STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE:	)	
	)	**DOCKET NO. RPU-2013-0004**
MIDAMERICAN ENERGY COMPANY	)	
	)	

DIRECT TESTIMONY OF WILLIAM J. FEHRMAN

Q. Please state your name and business address.

A. William J. Fehrman. MidAmerican Energy Company, 666 Grand Avenue, Des Moines, IA 50309.

Q. By whom are you employed and in what capacity?

A. I am the President and Chief Executive Officer of MidAmerican Energy Company ("MidAmerican" or "Company").

Q. Please describe your education and business experience.

A. I graduated from the University of Nebraska in Lincoln in 1984 with a bachelor's degree in civil engineering. In 1998, I earned a master's degree in business administration from Regis University, Denver, Colorado. I joined Nebraska Public Power District in May 1981, and held various positions across the business including assignments in both fossil and nuclear generation. I was named CEO in January 2003.

I joined MidAmerican Energy Holdings Company in February 2006 to oversee integration activities of the Company's acquisition of PacifiCorp and until September 2007, I was the President of PacifiCorp Energy, with responsibility for the electric generation, commercial and energy trading, construction management and coal-mine development and operations of the Company. I have been in my current position with MidAmerican since September 2007.

Q. Have you testified before Iowa Utilities Board ("Board") or other regulatory bodies previously?

A. Yes, my written testimony was prefiled in Docket No. RPU-2012-0001.

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to provide an overview of current MidAmerican Iowa electric rates, to describe MidAmerican's rate application, to summarize the reasons for the request and explain the numerous unique customer benefits that form a part of the application. I also introduce other MidAmerican witnesses.

Q. Are you sponsoring any exhibits in the filing?

A. Yes. I am sponsoring Exhibit___(WJF-1), Schedule A – 2012 Retail Rates per kWh.

Overview of Current Electric Rates

Q. Please provide an overview of MidAmerican's current Iowa electric rates.

A. A series of Board-approved rate agreements froze MidAmerican's base electric rates while permitting sharing of revenues for our customers' benefit above a specified return on equity. The beneficial results of this ratemaking approach have been dramatic. MidAmerican's customers benefitted from more than 16 years of electric rate stability, which has had a significant economic development benefit for the state of Iowa.

Moreover, MidAmerican's total retail electric rates are tenth lowest nationally, at an average of approximately 6 cents per kilowatt-hour, and are approximately 38 percent lower than the national average for investor-owned utilities. Exhibit___(WJF-1), Schedule A provides a comparison of MidAmerican's electric rates to the national and regional average for investor-owned utilities in addition to rates of specific utilities. As you can see, we compare very favorably in all respects and we intend to continue being a low-cost provider in the future. The steps we are taking to reduce the rate relief requested in this application that I discuss later in my testimony will demonstrate why MidAmerican will remain a low-cost provider.

Q. Briefly describe customer benefits during this long-term rate stability period.

A. Rate stability has produced many customer benefits, including:

1. Since 2001, MidAmerican has placed into service the Greater Des Moines Energy Center, Walter Scott Jr. Energy Center Unit 4, and over 2,200 MW of wind generation without increasing rates. These generation assets have been depreciated for several years before being reflected in rates. For example, the asset balance for the Greater Des Moines Energy Center in the revenue requirement calculated in this filing has been reduced by approximately 9 years of depreciation.

2. In addition, during the period of rate stability, revenue sharing provided for accelerated depreciation on certain generating assets. Consequently, the rate base that is reflected in the electric revenue requirement calculated in the testimony of MidAmerican witness Mary Jo Anderson is less than what it would have been without revenue sharing. Moreover, MidAmerican's $735 million investment in Walter Scott, Jr. Energy Center Unit 4 has been reduced by $283 million (over a 38% reduction in investment) from accelerated depreciation through revenue sharing.
3. MidAmerican has added substantial wind generation without increasing rates. This has improved MidAmerican's flexibility to deal with increased regulation of fossil fuel generation, established Iowa as a national leader in wind generation and brought about significant economic development benefits to Iowans. I also will discuss later how additional wind facilities being proposed in another Board docket may assist in reducing future electric rates in Iowa.
4. Revenue sharing has provided incentives to encourage MidAmerican to pursue and achieve cost reductions and operational efficiencies while benefitting customers, resulting in a balanced outcome for stakeholders and the Company.
5. MidAmerican kept its rate freeze commitments despite incurring significant costs to protect assets and to address customer service issues resulting from significant weather-related and flooding events. From 2007 through 2011, storm and flood related expenses have been over

$170 million. Yet during this time, no rate increase has taken place to reflect these costs in customers' rates.

