

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-2016-0001 (WRU-2016-0020-0156)
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**ORDER APPROVING SETTLEMENT
WITH REPORTING REQUIREMENTS**

(Issued August 26, 2016)

INTRODUCTION AND PROCEDURAL HISTORY

On April 14, 2016, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) a request for advanced ratemaking principles for up to 2000 MW of new wind generation. MidAmerican calls the project Wind XI and asked for expedited review. MidAmerican said that with expedited review, MidAmerican will be able to take full advantage of the federal production tax credit, which MidAmerican said is a prerequisite for the economics of Wind XI. (MidAmerican’s “Request for Approval of Ratemaking Principles,” pp. 1-2).

Ratemaking principles proceedings are conducted pursuant to Iowa Code § 476.53 (2015). 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 XI, 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 April 22, 2016, the Board issued an order docketing the filing; a procedural schedule and intervention deadline was established by order issued May 9, 2016. The Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, filed prepared direct testimony on June 17, 2016. Interstate Power and Light Company (IPL), the Iowa Business Energy Coalition (IBEC), the Environmental Law and Policy Center (ELPC), Iowa Environmental Council (IEC), and Facebook, Inc., Google Inc., and Microsoft Corporation (collectively the Tech Customers) were granted intervenor status and filed prepared direct testimony on June 21, 2016. ITC Midwest LLC (ITC Midwest) was also granted intervenor status but did not file testimony in this docket. MidAmerican filed reply testimony on June 28, 2016.

On July 26, 2016, MidAmerican, OCA, the Tech Customers, and IBEC jointly filed a proposed Settlement which, if adopted, would resolve all outstanding issues. The ELPC, IEC, IPL, and ITC Midwest indicated that they did not object to the proposed Settlement. The proposed Settlement adopted MidAmerican's requested

ratemaking principles, except for modifications to depreciation, return on equity (ROE), environmental benefits, federal production tax credits, and rate mitigation.

On August 10, 2016, the Board issued an order requesting additional information about the proposed Settlement in order to determine whether the Settlement meets the standards of 199 IAC 7.18. The Board identified seven questions in its August 10 order and requested responses from MidAmerican on or before August 15, 2016. MidAmerican filed the responses on August 15, 2016.

A hearing on the proposed Settlement was held on August 17, 2016, for the purpose of allowing the Board and any other party to ask follow-up questions of MidAmerican's witnesses. On August 19, 2016, the Board issued an order regarding the proposed Settlement requesting the parties file a revised proposed Settlement based on the testimony received from MidAmerican witness Specketer at the August 17 hearing. A revised Settlement Agreement was filed on August 22, 2016.

CONDITIONS PRECEDENT

Before determining applicable ratemaking principles for Wind XI, 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.

A. Energy Efficiency Plan

With respect to the first condition precedent, MidAmerican is required to have in effect a Board-approved energy efficiency plan. Iowa Code § 476.53(3)(c)(1). MidAmerican witness Fehrman provided testimony regarding MidAmerican's current energy efficiency plan, identified as Docket No. EEP-2012-0002. (Fehrman Direct, pp. 45-48). The Board approved the plan on December 31, 2013, and the plan will remain in effect through December 31, 2018, subject to any modifications. (Id., at 46). Witness Fehrman detailed the success of MidAmerican's energy efficiency efforts in 2014, with MidAmerican achieving 92 percent of its peak kW savings goal (319,284 kW) and 118 percent of its kWh savings goal (286,504,513 kWh). (Id., at 47). No party contested this issue.

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.

B. 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(3)(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" Id.

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, p.6 (issued April 18, 2006)).

The issue of whether a proposed facility is reasonable was first addressed in Docket No. RPU-2001-0009. In its final order in that docket, 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-2001-0009, "Order," p. 6 (issued May 29, 2002)).

In this proceeding, MidAmerican stated that Wind XI would allow it to take advantage of federal production tax credits (PTCs) that will phase out from the 100 percent level beginning with the end of this year. ("Request for Approval of Ratemaking Principles," p. 1). According to MidAmerican, Wind XI compared favorably to conventional generation resources because of the zero emissions, no fuel price volatility, economic benefits, and improved fuel diversity. (Hammer Direct Testimony, pp. 24-62). Also, MidAmerican said Wind XI compared favorably with other renewable generation sources. (Id.).

