

**OFFICE OF CONSUMER ADVOCATE**

**DIRECT TESTIMONY**

**OF**

**BRIAN W. TURNER**

**MIDAMERICAN ENERGY COMPANY**  
**DOCKET NO. RPU-2014-0002**

**November 14, 2014**

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

2 A: Brian W. Turner, 1375 East Court Avenue, Des Moines, Iowa 50319.

3 **Q: By whom are you employed and in what capacity?**

4 A: I am the Chief of the Technical Bureau in the Office of Consumer Advocate  
5 (OCA), a division of the Iowa Department of Justice.

6 **Q: Please explain your educational background and your work experience.**

7 A: I received a Bachelor of Arts degree in December 1981 from the University of  
8 Northern Iowa majoring in Management with an emphasis in Finance. In July  
9 of 1982, I joined the staff of the Iowa State Commerce Commission (n/k/a the  
10 Iowa Utilities Board or IUB). In June of 1989, I transferred from the IUB staff  
11 to the OCA as a Utility Specialist. In 2011, I accepted the position of Chief of  
12 the Technical Bureau.

13 Since 1982, I have testified in many electric, natural gas, telephone,  
14 depreciation, fuel procurement, complaint, energy efficiency cost recovery  
15 proceedings, and wind energy rate principle cases. I have also attended  
16 numerous programs and seminars including many programs and meetings  
17 sponsored by the National Association of Regulatory Utility Commissioners  
18 (NARUC) and the National Association of State Utility Consumer Advocates  
19 (NASUCA). In 1991, I completed two graduate level income tax courses  
20 offered by Drake University.

21 **Q: What is the purpose of your testimony?**

22 A: The purpose of my testimony is to present and explain the Allowance for Funds

1 Used During Construction (AFUDC) rate that I recommend the IUB allow  
2 MidAmerican Energy Company (MEC) to accrue on the Wind IX project during  
3 the construction phase before MEC puts the Wind IX in-service. The AFUDC  
4 rate that I recommend would replace the AFUDC rate that MEC plans to apply  
5 to the Wind IX project. I also recommend that, with the exception of modifying  
6 the ratemaking principles as explicitly recommended by Marcos Munoz and me,  
7 the IUB not reject MEC's Wind XI project.

8 **Q: What IUB rule applies to the calculation of AFUDC?**

9 A: The IUB rules at IAC 199—16.2(476) state:

10 **Uniform System of Accounts—electric.** The uniform  
11 system of accounts for public utilities and licensees  
12 subject to the provisions of the Federal Power Act, 18  
13 CFR Part 101 published in the Federal Energy Regulatory  
14 Commission's rules and regulations, in effect on April 1,  
15 2000, and the January 1, 2002 uniform systems of  
16 accounts for rural electric cooperatives prescribed for  
17 electric borrowers of the Rural Utilities Service, as  
18 applicable, are adopted...

19 **Q: What ROE rate does the Uniform System of Accounts require in the**  
20 **AFUDC calculation?**

21 A: As stated at 18 CFR Part 101 "Electric Plant Instructions" 3A(17)(b):

22 The rates shall be determined annually. The balances for  
23 long-term debt, preferred stock and common equity shall  
24 be the actual book balances as of the end of the prior year.  
25 The cost rates for long-term debt and preferred stock shall  
26 be the weighted average cost determined in the manner  
27 indicated in §35.13 of the Commission's Regulations  
28 Under the Federal Power Act. The cost rate for common  
29 equity shall be the rate granted common equity in the last  
30 rate proceeding before the ratemaking body having  
31 primary rate jurisdictions. If such cost rate is not

1 available, the average rate actually earned during the  
2 preceding three years shall be used.

3 **Q: What AFUDC rate are you proposing?**

4 A: I propose that MEC apply an AFUDC rate that recognizes a 10 percent return on  
5 equity (ROE).

6 **Q: Why do you propose that MEC apply a 10 percent ROE in its Wind IX  
7 AFUDC rate calculation?**

8 A: I propose that MEC apply an ROE of 10 percent in its Wind IX AFUDC rate  
9 calculation for the following reasons (as shown on OCA Exhibit\_\_(BWT-1),  
10 Schedule A):

11 A) A 10 percent ROE is consistent with the rate the IUB established in  
12 MEC's last rate case, RPU-2013-0004, and

13 B) MEC applies a 10 percent ROE in its AFUDC calculation applied to  
14 all other electric construction-work-in-progress (CWIP) balances not  
15 subject to ratemaking principles.

