

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

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IN RE:  MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-08-4
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**ORDER APPROVING STIPULATION AND AGREEMENT**

(Issued August 27, 2008)

**INTRODUCTION AND PROCEDURAL HISTORY**

On July 23, 2008, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) an application for determination of advance ratemaking principles pertaining to a proposed wind-powered generation project called Wind VI Iowa Project (Wind VI). Wind VI will have a maximum nameplate capacity of 52.5 MW. MidAmerican said the project would be located on sites near Walnut, Iowa, where MidAmerican is currently developing another wind project, Wind V. MidAmerican asked the Board for an expedited decision no later than September 2, 2008, so that it could take advantage of federal production tax credits and bonus depreciation that will expire at the end of 2008.

As part of its application, MidAmerican filed a stipulation and agreement (Settlement) signed by MidAmerican and the Consumer Advocate Division of the Department of Justice (Consumer Advocate). The Settlement asks that the Board approve MidAmerican's requested advance ratemaking principles for Wind VI.

On July 24, 2008, the Board issued an order docketing MidAmerican's filing and setting an intervention deadline. No procedural schedule was set. The Board in its order said that if no interventions were filed by the intervention deadline (August 4, 2008), the Board might issue an order on the Settlement without any further proceedings. No petitions to intervene have been filed.

The Board has completed its review of the advance ratemaking principles application, the Settlement, and the additional information submitted by MidAmerican. After reviewing all the information filed, the Board has determined pursuant to § 17A.10A that a hearing is not necessary and will proceed to rule on the merits of the Settlement.

Although Iowa Code § 476.53(3)"d" allows the ratemaking principles proceeding to be combined with a proceeding for issuance of a generation certificate under Iowa Code chapter 476A, the two proceedings were not combined here. MidAmerican states that the proposed wind project will have no more than 25 MW of generating capacity located on any single collector or "gathering" line. Under those circumstances, a generation certificate is not required. See, MidAmerican Energy Company, "Declaratory Order," Docket No. DRU-03-3 (6/6/03).

Ratemaking principles proceedings are conducted pursuant to Iowa Code § 476.53. Section 476.53 was enacted during the 2001 legislative session as part of House File 577. This section provides that when eligible new electric generation is constructed by a rate-regulated public utility, the Board, upon request, shall specify in

advance, by order issued after a contested case proceeding, the ratemaking principles that will apply when the costs of the new facility are included in electric rates. Alternate energy production facilities, such as the wind project proposed by MidAmerican, were added to the list of eligible facilities for ratemaking principles by House File 391, enacted during the 2003 legislative session. Section 476.53(1) states that the General Assembly's intent in enacting ratemaking principles legislation is to "attract the development of electric power generating and transmission facilities within the state."

As of April 18, 2008, MidAmerican owns and operates approximately 670 MW of wind-powered generation that was the subject of four prior ratemaking proceedings, Docket Nos. RPU-03-1, RPU-04-3, RPU-05-4, and RPU-07-2. MidAmerican continues to construct an additional 450 MW of wind generation in a project that was previously granted advance ratemaking principles in Docket No. RPU-07-2. The Wind V project that was the subject of Docket No. RPU-08-2 will add 108 MW, and the Wind VI project, which is the subject of this proceeding, will add up to 52.5 MW.

### **CONDITIONS PRECEDENT**

Before determining the applicable ratemaking principles for Wind VI, the Board must make two findings pursuant to Iowa Code § 476.53(4)"c." These are conditions precedent to a determination of ratemaking principles, because if the Board cannot make these findings, the utility cannot receive ratemaking principles. First, the Board

must determine that the public utility has in effect a Board-approved energy efficiency plan. Second, the utility must demonstrate that it has considered other sources for long-term supply and that the facility is a reasonable alternative to meet its electric supply needs when compared to other feasible alternative sources of supply.

With respect to the first condition precedent, MidAmerican has in effect a Board-approved energy efficiency plan. MidAmerican witness Dale Stevens provided prefiled testimony regarding MidAmerican's energy efficiency plan. For 2007, MidAmerican said its actual plan expenditures exceeded the budget by over \$11 million (33.4 percent) and 2008 plan expenditures are projected to exceed the budget by about \$15 million (43.7 percent). MidAmerican received approval of its current energy efficiency plan on July 18, 2003, in Docket No. EEP-03-1. MidAmerican filed a new five-year energy efficiency plan on April 30, 2008; a review of the plan is ongoing and the filing is identified as Docket No. EEP-08-2.

