

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 ON RECONSIDERATION

(Issued June 19, 2006)

I. INTRODUCTION AND PROCEDURAL HISTORY

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. MidAmerican has three different rate zones, North, South, and East, that are the result of prior utility mergers.

Specifically, MidAmerican proposed to selectively apply the scheduled adjustment clause reductions to residential and street lighting customers in its higher-priced South zone, while making no reductions in the lower-priced North and East zones. For all other classes, the scheduled reductions were to be made equally across all rate zones. 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 (by making initial, selective reductions in the Cooper Tracker), 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, therefore, had no plan to equalize zonal rates beyond the selective reductions it had proposed. MidAmerican said that it intended to file a full cost-of-service rate case in 2010 and would further address rate equalization issues at that time.

On August 30, 2004, MidAmerican filed a second proposed tariff to implement Phase 2 of its partial equalization plan, reflecting termination of cost recovery through the Cooper Tracker. The proposed tariff continued MidAmerican's partial equalization plan by additional, selective reductions in the Cooper Tracker for residential and street lighting rates in the South zone, while maintaining the Cooper Tracker unchanged in the lower-priced North and East zones. The Cooper Tracker was terminated for all other customer classes.

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 proceeded 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 revised 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 revised rate plan.

On November 9, 2004, the Board issued an order granting reconsideration of the Board’s 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 was to make that determination, notice to customers would be required and a contested case proceeding would be commenced.

In its revised equalization plan filed on October 18, 2004, 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 (until the end of 2011) 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. Later, in Docket No. RPU-05-4, another ratemaking principles proceeding, the revenue freeze and revenue sharing rate settlement was extended by an additional year, until the end of 2012.

On March 21, 2005, the Board issued an order lifting its earlier stay, requiring MidAmerican to file the alternative equalization plans previously ordered for informational purposes. The order also required MidAmerican to respond to questions from the Board and granted the petition to intervene filed by Citizens for Public Power, a group based in Iowa City, which is in MidAmerican's East zone. MidAmerican filed the alternative equalization plans required by the Board and responded to the Board's questions on April 11, 2005.

II. MIDAMERICAN'S REVISED EQUALIZATION PLAN

MidAmerican's original partial equalization plan called for selective, phased reductions in its higher-priced residential and street lighting rates, based on scheduled revenue reductions in: 1) the Cooper Tracker (in 2004 – now complete); 2) the Alternative Energy Production (AEP) Cost Recovery Clause (in 2006 and 2007); and 3) the Quad Cities Nuclear Decommissioning Rider. The plan did nothing to equalize other classes, which would receive their clause reductions equally, across all rate zones. Full equalization, involving rate increases and other classes, was not to be considered before 2011.

In its October 18, 2004, revised equalization plan, MidAmerican continued to oppose increasing any of its base tariff rates before 2011, even on a revenue-neutral basis. The revised plan:

1. Maintains the second element of the original plan unchanged (i.e., selective reductions in residential and street lighting rates in 2006 and 2007, corresponding to scheduled reductions in the AEP Cost Recovery

Clause). Again, the first element relating to the Cooper Tracker has already been completed.

2. Replaces the third element of the original plan (i.e., selective reductions in residential and street lighting rates in 2008, relating to indeterminate reductions in the Quad Cities Nuclear Decommissioning Rider) with specific phased reductions in South and East zone residential base-use rates, such that the average rate is reduced from 9.0 cents to 8.9 cents per kWh in 2008, and from 8.9 cents to 8.8 cents (i.e., the overall average Residential base-use rate) in 2009, with no offsetting increases in North zone residential base-use rates until 2011 (i.e., MidAmerican would absorb the resulting revenue loss until 2011).

On January 1, 2011, MidAmerican would increase its North zone Residential base-use rates, such that the average North zone Residential base-use rate would increase from 7.8 cents to 8.0 cents per kWh.

These combined changes would reduce the average differential between low and high-priced residential base-use rates, from 1.2 cents to 0.8 cent per kWh, between 2008 and the beginning of 2011.

3. Commits MidAmerican to file a revenue-neutral cost-of-service and rate design plan for commercial, industrial, and street lighting customers by mid-2009 (after completion of MidAmerican's planned generation construction projects), to be implemented in 2011. The original plan did not address commercial and industrial rate differences.

4. Extends the revenue freeze and revenue sharing rate settlement in Docket No. RPU-03-1 for an additional year, from year-end 2010 to year-end 2011. (This one-year extension was later approved in Docket No. RPU-04-3, and further extended to year-end 2012 in Docket No. RPU-05-4, effectively removing the extension of the revenue freeze and revenue sharing rate settlement as a factor for consideration in MidAmerican's revised plan.)

MidAmerican argued that a full equalization of rates cannot be cost-based until MidAmerican's current generation construction program is complete because MidAmerican's generation construction program will significantly change the proportion of generation and transmission rate base compared to distribution rate

base, which MidAmerican believes will have a significant effect on allocated class costs. MidAmerican said that any rate design changes cannot be cost-based without reference to these class cost changes; and these class cost changes cannot be reflected in a class cost-of-service analysis until 2009 (based on a 2008 test year), after the new generation has been completed in 2007 and in service for one full year.

