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PAUL J. LEIGHTON
Senior Trading Attorney

July 13, 2005

RECEIVED

JUL 13 2005

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

Via Hand Delivery

Ms. Pamela Bonrud
Executive Director
South Dakota Public Utilities Commission
500 East Capitol
Pierre, SD 57501-5070

Re: MidAmerican Energy Company Request for Continuation of the Incentive Gas
Supply Procurement Plan – Docket No. NG98-010

Dear Ms. Bonrud:

Enclosed for filing please find one original and 11 copies of MidAmerican Energy Company's Application for Authority to Continue its Incentive Gas Supply Procurement Plan.

Please file-stamp one of the enclosed copies and return it to me in the enclosed, self-addressed stamped envelope. If you have any questions in that regard, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Paul J. Leighton".

Paul J. Leighton

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE
STATE OF SOUTH DAKOTA

RECEIVED

JUL 13 2005

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF THE)	
APPLICATION OF MIDAMERICAN)	
ENERGY COMPANY FOR)	
AUTHORITY TO CONTINUE ITS)	DOCKET NO. NG98-010
INCENTIVE GAS SUPPLY)	
PROCUREMENT PLAN IN)	
SOUTH DAKOTA)	

REQUEST FOR CONTINUATION OF THE
INCENTIVE GAS SUPPLY PROCUREMENT PLAN

COMES NOW MidAmerican Energy Company ("MidAmerican") and herein requests the South Dakota Public Utilities Commission ("Commission") authorize the continuance of the Incentive Gas Supply Procurement Plan ("IGSPP") for MidAmerican and its customers. The current term of the IGSPP ends October 31, 2005. In support of its Request for Continuation of the Incentive Gas Supply Procurement Plan in South Dakota ("Request"), MidAmerican states as follows:

1. On May 1, 1995, Midwest Gas, a division of Midwest Power Systems, Inc. ("Midwest") filed with the Commission an application for approval to increase its rates for natural gas service (Docket No. NG95-006) and requested that the IGSPP be implemented. The IGSPP implemented a mechanism by which Midwest's performance in purchasing and transporting natural gas to its purchased gas adjustment ("PGA") customers (i.e., sales-service customers) would be measured against a market-based benchmark for the delivered cost of gas. The amount of cost savings between Midwest's

actual gas costs compared to the benchmark would be shared by Midwest and its customers. Subsequent to the filing, on July 1, 1995, Midwest Power Systems Inc. merged with Iowa-Illinois Gas and Electric Company to form MidAmerican.

2. As a result of negotiations between Midwest and Commission Staff, a Settlement Stipulation was entered into between the parties on September 28, 1995, however, the Settlement Stipulation reserved for hearing all issues related to the IGSP. Commission Staff and Midwest filed testimony on the IGSP and briefed the legal issues prior to a hearing on the matter, which hearing was held on October 5, 1995.

3. On October 17, 1995, at its regularly scheduled meeting, the Commission voted to approve the Settlement Stipulation. Additionally, the Commission approved the IGSP as revised and adopted by the Iowa Utilities Board ("IUB") as described below, for a three year experimental period effective date of November 1, 1995.

4. The IGSP was initially approved by the IUB in Docket No. RPU-94-3. (*Midwest Gas, a Division of Midwest Power Systems Inc.*, Docket No. RPU-94-3, Final Decision and Order, (May 19, 1995); and *Midwest Gas, a Division of Midwest Power Systems Inc.*, Docket No. RPU-94-3, Order Granting Rehearing in Part and Denying Rehearing in Part, (June 30, 1995)). In these Orders, the IUB approved the IGSP for an initial three year period beginning November 1, 1995. Midwest was required to use actual volumes rather than contract entitlements (i.e., maximum contract volumes a utility may receive without paying penalties) in the calculation of the commodity portion of the Reference Price. As part of the IGSP approval, the IUB required a review on a semi-annual basis comparing Midwest's actual costs to the Reference Costs every six months. Total savings or excess costs are divided by sales and are added to the PGA formula for

the next six-month period comparable in seasonality. The IUB granted Midwest a waiver of Iowa Admin. Code § 19.10 to incorporate the new factor into the PGA calculation and recover costs, which are related to, but are not included in the definition of actual cost of purchased gas. The first comparison filing was due July 1, 1995. After the IGSP was approved, Midwest was allowed to add a factor to the PGA for the next seasonally comparable six months. Subsequent filings were due two months after the expiration of the remaining six-month periods. The Reference Price must be filed with the IUB on a monthly basis in conjunction with the PGA. The first year, the top of the tolerance band was 3.5 percent and the bottom of the band was the Reference Price. The second year, the top of the tolerance band was 3 percent and the bottom was the Reference Price. The third year, the top of the tolerance band was 2.5 percent and the bottom was one-half percent below the Reference Price.

