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**FILED WITH
Executive Secretary
August 17, 2015
IOWA UTILITIES BOARD**

August 17, 2015

Company Name: MidAmerican Energy Company
Subject: Application for Determination of Ratemaking Principles
Person to Contact: Chuck Montgomery
Address: 4299 NW Urbandale Drive
Urbandale, Iowa 50322
Initial Filing: No
Docket No. RPU-2015-0002

Ms. Joan Conrad
Executive Secretary
Iowa State Utilities Building
1375 East Court, Room 69
Des Moines, IA 50319-0069

Dear Ms. Conrad:

Enclosed for filing with the Iowa Utilities Board (“Board”), please find MidAmerican Energy Company’s Comments in response to the Board’s *Order Requesting Comments*, dated August 11, 2015, in the above-referenced docket.

Respectfully submitted,

/s/

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August 17, 2015

IOWA UTILITIES BOARD

STATE OF IOWA
DEPARTMENT OF COMMERCE
IOWA STATE UTILITIES BOARD

IN RE: :
: :
APPLICATION OF MIDAMERICAN : DOCKET NO. RPU-2015-0002
ENERGY COMPANY FOR A :
DETERMINATION OF :
RATEMAKING PRINCIPLES :

COMMENTS IN REPLY TO BOARD ORDER OF AUGUST 11, 2015

COMES NOW MidAmerican Energy Company (“MidAmerican”) and respectfully submits the following comments in reply to the Iowa Utilities Board *Order Requesting Comments* dated August 11, 2015.

1. The Iowa Utilities Board (“Board”) standard of review for settlement agreements is articulated in I.A.C. 199—7.18. It states with respect to settlements in contested case proceedings:

Parties to a contested case may propose to settle all or some of the issues in the case. The board or presiding officer will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. Board adoption of a settlement constitutes the final decision of the board on issues. (emphasis added)

In its initial application of this standard to a wind ratemaking principles settlement agreement, the Board stated it would review the various agreed upon principles in the context of the entire agreement. In its *Order Approving Stipulation and Agreement*, in Docket No. RPU-03-1, MidAmerican’s Wind I ratemaking principles case, the Board stated the following at page 10 thereof:

While the stipulation and agreement may not decide each issue the way the Board would in a contested hearing, the Board, viewing the stipulation and agreement as a whole, will find it to be reasonable, in the public interest, and not contrary to any law. The stipulation and agreement will facilitate the building of additional renewable energy to help meet the Governor’s goal, expand the diversity of Iowa’s generation resources, and further the policy goal contained in Iowa Code § 476.41. (emphasis added)

The Board has since used very similar language in nearly every one of MidAmerican's wind cases. If the same standard and approach are used in this docket with respect to the current settlement agreement ("Settlement Agreement"), MidAmerican respectfully submits that the Board should also find the current Settlement Agreement to be reasonable, in the public interest, and not contrary to law.

2. The testimony and exhibits of MidAmerican's six (6) witnesses, as well as those of the Office of Consumer Advocate ("OCA") and the Environmental Law and Policy Center/Iowa Environmental Council, offer substantial evidence that the Wind X project: (1) will provide additional economic energy, while avoiding any degradation of the adequacy, reliability, or operating flexibility of the existing transmission system from a regional or a local perspective; (2) is consistent with the policy objectives of Iowa Code §476.53 (2015); (3) represents an additional step of obtaining renewable generation consistent with state law encouraging such generation in Iowa; (4) is projected to be constructed and operated at no net cost to MidAmerican's retail customers due to MidAmerican's ability to generate supplemental revenue streams and realize avoided costs from Wind X; (5) is environmentally sound; and (6) provides substantial benefits to Iowa's economy.

3. As a consequence, all parties in this docket are in accord and have either joined the Settlement Agreement or stated they have no objection to it. This state of affairs reflects an evidentiary record supporting the conclusion that the Settlement Agreement, including the prescribed Cost Cap and the Customer Revenue Credit ratemaking principles, is reasonable, consistent with law¹ and in the public interest.

4. Cost Cap. The evidentiary record demonstrates that the agreed cost cap (\$1.638 million/MW) is reasonable, in the public interest and consistent with law. The testimony of

¹ MidAmerican has filed a waiver request that would apply to the extent that the Board deems a rule waiver necessary in order to approve the Customer Revenue Credit approach preferred by MidAmerican and the OCA. OCA has submitted a filing indicating they have no objection to the granting of such a waiver.

