

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NOS. RPU-01-3 RPU-01-5
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**ORDER SETTING HEARING DATE AND
REQUIRING ADDITIONAL INFORMATION**

(Issued August 20, 2001)

On March 14, 2001, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a petition with the Utilities Board (Board) to reduce MidAmerican Energy Company's (MidAmerican) Iowa jurisdictional electric rates. The Board docketed the petition, identified as Docket No. RPU-01-3, and issued a procedural schedule by order issued April 13, 2001.

On June 11, 2001, MidAmerican, as part of its responsive testimony, filed an application for a general increase in its electric rates, identified as Docket No. RPU-01-5. On July 2, 2001, MidAmerican and Consumer Advocate filed a joint motion to suspend the procedural schedule in Docket No. RPU-01-3. MidAmerican and Consumer Advocate also asked that Docket No. RPU-01-5 be docketed but that no procedural schedule be set. The Board issued an order docketing Docket No. RPU-01-5 and suspending the procedural schedule in Docket No. RPU-01-3 on July 9, 2001.

On July 12, 2001, MidAmerican, Consumer Advocate, the International Brotherhood of Electrical Workers Iowa State Conference, Deere & Company, and Local Union 109, International Brotherhood of Electrical Workers, AFL-CIO, filed a proposed settlement that would resolve all outstanding issues in Docket Nos. RPU-01-3 and RPU-01-5. Pursuant to 199 IAC 7.2(11)"c," Archer Daniels Midland Company and Ag Processing Inc each filed comments on August 10, 2001, opposed to the settlement. Parties supporting the settlement have 15 days to file reply comments.

In order that the Board may fully consider the proposed settlement, a hearing on the settlement will be held on October 4, 2001, beginning at 9 a.m. In addition, the Board will require MidAmerican and Consumer Advocate to provide the following identified additional information within ten days from the date of this order. With respect to the questions for both MidAmerican and Consumer Advocate, joint or separate responses may be filed.

QUESTIONS FOR MIDAMERICAN

1. Provide projected wholesale sales revenues, costs, and net margins for the years 2001-2005. Also, include an explanation how the projections were calculated and what model or information was used to derive the projections.
2. Provide MidAmerican's five-year budgets (capital and operating) covering the years 2001-2005 that have been approved by and are currently being relied upon by the MidAmerican Board of Directors. Provide any updates to said

budgets, which may be approved prior to the Board's final decision in this proceeding. In addition to schedules, provide any documentation that explains the budget and budget line items (including from departmental or divisional budgets that feed into the utility budget), highlighting those that discuss material changes to plant-in-service, operating revenues and expenses, and taxes. For each year, also highlight:

- (a) Additional income from expired APP-contracts being re-priced at tariffed rates;
- (b) The effects of the Cooper contract nearing its end and then ending;
- (c) The effects of the new Pleasant Hill generating facility being constructed, tested, and placed into commercial operation, including the expected impact on total wholesale margins; and
- (d) Any other event or occurrence that would have a material effect on MidAmerican, as reflected in the budgets.

3. Have the signatories to the settlement agreement agreed upon items that will be included in the revenue sharing calculations, including but not limited to:

- (a) Wholesale margins,
- (b) The new power plant,
- (c) Additional revenues due to expired APP-contracts being repriced at tariffed rates, and
- (d) Impacts of the Cooper contract expiring.

4. The APP-96-1 settlement allowed MidAmerican to roll a representative level of fuel costs into base rates. This level was reduced slightly the following year. Indicate what actual fuel costs have been for each of the years 1998, 1999, and 2000.

5. In 2004, MidAmerican's contract with the Nebraska Public Power District for 50 percent of the power from Cooper Nuclear Station ends. MidAmerican has in place a rider that allows for recovery of capital additions at Cooper. Will the Cooper tracker/rider end when the Cooper contract expires? When the rider does end, what is the impact on rates?

6. The settlement in Docket No. APP-96-1 provided for rate reductions of \$10 million for commercial and industrial customers in the form of special contract discounts and a retail open access pilot program (Market Access Service, or MAS). Does MidAmerican intend to extend or renew APP contract discounts for commercial and industrial customers upon contract expiration?

7. Assume that MidAmerican does not extend or renew APP contract discounts for commercial and industrial customers and the customers return to standard tariff rates. Estimate MidAmerican's annualized revenue increase from the expiration of APP contracts scheduled to expire in: (1) 2002, (2) 2003, (3) 2004, and (4) 2005.

8. Estimate the total annualized discounts received by customers who participated in MidAmerican's MAS program.

9. Estimate MidAmerican's annualized revenue increase from the return of MAS customers to standard tariff rates.

10. HF 577 provides for establishing ratemaking principles for new plant before it is built and allows the Board to depart from “traditional ratemaking principles.” What, if any, changes to “traditional ratemaking principles” might MidAmerican seek concerning:

(a) AFUDC (Allowance for Funds Used During Construction)

including, but not limited to, the AFUDC accrual period; or

(b) CWIP (Construction Work in Progress); or

(c) Any other ratemaking principles?

