

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-04-2 (TF-04-150, APP-96-1, RPU-96-8)
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**ORDER LIFTING STAY, REQUIRING ADDITIONAL INFORMATION,
AND GRANTING INTERVENTION**

(Issued March 21, 2005)

On April 30, 2004, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) its seventh annual reconciliation of capital expenditures associated with capital additions to the Cooper Nuclear Station (Cooper Tracker). The filing also included a long-term equalization plan to partially reduce electric rate zonal disparities in residential and street lighting rates through selective scheduled reductions in the Cooper Tracker and other cost adjustment recovery clauses. Phase 1 of the plan involved a scheduled reduction in the Cooper Tracker. The Board docketed MidAmerican's long-term plan for further investigation, approved Phase 1 of the plan, and required MidAmerican to file additional information by order issued May 28, 2004.

MidAmerican filed additional information on June 17, 2004. MidAmerican responded that it opposed increasing any of its electric tariff rates prior to 2011 and had no plan to equalize zonal rates beyond the selective reductions it had proposed.

MidAmerican filed a proposed tariff to implement Phase 2 of its partial equalization plan, reflecting termination of cost recovery through the Cooper Tracker, on August 30, 2004.

On September 27, 2004, the Board issued an “Order Approving Cooper Tracker Revisions and Requiring Additional Information Regarding Full Equalization” (Cooper Tracker Order). The Cooper Tracker Order approved Phase 2 of MidAmerican’s partial equalization plan and required MidAmerican to file various plans to fully equalize and consolidate zonal electric rates. The Cooper Tracker Order specified four plans that were required, but indicated MidAmerican could “also file other plans for consideration” and that “[t]he proposals may have different phase-in periods for the various customer classes because of disparity of impact of the phase-in periods for class members in lower-priced zones when compared to the relative benefit for class members in the higher-priced zones.” (Cooper Tracker Order, p. 4). The Cooper Tracker Order also indicated that a proposed customer notice pursuant to Iowa Code § 476.6(5) should be filed in the event the Board proceeds with consideration of full equalization.

MidAmerican filed an application for rehearing of the Cooper Tracker Order on October 18, 2004. MidAmerican asked the Board to stay the requirement in its order that MidAmerican file full equalization plans on or before October 27, 2004.

MidAmerican included in the application a revised partial plan to address some of the rate disparities. The Board issued a stay on October 20, 2004.

The Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a response to MidAmerican's application on October 28, 2004. Consumer Advocate asked that MidAmerican's application for rehearing be granted and its rate plan contained in the application be approved. Ag Processing Inc and GELITA USA filed a response on November 1, 2004, also asking the Board to grant rehearing and approve MidAmerican's rate plan.

On November 9, 2004, the Board issued an order granting reconsideration of its requirement to file full equalization plans while it reviewed MidAmerican's revised partial equalization plan. The Board noted that the Cooper Tracker Order only called for the filing of various rate equalization plans. The Board said it was simply gathering information as it considered whether to require MidAmerican to file a rate equalization case. The Board pointed out that in the event the Board were to make that determination, notice to customers would be required and a contested case proceeding would be commenced.

In its revised plan, MidAmerican committed to filing a revenue-neutral cost-of-service and rate design plan for commercial, industrial, and street lighting customers by mid-2009, to be implemented in 2011. The original plan did not address commercial and industrial rate differences. MidAmerican also proposed some greater reductions for the higher-priced South and East residential rate zones, and some other revisions to its initial plan.

One of the key components of MidAmerican's revised plan was a proposed one-year extension of the revenue freeze and revenue sharing rate settlement previously approved by the Board in Docket No. RPU-03-1. However, after MidAmerican filed its revised plan, this extension was approved as part of a settlement in a ratemaking principles proceeding, Docket No. RPU-04-3, effectively removing it as a factor for consideration in this docket.

The Board's analysis estimates that the Phase 1 and 2 reductions for South zone residential customers have reduced the class average North-South differential by only about .02 cents per kWh. The revised plan should make more of a difference for residential customers by reducing the North-South residential difference by about one-third and the North-East difference by about one-fourth. Like the original plan, MidAmerican's revised plan does nothing to reduce any of its commercial or industrial zonal rate differences before 2011.

MidAmerican in its request for reconsideration argues that a full equalization of rates cannot be cost based until MidAmerican's current generation construction program is complete because of the increase to the generation component of rate base, which affects the allocation of costs between the classes. MidAmerican said that the construction program cannot be reflected in a cost-of-service study until 2009. In addition, for commercial and industrial customers, there are divergent rate designs among the three rate zones, and rate structures must be consolidated before

there can be full equalization. MidAmerican said that any redesign of these rates should take into account the impacts on individual customers.