Thomas B. Specketer and Adam L. Wright demonstrates that the agreed cost cap is the break-even point at which MidAmerican projects the Wind X project will result in no net costs to its customers. Delivery of up to 552 MW of new wind generation, and all its benefits, at no net cost to customers is unique, with the exception of MidAmerican's prior wind power projects.² While the Iowa Administrative Procedure Act certainly allows the Board to make use of "the agency's experience, technical competence, and specialized knowledge"³ in the evaluation of evidence, MidAmerican notes there is nothing in the evidentiary record to support a conclusion that the cost cap, as agreed to in the Settlement Agreement, is unreasonable, not in the public interest, or not consistent with law.

Furthermore, as the agreed cost cap ratemaking principle states: "In the event that actual capital costs of Wind X site are lower than the cost cap, 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." Thus, the agreed cost cap assures that customers will only see costs in their rates that reflect capital costs at or below the break-even point. Any costs above that break-even point would have to be approved by the Board before their inclusion in rates.

Board staff's comments, at the August 11, 2015 decision meeting, sought to justify staff's proposed reduction to the agreed cost cap by observing that MidAmerican can simply pursue a later prudency review for recovery of Wind X costs that are in excess of the staff's alternative cost cap (\$1.610 million/MW). MidAmerican respectfully submits to the Board that reliance on an after-the-fact prudence review, regarding recovery of generation construction costs, is in direct conflict with the legislative intent behind the advance ratemaking principles statute. It was

² In fact, the Settlement Agreement with OCA reflects a lower return on equity ("ROE") amount than originally proposed. Had that lower ROE been reflected in a recalculation of the cost cap, a higher cost cap would have resulted. OCA resisted such a recalculation and MidAmerican agreed to settle for the cost cap as originally proposed. See Rebuttal Testimony of Thomas B. Specketer, pp. 4 – 7.

³ Iowa Administrative Procedures Act, Section 17A.14(5)

the legislature's intent to create greater certainty for a rate-regulated public utility by allowing it to obtain advanced approval of ratemaking principles. That this was the legislature's intent is supported by provisions in the statute which make approved principles "binding [. . .] in any subsequent rate proceeding."⁴ It is particularly difficult to understand why the Board would want to add uncertainty to this wind project when, as here, completion of Wind X at the agreed cost cap (\$1.638 million/MW) would yield substantial customer benefits at no net cost to customers.

MidAmerican respectfully submits that the Board staff's alternative cost cap is also inconsistent with the legislature's intent to encourage the development of generation resources. The legislature expressly stated it was "...the intent of the general assembly to attract the development of electric power generating and transmission facilities within the state in sufficient quantity to ensure reliable electric service to Iowa consumers and provide economic benefits to the state." See Iowa Code Subsection 476.53(1). Rejection of an agreed cost cap ratemaking principle, tied to the break-even point at which customers bear no net cost for Wind X's addition, does not constitute an effort to "attract the development of electric power generating...facilities." Instead, the Board staff's alternative has the potential to discourage development of very beneficial generation for customers, despite the projection that it will be delivered at no net cost to those customers.

For all of these reasons, MidAmerican submits that delivery of the project, and all its benefits, with no net cost to customers, and using the agreed cost cap, is reasonable, in the public interest and consistent with law.

5. Customer Revenue Credit. At the August 11, 2015 decision meeting of the Board, there was significant discussion about delivering wind project fuel savings to customers via the Energy Adjustment Clause ("EAC") and that this approach was a superior method when

⁴ See Iowa Code Section 476.53(g)

compared to the Settlement Agreements' Customer Revenue Credit approach. The evidentiary record addresses both the Customer Revenue Credit and the EAC approaches to delivering Wind X fuel savings to customers. However, MidAmerican respectfully submits that the Customer Revenue Credit approach is a superior method as demonstrated by Response No. 6, Graph No. 1 (the "Graph") of MidAmerican's responses to the June 19, 2015 Board *Order Requiring Additional Information*. In the Wind IX proceeding, the Board expressed concern that there were intergenerational fairness concerns with the manner in which project costs/benefits were being distributed. For example, the following excerpt from the Board's *Order Approving Settlement with Modifications*, at pages 14-15, and 17:

While MidAmerican's customers will receive a reduction of fuel costs that flow through the EAC as a result of Wind IX, including Wind IX in MidAmerican's revenue sharing calculation that was approved in Docket No. RPU-2013-0004 will reduce any revenue sharing benefits to customers until such time as MidAmerican has a rate case that includes Wind IX in the company's rate base. Overall customer benefits vary significantly over time and are dependent on projected values and events that may or may not in fact occur.

* * *

In addition, the Board is aware that there could be multi-billion dollar additions to MidAmerican's rate base over the next decade; the impact on rates would depend on the timing of the rate case.

