

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA STATE UTILITIES BOARD

IN RE: :
: :
APPLICATION OF MIDAMERICAN : DOCKET NO. RPU-2014- 0002
ENERGY COMPANY FOR A : :
DETERMINATION OF : :
RATEMAKING PRINCIPLES : :
: :

DIRECT TESTIMONY
OF
THOMAS B. SPECKETER

1 **Q. Please state your name and business address.**

2 A. My name is Thomas B. Specketer. My business address is 666 Grand Avenue,
3 Des Moines, Iowa 50309.

4 **Q. By whom are you employed and in what position?**

5 A. I am employed by MidAmerican Energy Company (“MidAmerican” or
6 “Company”). My title is Vice President and Chief Financial Officer.

7 **Q. Please describe your educational background and business experience.**

8 A. I received a Bachelor of Science degree in mathematics from Morningside
9 College. In addition to formal education, I have also attended various educational,
10 professional and electric industry related seminars during my career at
11 MidAmerican. My primary duties include responsibility for all accounting,
12 financial reporting, regulatory reporting, tax, budgeting and forecasting activities
13 for the Company, and regulatory accounting oversight for all domestic regulated
14 entities in the Berkshire Hathaway Energy Company (“BHE”) group. I have been
15 employed by MidAmerican, or one of its predecessor companies, for over 34

1 years. During this time, I have held various staff and managerial positions within
2 the accounting, tax and finance organizations.

3 I am a member of Edison Electric Institute’s Chief Accounting Officers
4 Committee and the American Gas Association Accounting Advisory Council.

PURPOSE OF TESTIMONY

5 **Q. What is the purpose of your prepared direct testimony?**

6 A. The purpose of my testimony is to sponsor the following proposed ratemaking
7 principles for the Wind IX Iowa Project (“Wind IX” or “Project”) described in
8 Section 5 of the Ratemaking Principles Application:

- 9 1) Section 5.1 – Iowa Jurisdictional Allocation
- 10 2) Section 5.6 - Cancellation Cost Recovery
- 11 3) Section 5.7 - Renewable Energy and CO₂ credits and the Like
- 12 4) Section 5.8 - Federal Production Tax Credit

13 In addition, I describe the expected benefits customers will receive in the
14 form of lower fuel costs from the Wind IX investment and explain whether
15 MidAmerican considered purchased power as an alternative to the Wind IX
16 project.

RATEMAKING PRINCIPLES APPLICATION – SECTION 5.1

17 **Q. Please state the Iowa Jurisdictional Allocation ratemaking principle.**

18 A. As noted in Section 5.1 of the Application, the ratemaking principle states:
19 The Wind IX Iowa Project will be allocated to Iowa in the same manner as the
20 Greater Des Moines Energy Center, Walter Scott Jr. Energy Center Unit No. 4,
21 and prior Wind Power Projects as described in witness Wright’s testimony.

1 **Q. Please explain this ratemaking principle and why it is reasonable.**

2 A. MidAmerican proposes to allocate the Wind IX Iowa Project in the same manner
3 as it has other new generation (Greater Des Moines Energy Center, Walter Scott
4 Jr. Energy Center Unit No. 4, and previous wind projects), and in the same
5 manner as the Board approved in Dockets SPU-05-9 and SPU-05-12. Wind IX is
6 being built in response to Iowa energy policy, and Iowa customers should receive
7 the appropriate benefits of Iowa's forward-looking energy policy.

RATEMAKING PRINCIPLES APPLICATION – SECTION 5.6

8 **Q. Please state the Cancellation Cost Recovery ratemaking principle.**

9 A. As noted in Section 5.6 of the Application, the ratemaking principle states:
10 In the event MidAmerican cancels any Wind IX site for good cause,
11 MidAmerican's prudently incurred costs shall be amortized over a period of ten
12 years beginning no later than six months after the cancellation. The annual
13 amortization shall be recorded above-the-line and included in MidAmerican's
14 revenue sharing or revenue requirement calculations, but the unamortized balance
15 shall not be included in rate base in any such calculations.

