

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF)	SETTLEMENT
MIDAMERICAN ENERGY COMPANY FOR)	STIPULATION
AUTHORITY TO INCREASE ITS ELECTRIC)	
RATES)	EL14-072
)	

It is hereby stipulated and agreed by and between MidAmerican Energy Company (“Applicant” or “MidAmerican”) and the South Dakota Public Utilities Commission Staff (“Staff”), collectively “Parties”, that the following Settlement Stipulation (“Stipulation”) may be adopted by the South Dakota Public Utilities Commission (“Commission”) in the above-captioned matter. In support of its Application for Authority to Increase Its Electric Rates (“Application”), Applicant does hereby offer this Stipulation, the Application and all supporting materials filed August 4, 2014, and thereafter. The Parties offer no answering testimony or exhibits, conditioned upon the Commission accepting the following Stipulation without any material condition or modification.

I. INTRODUCTION

On August 4, 2014, MidAmerican filed with the Commission the aforementioned Application through which it requested authority to increase annual revenues by approximately \$1.6 million annually based on MidAmerican’s test year ending December 31, 2013. On August 26, 2014, the Commission issued an Order Assessing Filing Fee and Suspending Operation of Rates for 180 days. On February 1, 2015, MidAmerican implemented interim rates.

The Parties have been able to resolve all issues between them in this proceeding and have entered into this Stipulation, which, if accepted and ordered by the Commission, will determine the rates to result from MidAmerican’s Application.

II. PURPOSE

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving the issues between them in Docket No. EL14-072. The Parties acknowledge that they may have differing views that justify the end result, which they deem to be just and reasonable, and, in light of such differences, the Parties agree that the resolution of any single issue, whether express or implied by the Stipulation, should not be viewed as precedent setting. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

1) Upon execution of the Stipulation, the Parties shall file this Stipulation with the Commission together with a joint motion requesting that the Commission issue an order approving this Stipulation in its entirety without condition or modification.

2) This Stipulation includes all terms of settlement and is submitted with the condition that in the event the Commission imposes any changes in or conditions to this Stipulation which are unacceptable to either Party, this Stipulation may, at the option of either Party, be withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose.

3) This Stipulation shall become binding upon execution by the Parties, provided however, that if this Stipulation does not become effective in accordance with Paragraph 2 above, it shall be null, void, and privileged. This Stipulation is intended to relate only to the specific matters referred to herein; neither Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein; neither Party shall be deemed to have approved, accepted, agreed, or consented to any ratemaking principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or be advantaged or prejudiced or bound thereby in any other

current or future rate proceeding before the Commission. Neither Party nor a representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission relating to this Stipulation as precedent in any other present or future rate proceeding or any other proceeding before the Commission.

4) The Parties to this proceeding stipulate that all prefiled testimony, exhibits, and workpapers will be made a part of the record in this proceeding. The Parties understand that if this matter had not been settled, Commission Staff would have filed direct testimony, MidAmerican would have filed rebuttal testimony responding to certain positions contained in the direct testimony of Commission Staff, and an evidentiary hearing would have been conducted where the witnesses providing testimony would have been subject to cross-examination.

5) It is understood that Commission Staff enters into this Stipulation for the benefit of all of MidAmerican's South Dakota customers affected by this docket.

III. ELEMENTS OF THE SETTLEMENT STIPULATION

1. Revenue Requirement

The Parties agree that the total revenue deficiency excluding the Highland Wind project and the Southland Substation project is \$293,903. Once the Highland Wind project and the Southland Substation project are included in the revenue requirement, the total revenue deficiency is \$648,471, resulting in an increase in annual base rate levels of approximately 5.66%. This two-step increase is further described below under paragraph 5. The Parties agree to a 6.92% rate of return on rate base.

2. Tariffs

The Parties agreed to revised tariffs and those tariffs are attached as Exhibit 1 for presentation to the Commission.

The Parties agree that the rate design to be set forth in the revisions to MidAmerican's tariffs is just and reasonable and provides for the movement of each customer class toward its associated cost of service. The Parties agree that the increase in rates for electric service will be allocated to the affected rate classes resulting in increases as shown in Exhibit 2. The Parties agree that the rates agreed to by the Parties result in just and reasonable rates for all of MidAmerican's South Dakota customers.

The Parties agree that the revised rate schedules shall be implemented for service rendered on and after the Commission approved effective date, with the bills prorated so that usage prior to July 13, 2015, is billed at the previous rates and usage on and after July 13, 2015, is billed at the new rates.