The intergenerational concerns reflected in the excerpt above were also evident in questions posed to MidAmerican witness Specketer by the board. See *Transcript* of December 17, 2014 hearing, in Docket No. RPU-2014-0002, pp. 113-117.⁵ The concern seemed, at least in part, to be that customers in the beginning years of the wind project would receive significant benefits (e.g., fuel cost savings) even though their rates would reflect no wind project costs, but customers in the later years while experiencing the same benefits would also experience rates

⁵ For example, Board Member Wagner asked witness Specketer, "Based on the projections, it appears the impact on the project will vary. The impacts will vary over time. For example, in the response to [our question] on an accumulated nominal dollar basis customers are worse off until about year seven of the project. How does the Board approach this from an intergenerational equality issue?"

that reflect the costs of Wind X (assuming a rate case).⁶ The Graph illustrates that the Customer Revenue Credit approach resolves the intergenerational fairness concerns raised in the Wind IX proceeding and that customers, over time, would share equitably in the benefits of Wind X.

It is factual that the EAC approach was used in prior cases. However, it places greater rate increase risk on future customers by flowing the initial years' fuel savings benefits to current customers whose rates do not reflect the costs of Wind X. The Customer Revenue Credit avoids this effect by using the initial fuel cost savings to accelerate depreciation and reduce the costs facing future customers. The result is a better matching of benefits with the customers paying the Wind X costs, as compared to the EAC approach. The Customer Revenue Credit's resulting rate base reductions will also help postpone the need for and reduce the magnitude of a future rate case.

While the Graph reflects that the EAC approach may yield \$100 million more in benefits to customers, on a net present value basis (with certain assumptions), it is important to remember that the Settlement Agreement's Customer Revenue Credit approach delivers \$250 million more in benefits to customers, over the life of the project, in nominal dollars, and it does so without the EAC's intergenerational imbalance in the distribution of costs and benefits, as illustrated in the Graph. MidAmerican respectfully argues that the evidentiary record supports MidAmerican's and OCA's agreement that the Customer Revenue Credit is the preferred mechanism for flowing fuel savings to customers, and demonstrates that it is reasonable, in the public interest, and consistent with law.

MidAmerican would also note that the Graph, provided to the Board in response to its request for more information, was submitted prior to MidAmerican and the OCA reaching settlement in the Wind X case. Because it was submitted prior to settlement, the Graph's assumptions reflected MidAmerican's original discount rate (based on an 11.5% return on

⁶ Note that the Wind X analysis used to draw these conclusions assumed MidAmerican would file a rate case in 2027.

equity). However, upon settlement with the OCA, MidAmerican accepted a lower return on equity (11.35%) which, in turn, forms part of the calculation of the discount rate. Thus, if the Settlement Agreement's after-tax cost of capital is used to perform the present value analysis, the \$100 million difference (the difference between the present values of the EAC and Customer Revenue Credit 30-year cash flows), is reduced to \$67.2 million. MidAmerican has provided the graph attached hereto as Attachment A as a graphical illustration of this difference.⁷

6. The Board staff's proposed alternatives have the potential to discourage development of very beneficial generation for MidAmerican's customers – new generation that will result in substantial economic development benefits for local communities, meaningful reductions in environmental emissions, enhancement of Iowa's competitive position for attracting energy intensive businesses, and improved competitiveness of its long-term electric rates, all as demonstrated in the evidentiary record. For example, the record demonstrates that Wind X will produce over \$160 million in new tax base, \$115 million in annual payments to landowners where wind turbines are located, increased local spending of more than \$200 million in 2016 during construction, a total payroll of approximately \$14 million during construction, and new permanent jobs for maintenance professionals (one for every 30 MW), not to mention Wind X's impact as a new economic development tool for Iowa to assist in attracting new businesses to our state and encouraging existing businesses to expand (e.g., Google, Microsoft).

7. While the Settlement Agreement may not decide each issue the way the Board would in a contested hearing, the Settlement Agreement does, when viewed as a whole, represent a resolution that is reasonable, in the public interest, and not contrary to any law.

⁷ MidAmerican also notes that if the above amount (\$67.2 million) is divided by the approximately 655,000 MidAmerican Iowa electric customers, one arrives at a very rough approximation of the per customer impact--\$102.59. In reality, the impact on the ordinary residential customer is very likely much less than the \$102.59 value. Thus, the EAC approach would forfeit substantial benefits from the Customer Revenue Credit's fairer distribution of Wind X benefits, over time, in order to lay claim to a rather minute benefit per customer over the life of the project.

WHEREFORE, MidAmerican respectfully requests that the Board approve the Settlement Agreement as agreed to by the parties, and that it do so expeditiously given the time considerations previously expressed in the testimony of Mr. Wright (Direct Testimony, pp. 6-8).