Q. Please elaborate on why base electric rates have remained relatively unchanged from what they were in 1995.

A. MidAmerican is the surviving utility formed as the result of mergers that took place in the 1990s of predecessor utilities Iowa Power Inc., Iowa Public Service Company and Iowa-Illinois Gas & Electric Company. In June 1997, the Board approved a settlement for MidAmerican that included multiple rate reductions, eliminated MidAmerican's energy adjustment clause and introduced rate freeze and revenue sharing concepts. I will discuss revenue sharing later in my testimony. Since that time multiple subsequent settlements supported continuation of the rate freeze.

As a result of the long-term rate freeze, MidAmerican's current base electric rates reflect the different rates and rate designs of MidAmerican's three predecessor utilities. For example, MidAmerican's customers in the old Iowa Public Service Company service territory[1] have different electric base rates than customers in the old Iowa Power & Light Company[2] service territory. Similarly, customers in the old Iowa-Illinois Gas & Electric Company[3] service territory pay different electric rates than the other two service areas. These facts will become important when I discuss our plan to bring all customers to the same electric rates in this application as required by a 2009 Board order

[1] Communities include Sioux City, Waterloo.
[2] Communities include Des Moines area communities and Council Bluffs.
[3] Communities include Iowa City, Fort Dodge and the Iowa side of the Quad Cities.

postponing rate equalization, i.e., establishing one set of base electric rates for the entire MidAmerican service territory.

Q. Has the Board issued any recent orders that have affected MidAmerican's request now for a rate increase?

A. Yes, in 2012, in Docket No. RPU-2012-0001, a rider was added to base electric rates at the conclusion of a Board proceeding initiated by a MidAmerican application. The rider was comprised of $38.7 million in 2012 and $76 million in 2013, with no changes to base rates. For residential customers, the increase for March through December 2012 was approximately $2.30 per month and the 2013 increase was another $1.30 increase per month. The increase in revenue was tied to recovery of environmental equipment costs and increases in the costs of producing energy. As part of the Board-approved settlement with the Office of Consumer Advocate and a group of industrial customers, the rider is no longer in effect after 2013. The final Board order in Docket No. RPU-2012-0001 was issued on October 8, 2012. This action by MidAmerican essentially deferred a general rate increase.

<u>Factors Necessitating Rate Relief</u>

Q. Please describe why MidAmerican needs to request an increase in customer rates.

A. As mentioned above, the rider from the 2012 case is scheduled to end on December 31, 2013, or at the time interim rates go into effect in 2013, whichever occurs first. If MidAmerican took no action on rates this year, customers' rates would be back to 2011 levels, which would result in MidAmerican earning well below its cost of capital.

In addition, MidAmerican took a conservative approach in its 2012 rate filing and only requested approximately 50% of the increase that it could have justified in the 2012 rate filing, so there is an ongoing financial need to ask for an increase. As discussed in the 2012 docket, MidAmerican was unable to earn a reasonable rate of return on equity ("ROE") in 2011, which meant additional revenue needed to be realized. As I testified in 2012:

> *"Yes, while MidAmerican has provided stable base rates for sixteen years by mitigating the increasing costs of service through increased efficiencies and revenue sharing, MidAmerican has not been immune to economic pressures. In recent years, wholesale prices and margins have been significantly lower than anticipated due to weak demand and low natural gas prices. In addition to making significant investments, MidAmerican also has absorbed significant costs related to natural disasters and environmental compliance requirements. These external factors have resulted in MidAmerican's return on equity falling below ten percent in the 2011 test year."* [4]

Q. Are there other reasons that a base electric rate increase is required now?

A. Yes. Current base electric rates are based on 1995 business-related expenses and need to be updated for such components as wages and benefit costs, costs to maintain and operate generation and delivery facilities and investments in generation and distribution, including Walter Scott, Jr. Energy Center Unit 4; Greater Des Moines Energy Center; and all wind generation projects**.**

Q. Can you provide examples of how the components you mention have changed since the mid-1990s?

[4] Direct testimony of Fehrman on page 4, lines 70 through 77 in Board Docket No. RPU-2012-0001.