MidAmerican contended that making substantial non-cost-based changes now, followed by substantial cost-based rate design changes after the new generation is completed, would cause unnecessary rate volatility and economic disruption, especially among commercial and industrial customers. MidAmerican pointed to recent surveys that show a high level of customer satisfaction with MidAmerican's service, arguing that any benefits of arithmetic averaging of rates now are outweighed by the instability and economic disruption that would be caused by non-cost-based rate design changes.

For residential customers, MidAmerican proposed to reduce its higher base-use rates in its South and East zones to the arithmetic average by 2009, while absorbing any below-average differences in North zone base-use rates. MidAmerican said that its willingness to absorb North zone losses should eliminate any argument that other zones are subsidizing the North zone base-use customers. In 2011, North zone base-use rates would be increased by 3 percent, bringing them to within 10 percent of the residential base-use average. MidAmerican maintained a full increase of 13 percent for North zone base-use rates (bringing them to the

arithmetic average) is difficult to justify at this time, given the lack of a cost basis and the North zone's economic stagnation compared to the faster growing South and East zones.

For commercial and industrial customers, MidAmerican argued the problems associated with full equalization at this time are compounded by the widely differing rate designs currently offered across MidAmerican's zones. Any redesign of these rates should take into account the class cost shifts caused by MidAmerican's new generation plants and also the impacts of rate design changes on individual customers. MidAmerican said that without consideration of these factors any premature redesign of rates might actually move customers away from the goal of equitable, cost-based rates. Therefore, MidAmerican proposed no changes in its commercial or industrial zonal rate differentials (and, after 2007, no further targeted reductions in its street lighting rates) until 2009, after MidAmerican's new generation plant has been in service one year. In 2009, MidAmerican said it would propose revenue-neutral class cost-of-service and rate design changes for commercial, industrial, and street lighting customers, to be implemented in 2011.

III. ADDITIONAL INFORMATION FILED BY MIDAMERICAN

On April 11, 2005, MidAmerican filed its response to the Board's March 21, 2005, order. In its filing, MidAmerican included four specific plans to equalize and consolidate MidAmerican's class zonal rates by the end of 2007 (1 step), 2008 (2 steps), 2009 (3 steps), and 2010 (4 steps), and a proposed customer notice.

MidAmerican also responded to the Board's questions contained in the March 21, 2005, order.

MidAmerican had 11 separate customer groups in each of the rate equalization plans, although not all customer groups are represented in all three MidAmerican pricing zones. In each of the four plans, MidAmerican based the equalization plan on current rates and designed the plan to be cumulatively revenue neutral for each customer group (although each individual step may not be revenue neutral). The broad-based percentage changes for each customer class understate potential rate impacts because individual customers could experience increases significantly higher than the class average.

While MidAmerican filed four equalization plans in compliance with the Board's order, MidAmerican continued to strongly oppose implementing any of the four alternative equalization plans. Once again, MidAmerican argued that its rate equalization and rate consolidation process should also involve class cost-of-service revenue realignments to ensure that customers' rates are moved toward rather than away from cost-of-service. Otherwise, MidAmerican said, rate equalization could produce temporary movements away from cost-based rates that would have to be reversed later. The net result, according to MidAmerican, would be rate instability that is longer than necessary, which serves no purpose other than a temporary, abstract form of rate equalization, without any reference to cost-of-service.

MidAmerican noted that the instability will be compounded by MidAmerican's generation and transmission plant additions, which will change the composition of its rate base and the resulting allocation among customer classes. As a result, MidAmerican said class cost allocations based on a 2008 test year are likely to be significantly different than class cost allocations based on a 2004 test year. Also, MidAmerican pointed out, that until the issue is litigated, it is not known what class cost methodology will be adopted; the range of possibilities could produce significant differences in final rates.

MidAmerican opposed any erratic changes in electric rates and argued that any long-term plan for full rate equalization should be preceded by a rational, systematic process that examines several issues, including class cost-of-service methodology, the representative test period for the class cost-of-service study, customer classification and rate groupings, rate design issues, and phase-in periods for rate equalization and consolidation. MidAmerican proposed that these issues be addressed in a series of workshops with interested parties, beginning in 2007. MidAmerican said such workshops might be useful for eliminating issues and sharpening debate in preparation for MidAmerican's 2009 class cost-of-service and rate equalization filing.

In responding to the Board's questions, MidAmerican again emphasized the rate volatility that would occur if equalization occurred without the benefit of a class cost-of-service study. Also, MidAmerican noted that it is not a forgone conclusion

that it will need a revenue increase after the revenue freeze concludes at the end of 2012. MidAmerican pointed out that by 2011 in its revised equalization plan, rates would be equalized for two-thirds of its Iowa residential base-use customers and the other one-third of base-use customers would be within 10 percent of full equalization; for residential base-use customers, equalization might be accomplished before any revenue increase is needed. Also, MidAmerican said that any filing based on a test year prior to 2008 would be of little value because it would not capture a full year's operation of the new Council Bluffs coal plant addition.

