

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-2013-0003
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ORDER APPROVING SETTLEMENT AND REQUIRING REPORTS

(Issued August 9, 2013)

I. INTRODUCTION AND PROCEDURAL HISTORY

On May 10, 2013, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) a request for advance ratemaking principles that would apply to up to 1050 MW of new wind generation. MidAmerican calls the project Wind VIII. MidAmerican asked for expedited review, including a request that the Board issue a final order no later than September 1, 2013. MidAmerican said that the federal production tax credit for new wind turbines has only been extended through December 31, 2013, for projects on which significant work has been completed or significant payments have been made by December 31, 2013, and on which there is continuous progress toward completion thereafter. MidAmerican also said a final order is requested by September 1 so that it can take advantage of current economic opportunities associated with wind turbine supply. (MidAmerican "Request for Approval of Ratemaking Principles," p. 9).

Ratemaking principles proceedings are conducted pursuant to Iowa Code § 476.53 (2013). Section 476.53 was enacted during the 2001 Legislative Session

as part of House File 577. This section provides that when eligible new electric generation is constructed by a rate-regulated public utility, the Board, upon request, shall specify in advance, by order issued after a contested case proceeding, the ratemaking principles that will apply when the costs of the new facility are included in electric rates. Wind VIII as proposed by MidAmerican falls within the purview of § 476.53. Alternate energy production facilities, such as these wind facilities, were added to the list of eligible facilities for ratemaking principles by House File 391, enacted during the 2003 Legislative Session. Section 476.53(1) states that the General Assembly's intent in enacting ratemaking principles legislation is to "attract the development of electric power generating and transmission facilities within the state"

On May 15, 2013, the Board issued an order docketing the filing, setting a procedural schedule, and setting an intervention deadline. In addition to the Consumer Advocate Division of the Department of Justice (Consumer Advocate), Deere & Company (Deere) intervened in the proceeding. Consumer Advocate filed direct testimony on June 17, 2013. Deere did not file any testimony.

On June 5, 19, and 26, the Board issued orders requiring MidAmerican to provide additional information. MidAmerican provided the information requested in the orders.

On June 26, 2013, MidAmerican and Consumer Advocate filed a proposed stipulation and agreement (Settlement Agreement) which would resolve all the

contested issues between MidAmerican and Consumer Advocate. The Settlement Agreement addressed the ratemaking principles requested and resolved the two issues that were contested in the prefiled testimony: return on equity (ROE) and the return allowed on the allowance for funds used during construction (AFUDC). The Settlement Agreement stated that MidAmerican had met the two conditions precedent (energy efficiency plan in effect and reasonableness of the proposed alternative) for receiving ratemaking principles. In the filing, MidAmerican said it was authorized to state that Deere had no objection to the proposed Settlement Agreement. MidAmerican also filed on the same date a motion to suspend the procedural schedule.

The Board issued an order on June 27, 2013, modifying the procedural schedule. The Board suspended all further requirements to file testimony, a statement of the issues, and pre- and post-hearing briefs. The hearing date was not cancelled and a hearing was held on July 15, 2013, to address questions the Board had regarding the proposed Settlement Agreement. At the hearing, the Board requested additional information, which was filed on July 17, 2013. MidAmerican also included with its filing a request for a Board decision on the Proposed Settlement on or before August 5, 2013.

Although Iowa Code § 476.53(3)"d" allows the ratemaking principles proceeding to be combined with a proceeding for issuance of a certificate under Iowa Code chapter 476A, the two proceedings were not combined. MidAmerican noted in

its request for ratemaking principles that it obtained a declaratory order in Docket No. DRU-03-3 (issued June 6, 2003) indicating that a 476A certificate was not necessary for another wind project when it was configured such that less than 25 MW of capacity was connected to each gathering line. Iowa Code §§ 476A.1 and 476A.2. MidAmerican believed all the relevant facts and law with respect to Wind VIII are indistinguishable from those on which the declaratory order in Docket No. DRU-03-3 was based. MidAmerican concluded that it is reasonable to rely upon the declaratory ruling and that no 476A certificate is necessary for Wind VIII.

On July 31, 2013, the Alliance for Wise Energy Decisions (AWED) filed comments regarding Wind VIII. AWED did not intervene in the proceedings and its comments were not only after the intervention deadline (May 30, 2013), but were also submitted after the hearing was held in this docket on July 15, 2013. AWED's comments are not part of the evidentiary record and will not be considered by the Board in reaching its decision.