16 **Q: What AFUDC rate does MEC propose to apply to its Wind IX project  
17 during its construction phase?**

18 A: As shown on OCA Exhibit\_\_(BWT-1), Schedule B, MEC witness Mark Yocum  
19 states:

20 MidAmerican Energy Company proposes to use an  
21 11.75% return on equity in the AFUDC rate applied to  
22 Wind IX, consistent with the return on equity requested in  
23 the RPU-2014-0002 filing.

24 The 11.75% return on equity is required to be included in  
25 the AFUDC rate to ensure the Company recovers its

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

overall cost of capital associated with the Wind IX investment.

MEC proposes an 11.75% ROE for AFUDC purposes to be consistent with the ROE requested in Principle 5.5, Return on Equity, that MEC proposes to earn on Wind IX investment over its life.

**Q: Why do you disagree with allowing an AFUDC rate based upon an 11.75 percent ROE?**

A: MEC proposes an 11.75 percent ROE to be included in the AFUDC calculation because that is the ROE ratemaking principle that MEC proposes to apply to the Wind IX plant in-service balance during the life of the plant. However, MEC will only accrue AFUDC during the relatively short *construction phase* of the project. It will not accrue AFUDC on the Wind IX project during the *in-service phase* of the project (the effective period of the ROE proposed in Ratemaking Principle 5.5 after the construction phase is complete and the turbines are generating electricity for customers). After Wind IX is placed in-service and begins delivering power, a rate of return including the ROE approved by the IUB in this proceeding (*e.g.*, 11.75 percent as proposed by MEC or 11.3 percent as recommended by OCA) will be applied to the plant balance until the Wind IX plant is retired (per Ratemaking Principle No. 5.5). As OCA witness Munoz explains in his testimony, applying an ROE that exceeds MEC's current cost of equity during the long in-service period is reasonable and recognizes the increased risk of a fixed return on a long-term asset. However, the construction phase will most likely be over by the end of 2015, last no longer than one year

1 and therefore creates much less risk of ROE market rate fluctuations than plant  
2 in-service lasting 30 years. Therefore, it is not reasonable to use a higher, long-  
3 term 30-year fixed ROE (which is used in order to compensate MEC for greater  
4 risk exposure over the life of the Wind IX facility) in calculating AFUDC.  
5 Instead, the AFUDC rate calculation should utilize an ROE that reflects MEC's  
6 current cost of common equity. My recommended ROE rate will fully  
7 compensate MEC for the cost of capital during the construction period.

8 **Q: When is the proposed construction phase of the Wind IX?**

9 A: The construction phase will begin when MEC starts building the Wind IX,  
10 presumably in January 2015 and will end when MEC puts the Wind IX in-  
11 service, presumably during the middle of October 2015 (*see* OCA  
12 Exhibit\_\_(BWT-1), Schedule C). Assuming this construction schedule, the  
13 construction phase will only occur during 2015. During 2015, MEC will charge  
14 all capital costs to CWIP and accrue AFUDC on all CWIP balances.

15 **Q: How do you calculate the AFUDC rate that you propose the IUB approve?**

16 A: I propose that MEC use the respective AFUDC rate that it will apply to all of its  
17 other electric CWIP balances not subject to ratemaking principles during each  
18 respective month of the Wind IX construction phase. Generally, MEC will  
19 adjust this rate on a regular basis. However, if actual AFUDC rates currently  
20 applied by MEC on its electric CWIP balances (not subject to ratemaking  
21 principles) are used, the annual AFUDC rate would be 7.31 percent based upon  
22 a 10 percent ROE (as shown on OCA Exhibit \_\_(BWT-1), Schedule A). MEC

1 filed an electric rate case in Docket RPU-2013-0004, and the IUB established an  
2 ROE of 10 percent. This is consistent with my testimony in RPU-2013-0003  
3 where I stated, “For setting advance regulatory principles for Wind VIII, I  
4 recommend that the IUB recognize the AFUDC rate calculated and applied to  
5 all other construction work in progress balances not subject to ratemaking  
6 principles during the same respective month of the construction period”.