5. On November 8, 1995, the Commission issued a Final Decision and Order in Docket No. NG95-006 setting out the above findings. It also required Midwest to file schedules setting forth the results of the IGSP semi-annually in accordance with all statutory notice requirements for rate and tariff revisions. Any adjustment to the customer's bill is to be made during the subsequent semi-annual period. Midwest was required to track the adjustment through the collection period and reconcile the over collection or under collection in the subsequent semi-annual period.

6. On October 30, 1998, MidAmerican filed with the Commission an application for approval to continue the IGSP, requesting the Commission to continue the program for the later of an additional three year period, or until such time as its PGA was eliminated, whichever came first.

7. The Commission Staff and MidAmerican submitted prepared testimony pursuant to the Commission's procedural schedule. Thereafter, on or about June 28, 1999, Commission Staff and MidAmerican requested the Commission hold the procedural schedule in abeyance while the parties pursued a potential settlement.

8. As a result of Commission Staff and MidAmerican's settlement discussions, the parties entered into a Settlement Stipulation, which was filed with the Commission along with a Joint Motion for Approval of Settlement Agreement on August 8, 1999.

9. The Settlement Stipulation set forth the following agreement between Commission Staff and MidAmerican:

(a) the parties agreed to modify the tolerance band and the proportion in which customers and MidAmerican share costs and savings resulting from gas costs falling above or below the tolerance band consistent with the illustration on Attachment A to the Settlement Stipulation;

(b) The reinstated IGSP, as modified, began November 1, 1999 and continued for a period of three years ending October 31, 2002;

(c) The Commission Staff and MidAmerican agreed the calculation and performance of the IGSP mechanism was to remain consistent with the manner in which the IGSP was calculated and performed during the initial three year term; and

(d) MidAmerican and Commission Staff clarified that MidAmerican's hedging activity related to winter commodity prices shall, consistent with past practices, be excluded from the calculation of the IGSP. Nonetheless,

MidAmerican would continue, consistent with past practices, to include in the IGSP calculation other hedging activity including the hedges associated with MidAmerican's leased storage optimization program.

10. On August 26, 1999, the Commission approved the Settlement Stipulation.

11. On August 27, 2002, MidAmerican filed with the Commission an application for approval to continue its IGSP, requesting the Commission to continue the program for an additional three year period ending October 31, 2005, with the following administrative modifications:

(a) For purposes of calculating the Reference Price, MidAmerican would utilize the *Gas Daily* publication for the daily reference price and eliminate the use of the *Btu Daily* publication. The purpose for the change was that the *Btu Daily* publication was no longer commonly used within the natural gas industry. Without the change in publications, MidAmerican potentially could either gain or lose on commodity gas costs by referencing a benchmark that was no longer widely used by the industry.

(b) For purposes of calculating the Reference Price, MidAmerican would utilize the actual index prices referenced in its gas supply agreements to calculate the monthly Reference Price. This change allowed MidAmerican to utilize its actual commodity gas costs, as opposed to the then current mechanism, which utilized an average of published gas commodity costs from *Inside FERC* and *Natural Gas Intelligence* ("NGI"). In many instances, only one of the above-referenced indices was appropriate for purchasing gas at a particular delivery point (e.g., at Chicago the accepted gas reference price is published in NGI,

whereas at NNG Demarc the accepted gas reference price is published by *Inside FERC*).

MidAmerican stated that if the Request were approved, MidAmerican would otherwise administer the IGSPP pursuant to the terms and conditions previously agreed upon by MidAmerican and Commission Staff under the terms and provisions of the Settlement Stipulation approved on August 26, 1999.

MidAmerican also stated that on August 16, 2002, MidAmerican Energy Holdings Company announced the completion of its acquisition of Northern Natural Gas Company ("Northern") but that the acquisition would not impact the calculation or operation of the IGSPP. With the acquisition, MidAmerican became and is currently a "energy affiliate" of Northern, as that term is defined under applicable Code of Federal Regulations and that the Federal Energy Regulatory Commission ("FERC") had established standards of conduct to assure nondiscrimination and prevent affiliate abuse.