II. SUMMARY OF SETTLEMENT AGREEMENT

On June 26, 2013, MidAmerican and Consumer Advocate filed a proposed Settlement Agreement. The Settlement Agreement, if approved, would resolve all issues in the proceeding. Deere, the other party to this proceeding, does not object to the Settlement Agreement.

Among other things, the Settlement Agreement stated that the signatories agreed that MidAmerican had satisfied the two conditions precedent for a ratemaking

principles proceeding. MidAmerican and Consumer Advocate also agreed to the ratemaking principles as proposed by MidAmerican, except for two modifications to the return on equity (ROE) principle.

MidAmerican initially proposed an ROE of 11.75 percent, while Consumer Advocate proposed 11.5 percent. The Settlement Agreement provides for an ROE of 11.625 percent. In addition, the Settlement Agreement specifies an ROE of 10.0 percent for use in calculating the AFUDC rate. MidAmerican did not address this in its initial filing, but Consumer Advocate advocated for a separate AFUDC rate in its prefiled testimony.

III. CONDITIONS PRECEDENT

Before determining applicable ratemaking principles for Wind VIII, the Board must make two findings pursuant to Iowa Code § 476.53(3)"c." These are conditions precedent to a determination of ratemaking principles, because if the Board cannot make these findings, the utility cannot receive ratemaking principles. First, the Board must determine that the public utility has in effect a Board-approved energy efficiency plan. Second, the utility must demonstrate that it has considered other sources for long-term supply and that the facility is reasonable when compared to other feasible alternative sources of supply. MidAmerican and Consumer Advocate agreed in the Settlement Agreement that these conditions were satisfied.

1. Energy Efficiency Plan

With respect to the first condition precedent, MidAmerican has in effect a Board-approved energy efficiency plan. MidAmerican witness Crist provided testimony regarding MidAmerican's current energy efficiency plan, identified as Docket No. EEP-08-2. The Board approved the plan on March 9, 2009. Witness Crist detailed the success of MidAmerican's plan, which includes reducing peak electric load by 460 MW and customer energy usage by 897,866,566 kWh for the years 2009 through 2012. MidAmerican has pending before the Board a new energy efficiency plan proceeding, identified as Docket No. EEP-2012-002, which is for the years 2014 through 2018.

MidAmerican has a Board-approved energy efficiency plan and the Board has issued no orders finding that MidAmerican is not in compliance with any Board orders in its EEP docket. The first condition precedent is satisfied.

2. Reasonableness of the Facility

The second condition precedent is whether a utility has considered other long-term sources of supply and shown that the facility is reasonable when compared to other feasible supply sources. Iowa Code § 476.53(4)"c"(2). In making this determination, the Board must look at the need for the facility, that is, whether the facility is a reasonable alternative to meet one of the statute's goals, "to attract the development of electric power generating ... facilities within the state in sufficient quantity to ensure reliable electric service to Iowa consumers"

If a facility does not meet the needs of Iowa consumers, it is not eligible for ratemaking principles treatment. The Board addressed the meaning of this statement in a previous ratemaking principles proceeding for a wind facility with a nameplate capacity of up to 554 MW. The Board said:

While MidAmerican has not demonstrated an immediate need for the wind facility (or any other generation facility) in the sense that it will be unable to meet customers' demand in 2007-2009 without the facility, the Board does not believe a determination of need requires a showing that the lights will go out if the facility is not built. That would not be a prudent planning criterion.

(MidAmerican Energy Company, "Order Approving Stipulation and Agreement,"

Docket No. RPU-05-4 (April 18, 2006), p. 6). The issue of whether a proposed facility is reasonable was first addressed in Docket No. RPU-01-9. In its final order, the Board said:

The ratemaking principles statute does not refer to "least-cost" alternatives. Instead, Iowa Code § 476.53(3)"c"(2) only requires that the "rate-regulated public utility has demonstrated to the board that it has considered other sources for long-term electric supply and that the facility or lease is reasonable when compared to other feasible alternative sources of supply." (Emphasis added). In a ratemaking principles proceeding, the Board does not have to conduct the least-cost analysis formerly required in a siting proceeding involving a public utility. The proposed facility need only be reasonable when compared to other alternative sources of supply.

While cost remains a factor, elimination of the least-cost requirement is consistent with the intent of the ratemaking principles statute, which is to attract electric power generating facilities to this state. Elimination of the least-cost requirement now allows non-cost factors to play a role

in the Board's decision that a public utility has satisfied this requirement as a condition precedent to receiving ratemaking principles. These non-cost factors, such as security and reliability, could in some cases be determinative.

(Docket No. RPU-01-9, "Order," May 29, 2002, p. 6).

