

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

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

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DIRECT TESTIMONY  
OF  
MARK C. YOCUM

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

2 A. My name is Mark C. Yocum. My business address is 4299 NW Urbandale Drive,  
3 Urbandale, Iowa, 50322.

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 Director, Supply and Marketing Finance.

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

8 A. I hold a Bachelor of Business Administration degree with a major in Finance from  
9 Iowa State University and a Master of Business Administration degree from the  
10 University of South Dakota. I joined Iowa Gas, a predecessor to MidAmerican in  
11 1986 as a financial analyst. My career has progressed through positions of  
12 accountant, senior accountant, manager of accounting system support, and  
13 manager of general accounting. In my current position, since 1999, I provide  
14 finance and business support for MidAmerican’s generation business segment and

1 the unregulated retail business segment. These efforts include financial analysis,  
2 budget and business plan preparation and capital investment evaluation.

**PURPOSE OF TESTIMONY**

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

4 A. The purpose of my testimony is to sponsor portions of Section 2 (Economic  
5 Evaluation) of MidAmerican’s Application for a Determination of Ratemaking  
6 Principles (“Ratemaking Principles Application”) concerning MidAmerican’s  
7 proposed Wind IX Iowa Project (“Wind IX” or “Project”). This section of the  
8 Ratemaking Principles Application describes the economic test that I have applied  
9 to the 162 MW of the Wind IX project. The cost estimates used in the economic  
10 analysis anticipate the installation of these new wind assets to occur at two sites  
11 and recognizes that interconnection and transmission costs will vary by site. The  
12 section also contains an explanation of the application of this test to the said  
13 162 MW Wind IX project. In addition, I will describe how MidAmerican will  
14 communicate to the Board regarding whether Wind IX meets MidAmerican’s cost  
15 cap ratemaking principle and how any amounts in excess of the cost cap will be  
16 addressed.

**RATEMAKING PRINCIPLES APPLICATION – SECTION 2**

17 **Q. What information are you sponsoring in Section 2 of the Ratemaking**  
18 **Principles Application?**

19 A. Section 2.1 (Present Value Calculations) describes the assumptions employed in  
20 the economic test analyses presented in the Ratemaking Principles Application.  
21 Section 2.2 (Cost of Capital) discusses the overall cost of capital that is

1 incorporated in the analyses, and Section 2.3 (Cash Flows) outlines the revenue  
2 requirements that were estimated for Wind IX's 162 MW. These sections utilize  
3 the ratemaking principles that are offered for the Board's approval in this  
4 proceeding.

5 **Q. Please briefly describe the information you are sponsoring in Section 2.1 of**  
6 **the Ratemaking Principles Application (Present Value Calculations).**

7 A. I have conducted the economic test analysis contained in Section 2.1, which is the  
8 same as the analysis presented in the Company's previous wind generation  
9 ratemaking principles proceedings. The economic analysis presented in this  
10 Application makes use of what MidAmerican believes will be costs and  
11 quantifiable benefits that are representative of what can be achieved for the whole  
12 Wind IX project, based upon current information. These costs and benefits data  
13 contain projections of the construction and transmission interconnection costs for  
14 Wind IX's 162 MW. The projected costs also include the costs of securing rights  
15 to the sites and transmission facilities. The Company also incorporated its best  
16 estimate of reasonable incremental revenue and operating costs, including  
17 operation and maintenance expenses, forecasts of the value of environmental  
18 credits, avoided costs, and estimates of system operational benefits. Given these  
19 inputs, the Company modeled the construction and operation of 162 MW of Wind  
20 IX nameplate capacity.

21 **Q. Please explain the calculations addressed by Section 2.1.**

22 A. The revenue requirement for Wind IX was calculated for each year of its 30-year  
23 depreciable life, present valued, levelized and, finally, converted to a dollars per

1 kWh basis. The annual revenue requirement represents the cost customers would  
2 ordinarily be responsible for in electric rates. The modeling also calculated the  
3 incremental benefits that Wind IX is reasonably expected to produce. These  
4 include projected production tax credits (“PTCs”) and the value of renewable  
5 energy credits and avoided costs through 2045 (the life of the asset) that  
6 MidAmerican expects to achieve, and changes in net system costs (incremental  
7 wholesale margins and/or lower system energy costs) likely to result from the  
8 addition of Wind IX to the MidAmerican generation portfolio.

