NG06-009

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SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

MidAmerican
ENERGY
OBSESSIVELY, RELENTLESSLY ***AT YOUR SERVICE.***

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Suzan M. Stewart
Managing Senior Attorney

September 7, 2006

Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, South Dakota 57501

RE: **MidAmerican Energy Company**
Docket No. NG06-___________

Dear Ms. Van Gerpen:

MidAmerican Energy Company hereby submits for filing the original and ten copies of a Combined Request for Approval of Fuel Incentive and Proposal to Credit Margins through the Purchased Gas Adjustment.

Request for Confidential Treatment

Pursuant to Rule 20:10:01:41 et seq., MidAmerican respectfully requests confidential treatment of the following attachments that are marked Confidential.

Confidential Exhibit A which is an estimate of the costs and benefits of the Waterloo, Iowa LNG Project for retail customers and MidAmerican, based on currently projected prices.

The confidential materials constitute a trade secret which if released would result in material damage to MidAmerican's competitive position or give advantage to competitors and serve no public purpose. Information concerning the costs of natural gas and the components of the purchased gas adjustment is considered commercially sensitive. In order for MidAmerican to minimize gas costs that are billed to its customers, MidAmerican maintains this information be held confidential and constitutes a trade secret. The confidential material contains information, if released to the general public, would give an unfair advantage to existing and potential gas and interstate pipeline transportation suppliers and customers. *National Parks and Conservation Association v. Morton*, 498 F.2d 765, 768 (U.S.C.A. 1974).

Please file stamp and return one copy of the filing in the enclosed stamped addressed envelope.

Sincerely,

Suzan M. Stewart
Managing Senior Attorney

SMS/dm
Enclosures

STATE OF SOUTH DAKOTA
BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN RE:	)))	
MIDAMERICAN ENERGY COMPANY	)	DOCKET NO. NG06-____

COMBINED REQUEST FOR APPROVAL OF FUEL INCENTIVE AND PROPOSAL TO CREDIT MARGINS THROUGH THE PURCHASED GAS ADJUSTMENT

COMES NOW, MidAmerican Energy Company ("MidAmerican"), and for its Combined Request for Approval of Fuel Incentive and Proposal to Credit Margins through the Purchased Gas Adjustment, submits as follows:

1. **Description of MidAmerican.** MidAmerican is a natural gas local distribution company providing bundled natural gas service and natural gas distribution service to retail customers in four states including South Dakota. The provision by MidAmerican of natural gas service to retail customers in South Dakota is subject to the regulatory jurisdiction of the South Dakota Public Utilities Commission ("Commission"). Pursuant to *South Dakota Codified Laws* 49-34A-25 (2006), the Commission has approved for MidAmerican a purchased gas adjustment clause ("PGA") which reflects changes in the costs of energy, fuel, gas and Commission-approved fuel incentives. MidAmerican recovers its nongas costs associated with the provision of natural gas service in distribution rates approved by the Commission.

2. **Overview of Request.** With this request, MidAmerican seeks the authority of the Commission to use the PGA during the months of January through March 2007 to share any positive net margin earned on sales for resale made using natural gas

resources from one of the two tanks making up its Waterloo, Iowa liquefied natural gas ("LNG") facility. The Waterloo LNG facility consists of an east tank and a west tank ("Waterloo west LNG tank"). During the summer of 2006, MidAmerican has undertaken a Project (as described below) to repair the Waterloo west LNG tank and associated withdrawal piping to permit its use as a storage asset and to bring it into operational compliance. Historically, MidAmerican has used both the east and west tanks to store LNG to meet peak and duration requirements. MidAmerican has determined that as a result of reduced demand and supply unbundling, one tank is sufficient to meet the peak day requirements of Waterloo area retail customers. Accordingly, the Waterloo west LNG tank has been placed into a standby mode - it meets safety requirements, including the new fire safety requirements of 49 CFR 193 and NFPA 59A Chapter 12, but needs further compliance repairs in order to be capable of liquefying and vaporizing gas. Because it is not necessary for MidAmerican to repair the Waterloo west LNG tank since the tank is not required to meet customer needs on a peak day, MidAmerican would normally forego the repairs until the tank was needed. At that time, the compliance repair costs would be reflected in MidAmerican's capital and associated expense accounts for recovery as appropriate in a subsequent general gas distribution rate proceeding. However, the current summer/winter gas price spread has created an immediate opportunity to use the Waterloo west LNG tank for the benefit of customers and shareholders during the upcoming heating season. MidAmerican has decided to complete compliance repairs this year based on its projection that margin from the summer to winter price differential in the cost of gas will offset the cost of compliance repairs to the Waterloo west LNG tank, its incremental operating costs, and incremental

Project costs. This Project will permit MidAmerican to optimize this resource during 2006-2007 while it determines the future use of the tank. Options for the future use of the Waterloo west LNG tank are to permanently decommission it or continue it in service (in which case additional repairs and maintenance would be required).