MidAmerican demonstrated that Wind VIII was part of its continuing strategy to reduce its carbon footprint and would provide a partial offset to reduced energy production associated with the anticipated retirement of 540 MW of existing generation due to Environmental Protection Agency regulations. MidAmerican said that Wind VIII would allow it to take advantage of federal production tax credits (PTCs) and that the ratemaking principles requested would allow it to develop Wind VIII sites when timing and economics are advantageous to customers. Wind VIII also promotes economic development and Iowa's energy policy, two benefits that do not stop at MidAmerican's service territory boundaries, while at the same time providing benefits for MidAmerican's customers such as fuel diversity, low-cost energy, and carbon emissions reduction. While Wind VIII will provide MidAmerican with some capacity, the need for the facility is primarily driven by long-term environmental compliance.

MidAmerican demonstrated that economic benefits from Wind VIII will accrue from net system energy benefits, capacity benefits, renewable energy credit (REC) sales, and PTC benefits. MidAmerican's projections show that customers should experience a net benefit from Wind VIII, taking into account the various revenue

streams from PTCs, RECs, and capacity sales. MidAmerican pledged in a response to a Board order that retail fuel cost savings would flow to customers.

MidAmerican considered several alternatives to wind and found that natural gas was the only viable alternative prior to 2020. MidAmerican said that natural gas and renewables such as biomass and hydroelectric all have environmental challenges not associated with wind. While MidAmerican said that solar at the utility scale is becoming more economical, it is not yet a viable alternative to a large wind project in Iowa. Wind brings environmental compliance benefits at a price that cannot be obtained from other sources. The addition of Wind VIII will not degrade the transmission network and MidAmerican will perform all required transmission upgrades. MidAmerican's analysis shows that it has satisfied the second condition precedent and is therefore eligible to receive ratemaking principles.

IV. RATEMAKING PRINCIPLES

MidAmerican asked for approval of nine advance ratemaking principles that would govern the recovery of project costs and treatment of project benefits. The Settlement Agreement asked the Board to approve MidAmerican's principles as filed, except for two modifications to the ROE principle. Subrule 199 IAC 7.2(11) provides that the Board will not approve a settlement unless it "is reasonable in light of the whole record, consistent with law, and in the public interest." The Board will address each ratemaking principle contained in the proposed Settlement Agreement.

1. Iowa Jurisdictional Allocation

A portion of Wind VIII will be allocated to Iowa in the same manner as prior MidAmerican wind projects that received advance ratemaking principles. This principle is consistent with prior cases and allocates to Iowa customers most of Wind VIII's costs and benefits because Wind VIII is being proposed in response to Iowa legislation that promoted the expansion of rate-regulated utility-owned generation in Iowa.

2. Cost Cap

The cost cap for Wind VIII is \$1.825 million per MW (including AFUDC) for completed sites. If actual capital costs of any given Wind VIII site are lower, the amount included in rate base will be equal to actual capital costs. If actual costs exceed the cap, MidAmerican will be required to establish the prudence and reasonableness of such excess costs before they can be included in rates.

MidAmerican said the cap was set at a price that provides customer benefits over the life of the facilities with no net costs to customers. MidAmerican noted that the cost cap is 20.6 percent below the approved cap in Wind VII. The company estimates the final costs of Wind VIII will be below the cap. MidAmerican said its goal is that its retail customers not be adversely affected by the addition of up to 1,050 MW of wind generation and the proposed cost cap meets this goal.

There is evidence that the actual cost of Wind VIII will be lower than the cost cap contained in the Settlement Agreement. While the Board might decide a lower

cost cap number was appropriate in the absence of an overall settlement, here the cost cap is part of a Settlement Agreement that would resolve all issues in this proceeding and has not been objected to by any party. The Board takes a holistic approach in examining these types of settlements and does not require that each settled issue be determined in the same manner the Board would determine the issue in a contested setting. See, 199 IAC 7.2(11). The cost cap proposed by MidAmerican has a reasonable basis because it is based on customer impacts. Also, MidAmerican has a history of completing wind projects at an overall cost below the cost cap and has demonstrated that it effectively manages costs associated with wind generation construction. The Board expects those results to be repeated here.

3. Size Cap

The size cap principle states that the ratemaking principles would be applicable to all new MidAmerican wind capacity, up to 1,050 MW, which is built as part of Wind VIII. MidAmerican said that this is the maximum amount of capacity that can be installed and still meet the PTC qualification guidelines. Previous wind applications have included a size cap. MidAmerican has demonstrated significant projected benefits from a project of this size.