9 **Q. Please briefly explain how your economic analysis provides a measure that**  
10 **reflects the impact of Wind IX on retail customers.**

11 A. It is a goal of MidAmerican that customers not be adversely affected by an  
12 incremental investment in wind capacity over the depreciable life (30 years in this  
13 case) of the investment. In order to determine whether Wind IX meets this goal,  
14 the incremental benefits of Wind IX are converted to a comparable dollar per  
15 kWh basis, which is then subtracted from the revenue requirement after it, too,  
16 has been converted to a dollar per kWh basis. If the net result is a negative value,  
17 that result means that Wind IX benefits are expected to exceed Wind IX’s revenue  
18 requirement. If the net result of the subtraction exercise is zero, then Wind IX can  
19 be expected to recover its revenue requirement. On the other hand, if the net result  
20 of the subtraction of Wind IX benefits from the Wind IX’s revenue requirement  
21 yields a positive value, then the Wind IX benefits are not expected to cover Wind  
22 IX costs and construction might require incremental support from retail customers  
23 at some future point in time.

1 **Q. Where can the results of the economic analysis you performed on the**  
2 **162MW Wind IX project be found in the Ratemaking Principles**  
3 **Application?**

4 A. The location of the economic analysis results within the Ratemaking Principles  
5 Application is shown in the Table listed below. Wind IX is projected to meet the  
6 goal described above, and the cost is projected to be less than the Wind IX cost  
7 cap.

<b>Table 1</b>		
<b>Location of Results of Economic Test</b>		
	<b>Case</b>	<b>Location in Application</b>
1	162 MW	Table 2.1 – 1c

8 MidAmerican’s Iowa electric customers are projected to realize net benefits  
9 because total benefits are expected to exceed total costs over the 30-year life of  
10 the Wind IX project. MidAmerican witness, Adam Wright provides testimony  
11 regarding the reasons for this result.

12 **Q. How will the ultimate, actual capital expenditures for any Wind IX**  
13 **generation be treated?**

14 A. In the event that the actual capital costs of Wind IX are lower than the cost cap,  
15 rate base would consist of actual costs. In the event that actual capital costs  
16 exceed the pertinent cost cap, MidAmerican will be required to establish the  
17 prudence of such excess before that additional expenditure above the cost cap can  
18 be included in rates. Thus, as long as the Company is able to complete Wind IX at

1 or below the cost cap, there would be no subsequent review required for the  
2 capital costs.

3 **Q. How will MidAmerican inform the Board of the status of Wind IX**  
4 **investments it undertakes pursuant to this Ratemaking Principles**  
5 **Application?**

6 A. MidAmerican proposes to continue filing semi-annual updates to the Board  
7 reporting actual Wind IX capital costs versus the cost caps. MidAmerican would  
8 also propose to file a report of all Wind IX capital costs versus the cost caps after  
9 completion of the entire Project.

10 **Q. Please describe the information contained in Section 2.2 of the Ratemaking**  
11 **Principles Application (Cost of Capital).**

12 A. This section contains the capital structure and cost of the components of the  
13 capital structure utilized in MidAmerican's analyses described above. The capital  
14 structure is assumed to be 50% long-term debt and 50% common equity. A 50%  
15 long-term debt, 50% equity capital structure is consistent with the financial ratio  
16 metrics prescribed by Standard & Poor's as necessary to maintain a single-A  
17 credit rating. A long-term debt cost of 5.0% is assumed for modeling purposes.  
18 The Company is requesting an 11.75% return on equity as a ratemaking principle  
19 in this proceeding.

20 **Q. Please describe the information contained in Section 2.3 of the Ratemaking**  
21 **Principles Application (Revenue Requirements).**

22 A. Section 2.3 describes the calculation of the annual revenue requirement for Wind  
23 IX's 162 MW. The Project's estimated revenue requirement includes return on

1 investment, depreciation, taxes and operation and maintenance expenses. This  
2 calculation employs the ratemaking principles requested in the Ratemaking  
3 Principles Application.

**CONCLUSION**

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

5 **A. Yes, it does.**