11. In Docket No. RPU-01-5, Dr. Morin provided the average allowed return in the electric industry in the year 2000, reported by Regulatory Research Associates. Provide a similar average for 1997, the year the Docket No. APP-96-1 Settlement Agreement was approved.

12. What date do you expect the first new electric generating plant to come on line? What is the estimated cost of the plant?

13. When the first plant is completed, are you planning to include it in rate base for purposes of calculating the return on common equity within the sharing mechanism? If yes, could you estimate for the Board what kind of revenues MidAmerican would need to generate each year following the completion of the plant in order for the sharing mechanism to kick in?

14. Based on MidAmerican’s past performance, estimate approximately how much of the AFUDC liability account may be reduced during the term of the proposed settlement.

15. Provide the revenue requirement used in Docket Nos. APP-96-1 and RPU-96-8 and supporting workpapers.
16. Explain what happens to the funds collected for future plant investment if there is no commitment or completed construction by the end of 2005.
17. Would any covenants within MidAmerican's current debt indentures be in violation if its debt rating fell below investment grade? If yes, explain what rights the bondholders have as a result of this.
18. The settlement agreement states "The same framework for filing an annual revenue sharing report used as part of the APP settlement shall continue throughout the duration of this Settlement." In its case in this docket, MidAmerican argued in favor of adopting normalization accounting for state income tax timing differences caused by accelerated depreciation as well as to be allowed to amortize current levels of its regulatory asset caused by past flow-through of such timing differences. Appendix V, *ROE Calculation Relating to Electric Pricing Settlement*, of the APP-96-1/RPU-96-8 (CONSOLIDATED) Settlement states:

The parties reserve the right to modify or change the methodology set forth herein in the event such party or parties deem the methodology to lead to unreasonable or unrepresentative results. In the event of a dispute, the parties agree to attempt to negotiate a settlement and if a settlement cannot be reached, submit the matter to the Iowa Utilities Board for a final decision and order pursuant to the Iowa Administrative Procedure Act.

With regard to the issue of state income tax normalization, will MidAmerican exercise its rights (either unilaterally or in concert with the other parties to the settlement) under Appendix V.

If the answer is other than an unqualified "no," provide the following:

A year-by-year compilation (including itemization of the following individual elements—plant in service, completed construction not classified, accumulated deferred income taxes, accelerated depreciation, and working capital) of rate base for the period 2001-2005, using the capital investment plan (capital budget) currently approved by MidAmerican's Board of Directors.

After providing the compilation, recalculate the estimated total Iowa state jurisdictional income taxes payable for each of the years in that period using the information requested above, under flow-through accounting and normalization accounting.

QUESTIONS FOR CONSUMER ADVOCATE

1. Compare the financial markets of today to the financial markets that existed when the Docket No. APP-96-1 settlement was approved in 1997. Are they similar?
2. Provide the most current yield on single A-rated utilities bonds.
3. How does the expiration of the Cooper contract in 2004 affect MidAmerican's risk exposure?

QUESTIONS FOR MIDAMERICAN AND CONSUMER ADVOCATE

1. The “Revenue Sharing” section of the proposed settlement (Section 3) describes funding a “regulatory liability” that “will be used to reduce rate base by offsetting AFUDC on future generation plant investments committed to or completed by December 31, 2005.” What does the word “committed” mean? What constitutes a generation plant commitment under the proposed settlement? How will it be defined, and what procedures will be used to ensure performance and accountability?

2. The “Other” section of the proposed settlement (Section 6) describes how MidAmerican and Consumer Advocate “may jointly file for a revenue neutral change in rates for the purpose of improving rate design or bringing rates closer to the cost of service.”

(a) What does the phrase “bringing rates closer to the cost of service” mean?

(b) Describe other ways of “improving rate design” that might be proposed.

3. MidAmerican has announced its intention to join an independent transmission company called Translink. MidAmerican would then purchase transmission service from Translink. If MidAmerican joins Translink as announced:

(a) Are MidAmerican’s transmission costs likely to change and, if so, how?

(b) Will this require MidAmerican to unbundle the transmission component of its retail rates? Why or why not?

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. A hearing on the proposed settlement filed in Docket Nos. RPU-01-3 and RPU-01-5 shall be held at 9 a.m. on Thursday, October 4, 2001. The hearing shall be held in the Board's hearing room at 350 Maple Street, Des Moines, Iowa. Persons with disabilities requiring assistive services or devices to observe or participate should contact the Board at (515) 281-5256 in advance of the scheduled date to request that appropriate arrangements be made.

2. MidAmerican Energy Company and the Consumer Advocate Division of the Department of Justice shall provide the information identified in this order within ten days of the date of this order.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper _____
Executive Secretary

Dated at Des Moines, Iowa, this 20th day of August, 2001.