16 **Q. Please explain this ratemaking principle and why it is reasonable.**

17 A. The Company is proposing to include a cancellation cost ratemaking principle in
18 order to recover costs of a canceled Wind IX site(s) in the unlikely event that the
19 Company cancels one or more Wind IX sites. Reasons for cancellation may
20 include a decision by MidAmerican not to move forward after the Board issues an
21 order in this proceeding, too high of costs for wind equipment or site
22 development, or other reasonable causes for cancellation. The prudence of the

1 costs and the good cause for cancellation may be disputed by any party and shall
2 be subject to determination by the Board.

3 This proposed ratemaking principle is consistent with the legislative intent
4 to encourage new generation. It encourages new generation because its existence
5 is a positive factor that contributes to a utility's decision to undertake such a
6 project. I would add that the Board has approved this provision in numerous prior
7 ratemaking principle proceedings, including six previous MidAmerican
8 proceedings for the addition of new wind generation. I would also note that
9 MidAmerican has a good track record of building new wind generation as
10 described by MidAmerican witness Wright. The Company has never invoked this
11 ratemaking principle for any prior wind projects or charged customers
12 cancellation costs.

RATEMAKING PRINCIPLES APPLICATION – SECTION 5.7

13 **Q. Please state the “Renewable Energy and CO₂ Credits and the Like”**
14 **ratemaking principle.**

15 A. As noted in Section 5.7 of the Application, the ratemaking principle states:
16 The Iowa portion of any revenues from the sale of renewable energy credits,
17 carbon credits or other environmental related benefits associated with Wind IX
18 will be recorded above-the-line in FERC accounts 456, 411.8 and 411.9, or any
19 successor accounts for the recording of such revenues. However, the Iowa
20 jurisdictional portion of any revenues from the sale of renewable energy credits,
21 carbon credits or other environmentally related benefits associated with Wind IX
22 will be excluded from the Iowa Energy Adjustment Clause (“EAC”) until

1 included in the Energy Adjustment Clause in a subsequent MidAmerican Iowa
2 electric rate case. For subsequent rate cases, MidAmerican proposes that the Iowa
3 jurisdictional portion of the investment and all other costs and benefits of the
4 Wind IX project shall be included in base rates, and the Iowa jurisdictional
5 portion of any revenues from the sale of renewable energy credits, carbon credits
6 or other environmentally related benefits associated with Wind IX shall be
7 included in the Iowa Energy Adjustment Clause. MidAmerican proposed and the
8 Board accepted the same concept as a ratemaking principle in the Wind VIII
9 ratemaking principles proceeding.

10 **Q. Please explain this ratemaking principle and why it is reasonable.**

11 A. This ratemaking principle provides that the Iowa portion of any revenues or other
12 benefits from the sale of the environmental attributes of Wind IX will be recorded
13 in Iowa electric operating income and reflected in future rate proceedings. This
14 treatment is consistent with the modeling of the Project supported by Company
15 witness Yocum and ensures that the environmental benefits of Wind IX
16 appropriately benefit MidAmerican's Iowa electric customers.

17 **Q. Why does the proposed ratemaking principle exclude the revenues from the**
18 **sale of the environmental attributes, or other environmentally related**
19 **benefits associated with Wind IX, from the Iowa Energy Adjustment Clause**
20 **until the investment and all other costs and benefits of Wind IX are included**
21 **in base rates or the EAC in a future rate proceeding?**

22 A. With the exception of the Wind VIII Project, the EAC approved in the Company's
23 Iowa electric rate case in Docket No. 2013-0004 (hereinafter, the "2013 Rate

1 Case”), includes revenues from the sale of renewable energy credits, carbon
2 credits or other environmentally related benefits associated with **past wind power**
3 **projects** as recorded in accounts 456, 411.8 and 411.9. However, if such revenues
4 related to **Wind IX** (and Wind VIII) were included in the EAC, there would be a
5 mismatch created by providing the benefits to customers of the environmental
6 related attributes without a corresponding recovery of the Wind IX (and Wind
7 VIII) investment and other related costs, and recognition of other benefits. As is
8 true for Wind VIII, recognizing all costs and benefits of Wind IX at the time of a
9 future rate proceeding, including those benefits that would be included in the
10 EAC, ensures there will be proper matching of the customer benefits and
11 expenses of the Project.