7 **Q: Will MEC apply AFUDC rates to the Wind IX project after 2015?**

8 A: No, MEC will not if it places the plant in-service by the end of 2015.

9 **Q: Are you saying that the 11.75 percent ROE rate proposed by MEC under**  
10 **Ratemaking Principle No. 5.5 does not properly reflect the rate most likely**  
11 **to match the 2015 construction period, but instead matches the longer and**  
12 **more distant in-service period?**

13 A: Yes, and consistent with that, the ROE recommended by OCA witness Munoz  
14 would not match the construction period either and neither would I recommend  
15 that Wind IX AFUDC rate calculation incorporate Mr. Munoz’s proposed ROE.

16 **Q: Do you accept the other parameter recommendations used in the AFUDC**  
17 **calculation by MEC?**

18 A: Yes, I do.

19 **Q: What AFUDC rate would you recommend if the IUB accepts the 10 percent**  
20 **ROE rate that you propose to be included in the calculation?**

21 A: I recommend allowing MEC to implement the same AFUDC rate calculation it  
22 uses now updated to include debt and equity rates and ratios that it will

1 recognize during the construction phase. I am unable to calculate the rate at this  
2 time, but if we recognized the 2014 rate (the most recent calculation) which  
3 includes a 10 percent equity rate, the rate would be 7.31 percent as shown on  
4 OCA Exhibit\_\_(BWT-1), Schedule A.

5 **Q: Do you accept MidAmerican’s Principle 5.4, Depreciation, set forth as**  
6 **follows: “The depreciation life of the Wind IX Iowa Project for ratemaking**  
7 **purposes shall be 30 years”?**

8 A: Yes. MidAmerican’s proposal that the depreciation life be set at 30 years is  
9 reasonable.

10 **Q: Would you discuss the nature of OCA’s review of MidAmerican’s filing by**  
11 **OCA’s technical staff?**

12 A: Yes, Dr. Xiaochuan Shi, Mr. Marcos Munoz, Mr. Blake Kruger and I reviewed  
13 of the filing.

14 **Q: Would you describe the results of OCA’s review?**

15 A: We concluded that the evidence submitted by MidAmerican in this docket  
16 satisfies the requirements for the issuance of ratemaking principles. For  
17 example, the evidence shows that MidAmerican has a board-approved energy  
18 efficiency plan in effect. In addition, MidAmerican has established that the  
19 proposed Wind IX project will be beneficial to MidAmerican’s customers and to  
20 the state as a whole because it increases fuel diversity and the utility’s reliance  
21 on a renewable energy resource that does not rely on a carbon-based fuel source.  
22 MidAmerican’s evidence also shows that the Wind IX project compares

1 favorably to other long-term options for meeting customer needs.

2 We also reviewed the proposed ratemaking principles. With the  
3 exception of my testimony on AFUDC and the testimony of OCA witness  
4 Marcos Munoz, both of which relate to the proposed ROE Principle 5.5 and  
5 recommend a somewhat different approach to the ROE principle, OCA finds the  
6 other principles to be reasonable.

7 **Q: If the IUB accepts all of OCA's modifications to MEC's proposed**  
8 **ratemaking principles, what do you recommend regarding the approval of**  
9 **MEC's Wind IX project?**

10 A: If the IUB accepts all of OCA's modifications to MEC's ratemaking principle  
11 proposals, I would recommend that the IUB approve MEC's Wind IX project  
12 and allow MEC to proceed with its construction.

13 **Q: Does this conclude your testimony at this time?**

14 A: Yes, it does.

STATE OF IOWA            )  
                                          )  
COUNTY OF POLK        )

**SS: AFFIDAVIT OF BRIAN W. TURNER**

I, Brian W. Turner, being first duly sworn on oath, depose and state that I am the same Brian W. Turner identified in the foregoing Direct Testimony; that I have caused the foregoing Direct Testimony to be prepared and am familiar with the contents thereof, and that the foregoing Direct Testimony as identified therein is true and correct to the best of my knowledge, information and belief as of the date of this Affidavit.

/s/ Brian W. Turner  
Brian W. Turner

Subscribed and sworn to before me, A Notary Public, in and for said County and State, this 13th day of November, 2014.

/s/ Craig F. Graziano  
Notary Public

My Commission expires: June 14, 2017.