12. On October 28, 2002, the Commission issued its Final Decision and Order approving the continuation of the IGSPP, with the modifications proposed by MidAmerican, for a three-year period commencing November 1, 2002 and ending October 31, 2005.

13. To date, MidAmerican's award and customer savings under the IGSPP have been as follows:

IGSPP Period	Total Reference Dollars	MidAmerican Award	Customer Savings	Total Savings
Nov95-Apr96	\$19,819,763	\$297,296	\$511,546	\$808,842
May96-Oct96	\$11,689,680	\$175,345	\$257,401	\$432,746
Nov96-Apr97	\$23,500,609	\$352,509	\$815,375	\$1,167,884
May97-Oct97	\$13,712,610	\$205,689	\$630,702	\$836,391
Nov97-Apr98	\$17,447,669	\$261,715	\$576,238	\$837,953
May98-Oct98	\$11,689,400	\$175,341	\$487,333	\$662,674
Nov98-Apr99	No filing			
May99-Oct99	No filing			
Nov99-Apr00	\$17,781,293	\$407,325	\$985,217	\$1,392,542
May00-Oct00	\$18,346,787	\$165,407	\$761,678	\$927,085
Nov00-Apr01	\$51,260,770	\$229,564	\$1,457,603	\$1,687,167
May01-Oct01	\$13,361,890	\$270,410	\$704,672	\$975,082
Nov01-Apr02	\$18,181,690	\$477,269	\$1,306,780	\$1,784,049
May02-Oct02	\$16,405,522	\$200,000	\$733,177	\$933,177
Nov02-Apr03	\$36,409,323	\$338,352	\$1,521,638	\$1,859,990
May03-Oct03	\$20,789,616	\$179,021	\$848,906	\$1,027,927
Nov03-Apr04	\$35,479,949	\$711,950	\$1,865,049	\$2,576,999
May04-Oct04	\$24,366,920	\$202,877	\$974,134	\$1,177,011
Total	\$350,243,791	\$4,650,070	\$14,437,449	\$19,087,519

14. Based upon the extensive history behind the current IGSP mechanism and the significant benefits that it has provided to both customers and MidAmerican, MidAmerican herein requests the Commission approve MidAmerican's request to extend the current IGSP through October 31, 2010 on the same terms and conditions as approved in the Commission's October 28, 2002 Final Decision and Order

15. MidAmerican is requesting that the IGSP be extended for a five-year period since both MidAmerican and the Commission now have approximately ten years of experience with the IGSP. During this time, both MidAmerican and the Commission have modified the IGSP as necessary to increase its effectiveness. MidAmerican and the Commission each have developed an excellent understanding of how the IGSP functions and recognize the significant benefits it has brought to MidAmerican's PGA customers. Further, MidAmerican is not proposing in this Request to make any modifications to the IGSP since the Commission's October 28, 2002 approval thereby maintaining the current terms and conditions of the IGSP. Without any new modifications to the IGSP, the Commission and its staff will not need to devote incremental time and resources to understanding a revised IGSP. This administrative efficiency, together with the fact that the frequency of MidAmerican's filing for extensions and the Commission's consideration of such requests will decrease, will be beneficial for both MidAmerican and the Commission. Given these positive factors, MidAmerican believes it is appropriate to continue the IGSP for five years instead of three as before.

16. If the Request is approved, MidAmerican will administer the IGSP pursuant to the terms and conditions previously approved by the Commission.

17. Accordingly, MidAmerican respectfully requests the Commission authorize the continuation of the IGSP in accordance with the terms specified herein without modification. If the Commission modifies this Request or establishes a procedural process similar to a contested case proceeding, MidAmerican reserves the right to withdraw this Request without prejudice.

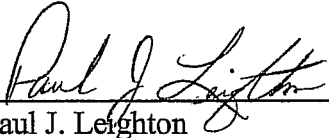
WHEREFORE, MidAmerican Energy Company, for the reasons set forth herein above, respectfully request the Commission, without modification, to order the continuation of the Incentive Gas Supply Procurement Plan through October 31, 2010 as provided herein.

Dated this 13th day of July, 2005.

Respectfully submitted,

MIDAMERICAN ENERGY COMPANY

By: _____

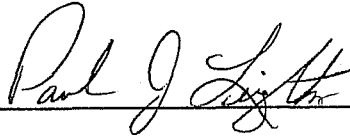


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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing document has been served this day upon all parties of record in this proceeding by mailing, by first class mail, to each such party a copy thereof, in properly addressed envelope with charges prepaid.

Dated this 13th day of July, 2005.



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