In addition to the compliance repairs, the Project includes liquefying and storing natural gas and financial hedge transactions. The financial hedges are based on the spread between summer and winter gas prices. During January through March 2007, natural gas injected and liquefied into the Waterloo west LNG tank during the summer of 2006 will be vaporized and used to make sales for resale. The margin associated with the difference between the summer and winter hedges will be first used to finance the Project's costs. The expected remaining margin will be shared with the customers based on a proposed apportionment of the margin specific to this Project. Based on currently projected prices, MidAmerican has prepared Confidential Exhibit A which estimates the costs and benefits of this Project for retail customers and MidAmerican. In addition, MidAmerican will gain additional time to determine the future use of the Waterloo west LNG tank. MidAmerican has begun to undertake the Project. **In the unlikely event that the Project does not result in positive net margin, MidAmerican will not attempt to recover the negative net margin from retail customers.**

In order to implement the cost recovery and margin sharing, MidAmerican will require the following rulings from the Commission:

1. Approval pursuant to SDCL 49-34A-25 of the portions of the Project that involve nongas costs as a fuel incentive so that any net margin associated with the Project can be reflected in MidAmerican's PGA; and

2. Modification of the credit mechanism approved by the Commission in its Order issued in Docket No. NG 96-004 to permit crediting to customers (through the PGA) 50% of the first $300,000 (anticipated Project costs) of the net margin and 70% of any additional net margin earned on sales for resale made pursuant to the Project during the 2006-2007 heating season.

MidAmerican requests these rulings for the 2006-2007 PGA year only.

3. **Description of MidAmerican's LNG Resources.** LNG is one of the natural gas resources utilized by MidAmerican to meet customer needs during peak periods. MidAmerican owns several liquefied natural gas facilities, including the Waterloo, Iowa facility. The costs of the LNG facilities and its costs of operation are reflected in MidAmerican's distribution rates as nongas costs.

4. **Detailed Description of Project**. MidAmerican has an opportunity to maximize the use of its Waterloo, Iowa LNG facility to the benefit of its retail natural gas customers. The facility consists of a gas purification system, a liquefaction system, a vaporization system, and two tanks into which liquefied natural gas can be stored and later vaporized for use by retail customers during peak periods. During the late 1970s, LNG and bundled pipeline supplies, rather than interstate pipeline capacity, served the Waterloo area's firm gas requirements. On the coldest days, deliveries to MidAmerican's town border stations on the Northern Natural Gas Company ("Northern") pipeline located in Waterloo were limited, and customer demand in Waterloo was served with vaporized LNG. The gas on Northern was then diverted to other MidAmerican communities. This procedure required more LNG capacity since the LNG served as a base load supply source on cold days. Since the 1970s, there have been changes in the way LNG is used in

the Waterloo area as a result of supply unbundling. There has also been a substantial decrease in the Waterloo area industrial load. Today, Waterloo LNG is primarily used as a peak shaving facility during extreme cold weather. The Waterloo LNG facility can provide supplies of 40,000 MMBtu per day for Waterloo area peak needs. Based on current needs and system design and operating characteristics, only one tank is needed at the Waterloo LNG facility for peak load capabilities; however, the other tank may be useful for backup or storage needs in the proper circumstances. Using the asset on a long-term basis as a storage option may be viable based on the summer-to-winter price spread. However, the Waterloo west LNG tank requires compliance repairs if it is to continue to operate.[1] This Project would provide MidAmerican with a source of funds to make the necessary repairs, as well as providing benefits for MidAmerican's retail customers.