Dated this 17th day August, 2015.

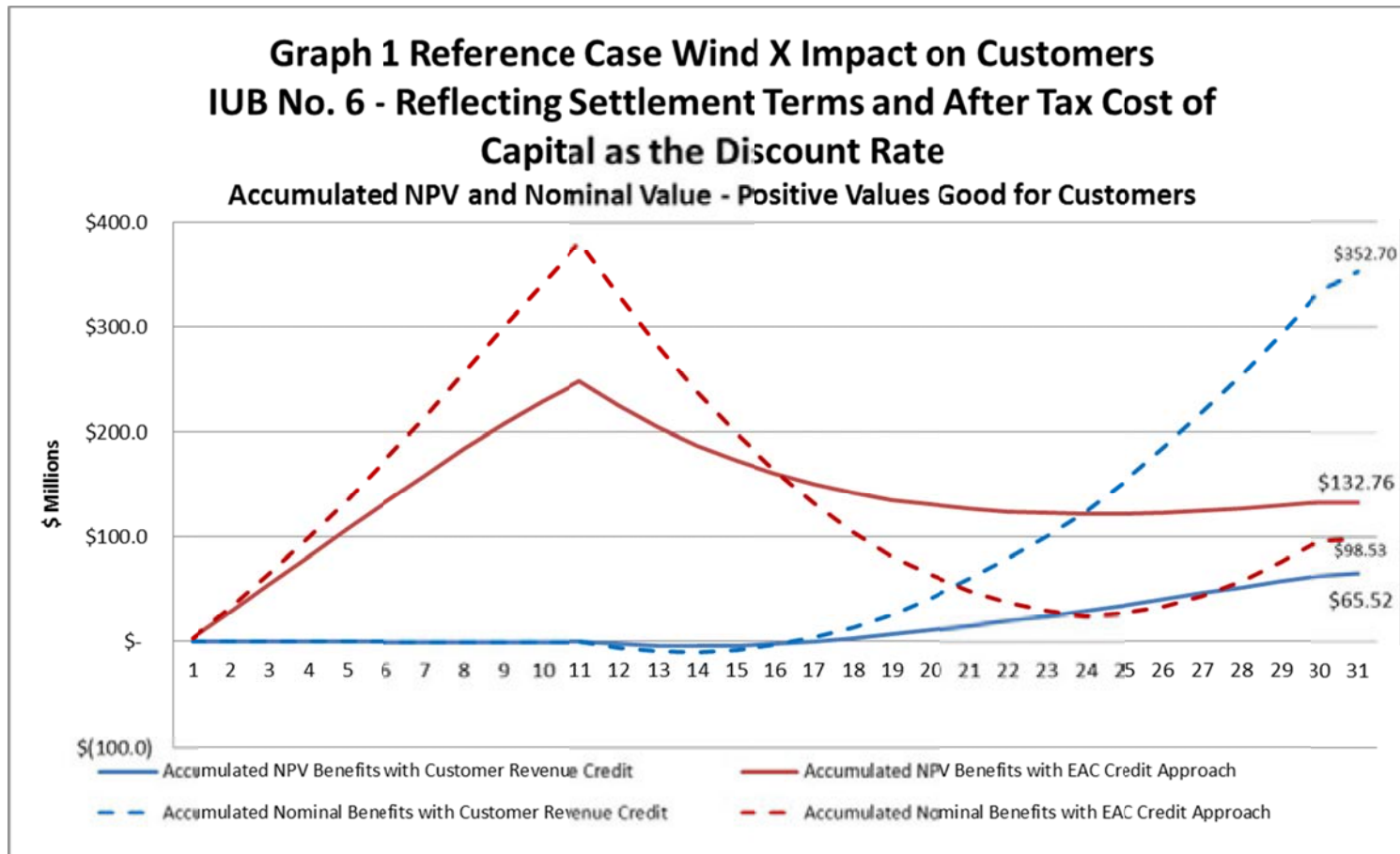
Respectfully submitted,

MIDAMERICAN ENERGY COMPANY

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ATTORNEYS FOR MIDAMERICAN ENERGY
COMPANY

Attachment A



This graph updates the NPV of customer benefits under the settlement terms (i.e. revised ROE) and utilizes a discount rate equal to the after tax cost of capital of 6.84%. The spread between the NPV customer benefits decreases to \$67 million because of these changes. Further analysis shows that the spread between the EAC and Customer Revenue Credit NPV scenarios is eliminated if a discount rate of 4.1% is utilized (not an unreasonable assumption for the discount rate of a large segment of MidAmerican's customer base). On a nominal basis, customers will pay \$254 million more over the 30 year life under the EAC credit approach compared to the Customer Revenue Credit approach.