A. Yes, below is a list of changes in dollars and percentage from 1995 to 2012 by major business categories:

- Transmission assets – $531.9 million (up 108%)
- Distribution assets – $1.193 billion (up 110%)
- Fuel cost per unit of energy – up 14%, despite having added a significant amount of wind, which has zero fuel cost
- Generation maintenance and operation ("O&M") expenses – $131.6 million (up 170%)
- Transmission and distribution O&M – $63.1 million (up 143%)

Q. Are there other factors that have led to your application to increase base electric rates?

A. Yes, wholesale revenues have declined over the last few years while environmental-related investments and coal transportation costs have increased tremendously.

Q. Please explain why a decline in wholesale sales revenues impacts MidAmerican.

A. Historically, revenues from wholesale sales have significantly contributed to our ability to keep rates stable. Such revenues have decreased substantially in recent years and the trend is expected to continue, at least in the near term.

Q. Can you provide an example of the impact that lower wholesale revenues has had on MidAmerican and its ability to keep rates stable?

A. In 2007, wholesale energy prices were on average in the $50 per MWh range. In that year, MidAmerican sold approximately 12.6 million MWh into the wholesale market, resulting in margins for those sales of approximately $160.7 million (total company). With these margins, revenue sharing totaled $17.2 million for 2007. In recent years, market prices have declined to the $20 per MWh level on average, resulting in a substantial decrease in wholesale margins. Only minimal revenue sharing was experienced after 2007. This reduction in margins has put considerable pressure on our ability to hold retail electric base rates stable.

Q. Please explain why compliance costs related to environmental regulations for coal generation impact rates.

A. During the rate stability period, environmental compliance costs have exceeded $425 million. The Company has acquired, installed and operated scrubber and baghouse units and other required environmental equipment at Louisa Generating Station and Walter Scott, Jr. Unit 3. Additionally, MidAmerican is currently adding scrubbers and baghouses at Neal Units 3 and 4. Interstate Power and Light is adding similar equipment to the Ottumwa Generating Station in which MidAmerican owns 52%. All of this is required to meet environmental regulations and has been found prudent by the Board in environmental plan and budget proceedings.[5]

Q. Please explain why MidAmerican is incurring additional coal and coal transportation costs.

A. Coal and coal transportation costs in base rates reflect 1995 costs. The 2012 costs exceed what is in base rates and coal transportation costs have increased substantially in 2013.

Q. Why have 2013 coal transportation costs increased?

A. As I testified in Board Docket No. RPU-2012-0001, MidAmerican's long-term coal transportation contract expired in 2012. That contract had been of considerable benefit to our customers. The current market rates for transportation increased substantially since 1995 and even though we did extremely well in the competitive bidding process, a new coal transportation

[5] *Interstate Power and Light* Company, Docket No. EPB-2012-150, Order Addressing Completeness of Emissions Filing and Approving Settlement (IUB, February 26, 2013); MidAmerican *Energy Company*, Docket No. EPB-2012-0156, Order Addressing Completeness of Emissions Filing and Approving Settlement (IUB, December 19, 2012); *MidAmerican Energy Company*, Docket No. EPB-2010-0156, Order Addressing Completeness of Emissions Filing and Approving Settlement (IUB, February 22, 2011); *Interstate Power and Light Company*, Docket No. EPB-2010-0150, Order Addressing Completeness of Emissions Filing, Approving Settlement and Requiring Reports (IUB October 1, 2010); *MidAmerican Energy Company*, Docket No. EPB-08-156, Order Addressing Completeness of Emissions Filing and Approving Settlement (IUB, October 29, 2008); Interstate Power and Light Company, Docket No. EPB-08-150, Order Addressing Completeness of Emissions Filing and Approving Settlement (IUB, October 29, 2008); Interstate Power and Light Company, Docket No. EPB-06-150, Order Approving Plan and Budget Amendment (IUB, November 9, 2007); *MidAmerican Energy Company*, Docket No. EPB-06-156, Order Addressing Plan and Budget Amendment and Approving Settlement (IUB, January 25, 2007); Interstate Power and Light Company, Docket No. EPB-06-156, Order Addressing Completeness of Emissions Filing and Approving Settlement (IUB, October 10, 2006); *MidAmerican Energy Company*, Docket No. EPB-06-156, Order Addressing Completeness of Emissions Filing and Approving Settlement (IUB, August 18, 2006); *MidAmerican Energy Company*, Docket No. EPB-05-156, Order Addressing Completeness of Emissions Filing and Approving Settlements (IUB, December 28, 2005); *MidAmerican Energy Company*, Docket No. EPB-04-145, Order Addressing Completeness of Emissions Filing, Rejecting Request to Rule on Reasonableness of Expenditures, Approving Settlement, and Setting Filing Date (IUB, October 4, 2004); *MidAmerican Energy Company*, Docket No. EPB-02-156, Order Affirming Proposed Decision and Order (IUB, July 17, 2003); Interstate Power and Light Company, Docket No. EPB-02-150, Order Affirming Proposed Decision and Order (IUB, July 17, 2003); *MidAmerican Energy Company*, Docket No. EPB-02-156, Proposed Decision and Order (IUB, March 19, 2003); *Interstate Power and Light Company*, Docket No. EPB-02-150, Proposed Decision and Order (IUB, March 14, 2003).