MidAmerican is correct that rate design changes can cause individual customers to receive significantly greater increases than the broader class averages would suggest. However, it is not clear to the Board how postponing most of this transition until 2011 will make the transition any smoother, particularly if the volatility associated with rate design changes is compounded by revenue requirement increases after the current settlement expires in 2012. It may be that it would be less disruptive to equalize rates over a phase-in period starting next year until a new cost-of-service study is available to complete the process.

This is one example of information the Board will need to fully consider MidAmerican's revised partial equalization proposal. The Board will therefore not rule on the future elements of the proposal at this time, but will require MidAmerican to fully comply with the Board's Cooper Tracker Order requiring MidAmerican to file four specific plans to equalize and consolidate its class zonal rates by the end of 2007, 2008, 2009, and 2010, and a proposed customer notice. The stay issued October 20, 2004, is lifted. MidAmerican will also be required to provide answers to the following questions:

1. It appears likely that the rate volatility associated with full equalization of class rate zones and class rate design consolidation (full equalization) will only be greater if compounded by a revenue requirement increase after the current settlement expires. Does MidAmerican agree or disagree?

a. If MidAmerican agrees, why not reduce this volatility by spreading the impacts of full equalization over the remaining settlement period?

b. If MidAmerican disagrees, explain why postponing this transition will improve it, including all analyses and underlying assumptions used to draw this conclusion.

2. MidAmerican states that it “vehemently opposes” the notion that a further increase of North zone Residential rates during the revenue requirement freeze is warranted. (MidAmerican Application for Rehearing, 10/18/04, p. 2).

a. If full equalization of Residential rates is postponed until later, in conjunction with a revenue requirement increase, is MidAmerican’s opposition to equalization increases for North zone Residential rates likely to be greater or less than it is now? Please explain.

b. If full equalization of Residential rates is postponed until later, when will full equalization of Residential rates likely be completed, and why?

3. Does MidAmerican currently have a class load research program, sufficiently detailed to provide representative data for redesigning its Iowa customer class rates on a class revenue-neutral, service territory-wide basis? If not, how soon could MidAmerican have such a load research program in place and begin collecting the data?

The Board emphasizes that it is not determining whether MidAmerican’s revised partial equalization proposal should be approved or a full equalization plan be filed. The Board is merely gathering information so that it will be fully informed when the decision is made. In the event a full equalization plan is required to be filed for consideration, customers will receive notice and a contested case proceeding will be commenced.

Citizens for Public Power (CPP) filed a request to intervene in this proceeding on February 23, 2005. CPP states that it is a not-for-profit Iowa corporation whose members share a number of common concerns, one of which is their belief that Iowa City's residential rates are too high. MidAmerican's tariff indicates that Iowa City is served in MidAmerican's East zone.

MidAmerican filed a response on February 28, 2005, and minor corrections to that response on March 1 and 4, 2005. MidAmerican did not object to the intervention, but did object to the Board using the allegations and contentions in the petition as the basis for any action in this proceeding. Ag Processing and Consumer Advocate also each filed responses to the intervention request. Neither party had an objection.

The Board will grant the petition to intervene. CPP has demonstrated an interest in this proceeding that should be represented. MidAmerican and Ag Processing each noted in their responses that they were unable to verify the corporate status alleged by CPP. CPP will be required to clarify its status.

CPP said it filed its intervention request with the understanding that no costs would be assessed against it, or, in the alternative, that any costs would be in rational relationship to its participation. CPP alleged it does not expect to expand the scope of the proceedings. Based on this representation, the Board does not expect to assess or allocate any cost of this proceeding to CPP. However, the final regulatory

cost allocation will be made at the end of the proceeding based upon the activities of the parties and could include an assessment to CPP.

IT IS THEREFORE ORDERED:

1. The stay of the filing requirement contained in the Board's September 27, 2004, order is lifted, and MidAmerican shall file the information identified in that order within 20 days of the date of this order.

2. MidAmerican shall file the other information identified in the body of this order within 20 days of the date of this order.

3. The petition to intervene filed by Citizens for Public Power on February 23, 2005, is granted. CCP shall clarify its status within 20 days from the date of this order.

UTILITIES BOARD

/s/ John R. Norris

/s/ Diane Munns

ATTEST:

/s/ Margaret Munson
Executive Secretary, Deputy

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 21st day of March, 2005.