According to MidAmerican, Wind XI brings environmental compliance benefits at a price that cannot yet be obtained from other renewable sources at a utility scale. Also, because wind is an emissions-free resource, Wind XI should mean that MidAmerican will have fewer long-term compliance issues with current and projected federal and state environmental policies. ("Request for Approval of Ratemaking Principles," p. 7). In addition, MidAmerican states that the addition of Wind XI will not

degrade the transmission network and MidAmerican will perform all required transmission upgrades. (Gust Direct Testimony, pp. 18-19).

The testimony provided by MidAmerican's witnesses and their accompanying analysis shows that MidAmerican has considered other long-term sources of supply and has shown that the facility is reasonable when compared to other feasible supply sources. MidAmerican has demonstrated that Wind XI is part of its continuing strategy to reduce its carbon footprint and ensure compliance with current and future state and federal environmental regulations. Therefore, the Board finds that MidAmerican has satisfied the second condition precedent of Iowa Code § 476.53(4)(c)(2) and is therefore eligible to receive ratemaking principles.

REASONABLENESS OF REVISED STIPULATION AND AGREEMENT

On August 22, 2016, MidAmerican filed a revised stipulation and agreement (Settlement) in this case at the request of the Board consistent with MidAmerican's witness' testimony at the August 17 hearing. The Tech Customers, OCA, and IBEC are signatories to the Settlement; ELPC, IEC, IPL, and ITC Midwest have indicated they have no position on the settlement terms related to the ratemaking principles, generally support Wind XI, and have no objection to the revised stipulation.

The signatories to the Settlement ask for approval of ten advanced ratemaking principles that would govern the recovery of project costs and treatment of project benefits. The ratemaking principles agreed to have been attached to this order.

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, viewing the Settlement as a whole, finds it to be reasonable, in the public interest, and not contrary to any law.

As discussed previously in this order, 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 XI, as agreed to by the parties, are reasonable. The Settlement as a whole will reduce MidAmerican’s reliance on fossil-fueled generation and position MidAmerican to meet ongoing and future environmental mandates in a manner that is more likely to benefit its ratepayers. The Settlement’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.

REPORTING REQUIREMENTS

The Board will require MidAmerican to include in the semi-annual reports required in Docket No. RPU-2015-0002 information regarding the construction and operation of Wind XI. The reporting requirement will end when Wind XI’s assets are included in MidAmerican’s rate base. The reports are to include information regarding the actual operating and capital costs of Wind XI. These reports are due on March 1 and September 1 of each year and the Wind XI information shall be included in the March 1, 2017, report.

The Board will also require MidAmerican to file annual reports regarding the quantity of all environmental benefits retired on behalf of each ICR customer that elects retirement per Ratemaking Principle No. 7, which relates to environmental benefits.¹ MidAmerican will be required to report the quantity of environmental benefits sold and the value of sold benefits maintained in the regulatory liability account defined in Ratemaking Principle No. 7. Reports shall be due on March 1 of each year, with the first report due on or before March 1, 2017.

Finally, the Board will also require MidAmerican to continue to report the results of revenue sharing as ordered in Docket No. RPU-2013-0004. The reports shall be modified to include detailed support for the calculation of the revenue sharing threshold established in Ratemaking Principle No. 9, which relates to Rate Mitigation, and the amount of revenue sharing used to accelerate depreciation for each affected generating unit specified in Ratemaking Principle No. 9. MidAmerican will also be required to report on the balance in the deferred depreciation account established in Docket No. RPU-2013-0004.

REQUEST FOR WAIVER

In the event the Board adopted the retail energy benefits ratemaking principle contained in the Settlement, MidAmerican said that a waiver of Board rules 199 IAC 20.9(1) and (2), as they apply to MidAmerican's energy adjustment clause (EAC) would be necessary. A waiver request was filed on August 2, 2016, identified as

¹ The ratemaking principles in the Settlement are not numbered. For purposes of this order, the Board has assigned sequential numbers to them.

Docket No. WRU-2016-0020-0156. Also on August 2, 2016, OCA filed a response stating that it did not object to the request.