contract resulted in significant cost increases. In that previous case the Board found the new coal transportation contract to be prudent.[6]

Proposed Rate Relief

Q. What rate relief is MidAmerican proposing?

A. MidAmerican is proposing to increase electric rates substantially less than what is supported in this application. We are also proposing to phase-in the smaller increase over three years. This approach provides substantial benefits to customers.

For example, MidAmerican has calculated its fully justified rate increase at approximately $207 million, or approximately a 17% increase above rates currently in effect. MidAmerican could have asked for this increase to be effective at the conclusion of this proceeding in early 2014, but chose not to. Instead, we are asking for implementation of three smaller increases of approximately $45.2 million each in 2014, 2015 and 2016. This amounts to approximately a 3.6% annual increase or a total increase of approximately $135.5 million, or less than 11%. The smaller request is more than $70 million below what is justified; however, customer savings compared to the fully justified increase are considerably more than $70 million.

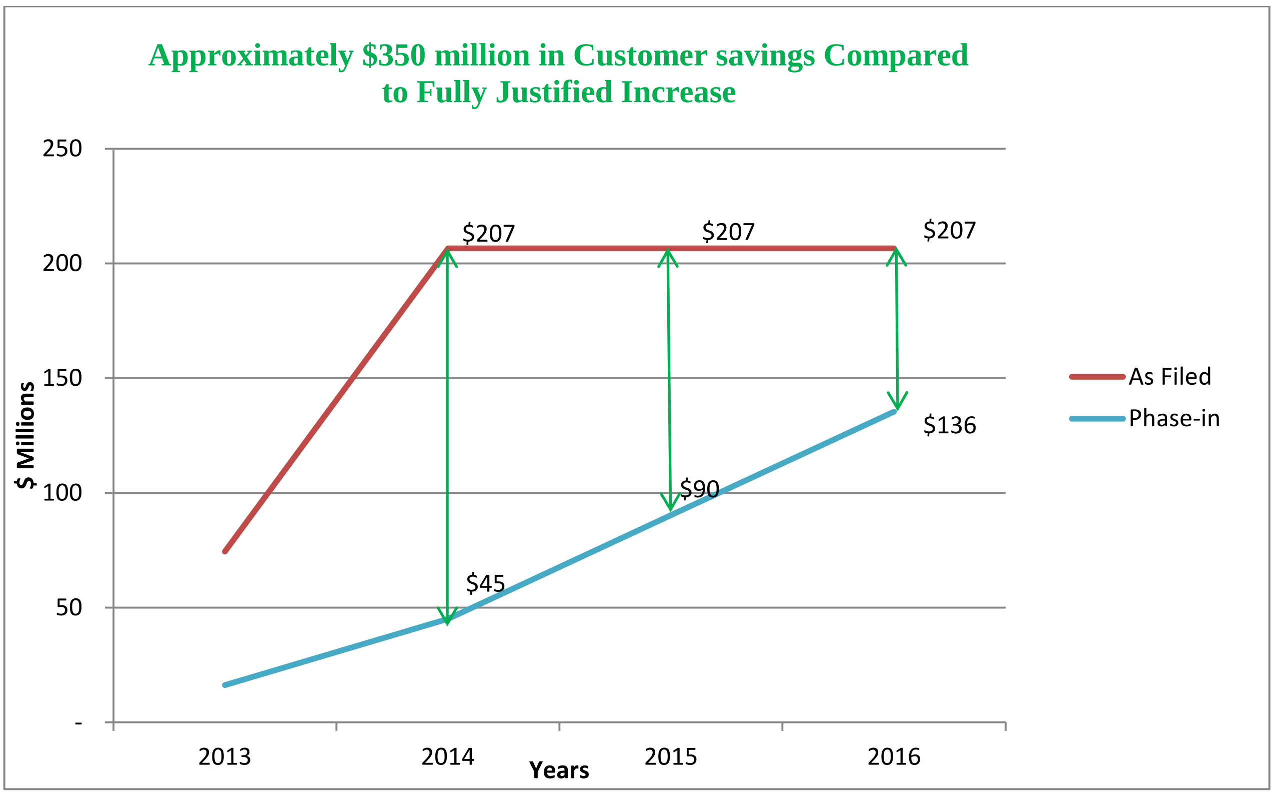
Q. Why are the customer savings more than $70 million?

