IX Iowa Project (including AFUDC) is:

- \$1.725 million per MW (including AFUDC) for the completed Project as a whole.

In the event that actual capital costs for the Wind IX Project are lower than the projected capital costs, rate base shall consist of actual costs. In the event actual capital costs exceed the cost cap, MidAmerican shall be required to establish the prudence and reasonableness of such excess before it can be included in rates.

Please also refer to the testimony of MidAmerican witness Adam Wright as it pertains to this ratemaking principle.

5.3 Size Cap

41.3(5)a

Principle:

The ratemaking principles shall be applicable to all new MidAmerican wind capacity, up to 162 MW, built as a part of the Wind IX Iowa Project.

The 162 MW was selected as the maximum potential size for Wind IX based upon a detailed review of available Project sites in Iowa that are in the best position to have qualified for the PTC and that can be reasonably constructed before January 1, 2016. While other potential sites exist in Iowa, at this time MidAmerican is only comfortable pursuing sites that are positioned to qualify for the PTC. However, factors still in flux such as transmission constraints, detailed final site design, certain contract negotiations, and, of course, project economics will ultimately determine the total size of Wind IX.

Please also refer to the testimony of MidAmerican witness Adam Wright as it pertains to this ratemaking principle.

5.4 Depreciation

41.3(5)

Principle:

The depreciation life of the Wind IX Iowa Project for ratemaking purposes shall be 30 years.

Please also refer to the testimony of MidAmerican witness Adam Wright as it pertains to this ratemaking principle.

MidAmerican's projection of the depreciable life of wind assets is based on historical performance of wind turbines in service longer than 30 years across the nation and statements from major suppliers. (This is the same depreciable life used for the Wind VIII Iowa Project.) Technology continues to improve in the wind turbine industry, and it is reasonable to conclude that if older wind turbines with less robust designs are still operating after 30 years, newer turbines should be expected to last at least as long.

Please also see the statements from major wind turbine suppliers in Wright Exhibit __ (ALW-1), Schedules 1 and 2, attached to the testimony of MidAmerican witness Adam Wright.

5.5 Return on Equity 41.3(5)**Principle:**

The allowed return on the common equity portion of the wind projects, 50% of the capital invested, constructed pursuant to this Ratemaking Principles Application, that is included in Iowa electric rate base shall be 11.75%.

The Wind IX Iowa Project is very much like the eight previous MidAmerican wind power projects. The Iowa Utilities Board approved a return on common equity of 12.2% in Docket Nos. RPU-03-1 and RPU-04-3, 11.9% in Docket No. RPU-05-4, 11.7% in Docket Nos. RPU-07-2, RPU-08-2 and RPU-08-4, 12.2% in Docket No. RPU-2009-0003, and 11.625% in Docket No. RPU-2013-0003. The Board also approved a return on common equity of 11.7%, in Docket No. RPU-07-5, an Interstate Power wind ratemaking principles proceeding.

Please also refer to the testimony of MidAmerican witness Dr. James H. Vander Weide, of Duke University.

5.6 Cancellation Cost Recovery 41.3(5)**Principle:**

In the event MidAmerican cancels any Wind IX site for good cause, MidAmerican's prudently incurred costs shall be amortized over a period of ten years beginning no later than six months after the cancellation. The annual amortization shall be recorded above-the-line and included in MidAmerican's revenue sharing or revenue requirement calculations, but the unamortized balance shall not be included in rate base in any such calculations.

This principle allows for recovery of prudently incurred costs if any Wind IX Iowa Project site(s) is cancelled. Reasons for cancellation may include, but are not limited to, a decision by MidAmerican not to move forward after the Board issues an order in this proceeding, too high of costs for wind equipment or project development, or other reasonable causes for cancellation. The prudence of the costs and the good cause for cancellation may be disputed by any party and shall be subject to determination by the Board.

Please also refer to the testimony of MidAmerican witness Tom Specketer as it pertains to this ratemaking principle.