4. Depreciation

The depreciable life of Wind VIII for ratemaking purposes will be 30 years. MidAmerican said the increase to 30 years from the 20 years approved in most prior

wind docket is because of improvements to turbine technology, which have extended the useful life of the major equipment.

5. Return on Equity

MidAmerican and Consumer Advocate modified the original ratemaking principles proposed by MidAmerican with respect to ROE. The Settlement Agreement provides that the allowed return on the common equity portion of Wind VIII that will be included in Iowa electric rate base will be 11.625 percent. This is the midpoint between MidAmerican's initial request (11.75 percent) and Consumer Advocate's initial recommendation (11.5 percent). There is also a separate AFUDC rate provision that establishes an ROE of 10 percent to be applied to AFUDC for Wind VIII.

MidAmerican's initial ROE proposal and Consumer Advocate's initial recommendation were very close. Both parties agreed that the cost of equity should be higher than current capital costs because the ratemaking principle fixes Wind VIII's ROE for the 30-year life of the facilities. Also, both agreed that the legislative intent embodied in § 476.53 and prior Board decisions justify a return above current market conditions.

With respect to AFUDC, MidAmerican initially sought to apply the general ROE to AFUDC. Consumer Advocate proposed a separate ROE for AFUDC that was lower than the return on common equity for the overall project. The separate

AFUDC rate agreed to reflects that AFUDC costs are incurred under current market conditions, not the 30-year life of the Wind VIII facilities.

The Settlement Agreement also removed some confusing language in MidAmerican's initial ratemaking principles proposal regarding capital structure. It is now clear that, consistent with prior ratemaking cases, MidAmerican's capital structure and costs (except for ROE for Wind VIII) shall be determined in each rate proceeding in a manner that will be identical to the capital structure used for the remainder of MidAmerican's rate base.

6. Cancellation Cost Recovery

MidAmerican's cost recovery principle states that in the event MidAmerican cancels any Wind VIII 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 cancellation. The principle further provides that the annual amortization is to be recorded above-the-line and included in MidAmerican's revenue sharing or revenue requirement calculations, but the unamortized balance is not to be included in those calculations. This is similar to a principle previously approved and requires that the prudence of any cancellation costs be established in a future proceeding before there can be any recovery.

7. Renewable Energy Credits, CO2 Credits, and Other Similar Credits

In this principle, MidAmerican proposed that the Iowa portion of any revenues or benefits from the sale of environmental attributes from Wind VIII (RECs, CO2

credits, and perhaps others) be recorded in MidAmerican's Iowa electric operating income and reflected in a future rate proceeding filed after MidAmerican's pending rate proceeding, Docket No. RPU-2013-0004. By recognizing all costs and benefits of Wind VIII in a future rate proceeding, there will be a proper matching of customer benefits and customer costs.

The principle provides that revenues from the sale of environmental attributes be flowed through MidAmerican's energy adjustment clause (EAC). MidAmerican does not currently have an EAC, although one has been proposed in MidAmerican's pending general rate review proceeding. As noted at the hearing in this matter, if the Board denies MidAmerican's EAC proposal, an EAC could be fashioned that would flow only the revenues from the sale of environmental attributes associated with Wind VIII to customers.

8. Federal Production Tax Credit

The federal PTC principle provides that the Iowa portion of the federal PTC benefits associated with Wind VIII will be recorded in MidAmerican's Iowa electric operating income and reflected in a future rate proceeding filed after MidAmerican's pending rate proceeding, Docket No. RPU-2013-0004. In those subsequent proceedings, the principle provides that the Iowa portion of federal PTCs will flow through MidAmerican's energy adjustment clause. MidAmerican does not currently have an EAC, although one is proposed in MidAmerican's pending rate proceeding.

As noted at the hearing, if the Board denies MidAmerican's EAC proposal, an EAC could be fashioned that would flow federal PTCs to customers.

9. Customer Rate Relief

The final ratemaking principle to be addressed deals with customer rate relief.

This principle provides:

Until MidAmerican's first general Iowa electric rate case where Wind VIII assets are reflected in rates, customers shall benefit through a reduction in the EAC. The customer benefit shall be capped at a \$3.3 million reduction for the 2015 calendar year, \$6.6 million for the 2016 calendar year, and \$10.0 million for each calendar year thereafter, conditioned upon MidAmerican having completed at least 350 megawatts ("MW") of Wind VIII. All other Wind VIII costs and benefits shall be included in base rates and an EAC at the time the Wind VIII assets are first included in a general rate case filed by the Company. In MidAmerican's first general rate case that includes the Wind VIII assets, actual Wind VIII capital costs, depreciation expense, and operations and maintenance expenses consistent with the other ratemaking principles shall be reflected in base rates, except for production tax credits and renewable energy credit benefits which shall be included in an EAC.