A. If you compare our rate relief request of $135.5 million over three years (2014 to 2016) to a $207 million one-time increase in 2014, **customers save approximately $350 million**. These savings result from asking for a $45.2

[6] The Board stated on page 8 of the Order in Docket No. RPU-2012-0001, "The information supplied by MidAmerican indicates that its negotiations and resulting contracts with BN were arms-length negotiations and the shipping rates obtained were reasonable, given current market conditions."

million increase in 2014 instead of a one-time $207 million increase in 2014, an additional $45.2 increase in 2015 compared to a one-time increase in 2014 of $207 million and in 2016, the final $45.2 million increase compared to the one-time increase of $207 million in 2014. These customer savings estimates do not include the additional effect of the reduced interim rate request that results from the three-year phase-in compared to the interim request associated with the fully justified case.

The graph below demonstrates the substantial savings to customers.



Q. Why would MidAmerican be agreeable to foregoing a one-time higher rate increase request?

A. MidAmerican is mindful of the economic hardships that our customers are experiencing. Additionally, I think it is in the best long-term interests of our customers and the Company to ease into higher rates. It provides customers time to adjust their budgets and get acclimated to higher electric bills. I am hopeful that customers will be encouraged to take full advantage of our energy efficiency programs to help reduce future increases in their bills. Just as important, this approach is consistent with the goals I set for this rate case.

Q. What goals are those?

A. The goals are outlined below:

1. Customer Focused Approach – Maintain or improve customer satisfaction during this process.
2. Balanced Outcome – Proposal must balance interests of customers, regulators, other stakeholders and the Company.
3. Soften Customer Impact – Propose mechanisms that allow customers to adjust to increases in electric rates over a period of time including unique approaches to minimize the overall requested increase.

MidAmerican has worked extremely hard to find ways to reduce the requested rate relief and still result in acceptable financial results for the Company.

Q. In addition to the phase-in that represents a significant savings to customers, please describe the other factors that mitigate customer impacts.

A. The three-year plan would include (1) a 10% ROE on non-ratemaking rate base compared to a ROE of 10.8% supported by MidAmerican witness Dr. James Vander Weide; and (2) deferral of some depreciation expenses. The depreciation deferral is described in the testimony of MidAmerican witness Specketer.

The ROE reduction provides $21.2 million savings to customers. The depreciation deferral increases customer benefits another $50 million annually. This is a substantial proposal by the Company to reduce the impact to customers.

Q. What do you mean by non-ratemaking rate base?

A. As described in the direct testimonies of MidAmerican witnesses Mary Jo Anderson and Rick R. Tunning, MidAmerican rate base includes some assets that have been approved by the Board in numerous ratemaking principles applications.[7] The Board orders in those cases approved a fixed ROE for each asset that, "…will apply when the costs of the electric power generating facility…[are] included in regulated rates." (Iowa Code Section 476.53 (3) a.). Non-ratemaking rate base refers to assets not governed by Board ratemaking principles orders. The ROE applicable to this non-ratemaking rate base is a subject to be decided by the Board in this case and that is the 10% ROE I refer to in the previous question. Approximately 53% ($3.8 billion) of net plant in

[7] *MidAmerican Energy Company*, Docket No. RPU-01-9, Order (IUB, May 29, 2002); *MidAmerican Energy Company*, Docket No. RPU-02-10, Order Approving Settlement (IUB, May 29, 2003); *MidAmerican Energy Company*, Docket No. RPU-03-1, Order Approving Stipulation and Agreement (IUB, October 17, 2003); *MidAmerican Energy Company*, Docket No. RPU-04-3, Order Approving Stipulation and Agreement (IUB, January 31, 2005); *MidAmerican Energy Company*, Docket No. RPU-05-4, Order Approving Stipulation and Agreement (IUB, April 18, 2006); *MidAmerican Energy Company*, Docket No. RPU-07-2, Order Approving Stipulation and Agreement (IUB, July 27, 2007); *MidAmerican Energy Company*, Docket No. RPU-08-2, Order Approving Stipulation and Agreement (IUB, June 16, 2008); *MidAmerican Energy Company*, Docket No. RPU-08-4, Order Approving Stipulation and Agreement (IUB, August 27, 2008); *MidAmerican Energy Company*, Docket No. RPU-2009-0003, Final Decision and Order (IUB, December 14, 2009).

this application has ROE determinations set by those prior Board ratemaking principles orders.

