MidAmerican
ENERGY
OBSESSIVELY, RELENTLESSLY AT YOUR SERVICE.

MidAmerican Energy
106 East Second Street
P.O. Box 4350
Davenport, Iowa 52808

July 1, 2009

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

Re: Updated Electric Energy Cost Adjustment (EECA) tariff sheet definition "C"
Petition for approval to include hedged fuel costs in the EECA

Dear Ms. Van Gerpen:

MidAmerican is submitting updated Electric Tariff No. I, Section No. 3, 2nd Revised Sheet No. C-1 which revises the definition of "C" in the Electric Energy Cost Adjustment (EECA) calculation to include fuel costs expensed directly to account 501. The change is requested to allow costs and benefits related to hedging the cost of fuels used in electric generation for startup or operational stabilization of coal-fired generation and for diesel fuel associated with coal transportation contracts with railroads to be passed through the EECA. This is discussed in more detail in the accompanying Petition.

As explained further in the Petition as well, MidAmerican is seeking an approval date retroactive to February 1, 2009, the first month in which hedged oil costs were included in the EECA. If the Commission does not grant the accompanying Petition, MidAmerican will remove all oil hedging costs passed through the EECA, currently estimated at approximately $350, via a credit to the EECA in the month immediately following the Commission's order.

If you have any questions, please contact me at (563) 333-8426 or mmearly@midamerican.com

Sincerely,

/s/Megan M. Early
Analyst, Regulated Pricing

cc: Suzan Stewart – Managing Senior Attorney, MidAmerican Energy Company

STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION	**)**	
OF MIDAMERICAN ENERGY	**)**	
COMPANY FOR APPROVAL OF A	**)**	
FUEL CLAUSE RIDER TARIFF	**)**	**DOCKET NO. ELO9-___**
CHANGE	**)**	

COMES NOW, MidAmerican Energy Company ("MidAmerican"), pursuant to SDCL 49-34A-25 and South Dakota Administrative Rule 20:10:13:26, and respectfully requests the South Dakota Public Utilities Commission ("Commission") approve a change to its Electric Energy Cost Adjustment ("EECA") as reflected in a revised definition of Factor "C" shown on Section No. 3, 2nd Revised Sheet No. C-1 of its tariff on file with and made effective by the Commission. This change will permit automatic adjustment for the costs and benefits associated with hedging to reduce the volatility of the price of a) natural gas and fuel oil used for the startup or operational stabilization of coal fired generation and b) for diesel fuel associated with coal transportation contracts with railroads. MidAmerican proposes that this change become effective retroactively with billings rendered in February 2009. In support thereof, MidAmerican submits as follows.

1. **Interest of MidAmerican.** MidAmerican is a public utility providing retail electric service to customers in the State of South Dakota. Pursuant to SDCL 49-34A-25, the Commission has approved an EECA as part of MidAmerican's electric rate structure. The EECA is adjusted periodically to recover the costs of fuel and wholesale electric power associated with electric energy sold to retail customers. With this filing, MidAmerican proposes to permanently include the additional hedging costs and benefits

associated with natural gas and fuel oil used for the startup or operational stabilization of coal fired generating facilities and diesel fuel included in rail transportation rates for coal delivery in the EECA, beginning with the February 2009 EECA.

2. **Background.** Costs and benefits of hedging associated with two generation-related functions are proposed to be included in the EECA. First, MidAmerican proposes to include hedging costs and benefits associated with natural gas and fuel oil purchased for consumption during unit start up and operational stabilization at its coal fired generating plants. Second, MidAmerican proposes to recover the costs and benefits of hedging its price exposure to railroad diesel fuel surcharges, incurred under the terms of large volume coal transportation contracts[1] which include a fuel adjustment provision. The costs and benefits of price hedging are directly related to the underlying diesel, fuel oil or natural gas costs which are clearly volatile and beyond management control.