III. DISCUSSION

As MidAmerican points out, the equalization process for MidAmerican is complicated by the fact that MidAmerican does not have a recent class cost-of-service study that supports its current class rate structures. MidAmerican's current North and South zone rates are settlement rates, based on class cost-of-service studies for a predecessor utility presented in Docket No. RPU-94-4 (Midwest Power). Current East zone rates are based on the class cost-of-service study for another predecessor utility adopted in Docket No. RPU-93-4 (Iowa-Illinois Gas and Electric Company). Therefore, an argument can be made that the current rate structures in MidAmerican's three rate zones are based on cases from the early 1990s. The Board has never adopted a class cost-of-service study for MidAmerican as a merged electric utility.

The class cost-of-service study was an important tool for redesigning class rates in Interstate Power and Light Company's (IPL) recent electric rate design case, Docket No. RPU-05-3. In that case, IPL used a study based on the same class cost-of-service methods litigated and adopted in IPL's previous rate case (Docket No. RPU-04-1). Here, MidAmerican does not have any class cost-of-service study for the combined utility that has been approved by the Board and for the predecessor utilities, the studies approved are over a decade old.

Electric class cost-of-service allocations are based on class load research data. MidAmerican is currently revising its residential load research sample and reports that a full year of data will not be available until test year 2007 at the earliest. Given the importance of reliable load research data, the delay is reasonable. MidAmerican's revised equalization plan commits to filing a class cost-of-service study and full rate equalization/rate consolidation plan by mid-2009, based on 2008 test year data. MidAmerican reports that a 2008 test year will fully reflect the costs of its generation construction program and, therefore, provide a more accurate picture of MidAmerican's costs going forward. The Board believes waiting until the costs of the generation construction can be reflected is reasonable since it only delays the equalization process by one year.

MidAmerican's proposed class cost-of-service study and methodology are likely to be litigated. Given the potential influence of the class cost-of-service study on rate design, MidAmerican will be required to provide alternative target rate design

scenarios as part of its 2009 filing, based on alternative class cost-of-service methodologies likely to be litigated during the proceeding.

Information on the likely alternative class cost-of-service methodologies should be available from the workshops MidAmerican intends to conduct for interested parties, starting in 2007. MidAmerican will be directed to seek broad input from affected customer groups in these workshops. MidAmerican suggests that one of the workshop rate design issues will be whether there should be "one state-wide tariff for each rate group or three geographic based ones." The Board notes that the appropriate goal of rate equalization and rate consolidation is one set of class rate structures, for each class, available to all customers in the class. The Board's rules do allow, however, for class subgroups to be reclassified as separate customer classes for cost allocation and rate design purposes, based on customer load and usage characteristics. 199 IAC 20.10(2)"b".

MidAmerican's revised equalization plan commits MidAmerican to file a class cost-of-service and full rate equalization/rate consolidation plan for commercial, industrial, and street lighting customers by mid-2009 (based on a 2008 test year), to be implemented in 2011. The filing should not be limited to these customer classes and customer groups. The Board will require that the filing include all customer classes and customer groups. This change by the Board supercedes MidAmerican's proposed 0.2¢ per kWh increase for North zone residential base-use rates, on

January 1, 2011; in all other respects, the Board will allow MidAmerican to proceed according to its revised plan.

MidAmerican's revised plan, as amended by the Board, is an improvement over MidAmerican's initial equalization filing. In the original plan, MidAmerican would not file a full cost-of-service rate case until 2010 and would not address rate equalization issues until that time. Now, the process will begin sooner, with stakeholder workshops beginning in 2007. Commencing the pre-filing process next year should help focus the contested issues and offer the participants an opportunity to reach agreement on some aspects of the class cost-of-service study and rate equalization plan.

As MidAmerican begins the class cost-of-service study and equalization process, the Board expects MidAmerican, and other parties, to carefully examine current rate design for the various customer classes, alternative rate designs, and the price and energy efficiency signals that the various rate designs send. Given current and projected energy prices, the Board believes MidAmerican has an opportunity to explore rate designs that may be better than the one currently in place today. The Board expects MidAmerican to present evidence about different alternatives and the advantages and disadvantages of each.

IV. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. MidAmerican Energy Company shall file a comprehensive class cost-of-service study and rate equalization/rate consolidation plan by mid-2009 pursuant to its revised plan filed on October 18, 2004, with the revisions required by the Board in the body of this order. The filing shall include all customer classes and groups, including residential customers. In the filing, MidAmerican shall provide alternative target rate design scenarios based on alternative class cost-of-service methodologies likely to be litigated in the proceeding.

2. MidAmerican shall conduct pre-filing workshops, pursuant to its commitment, for all interested parties and stakeholders, beginning as soon as practical in 2007. MidAmerican is to take appropriate steps to seek broad input from all affected customer groups.

UTILITIES BOARD

/s/ John R. Norris

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Curtis W. Stamp

Dated at Des Moines, Iowa, this 19th day of June, 2006.