Q. Are there any other rate relief measures MidAmerican is proposing to even further reduce the rate increase?

A. Yes, while not part of this docket, MidAmerican is proposing to reduce customers' electric rates by $3.3 million in 2015, $6.6 million in 2016 and $10.0 million in 2017 and thereafter until the next rate case if the Board approves the May 10, 2013, Wind VIII ratemaking principles application. The reduction is conditioned on constructing at least 350 MW of additional wind facilities and would be achieved by crediting the energy adjustment clause ("EAC") proposed in this docket.

Adjustment Clauses and Revenue Sharing

Q. Are there any other aspects of the rate relief request you would like to mention?

A. Yes, MidAmerican is requesting implementation of two adjustment clauses and continuation of revenue sharing.

Q. Why are you requesting Board approval of adjustment clauses?

A. The adjustment clauses are needed to recover two categories of costs that are beyond the direct control of management and could be subject to significant change. These clauses are especially important to help ensure MidAmerican's financial situation does not deteriorate, since we are offering to phase in the increase over three years at levels far below what is fully justified in this application. We also desire to avoid the potential for multiple rate proceedings, and these adjustment clauses would help reduce and alleviate future base rate increases.

Q. What are the two adjustment clauses?

A. We are requesting an EAC and a transmission cost adjustment ("TCA").

Q. Please generally describe MidAmerican's proposed treatment of energy related costs and revenues in this application.

A. MidAmerican is proposing to implement a retail EAC in this application. As described by MidAmerican witness Debra L. Kutsunis, the EAC is designed to remove the fuel and purchased power costs related to Iowa jurisdictional sales from base rates and recover such costs through the EAC. Additionally, we propose to include consumable chemical costs and, for the benefit of customers, apply pre-tax-level federal production tax credits ("PTCs") related to the wind facilities and renewable energy credit ("REC") sales to offset some of these costs.

The PTC is a federal tax credit that currently amounts to approximately $0.023 per kilowatt-hour produced (after tax value). In 2012, this amounted to $141 million. A REC represents one megawatt-hour of renewable energy attributes, i.e. property rights to the environmental, social, and other non-power qualities, of renewable electricity generation. A REC can be sold separately from the underlying physical electricity associated with a renewable-based generation source. In 2012, MidAmerican sold approximately 4.4 million RECs at a total revenue of $3.6 million.

Q. Why is it appropriate to include PTCs and RECs in the EAC?

A. The PTCs and REC revenues have historically been assigned as customer benefits in ratemaking principles applications for MidAmerican's wind facilities approved by the Board. As discussed further in the testimony of MidAmerican witness Kutsunis, levels of these credits and revenues will fluctuate significantly. In addition, MidAmerican has been in the wind power business for nearly 10 years and wind production from some of MidAmerican's older facilities will soon no longer be eligible for PTCs. If not included in the EAC, the reduction in PTCs could accelerate the need for future rate cases, which is not in the best interests of customers, the Company and other stakeholders. For example, the table below shows the estimated Iowa electric portion of after-tax PTCs through 2020.

	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total PTCs	$166.0	$156.0	$147.0	$140.0	$117.0	$82.0	$85.0

Of course, if the Board approves the Wind VIII application mentioned previously, the EAC will include additional credits of up to $10 million annually.

Q. Please generally describe MidAmerican's proposed treatment of transmission related costs and revenues in this rate case.