12 **Q. Are there other reasons to exclude these environmental benefits from the**
13 **EAC recently approved in the Company’s 2013 Rate Case?**

14 A. Yes. The Company may not need to file an Iowa electric rate case for several
15 years following the recent rate increase approved in the 2013 Rate Case in which
16 MidAmerican did not seek to include any Wind VIII or Wind IX costs in rates.
17 Until a subsequent rate case, MidAmerican could experience several years of
18 unrecovered Wind IX returns, unrecovered depreciation, and unrecovered
19 operations and maintenance expenses. As was true of Wind VIII, including the
20 environmental benefits in the EAC approved by the Board in the 2013 Rate Case,
21 would create a mismatch because customers would receive essentially zero cost
22 energy, in addition to the benefits from the sale of renewable energy credits,
23 carbon credits or other environmentally related benefits without paying for any of

1 the costs incurred to achieve such benefits. The above approach also is identical to
2 what MidAmerican proposed and the Board accepted as a ratemaking principle in
3 the Wind VIII ratemaking principles proceeding.

RATEMAKING PRINCIPLES APPLICATION – SECTION 5.8

4 **Q. Please state the Federal Production Tax Credit ratemaking principle.**

5 A. As noted in Section 5.8 of the Application, the ratemaking principle states:

6 The Iowa jurisdictional portion of any federal production tax credits associated
7 with Wind IX will be recorded above-the-line in FERC account 409.1, or any
8 successor account for recording such credits. However, the Iowa jurisdictional
9 portion of any federal production tax credits associated with Wind IX will be
10 excluded from the Iowa Energy Adjustment Clause approved in MidAmerican’s
11 2013 Rate Case. For subsequent rate proceedings, the Iowa jurisdictional portion
12 of the investment and all other costs and benefits of the Wind IX project shall be
13 included in base rates, and the Iowa jurisdictional portion of any federal
14 production tax credits associated with Wind IX shall be included in the Iowa
15 Energy Adjustment Clause.

16 **Q. Please explain this ratemaking principle and why it is reasonable.**

17 A. This ratemaking principle provides that the Iowa portion of the federal production
18 tax credit benefits associated with Wind IX will be recorded in Iowa electric
19 operating income and reflected in future rate proceedings. This treatment is
20 consistent with the modeling of the Project supported by Company witness
21 Yocum and ensures that the production tax credit benefits of Wind IX
22 appropriately benefit MidAmerican’s Iowa electric customers consistent with

1 such modeling. The approach is also identical to what MidAmerican proposed and
2 the Board accepted as a ratemaking principle in the Wind VIII ratemaking
3 principles proceeding.

4 **Q. Why does the proposed ratemaking principle exclude the production tax**
5 **credits from the approved Iowa EAC until the investment and all other costs**
6 **and benefits of Wind IX are included in base rates or the EAC in a future**
7 **rate proceeding?**

8 A. With the exception of the Wind VIII Project, the EAC approved in the Company's
9 Iowa electric rate filing includes production tax credits **for prior wind power**
10 **projects** at the pre-tax level as recorded in account 409.1. If the production tax
11 credits related to **Wind IX (and Wind VIII)**, however, were included in the
12 EAC, there would be a mismatch created by providing the benefits to customers
13 of the production tax credit without a corresponding recovery of the Wind IX (and
14 Wind VIII) investment and other related costs, and recognition of other benefits.
15 Recognizing all costs and benefits of Wind IX at the time of a future rate
16 proceeding, including those benefits that would be included in the EAC, ensures
17 there will be proper matching of the customer benefits and expenses of the
18 Project.

19 **Q. Are there other reasons to exclude the Wind IX-related production tax**
20 **credits from the EAC?**

21 A. Yes. The Company may not need to file an Iowa electric rate case for several
22 years following the rate increase approved in the 2013 Rate Case in which
23 MidAmerican did not seek to include any Wind VIII or Wind IX costs in rates.

1 Until a subsequent rate case, MidAmerican could experience several years of
 2 unrecovered Wind IX returns, unrecovered depreciation, and unrecovered
 3 operations and maintenance expenses. Including the Wind IX-related production
 4 tax credit benefits in the EAC, approved by the Board in the 2013 Rate Case,
 5 would create a mismatch because customers would receive production tax credit
 6 benefits without paying for the costs incurred to achieve such benefits.