Under MidAmerican's proposal, the Waterloo west LNG tank will be a source of supply to make sales for resale; the Waterloo west LNG tank will not be used for retail transactions. The margin earned on sales for resale derived from the Waterloo west LNG tank will be the source of funds for the compliance repairs, liquefaction/vaporization and carrying costs. The expected remaining margin will be shared by MidAmerican and its customers, thereby reducing overall gas costs to be flowed through the PGA. In the event

[1] The Waterloo west LNG tank is in compliance with all safety requirements, but the tank foot valve, fill valve, can vent valve and pump suction have been closed off and locked. Gas and fire detection systems remain operational and all connected piping except boil-off has been temporarily inerted and locked out. The compliance repairs are needed if the west LNG tank would be placed into service to withdraw liquid for vaporization or add liquid from the liquefier. Repairs include re-insulating the pipe connecting the tank to the rest of the plant, adjusting pipe supports to remove potential residual stress, checking pump skid alignment, installing emergency shutdown valves on lines that would need to be closed during an emergency shutdown, and integrating newly activated west LNG tank and auxiliaries into the plant ESD shutdown system

that there is no positive net margin to be shared, no negative net margin of the Project will be charged to customers, either through the PGA or through distribution rates.

Pursuant to the Commission's order in Docket No. NG 96-004, the margin earned on sales for resale is shared 50/50 by customers and shareholders. MidAmerican is requesting recognition of this Project pursuant to that Order, as well as a specific margin sharing apportionment limited to the Project. An estimate of the Project economics is shown in Confidential Exhibit A to this filing.

5. **Specific Steps of Project.** In order to maximize the benefits possible from utilizing the Waterloo west LNG tank to make sales for resale, MidAmerican needs to take the following actions:

- During 2006, repair the Waterloo west LNG tank and associated piping.
- Establish a regulatory asset to track Project costs and to ensure that they remain separate from base rates.
- Complete financial transactions to hedge (lock-in) summer to winter sales for resale margin associated with the volumes available from the Waterloo west LNG tank.
- Between June and November 2006, ratably inject and liquefy natural gas into the Waterloo west LNG tank. During the June through November period, the financial hedges associated with these months will settle.
- During January through March 2007, vaporize LNG and sell natural gas from the Waterloo west LNG tank to third parties. The financial hedges associated with these months will settle.

- Reflect positive net margin in the PGA during January through March 2007.

The Project will be in effect only through March 2007. Any extensions will be pursuant to a separate request. Based on current gas price information and information shown on Confidential Exhibit A MidAmerican estimates that customers would receive benefits in excess of MidAmerican's Project costs. In the event there is no positive net margin, MidAmerican will absorb all negative net margin.

REQUEST FOR FUEL INCENTIVE

6. Pursuant to SDCL 49-34A-25, the Commission is authorized to include "fuel incentives" in the PGA in addition to energy, fuel and gas costs. MidAmerican respectfully requests the Commission consider the Project as a whole to be a fuel incentive. The Project costs include gas costs (the costs of the gas that will be liquefied and vaporized and the financial instruments securing its price), costs of electric energy (used to vaporize, liquefy and refrigerate the gas resource so that it can be used to supplement the natural gas supply) and nongas costs (LNG compliance repair costs).

Permitting use of the PGA mechanism for recovery of all or some of the costs of compliance repairs as contemplated by the Project clearly provides MidAmerican with a fuel incentive. The incentive benefits of the Project are two-fold. First, MidAmerican has an incentive to conduct the compliance repairs to the Waterloo west LNG tank. Without the proposed recovery of compliance repair costs through the PGA, MidAmerican would not have the opportunity to determine the long term best deployment of the tank as a fuel resource for its customers. Second, without the compliance repairs, the Waterloo west LNG tank would not be capable of use in sales for resale, the margins of which will be shared pursuant to the Project.

In addition to permitting the Waterloo west LNG tank to be placed into service during this decision period, the Project as a whole is expected to offer substantial benefits to MidAmerican's customers. MidAmerican will not recover the compliance repair costs on a dollar-for-dollar basis. Instead, as described in Paragraph 7, MidAmerican intends to only recover Project costs via any margins earned on sales for resale made out of the Waterloo west LNG tank, sharing the first $300,000 50/50 between customers and shareholders and any margin in excess of this amount split 70% to customers and 30% to shareholders. **In short, if there is no net margin, MidAmerican will not recover its expenses for the Project.**

The Commission has previously approved a fuel incentive for MidAmerican – the incentive gas supply procurement plan ("IGSPP") that has been providing shared benefits to customers and shareholders for 10 years. Both the IGSPP and the proposed LNG incentive are designed to simultaneously provide incentives to the utility and customer benefits. Like the IGSPP, the Project should be deemed a fuel incentive subject to PGA recovery.