A. MidAmerican proposes to treat transmission-related costs and revenues in a manner consistent with cost causation. These costs and revenues fall into three distinct categories: costs and revenues related to MidAmerican's traditional retail load transmission facilities; Midcontinent Independent System Operator, Inc. (“MISO”) transmission costs incurred to provide retail service to our Iowa electric customers; and revenues and costs related to regional transmission facilities owned and operated by MidAmerican, but used largely to provide regional service to wholesale transmission customers. In this case, a transmission cost adjustment is proposed that will remove from base rates and allow automatic adjustment for recovery of MISO transmission costs incurred to provide retail service. The costs and revenues associated with MidAmerican’s transmission investment for retail load will remain a component of base rates. The costs and revenues associated with MidAmerican’s investment in regional transmission facilities will not be included in base rates. Company witness Dehn A. Stevens supports the TCA as a matter of regulatory policy, explains why it is appropriate to retain retail load transmission costs and revenues as a component of base rates, and also explains why it is appropriate to not include regional transmission investments in base rates. He also provides a detailed explanation of the TCA in his testimony.

Q. Why is it appropriate to include the TCA as a component of MidAmerican electric rates at this time?

A. The Midwest has experienced many years of relatively minimal additions to the transmission grid while at the same time experiencing large growth in wind generation, additions of thermal generation, and modest load growth, resulting in a pent-up need for transmission. As a result, a number of significant regionally cost allocated projects have been approved through the MISO planning process. MidAmerican begins incurring its share of costs for the regionally-allocated facilities as soon as the utilities constructing such facilities are able to include the costs of such projects in MISO rates, which in many cases is prior to the facilities actually being in operation. These costs are the product of rates designed by MISO and costs to construct incurred by MISO members and thus are beyond the control of management and subject to variation in level. MISO also imposes a number of other transmission related costs on MidAmerican, including administrative costs, regulatory costs, and cost to serve MidAmerican's retail load served from other MISO transmission systems. A TCA is needed to ensure timely recovery of these significant costs that are not within MidAmerican's control.

Q. With the adjustment clauses mentioned above, do you still have an incentive to operate as efficiently as possible?

A. Absolutely. First, let me emphasize that I do not see MidAmerican changing the way it has approached the business of providing reasonable cost, reliable electricity to its customers just because adjustment clauses are being used.

Second, as I previously said, factors beyond MidAmerican's control influence these costs.

Third, MidAmerican is not assured that these clauses will remain in effect in the future.

Fourth, and perhaps most importantly, MidAmerican needs to remain a low cost provider for the economy of its service area to grow and jobs to be increased. If MidAmerican's service area does well economically, MidAmerican will do well financially. We have the tenth lowest average retail rates in the nation, 38% below the national average when compared to other investor-owned utilities. We have every intention of remaining a low cost provider even after this rate case. In fact, if the Board approves MidAmerican's rate increase request, MidAmerican's Iowa electric rates will still be the lowest in the region compared to other rate regulated utilities. This low-cost advantage will be even further enhanced if the Board in a timely manner approves the Wind VIII application, which could result in an approximate 1% decrease in future electric rates.

Q. You mentioned you are proposing a continuation of revenue sharing as part of the three-year phase-in proposal. Please explain.

A. As described previously, revenue sharing has been a considerable benefit for customers by reducing investment in facilities before they are even included in rate base. In this case, consistent with the goals I set for this application, we propose a continuation of revenue sharing that is fully explained in the testimony of MidAmerican witness Specketer. At a high level, the proposal retains the basic design of previous revenue sharing criteria with increased customer benefits as the financial results of the Company improve. I prefer to retain revenue sharing since it aligns customer and Company incentives and interests.

Finally, I want to make it clear that MidAmerican's proposed revenue sharing is tied to its adjustment clause proposals. Revenue sharing as proposed by MidAmerican provides customers the opportunity to benefit should MidAmerican's earnings exceed the revenue sharing threshold. MidAmerican is not proposing symmetrical protection in the event that MidAmerican's earnings fall below the earnings threshold. While customers would be assured of upside benefits, customers would not bear any risk for a MidAmerican earnings shortfall. What balances this otherwise one-sided revenue sharing plan is the protection MidAmerican would receive for timely recovery of the volatile and significant expenses to be recovered through the two adjustment clauses.

Rate Equalization Plan

Q. Is MidAmerican including a rate equalization plan in this rate case?

A. Yes, as required by the Board's Order in Docket No. RPU-04-2, MidAmerican's application includes a detailed rate equalization plan. Recall that base electric rates are different in the three areas of our service territory represented by the three companies that ultimately combined to form MidAmerican. The testimonies of MidAmerican witnesses Naomi G. Czachura and Charles B. Rea describe the method used to develop the Board-requested rate equalization proposal and how the plan will be implemented.