7 **Q. Please explain the benefit customers will receive in the form of lower retail
 8 fuel costs from Wind IX.**

9 A. As Wind IX units are placed in-service and begin generating electricity,
 10 customers will realize an immediate benefit in the form of reduced energy costs
 11 included in the Iowa EAC. MidAmerican’s Iowa retail customers are assigned
 12 costs from generating units or purchases that have the lowest incremental costs in
 13 each hour, and wind generation without a fuel cost will displace other sources of
 14 generation with fuel costs (e.g. natural gas or coal).

15 **Q. Can you provide an estimate of the expected customer EAC savings that will
 16 result from Wind IX?**

17 A. The table below provides the annual forecasted reduction in EAC costs resulting
 18 from the Wind IX project for the years 2015 through 2024. The estimated
 19 customer EAC benefit over the 10-year period is \$93.5 million.

\$ millions	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
EAC Reduction	\$1.1	\$6.3	\$7.0	\$7.0	\$8.9	\$11.3	\$12.0	\$12.6	\$13.8	\$13.6

20 **Q. Are there reductions in costs recovered through the EAC as the result of
 21 Wind IX beyond 2024?**

1 A. Yes. Annual customer benefits from reductions to the Iowa EAC would result
2 from Wind IX for the expected 30-year life of the investment. In fact, the
3 customer benefit from reduced costs recovered through the EAC is estimated to
4 total approximately \$461.7 million over the 30-year life of the assets.

5 **Q. Will there be other customer benefits from Wind IX?**

6 A. Yes. When the costs of Wind IX are reflected in base rates, additional benefits
7 from Wind IX arising from the federal production tax credit, and renewable
8 energy and CO₂ credits and the like will also impact rates. As witness Yocum
9 explains in his testimony, the overall benefits of Wind IX are projected to exceed
10 Wind IX's costs and provide customers with net benefits over the life of the
11 investment.

12 **Q. Does MidAmerican consider purchased power as an alternative to the Wind
13 IX project?**

14 A. Typically, purchased power is not considered an alternative to wind power
15 projects, regardless of the underlying power resource (e.g., wind, gas, coal, etc.).
16 A power purchase agreement ("PPA") that is based on non-renewable energy
17 sources would have the same comparative disadvantages (e.g., environmental)
18 cited by MidAmerican witnesses Hammer and McIvor in their comparisons of
19 renewable and non-renewable resources. A PPA that is based on a renewable
20 energy source, such as wind would still, as a PPA, typically suffer from
21 unfavorable factors such as: (1) the assets underlying PPAs are often financed in
22 large part with a reliance on the purchaser's (MidAmerican's in this case)
23 financial strength, which often leads ratings agencies to impute added debt to the

1 purchaser's capital structure; (2) in a PPA, particularly a long-term PPA, the
2 purchaser often pays the cost of the underlying assets without realizing any of the
3 residual value of the assets (i.e., the remaining useful life of the power resource
4 after the term of the PPA); (3) sellers under PPAs can require terms and
5 conditions that shift significant risks to the purchaser; and (4) a loss of the kind of
6 economies of scale available through a larger, utility-owned project; to name a
7 few examples.

8 **Q. Are there any other reasons why a PPA for renewable energy is not**
9 **considered an alternative to Wind IX?**

10 A. Yes. Renewable energy projects are normally developed and owned by separate
11 project development companies. Separate companies are used to isolate the
12 financial risk these projects may pose to their owners or affiliates in the event of
13 default or bankruptcy. As a result, banks and the market in general view these
14 companies as having significantly more risk than a utility such as MidAmerican.
15 The additional risk results in a much higher cost of debt and equity for the project
16 development company to finance the PPA asset, resulting in an increased cost of
17 the PPA when compared to Wind IX. In addition, renewable project companies
18 can also add significant counterparty risk during the operating phase of the
19 project, which would be a risk born by MidAmerican for many years. Under a
20 PPA, there is risk that the operator will not operate the asset efficiently and up to
21 the standards that MidAmerican operates its owned assets. The Company would
22 be: (i) relying on the creditworthiness of the project company for the term of the

1 PPA, and (ii) at risk that the asset will not be efficiently available for dispatch
2 when needed.

CONCLUSION

3 **Q. Does this conclude your direct testimony?**

4 **A. Yes, it does.**