Beginning in 2009, MidAmerican has begun to hedge its price exposure on both fuel oil[2] and natural gas used in its coal fired generating units for start up and operational stability purposes and diesel fuel associated with rail delivery of coal to its coal fired generating sites. The first fuel oil and diesel hedges occurred in February and the first natural gas hedge in April 2009. MidAmerican ensures that its hedging activities follow a prescribed plan and are prudent by following the MidAmerican Energy Company Risk Management Policy. Pursuant to the Policy, MidAmerican may purchase and sell New

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[1] Currently, MidAmerican's exposure to diesel fuel volatility is limited to a long-haul rail contract to one of MidAmerican's jointly-owned generating units and a short-haul contract to two of its jointly-owned generating units. That exposure may change as existing rail transportation contracts expire.

[2] The commodity that is typically hedged on a commodity exchange for both diesel fuel and fuel oil is "heating oil".

York Mercantile Exchange or Intercontinental Exchange heating oil and natural gas futures, forward contracts, and options or over-the- counter caps and floors or swaps and location basis swaps.

3. **Accounting.** The costs or benefits of the natural gas hedges are recorded directly to an expense account that is included in the EECA calculation. However, these natural gas hedges have been manually removed from the factor pending the resolution of this proceeding.

Fuel oil and diesel fuel hedges provide accounting challenges for removal from the EECA. Fuel oil hedges are recorded in the applicable fuel oil inventory asset account and expensed as the fuel oil is burned at the generating facility to an account included in the EECA. Diesel fuel hedges for coal transportation are recorded in the applicable coal inventory asset account and expensed as the coal is consumed at the coal fueled unit to an account included in the EECA. Because of this derivation, it is complicated to manually remove these amounts and they have been included in the EECA since February 2009, when first expensed. On an ongoing basis, removal of the fuel oil and diesel fuel hedging costs and benefits would require maintaining additional detail in the fuel oil and coal inventory accounting ledgers for each generating facility in order to track dollar amounts related to hedging separately from all other costs in fuel oil and coal inventories. This additional detail, if required, would be used solely for the South Dakota EECA. While this is possible, this South Dakota EECA tracking would double the accounting entries necessary to properly record fuel oil and coal inventory and fuel oil and coal expenses. Through May 2009, the amount of total company fuel oil and diesel fuel hedge costs booked to the fuel oil and coal inventory accounts was $111,283.20, with only

$351.21 of the costs expensed and allocable to the South Dakota EECA through and including July 2009 billings.

MidAmerican proposes to recover through the EECA all amounts that have been incurred and which continue to be incurred for price hedging of natural gas, fuel oil and diesel fuel since the February 2009 inception of the program. This includes the natural gas amounts previously removed from the EECA and the fuel oil and diesel fuel amounts included in the EECA determination since February 2009.

4. **Prior Precedent.** The Commission has recognized hedging costs and benefits as a permissible element of the purchased gas adjustment clause for many years. Hedging costs have been permitted to be included in the EECA since 1999. In Docket No. EL00-021, after extended consideration, the Commission authorized Northern States Power Company ("NSP") to include the costs of financial instruments such as futures contracts, option contracts, and linked or transmission-sensitive forward contracts in the EECA, finding in its Order issued in that docket on May 10, 2000 that "…financial instruments are designed to reduce energy price volatility, lower costs to consumers, and minimize risk" and that they can be considered part of the wholesale cost of energy under SDCL 49-34A-25. The Commission extended this authority in 2003 in Docket No. EL03-020.

5. **MidAmerican's Specific Proposal.** Following is MidAmerican's specific proposal:

(1) MidAmerican will amend the definition of Factor "C" presently shown on tariff Sheet Section No. 3, 2nd Revised Sheet No. C-1 so that costs and benefits associated with price hedging of natural gas and fuel oil used in for start up and operational

stabilization at its coal fired generating units and of diesel fuel associated with rail transportation contracts for coal delivery to generating units can be recovered through the EECA.

(2) There is no cap on the amount of these costs and benefits that may be included in the EECA.

(3) If MidAmerican determines that additional uses of hedging instruments are prudently used as part of the wholesale cost of energy it may ask the Commission for additional authority.