The retail energy benefits mechanism is not a perfect fit for the EAC rules and a waiver of 199 IAC 20.9(1) and (2) is appropriate. Undue hardship for MidAmerican and its customers will result if the terms of the Settlement cannot be fully implemented because then the risks of Wind XI will not be appropriately balanced between MidAmerican and its ratepayers and ratepayers will not receive all the benefits from Wind XI contained in the Settlement. No person's legal rights will be prejudiced because the issues leading to the waiver request were litigated in this docket. The provisions of the EAC rules are not specifically mandated by another statute or provision of law and granting the waiver will not adversely impact public health, safety, or welfare. The standards for a waiver found in 199 IAC 1.3 have been satisfied and the Board will grant MidAmerican's request.

FINDINGS OF FACT

Based on a thorough review of the entire record in this proceeding, 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 XI and that Wind XI benefits ratepayers by, among other things, enabling MidAmerican to meet current and future environmental regulations, providing low-cost energy to retail customers, and reducing MidAmerican's reliance on carbon-based generation.

3. It is reasonable to find that MidAmerican considered other long-term sources of electric supply and that Wind XI is reasonable, both for cost and non-cost reasons, when compared to other feasible alternative sources of supply.

4. The ratemaking principles identified in the Revised Stipulation and Agreement filed by MidAmerican on August 22, 2016, and attached to this order, are reasonable.

5. The Revised Stipulation and Agreement between MidAmerican, OCA, the Tech Customers, and IBEC, is reasonable, consistent with law, and in the public interest.

CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code chapter 476 (2015).

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The Revised Stipulation and Agreement filed by MidAmerican Energy Company on August 22, 2016, is approved.

2. The request for waiver filed by MidAmerican Energy Company on August 2, 2016, identified as Docket No. WRU-2016-0020-0156, is granted.

3. The Board requires MidAmerican Energy Company to file the semi-annual and annual reports identified in this order.

UTILITIES BOARD

/s/ Geri D. Huser

/s/ Elizabeth S. Jacobs

ATTEST:

/s/ Trisha M. Quijano
Executive Secretary, Designee

/s/ Nick Wagner

Dated at Des Moines, Iowa, this 26th day of August 2016.

ATTACHMENT

Article III – Ratemaking Principles

The signatories to this Revised Stipulation and Agreement agree to support the Wind XI

Project with the following ratemaking principles:

Topic	Ratemaking Principle
Iowa Jurisdictional Allocation	Wind XI 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 power projects (i.e., Wind I – Wind X).
Cost Cap	The cost cap for the Wind XI Iowa Project is \$1.792 million per MW (including AFUDC). In the event that actual capital costs 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.
Size Cap	The ratemaking principles shall be applicable to all new MidAmerican wind generation up to 2,000 MW, built as part of Wind XI.
Depreciation	The depreciation life of Wind XI for ratemaking purposes shall be 40 years. MidAmerican shall be able to revise the depreciable life in the event an independent depreciation expert provides support for a different useful life and a change in depreciable life is approved by the Board in a contested case proceeding in which parties to this proceeding may participate and present evidence either in support of or in opposition to the proposed change in depreciable life. MidAmerican shall notify such parties of any application filed with the Board asking that the depreciable life of Wind XI be revised.
Return on Equity	The allowed return on the common equity portion of Wind XI, constructed pursuant to this Ratemaking Principles Application and that is included in Iowa electric rate base, shall be 11.0%. An AFUDC rate that recognizes a return on common equity rate of 10.0% shall be applied to construction work in progress.
Cancellation Cost Recovery	In the event MidAmerican cancels any Wind XI site for good cause, MidAmerican's prudently incurred and unreimbursed 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.
Environmental Benefits, CO2 Credits and the Like	All environmental benefits of Wind XI shall be allocated to each of the customer classes based on class kWh sales. Upon the written election by any current or future customer that takes service from MidAmerican pursuant to an Individual Customer Rate ("ICR") ("Electing Customer"), MidAmerican shall retire, or retire on behalf of the Electing Customer (so long as retirement on behalf of such customer does not jeopardize MidAmerican's ability to comply with environmental regulations or constitute a transfer of the environmental and