The second condition precedent is whether a utility has considered other long-term sources of supply and shown that the facility is a reasonable alternative to meet its electric supply needs when compared to other feasible supply sources. In making this determination, the Board must look at the need for the facility; that is, whether the facility is a reasonable alternative to meet one of the statute's goals: "to attract the development of electric power generating ... facilities within the state in sufficient quantity to ensure reliable electric service to Iowa consumers and provide economic

benefits to the state." If a facility does not meet the needs of Iowa consumers, the Board does not believe it is eligible for ratemaking principles treatment.

MidAmerican's filing demonstrates that wind-based generation is currently the only renewable resource available in Iowa in sufficient quantity to make a sizeable contribution towards MidAmerican's energy and capacity needs in an economic manner and provide a large contribution toward increasing renewable generation in Iowa. MidAmerican has also shown that the proposed facility is projected to benefit both the present and future needs of MidAmerican's customers in several ways and the proposed facility is a feasible and reasonable way to attain these benefits.

First, MidAmerican indicates it was facing a 61 MW capacity deficiency in 2014 to meet its 15 percent planning reserve requirements for regulated load using its normal weather peak load forecast. MidAmerican states this deficiency grows to 227 MW by 2015. Wind VI will contribute 8 MW toward MidAmerican's accredited capacity because approximately 15 percent of wind capacity is generally accredited to contribute towards system peak. Thus, the proposed facility would reduce the projected capacity deficits in 2014 and beyond.

Second, there are immediate benefits to customers (upon project completion) from the expansion of an electricity source with a price that does not fluctuate with fossil fuel prices, like coal and natural gas. Wind is also not subject to projected increases in rates that have been experienced and are projected for coal transportation.

Third, MidAmerican states that the Wind VI project is a zero emission energy resource and, along with other MidAmerican wind projects, will reduce Iowa's carbon footprint and reduce MidAmerican's reliance on coal generation for its accredited capacity. MidAmerican notes that any future federal carbon legislation will likely make wind power even more valuable to MidAmerican's customers.

MidAmerican has shown in its ratemaking principles application that there is a current opportunity to economically add wind generation that will meet future needs and provide customers an immediate hedge against the price fluctuations of fossil fuels. MidAmerican demonstrated in the prefiled testimony of its witnesses and its application that it has considered other sources for long-term electric supply and that the proposed wind project is a reasonable alternative to meet its electric supply needs when compared to other feasible alternative sources of supply. The statute does not require that the wind project be the least-cost alternative, but a reasonable alternative to other sources of supply.

Fuel diversity is more important than ever given price fluctuations and price projections for fossil fuels, which include rail transport for coal. Reducing this price risk to customers is significant, although difficult to value. The economics of this transaction also reduce the risk to customers. The federal production tax credit is currently scheduled to end on December 31, 2008. Any delay in the project will likely result in increased costs. The economics of the project are currently expected to be favorable to customers and Wind VI promotes Governor Culver's announced goal of

expanding renewable generation in Iowa and the General Assembly's goal of encouraging the development of renewable energy. Iowa Code §§ 476.41, 476.53.

MidAmerican asked for expedited treatment because turbines for Wind VI unexpectedly became available and federal tax incentives are set to expire at the end of the year. In future advance ratemaking principles applications, MidAmerican is directed to include detailed information regarding its resource planning process with a planning horizon of at least ten years. The resource planning process information is to identify various potential generating alternatives available and the impact of selecting each particular alternative on MidAmerican's customers.

MidAmerican's witnesses also provided information that the interconnection of Wind VI will not degrade the adequacy, reliability, or operating flexibility of the existing transmission system. MidAmerican said that various transmission analyses have been or will be performed to determine what transmission additions or modifications, if any, will be required to meet various regulatory requirements.

### **SUMMARY OF STIPULATION AND AGREEMENT**

The Settlement asks that nine ratemaking principles be approved. The ratemaking principles govern the recovery of project costs and treatment of project benefits.

The Settlement provides for a return on equity of 11.7 percent on the portion of the wind project included in Iowa electric rate base, which is identical to the return in the three most recent ratemaking principles dockets involving wind generation. Two

of those dockets related to MidAmerican wind projects (Docket Nos. RPU-08-2 and RPU-07-2), the other an Interstate Power and Light Company wind project (Docket No. RPU-07-5). MidAmerican's filing showed that the return is within the range awarded in prior ratemaking proceedings, given the current yield on A-rated utility bonds. MidAmerican indicates the overall risks for this project are similar to its other wind projects. The Settlement contains an overall cost cap, which remains confidential pursuant to Board orders, because negotiations with project developers are continuing and release of the cost cap information could increase project costs. If costs fall below the cap, MidAmerican does not need to further establish the prudence or reasonableness of the expenditures. The cost cap is inclusive of associated costs necessary for the reliable integration of the wind project into the MidAmerican delivery system. MidAmerican would be required to establish the prudence and reasonableness of any costs in excess of the cost cap. The depreciation life of Wind VI for ratemaking purposes is 20 years and jurisdictional allocations are identical to those used for other wind projects.