(4) This authorization shall be retroactive to February 2009 to permit recovery of the amount already included in the EECA ($351.21). If not approved, or if the Commission should order prospective treatment only, MidAmerican will credit the EECA with the amount already recovered from customers.

(5) To ensure the prudency of these purchases and to demonstrate acquisition as part of a plan, as opposed to speculation, MidAmerican's hedging activity will be pursuant to its Risk Management Policy, as may subsequently be amended. This Policy will be available for Commission review.

(6) MidAmerican recognizes that the Commission has the ability to terminate this authority and requests at least three months prior notice, consistent with the treatment approved for NSP in ordering clause 4. of its Order issued in EL03-020.

(7) MidAmerican will provide an annual report covering hedging activities of the prior calendar year. The report will include:

- Types of financial and physical instruments utilized.
- Volumes of natural gas and heating oil (i.e. diesel and fuel oil) hedged.

- Dollar value of total company financial and physical hedging transactions recorded in the inventory accounts and the approximate South Dakota allocation using the average of monthly allocation factors during the reporting period.

WHEREFORE, MidAmerican Energy Company respectfully requests the South Dakota Public Utilities Commission to approve its request as described herein.

DATED this 1st day of July, 2009.

Respectfully Submitted,

MIDAMERICAN ENERGY COMPANY

BY:

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Price Adjustment Clause Electric Energy Cost Adjustment

Applicable In the Company's South Dakota electric service area in each MidAmerican Energy price where energy costs are collected as part of the pricing.

Adjustment The charges for all kilowatthours of energy supplied in a period covered by any bill shall be increased by the energy adjustment charge to the nearest 0.0014 per kilowatthour computed in accordance with the following formula:

$$F_0 \quad \frac{EC_0}{EQ_0} \quad \frac{E\ \mathbf{A}_1}{EJ_0}$$

$$D \quad [\, C_2 \text{ x } \frac{J_2}{Q_2} \,] \quad [\, J_2 \text{ x } F_2 \,]$$

Where:

Subscripts 0, 1, and 2 are used to denote the applicable billing month or calendar month. Subscript 0 means the month the energy adjustment will be applied. Subscript 1 means the month prior to month 0, and subscript 2 means the second prior month.

Where the letter E precedes the letters C, Q, or J, this indicates the quantity is estimated.

All references to accounts means the Uniform System of Accounts for Electric Utilities.

F is the energy adjustment charge applied to kilowatthour sales for billing.

C is the cost of energy, including fuel costs for natural gas, fossil fuels in Account 501 or transferred from Account 151 to Account 501 or 547, and nuclear fuel shown in Account 518; Purchased power costs for energy purchased as entered in Account 555, less the cost of fuel and energy associated with sales for resale. N

Price Adjustment Clause Electric Energy Cost Adjustment

Applicable In the Company's South Dakota electric service area in each MidAmerican Energy price where energy costs are collected as part of the pricing.

Adjustment The charges for all kilowatthours of energy supplied in a period covered by any bill shall be increased by the energy adjustment charge to the nearest 0.0014 per kilowatthour computed in accordance with the following formula:

$$F_0 \quad \frac{EC_0}{EQ_0} \quad \frac{\mathbf{E} \quad \mathbf{A}_1}{EJ_0}$$

$$D \quad [\, C_2 \times \frac{J_2}{Q_2} \,] \quad [\, J_2 \times F_2 \,]$$

Where:

Subscripts 0, 1, and 2 are used to denote the applicable billing month or calendar month. Subscript 0 means the month the energy adjustment will be applied. Subscript 1 means the month prior to month 0, and subscript 2 means the second prior month.

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Issued: ***July 1, 2009*** ~~March 27, 1996~~ Effective ***August 1, 2009*** ~~April 1, 1996~~
Issued by: ***Naomi G. Czachura*** ~~Brent E. Gale~~ ~~Effective on less than 30 days notice by authority of the public~~
Vice President-~~Law and Regulatory Affairs~~ ~~utilities commission of South Dakota, dated April 2, 1996~~