	<p>compliance benefits), through the Midwest Renewable Energy Tracking System (M-RETS), or other comparable process acceptable to the Electing Customer, such Electing Customer's allocation of the environmental and compliance benefits of Wind XI that MidAmerican does not need for environmental compliance. Electing Customer shall notify MidAmerican within sixty (60) days of MidAmerican's notice to such customer of this option, which notice shall be provided within thirty (30) days of any final order of the Iowa Utilities Board approving this Stipulation and Agreement, or, for future ICR customers, within thirty (30) days of their becoming an ICR customer. Any election made pursuant to the July 26, 2016 version of this Stipulation and Agreement shall remain in effect and those customers will not be required to make an additional election under this revised Stipulation and Agreement. MidAmerican will prudently manage all other environmental and compliance related benefits from Wind XI for the benefit of all other customers. The Iowa portion of any revenues from the sale of environmental or compliance related benefits associated with Wind XI shall be recorded as a regulatory liability and will be excluded from the Iowa Energy Adjustment Clause ("EAC") and revenue sharing as approved in MidAmerican's 2013 rate case until the investment and all other costs and benefits of Wind XI are included in base rates or the EAC in a future rate proceeding. For subsequent rate cases, MidAmerican proposes that the Iowa jurisdictional portion of the investment and all other costs and benefits of Wind XI shall be included in base rates, and the Iowa jurisdictional portion of any revenues from the sale of environmental or compliance related benefits associated with Wind XI shall be included in the EAC.</p>
<p>Federal Production Tax Credits</p>	<p>The Iowa jurisdictional portion of any federal production tax credits associated with Wind XI 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 XI will be excluded from the Iowa Energy Adjustment Clause ("EAC") approved in MidAmerican's 2013 Rate Case. For subsequent rate cases that address Wind XI, the Iowa jurisdictional portion of the investment and all other costs and benefits of Wind XI shall be included in base rates, and the Iowa jurisdictional portion of any federal production tax credits associated with Wind XI shall be included in the EAC.</p>
<p>Rate Mitigation</p>	<p>The revenue-sharing calculation approved by the Board in Docket No. RPU-2013-0004 shall be modified as follows: The threshold for revenue sharing shall be the weighted average cost of common equity or 11%, whichever is less. The weighted average cost of common equity shall be calculated annually based on the equity returns approved by the Board for all ratemaking principles rate base assets and all other rate base assets, utilizing the two-point average rate base in the annual revenue sharing calculation. The equity return for all other rate base assets shall be based on 30-year single-A utility bond yields (as published by Moody's Investors Service, Inc. as of June 30th of each year) plus 400 basis points, with a minimum return of 9.5%. To the extent that Iowa jurisdictional electric operating income exceeds the threshold, 100% of the excess shall be credited to customers. The methodology used to calculate revenue sharing will be as approved by the Board in Docket No. RPU-03-01. Any revenue-sharing proceeds for the customers' benefit shall be used to reduce the investment in</p>

	<p>generation rate base, as follows:</p> <ul style="list-style-type: none"> • 50% of the revenue sharing proceeds will be applied to the following rate base assets in this order: (1) Walter Scott, Jr. Energy Center Unit 4; (2) Ottumwa Generating Station; (3) Louisa Generating Station; (4) Neal Energy Center 4; (5) Neal Energy Center 3; (6) Walter Scott Energy Center 3; and (7) Quad Cities Nuclear Power Station. • 50% of the revenue sharing proceeds will be applied to the following rate base assets in this order: (1)Walter Scott, Jr. Energy Center Unit 4; (2) Greater Des Moines Energy Center; (3) Wind I Project; (4) Wind II Project; (5) Wind VII Project; (6) Wind III Project; (7) Wind IV Project; (8) Wind V Project; (9) Wind VI Project; and to the extent they are included in rate base, the following projects will be added in this order: (10) Wind VIII Project; (11) Wind IX Project; (12) Wind X Project; and (13) Wind XI Project. <p>Iowa jurisdictional electric operating income above that required to achieve the weighted average cost of common equity shall benefit customers 100% as described above. This ratemaking principle shall become effective in 2018 and remain in effect until either: 1) the Wind XI assets are reflected in rates in a future MidAmerican Iowa electric rate case, or 2) Wind XI federal production tax credits expire. In the event Wind XI federal production tax credits expire, the revenue sharing methodology shall revert back to the methodology approved by the Board in Docket No. RPU-2013-0004.</p>
<p>Iowa Retail Energy Benefits</p>	<p>The following ratemaking treatment for Wind XI shall remain in effect until the assets are reflected in rates in MidAmerican's next Iowa electric rate case. Each month, 100% of the Iowa retail energy benefits from Wind XI production shall be excluded from the EAC approved in MidAmerican's 2013 Rate Case. However, the Iowa retail energy benefits from Wind XI production shall be included in the calculation of any revenue sharing for the year.</p>