At a high level, MidAmerican's rate equalization proposal brings rates to levels that reflect cost of service, regardless of geographic zone, over a period of 10 years. The 10-year period for equalization was chosen to limit impacts to the extent possible on the hardest hit groups. A rate equalization adjustment clause will be applied to all customers, which will either increase or decrease their rate over a 10-year period, depending on whether their current rate is above or below the approved rate.

Q. Is the 10-year period reasonable for those customers that will benefit from rate equalization given 16 years of disparity with other similarly situated customers?

A. Yes it is a reasonable proposal. Some customers would undoubtedly like to fully equalize rates in 2014 and some would like to equalize rates over a much longer period than 10 years or not at all. Our proposal strikes a balance between those positions and attempts to limit impacts in a reasonable manner on the hardest hit groups. In the end, MidAmerican recognizes rate equalization is a public policy consideration, and that there may be more than one reasonable approach.

Q. In the order to file a rate equalization plan, the Board requested that MidAmerican file multiple rate designs and cost of service calculations. Does your filing include different approaches?

A. Yes, we have filed four different combinations of rate design and cost of service calculations. With each alternative we have provided average customer impacts by class. This is fully explained in the testimonies of MidAmerican witnesses Czachura and Rea.

Summary of Testimony in Support of the Filing

Q. Please identify the other witnesses presenting testimony in support of the Company's filing.

A. The following witnesses will also be providing testimony on behalf of MidAmerican:

Thomas B. Specketer is the Vice President and Chief Financial Officer for MidAmerican. His testimony provides a detailed explanation of

MidAmerican's rate mitigation proposal including the phase-in of the rate increase over a three-year period, establishment of a regulatory asset to reduce rate impact, other adjustments to reduce the amount of the increase and the importance of inclusion of Ottumwa Generating Station environmental projects. His testimony also addresses support for revenue sharing levels.

Rick R. Tunning is the Manager – Corporate Accounting for MidAmerican. His testimony supports the test year operating income, part of the pro forma adjustments to operating income, capital structure, application of ratemaking principles, returns on equity and year-by year revenue requirements for the three-year phase-in.

Mary Jo Anderson is Senior Technical Accountant – Property Accounting for MidAmerican. Her testimony supports average plant balances, average balances for ratemaking principles assets, rate base adjustments and plant-related pro forma adjustments.

Dr. James Vander Weide is President of Financial Strategy Associates, a firm that provides strategic and financial consulting services to clients in the electric, gas, insurance, telecommunications, and water industries. His testimony supports the determination of an appropriate allowed ROE for non-ratemaking principles rate base.

Naomi G. Czachura is Vice President, Rates and Regulatory Strategy for MidAmerican. Her testimony describes how the phased-in rate increase will be reflected in Iowa electric rates, supports rate equalization requirements for alternative cost-of-service, rate designs and customer impacts, explains implementation of rate equalization, describes rates proposed to be offered, proposes new uniform tariff terms, describes treatment of flexible pricing contracts and supports the cash working capital determination and changes to MidAmerican's standby and supplementary service rate.

Charles B. Rea is Manager, Regulatory Strategic Analysis for MidAmerican. In his testimony, Mr. Rea explains the cost of service model and cost of service alternatives, provides recommendations related to cost of service, explains rate calculations and supports rate components and rate increase phase-in and rate equalization calculations.

Debra L. Kutsunis is Manager, Regulated Pricing for MidAmerican. Her testimony provides a detailed description of trackers, supports use of trackers and the need for an energy adjustment clause and describes non-rate-related tariff terms and conditions.

Dehn A. Stevens is Manager, Transmission Services for MidAmerican. His testimony provides a detailed description of the costs and revenues associated with the MidAmerican transmission system and supports the allocation of transmission costs between base rates and the TCA.

John J. Spanos is a Senior Vice President of the Valuation and Rate Division of Gannett Fleming. His testimony supports the 2013 depreciation study.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

FILED WITH
Executive Secretary
May 17, 2013
IOWA UTILITIES BOARD

STATE OF IOWA)
) ss:
COUNTY OF POLK)

I, William J. Fehrman, being first duly sworn, depose and state that the statements contained in the foregoing prepared direct testimony are true and correct to the best of my knowledge, information and belief, and that such prepared direct testimony constitutes my sworn statement in this proceeding.

/s/ William J Fehrman

William J. Fehrman

Subscribed and sworn to before me this 10th day of May 2013.

/s/ Darla S. Johnston

Notary Public in and for the State of Iowa
Commission No. 750483
My Commission expires December 27, 2013