5.7 Renewable Energy and CO₂ Credits and the Like 41.3(5)**Principle:**

The Iowa portion of any revenues from the sale of renewable energy credits, carbon credits or other environmental related benefits associated with Wind IX will be recorded above-the-line in FERC accounts 456, 411.8 and 411.9, or any successor accounts for the recording of such revenues. However, the Iowa jurisdictional portion of any revenues from the sale of renewable energy credits, carbon credits or other environmentally related benefits associated with Wind IX will be excluded from the Iowa Energy Adjustment Clause until included in the Energy Adjustment Clause in a subsequent MidAmerican Iowa electric rate case. For subsequent rate cases, the Iowa jurisdictional portion of the investment and all other costs and benefits of the Wind IX project shall be included in base rates, and the Iowa jurisdictional portion of any revenues from the sale of renewable energy credits, carbon credits or other environmentally related benefits associated with Wind IX shall be included in the Iowa Energy Adjustment Clause.

MidAmerican is proposing largely the same principle as the Board approved in prior ratemaking principles proceedings, except that it has been modified to avoid the mismatch described below. The above ratemaking principle is the same as approved by the Board in Wind VIII; it specifies that the Iowa jurisdictional portion of any revenues from the sale of renewable energy credits, CO₂ credits, and the like, associated with the Wind IX Iowa Project shall be recorded above-the-line in FERC accounts 456, 411.8 and 411.9, or any successor accounts for the recording of such revenues. In order for that revenue stream to reduce the costs to customers of the Wind IX Iowa Project, it is necessary that the revenues be recorded above-the-line and included in the revenue sharing calculations.

The Energy Adjustment Clause (“EAC”) approved in the Company’s 2013 Iowa electric rate case includes revenues from the sale of renewable energy

credits, carbon dioxide credits or other environmentally related benefits associated with renewable power projects as recorded in accounts 456, 411.8 and 411.9. If such revenues related to Wind IX were included in the EAC before MidAmerican's next rate case, there would be a mismatch created by providing the benefits to customers of the environmental related attributes without a corresponding recovery of the Wind IX investment and other related costs, and recognition of other benefits. Recognizing all costs and benefits of Wind IX at the time of a future rate case, including those benefits that would be included in the EAC, ensures there will be proper matching of the customer benefits and expenses of the Project.

Please also refer to the testimony of MidAmerican witness Tom Specketer for more information regarding this ratemaking principle.

5.8 Federal Production Tax Credit 41.3(5)**Principle:**

The Iowa jurisdictional portion of any federal production tax credits associated with Wind IX will be recorded above-the-line in FERC account 409.1, or any successor account for recording such credits. However, the Iowa jurisdictional portion of any federal production tax credits associated with Wind IX will be excluded from the Iowa Energy Adjustment Clause approved in MidAmerican's 2013 Iowa electric rate case. For subsequent rate cases, the Iowa jurisdictional portion of the investment and all other costs and benefits of the Wind IX Project shall be included in base rates, and the Iowa jurisdictional portion of any federal production tax credits associated with Wind IX shall be included in the Iowa Energy Adjustment Clause.

MidAmerican is generally proposing the same principle the Board approved for the prior MidAmerican wind projects. This ratemaking principle provides that any production tax credit ("PTC") associated with the Wind IX Iowa Project ("Wind IX") shall be recorded above-the-line in FERC account 409.1. (This same ratemaking principle was approved by the Board in Wind VIII.) In order to reduce the costs to customers of the Wind IX Project, the revenues from the PTC must be recorded above-the-line and included in the revenue sharing calculations and other rate calculations.

However, if such PTC revenues were included in the Energy Adjustment Clause ("EAC") immediately, there would be a mismatch created by providing the benefits to customers of the PTC revenues without a corresponding recovery of the Wind IX investment and other related costs, and recognition of other benefits. Recognizing all costs and benefits of Wind IX at the time of a future rate case, including those benefits that would be included in the approved EAC,

ensures there will be proper matching of the customer benefits and expenses of the Project.

Please also refer to the testimony of MidAmerican witness Tom Specketer as it pertains to this ratemaking principle.