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VIA E-filing

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
500 East Capitol Ave.
Pierre, SD 57501

**Re: MidAmerican's Energy Cost Adjustment Factor As Applied to
Repowered Wind Facilities**

Dear Executive Secretary:

MidAmerican Energy Company ("MidAmerican") is currently in the process of repowering up to 706 existing General Electric wind turbines located in Iowa, which will qualify the turbines for new Production Tax Credits ("PTCs") under guidance from the Internal Revenue Service ("IRS"). By way of this letter request, MidAmerican requests that the South Dakota Public Utilities Commission ("Commission") open a docket and issue a ruling identifying that the new production tax credits will not be subject to the provisions of MidAmerican's Energy Cost Adjustment ("ECA") tariff (South Dakota Electric Tariff Schedule No. 2, Sheet No. 78).

MidAmerican's ECA states (in relevant part):

"The cost of energy will be adjusted by the pre-tax amount of any federal production tax credits associated with renewable power projects whose costs have been approved for inclusion in rate base in a rate proceeding, grossed up at the rate of 1.538 as entered into account 409.1, reduced for any negative energy settlements from those renewable power projects that result during the period the projects are eligible for the production tax credit, as recorded in account 447.043."

Since MidAmerican will not be including the costs of repowering in rates, MidAmerican believes that the PTCs associated with repowering should be excluded from the ECA, and request an interpretation from the Commission confirming this conclusion. MidAmerican's reasoning behind this conclusion is as follows:

Currently, South Dakota is allocated approximately 1% of MidAmerican's wind projects that are included in rates and all of the turbines that are subject to the repowering efforts are currently included in South Dakota rate base. However, concerning repowering, MidAmerican will not include the costs of repowering in rates unless and until their inclusion is requested in a future rate case, which is not anticipated for many years. Therefore, the Commission will maintain oversight over the repowering costs since this interpretation of the tariff will not prejudice any

party's ability to argue about the costs and benefits of the repowering efforts in a future rate proceeding.

The turbines that are subject to MidAmerican's repowering efforts will have been in service for over ten years at the time of repowering, and therefore, without repowering the turbines, collection of PTCs would end. By repowering the turbine, which is a process where MidAmerican will replace significant portions of existing wind turbines with new, more efficient parts and continue to operate the turbines at existing sites, MidAmerican can begin collecting a new PTC. Aside from creating a new PTC, the longer blades and new equipment allow for an increase in the production capability, unit availability and consistency in the operation of the turbines for energy production, effectively increasing the capacity factor of the turbines.

The result of the repowering process is an increase in the amount of generation from the turbines, which increases benefits to customers through lower fuel costs, which will flow through to customers through the ECA. MidAmerican estimates that the overall ECA benefits for South Dakota customers will be \$1.7 million through 2029. South Dakota customers will realize these savings, despite the fact that the costs of repowering will not be included in rates.

The renewal of the PTC is based on provisions of the Protecting Americans from Tax Hikes ("PATH") Act of 2015¹, along with IRS rules.² Coupled together, these laws and guidance allow existing wind facilities to requalify for the PTC for an additional ten-year period provided the fair market value of the used property that is part of the repowered (or retrofitted) wind turbine is not more than 20% of the total value of such repowered wind turbine (the cost of the new property plus the fair market value of the used property).³ This is known as the 80/20 Rule. In connection with the planned retrofit/repowering project, certain equipment will be retained, including the tower structure and the foundations;⁴ however, much of the machinery and equipment inside the nacelle and the blades will be replaced with new equipment. The result of this retrofit/repowering project is effectively a new turbine on top of an existing structure.

The ECA is clear that PTCs are included for renewable power projects that are included in rate base. In the repowering situation, the costs of the new equipment that makes the projects eligible for the PTC will *not* be included in rates and MidAmerican will be taking on the risk of those costs consistent with traditional ratemaking practices. Therefore, MidAmerican believes the tariff should be interpreted to result in the PTCs associated with repowering *not* being included in the ECA.

MidAmerican believes this is the fairest outcome. Repowering makes economic sense for customers (at no additional cost) because of the increase in low-cost renewable energy, which reduces fuel related costs and for MidAmerican because of the retention of the PTC. Recognizing that MidAmerican was taking on the risk of the repowering costs by not including those costs in

¹ Public Law 114-113 (December 18, 2015). The PATH Act of 2015 was a portion of the Consolidated Appropriations Act.

² See e.g., IRS Notice 2016-31 at 11 (identifying the application of the safe harbor requirements to retrofitted facilities)

³ *Id.* (citing Rev. Rul. 94-31, 1994-1 C.B. 16; Notice 2008-60, 2008-2 C.B. 178).

⁴ The retained equipment will continue to be depreciated pursuant to the schedules approved in MidAmerican's last electric rate case.

rates unless approved in a future rate case, the Iowa Utilities Board recently issued an order modifying MidAmerican's tariff to clarify that MidAmerican will retain 100% of the PTCs associated with repowering, subject to reporting requirements.⁵

MidAmerican requests a Commission interpretation of its tariff to clarify that it can retain 100% of the PTCs associated with repowering projects. As outlined above, MidAmerican believes that this is a fair outcome, and is an outcome consistent with the treatment of the same PTCs in Iowa.

MidAmerican is prepared to answer any questions that the Commission or staff may have on this request for an interpretation. If you have any questions, or need more information, please do not hesitate to contact me at (515) 281-2559 or by email at bjrybarik@midamerican.com.

Sincerely,

/s/ Brian J. Rybarik

Brian J. Rybarik
Managing Senior Regulatory
Attorney

⁵ *In re: MidAmerican Energy Company*, Iowa Utilities Board Docket No. TF-2017-0294, Order Approving Settlement and Approving Tariff (August 17, 2017). This Order requires MidAmerican to report on the actual benefits that accrue to customers as a result of repowering, which MidAmerican can provide to the Commission if desired.