In recognition of the project's likely receipt of bonus depreciation arising out of the 2008 Economic Stimulus Act, a contingent revenue sharing credit of \$2,315 per MW for each megawatt of Wind VI's capacity that qualifies for bonus depreciation is to be used to offset capital costs of MidAmerican's new coal facility in Council Bluffs, Walter Scott Jr. Energy Unit 4, from 2008 to 2013. In addition, the Settlement provides that the Iowa jurisdictional portion of any revenues from the sale of



renewable energy credits and carbon dioxide credits associated with Wind VI will be recorded above the line and included in MidAmerican's revenue sharing mechanism. MidAmerican's revenue sharing mechanism was most recently addressed in Docket No. RPU-07-2. Likewise, the Iowa jurisdictional portion of any federal production tax credit associated with Wind VI will be recorded above the line and included in the revenue sharing mechanism. Finally, the Iowa jurisdictional portion of wholesale sales revenues associated with the portion of the wind project included in Iowa's jurisdictional electric rate base will be recorded above the line and included in the revenue sharing mechanism.

### **DISCUSSION**

No objections to the proposed Settlement were filed. Subrule 199 IAC 7.2(11) provides that the Board will not approve a settlement unless it "is reasonable in light of the whole record, consistent with law, and in the public interest."

Information filed by MidAmerican demonstrated that Wind VI was a reasonable alternative to meet its electric supply needs when compared to other renewable generation sources. In future cases, the Board might require a utility to compare its chosen resource (whether renewable or fossil fuel) with all other feasible generation resources, but the unique opportunity for MidAmerican to pursue Wind VI because of turbine availability and the settlement and agreement with Consumer Advocate are persuasive in this case that a detailed comparison of Wind VI with non-renewable resources is unnecessary. MidAmerican has taken steps to mitigate construction and

operating risks and the project will have a positive economic impact on the state as a whole and on the local areas where construction will take place. The information provided forecasts a positive benefit from the project for both MidAmerican and its customers under various ratemaking principles that share the benefits of certain tax incentives and any wholesale sales.

MidAmerican will be conducting various transmission analyses for Wind VI. MidAmerican will be required to file all transmission-related studies, such as system impact studies, facilities studies, and generator outlet studies, as they are completed. MidAmerican will also be required to file a project status report once Wind VI is operational, including information on sites chosen for turbine installation, transmission interconnection details, and any transmission additions or modifications necessary to complete Wind VI.

The ratemaking principles contained in the Settlement generally track principles that have been awarded in other ratemaking principles dockets and are consistent with what was approved for MidAmerican's most recent project, Wind V, which was the subject of Docket No. RPU-08-2. The 11.7 percent return on equity agreed to by the parties appears to be within the zone of reasonableness given the risks associated with new generation, the current 12-month yield on A-rated utility bonds, the intent of § 476.53, and the fact that this return will prevail for the regulated life of Wind VI.

The other ratemaking principles associated specifically with Wind VI, including the soft cost cap and depreciation life, also appear reasonable. While the Settlement may not decide each issue the way the Board would after a contested hearing, the Board, viewing the Settlement as a whole finds it to be reasonable, in the public interest, and not contrary to any law. The Settlement will facilitate the building of additional renewable energy to help meet the Governor's renewable energy goals and will further the diversity of Iowa's generation resources, reducing reliance of fossil-fueled generation.

#### **FINDINGS OF FACT**

1. It is reasonable to find that MidAmerican has in effect a Board-approved energy efficiency plan as required under Iowa Code § 476.6(19).
2. It is reasonable to find that MidAmerican considered other long-term sources of electric supply and the wind facilities proposed are reasonable when compared to other feasible alternative sources of supply.
3. The ratemaking principles contained in the Stipulation and Agreement (Settlement) filed on July 23, 2008, are reasonable.
4. The Settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

**CONCLUSIONS OF LAW**

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code chapter 476 (2007).

**ORDERING CLAUSES**

**IT IS THEREFORE ORDERED:**

1. The stipulation and agreement, referred to in this order as the Settlement, filed in Docket No. RPU-08-4 on July 23, 2008, are approved.
2. MidAmerican Energy Company shall promptly file with the Board copies of all transmission studies, system impact studies, generator outlet studies, or other studies it conducts to comply with any regulatory requirements.
3. MidAmerican Energy Company shall file a status report on Wind VI when it becomes operational. The report shall, at a minimum, contain the information identified in the body of this order.

**UTILITIES BOARD**

/s/ John R. Norris

/s/ Krista K. Tanner

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

/s/ Darrell Hanson

Dated at Des Moines, Iowa, this 27<sup>th</sup> day of August, 2008.