3. Interim Rate Refund

Interim rates were implemented on February 1, 2015. Approval of this Stipulation will authorize a rate increase less than the interim rate level in effect. MidAmerican agrees to refund customers a portion of the interim rates collected during the period February 1, 2015, through the effective date of new rates, plus interest. MidAmerican will separately file a proposal for an Interim Rate Refund Plan and the Customer Notifications.

4. Rate Case Expense

The Parties agree that a total of \$78,884 in rate case expense associated with Docket No. EL14-072 is included in the Rate Case Expense amortization and included in the revenue requirement.

5. Southland Substation and Highland Wind Projects Step Increase

The Parties agree that it is consistent with South Dakota law and the Commission's rules and orders to include all committed capital costs through the end of December 2015 for the Southland Substation and Highland Wind Projects ("Projects"). Including the full amount of the Projects now will mitigate the need for a future rate case and associated costs to litigate as well as bring substantial energy cost benefits to customers, including associated production tax credits ("PTCs") and renewable energy credits through the energy cost adjustment ("ECA") clause from the Highland project.

Because the Southland Substation and a portion of the Highland project facilities (collectively, "Facilities") will not be placed in service until after the final rates in this proceeding are implemented but prior to December 31, 2015, the Parties agree to phase in the costs related to those Facilities through a second step increase in rates after the Facilities are in service and used and useful to be effective prior to December 31, 2015. The Parties agree that this two-step increase should be accomplished through implementation on the effective date of rates approved in this docket of a step rider (Rider SI) that applies a negative per-kwh adjustment to all energy sales. The rider is calculated to achieve a reduction in the revenue requirement equal to the costs of the Facilities that will not yet be in service when final rates are implemented. The rider, included as Sheet No. 81 of the tariffs in Exhibit 1 to this Stipulation, will terminate prior to December 31, 2015, on the date that all of the Facilities have been placed in service, which will be verified by filing with the Commission on the same date, or the next business day, an affidavit of MidAmerican. The workpapers showing the calculation of the Rider SI factor are attached as Exhibit 3.

As further support, MidAmerican will file a report no later than January 31, 2016, identifying the actual costs associated with the Projects and comparing those to the costs included in rates in this proceeding. If the actual costs of the Projects are less than those costs included in rates, MidAmerican and Staff will recalculate the rates based on these final costs and MidAmerican will refund customers' overcharges.

6. Wind Project Guarantee

For over 10 years, MidAmerican's wind fleet has experienced high reliability with availability exceeding 97%. With that exceptional performance, customers have realized substantial benefits that have resulted in lower energy costs and protection from costly new environmental regulations. In order to provide assurance to the Commission that these benefits will continue to be realized in the future, MidAmerican will guarantee a pretax minimum of \$5.5 million in PTCs will be included as a credit in the ECA over the moratorium period as defined in Section 11 of this settlement. If at the end of the moratorium period this pretax amount of PTCs has not been realized, MidAmerican will submit to the Commission a method to include the deficit PTCs in the ECA.

MidAmerican will submit to the Commission in February of each year during the moratorium period, as part of its annual ECA filing, a summary of the cumulative amount of PTCs that have been credited to the ECA.

The guarantee described above will be subject to downward adjustment if the Midcontinent Independent System Operator, Inc. ("MISO") restricts wind energy production due to electric system conditions. For example, wind energy production could be restricted and in that case the guarantee would be subject to a downward adjustment if there are periods of economic or reliability curtailments. Reliability curtailments are periods of time where wind

energy production is reduced in whole or in part per directives from the MISO, the Midwest Reliability Organization, or any transmission owner or other reliability entity. Economic curtailments are periods of time where wind energy production is reduced in whole or in part due to MISO market prices falling below the economic real-time market offer prices submitted to MISO for MidAmerican's wind resources. MidAmerican will keep the Commission updated on any such occurrences and provide the proposed methodology used to adjust the PTC guaranteed amount.

7. Retirement Plan Costs

The Parties agree that any rate case filed within the five years after approval of this case will reflect a three-year average of retirement plan costs.

8. Depreciation Rates

MidAmerican shall advise Staff and the Commission of the results of any depreciation study of its electric plant conducted.