In order to ensure that the Project complies with these expectations, MidAmerican will take measures to ensure that the Project is implemented in a transparent manner, and that there will be no recovery of negative net margin and no double recovery of the costs of the Project. MidAmerican will segregate these Project costs, employing a separate regulatory asset account, to ensure that they are not considered for inclusion in base rates. MidAmerican also agrees to provide status reports monthly during the 2007 PGA year.

REQUEST FOR MODIFICATION OF CREDIT MECHANISM

7. As noted above, MidAmerican proposes to credit through the PGA 50% of the first $300,000 of any net margin associated with sales for resale made from the resources of the Waterloo west LNG tank in excess of the estimated repair costs and a 70%/30% sharing between customers and shareholders, respectively, of any net margin in excess of $300,000. This crediting mechanism is different from that approved by the Commission in Docket No. NG 96-004, which authorized crediting of 50% of the total margin earned on sales for resale transactions through the PGA. In order to provide appropriate incentives to make sales for resale from the Waterloo west LNG tank, MidAmerican proposes a temporary modification of the applicable sharing percentage and clarification that "sales for resale" subject to crediting include financial and physical sales of natural gas made by MidAmerican pursuant to this Project using the capacity in the Waterloo west LNG tank. Specifically, **MidAmerican proposes that the first $300,000 of net margin earned on sales for resale transactions be shared 50/50, with any remaining net margin in excess of that amount shared 70/30 between customers and shareholders respectively**. This new temporary crediting methodology is intended to provide appropriate recognition of cost responsibility for LNG facilities. During the time this temporary crediting methodology will be in effect, customers will continue to pay return, depreciation expense and operations and maintenance expense associated with the LNG facilities in their distribution rates. As previously stated, MidAmerican will absorb the cost of the Project in the absence of a positive net margin. Authorizing the temporary apportionment requested by MidAmerican will permit MidAmerican to take

advantage of new opportunities while ensuring at the same time that customers are fully compensated for the costs paid in utility rates.

9. **Reporting.** MidAmerican will provide reports of the activity as are acceptable to the Commission. MidAmerican suggests (1) detailed documentation of the regulatory asset account will be maintained throughout the Project and will be available for inspection reflecting all activity, including compliance repair costs, costs of vaporization and liquefaction, financial hedge activity and sales for resale activity; (2) Reports on the Project will be filed as part of the January-March PGA filings.

WHEREFORE, MidAmerican Energy Company respectfully requests the South Dakota Public Utilities Commission issue the following rulings to enable MidAmerican to undertake compliance repairs to its Waterloo west LNG tank and to engage in sales for resale utilizing that tank during the 2006-2007 heating season:

1. Finding MidAmerican's Project described herein is a fuel incentive and its costs may be reflected in the purchased gas adjustment clause; and
2. Approving the crediting to customers through the PGA of 50% of the first $300,000 of the net margin and 70% of any additional net margin earned on sales for resale made pursuant to the Project during the 2006-2007 heating season.

DATED this 6th day of September, 2006.

Respectfully submitted,

MIDAMERICAN ENERGY COMPANY

By:______________________________

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Public Version Exhibit A
MidAmerican Energy Company
Docket No. NG06-___
Waterloo West LNG Tank Project
Estimate as of July 14, 2006

	Total	South Dakota Portion [1]
Net Proceeds from Hedged Transactions [2]		
Project Costs: [3]		
Compliance Repairs		
Liquefaction/Vaporization		
Carry Cost [4]		
Total Project Costs		
Net Margin Prior to Sharing [5]		
PGA Customer Benefit [6]		

Note:

(1) South Dakota portion equals approximately ____% of MidAmerican's total throughput.

(2) All liquefaction volumes planned in August through November were hedged. Only a portion of the July liquefaction volumes were hedged and no June liquefaction volumes were hedged. All vaporization volumes planned for January and February were hedged. Net proceeds from Hedged Transactions include an estimate of the cost of natural gas on the spot market for the portion of June and July liquefaction volumes not hedged.

(3) Project costs are estimated; actual costs will be tracked and used in final margin calculation.

(4) Carry Cost approximates the cost of funds incurred to finance payment for natural gas, pipeline transportation commodity and fuel, and liquefaction prior to receipt of revenues from natural gas sales.

(5) In the event there is no positive net margin, MidAmerican will absorb the negative net margins.

(6) First $300,000 of net margins will be shared equally between the retail customers and shareholders (50/50 sharing percentage). Net margins in excess of $300,000 will be shared 70/30 between retail customers and shareholders respectively.