The customer rate relief principle is conditioned upon completion of at least 350 MW of Wind VIII and begins in 2015 at \$3.3 million, escalating to \$6.6 million in 2016 and to \$10 million for 2017 and each subsequent year. The benefits would flow through an EAC that MidAmerican has proposed in its current rate case proceeding, Docket No. RPU-2013-0004. MidAmerican does not currently have an EAC. As noted at the hearing, if the Board denies MidAmerican's EAC proposal, an EAC could be fashioned that would flow the benefits from Wind VIII to customers.

V. REASONABLENESS OF SETTLEMENT

Subrule 199 IAC 7.2(11) provides that the Board will not approve a settlement unless it "is reasonable in light of the whole record, consistent with law, and in the public interest." While the Settlement Agreement may not decide each issue the way the Board would after a contested hearing, the Board, viewing the Settlement Agreement as a whole, finds it to be reasonable, in the public interest, and not contrary to any law.

As discussed previously in Section III, MidAmerican has satisfied the two conditions precedent in Iowa Code § 476.53(3)"c" and is therefore eligible for advance ratemaking principles. The ratemaking principles associated with Wind VIII are reasonable. The Settlement Agreement as a whole will further the diversity of MidAmerican's generation resources, reduce its reliance on fossil-fueled generation, and position MidAmerican to meet ongoing and future environmental mandates and potential renewable mandates in a manner that is more likely to benefit its ratepayers. The Settlement Agreement's benefits to retail customers will help ensure that MidAmerican's current and future customers continue to enjoy adequate service and facilities at just and reasonable rates. Iowa Code §§ 476.6 and 476.8.

The Board will require MidAmerican to file semi-annual reports regarding the construction and operation of Wind VIII, with the reporting requirement ending when Wind VIII's assets are included in MidAmerican's rate base. The reports are to include information regarding the actual operating and capital costs of Wind VIII, the

amount of customer rate relief flowed through the EAC or returned to ratepayers in some other manner, the retail fuel cost reduction attributable to Wind VIII, and income from PTCs, REC sales, capacity sales, and net system benefits attributed to Wind VIII. Reports shall be due on March 1 and September 1 of each year, with the first report due on or before March 1, 2014.

VI. FINDINGS OF FACT

Based on a thorough review of the entire record in these proceedings, the Board makes the following findings of fact:

1. It is reasonable to find that MidAmerican has in effect a Board-approved energy efficiency plan as required under Iowa Code § 476.6(19).
2. It is reasonable to find that MidAmerican has a need for Wind VIII and that Wind VIII benefits ratepayers by, among other things, enabling MidAmerican to meet current and future environmental regulations, provide low-cost energy to retail customers, reduce MidAmerican's reliance on carbon-based generation, and diversify MidAmerican's supply portfolio.
3. It is reasonable to find that MidAmerican considered other long-term sources of electric supply and that Wind VIII is reasonable, both for cost and non-cost reasons, when compared to other feasible alternative sources of supply.
4. The eight ratemaking principles that were uncontested in the prefiled testimony and explicitly agreed to in the Settlement Agreement are reasonable.

5. It is reasonable to approve the ROE principle agreed to by the MidAmerican and Consumer Advocate, which includes an 11.625 percent ROE and a 10 percent ROE for use in calculating the AFUDC rate.

6. The Settlement Agreement between MidAmerican and Consumer Advocate, subject to the conditions contained in this order, is reasonable, consistent with law, and in the public interest.

VII. CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code chapter 476 (2013).

VIII. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The "Stipulation and Agreement" filed by MidAmerican Energy Company and the Consumer Advocate Division of the Department of Justice on June 26, 2013, is approved.

2. MidAmerican shall file semi-annual reports containing the information identified in the body of this order on March 1 and September 1 of each year, with the first report due on or before March 1, 2014. This reporting requirement shall end when Wind VIII's assets are included in MidAmerican's rate base.

3. Motions and objections not previously granted or sustained are denied or overruled. Any argument not specifically addressed in this order is rejected either

as not supported by the evidence or as not being of sufficient persuasiveness to warrant comments.

UTILITIES BOARD

/s/ Elizabeth S. Jacobs

/s/ Nick Wagner

ATTEST:

/s/ Judi K. Cooper

Executive Secretary, Deputy

Dated at Des Moines, Iowa, this 9th day of August 2013.