9. Energy Cost Adjustment Clause

The Parties agree that in addition to the items included today in MidAmerican's ECA, 100% of wholesale margins will be included in the ECA. All revenues and expenses of wholesale sales have been removed from the cost of service analysis used to develop base rates. The pre-tax value of PTCs, 90% of the revenues received from sales of renewable energy credits (with MidAmerican retaining 10% of such revenues as an incentive to make such sales), and the costs of reagents that are necessary to comply with requirements of the Environmental Protection Agency, including its Mercury and Air Toxics Standards rules, will also be included in the ECA. The workpapers showing the calculation of the ECA factor are attached as Exhibit 4.

Quarterly, MidAmerican will review ECA balances. When the projected cumulative account balance (X) divided by projected jurisdictional sales (J) equals or exceeds $\pm \$0.001$, a revised ECA Factor will be determined and filed for implementation with the next month's billing cycle.

10. Transmission Cost Adjustment

The Parties agree that MidAmerican will implement a Transmission Cost Recovery ("TCR") adjustment clause to include costs assessed to MidAmerican by MISO, including a portion of the costs associated with its regionally-allocated electric transmission facilities as reflected in MidAmerican's transmission rates approved by the Federal Energy Regulatory Commission ("FERC"). The costs assessed by MISO include MISO administrative costs (presently tariffed as MISO FERC Transmission Rate Schedule 10) as well as MISO regional transmission costs (presently tariffed as MISO FERC Transmission Rate Schedules 26 and 26-A). With respect to the portion of MidAmerican's regionally-allocated transmission facilities, the Parties agree that the MidAmerican TCR clause will utilize the MidAmerican rate templates filed with the FERC which may change from time to time ("FERC Rate Template"). Replacing the overall rate of return reflected in the FERC Rate Template will be an overall rate of return based on the Company's actual capital structure, including short-term debt, actual long-term debt costs as of the prior year, 12-month average short-term debt costs for the prior year, and the rate of return on common equity approved in this rate case (collectively, "cost of capital"). This information will be used to compute an adjustment applicable to that portion of the MidAmerican regionally allocated transmission costs to be recovered via the TCR clause. The TCR clause information will be updated each year in a filing pursuant to SDCL 49-34A-25.1-25.4, including an update to all elements of the cost of capital other than the ROE, which will be

updated with a change in base rates. The workpapers showing the calculation of the TCR factors are attached as Exhibit 5.

11. Moratorium

A. The Parties agree that MidAmerican shall not file any rate application for an increase in base rates which increase would go into effect prior to February 1, 2018; provided, this restriction would not prevent MidAmerican from filing for a base rate increase to take effect prior to February 1, 2018, if MidAmerican's cost of service is expected to increase due to an "Extraordinary Event." The Parties agree that this rate moratorium does not restrict MidAmerican from adjusting or applying to the Commission to implement any rider or other adjustment mechanism, including, but not limited to, the ECA, Electric Tax Adjustment, Electric Energy Efficiency Cost Recovery Adjustment, Transmission Cost Recovery Adjustment, phase in rate plan or environmental improvement adjustment or other rider or adjustment mechanism that may take effect on or after July 13, 2015.

B. As used in this Stipulation "Extraordinary Event" is any one of the following occurrences:

1) Governmental Impositions – Changes in federal, state or local governmental requirements or governmental charges including, but not limited to, income taxes, taxes, charges or regulations imposed on energy, emissions, or environmental externalities requirements imposed after July 1, 2015, upon MidAmerican that are projected to cause its South Dakota cost of service to increase by \$500,000 or greater. Increases in MidAmerican's South Dakota cost of service that are less than \$500,000 will be presumed not to be material for the purposes of this paragraph.

2) Major Capital Additions – New capital projects with individual budgets expected to be allocated to the South Dakota jurisdiction greater than \$10,000,000.

This Stipulation is entered into effective this 3rd day of June, 2015.

MIDAMERICAN ENERGY COMPANY

SOUTH DAKOTA PUBLIC UTILITIES
COMMISSION STAFF

BY: /s/ Michael C. Fehr
Michael C. Fehr

BY: /s/ Kristen Edwards
Kristen Edwards

ITS: Vice President, Regulation

ITS: Staff Attorney

Exhibits to Settlement Stipulation

Exhibit 1	Tariffs
Exhibit 2	Allocation of Rate Increase
Exhibit 3	Rider SI Factor Calculation
Exhibit 4	ECA Factor Calculation
Exhibit 5	TCR Factor Calculation