

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

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IN RE:  MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-94-3
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**ORDER GRANTING EXTENSION OF INCENTIVE GAS SUPPLY  
PROCUREMENT PLAN**

(Issued December 18, 2006)

On October 19, 2006, MidAmerican Energy Company (MidAmerican) filed a request to continue the Incentive Gas Supply Procurement Plan (IGSPP) for a four-year period until October 31, 2010. The current term of the IGSPP ended on October 31, 2006, and MidAmerican indicates it has reached a settlement agreement with the Consumer Advocate Division of the Department of Justice (Consumer Advocate) on the terms and conditions under which MidAmerican will administer the plan if the four-year extension is approved. MidAmerican states that it is authorized to represent that the Consumer Advocate supports the request for continuing the IGSPP based upon that settlement.

The IGSPP was originally approved in a "Final Decision and Order" issued May 19, 1995, and an "Order Granting Rehearing in Part and Denying Rehearing in Part" issued June 30, 1995. The plan, as originally approved, consisted of four primary components in which MidAmerican's actual gas supply costs were measured against market-based benchmarks, called Reference Prices or Costs in the

settlement agreement. The components are natural gas commodity costs, pipeline reservation costs, storage costs, and transportation costs. The Board has extended the IGSP, with certain modifications, several times, with the last extension continuing the plan until October 31, 2006.

The plan is designed to share savings from efficient gas purchasing practices between MidAmerican's shareholders and its ratepayers. To continue to earn a share of the savings, MidAmerican must keep negotiating more favorable rates in relation to several benchmarks. Thus, the plan operates as an incentive for MidAmerican to continually improve its purchasing methods and practices. MidAmerican stated that the IGSP has provided a total savings of \$104.2 million since it began in 1995. Through the IGSP, MidAmerican customers have realized a savings, relative to the reference price, of \$73.3 million, and MidAmerican shareholders have earned \$30.9 million. MidAmerican states that these results show that the program has produced substantial benefits to MidAmerican's customers.

Under the terms and conditions of the settlement filed on October 19, 2006, between MidAmerican and Consumer Advocate, MidAmerican's earnings during the four-year period will be limited to the following dollar amounts:

- (1) A fixed dollar limit of \$1 million on sharing below 0.25 percent under the Reference Price and above 1.25 percent over the Reference Price for the first year of the extension from November 1, 2006, through October 31, 2007, inclusive;

(2) A fixed dollar limit of \$1 million on sharing below 0.25 percent under the Reference Price and above 1.25 percent over the Reference Price for the second year of the extension from November 1, 2007, through October 31, 2008, inclusive;

(3) A fixed dollar limit of \$500,000 on sharing below 0.25 percent under the Reference Price for the third year of the extension from November 1, 2008, through October 31, 2009, inclusive; and

(4) A fixed dollar limit of \$500,000 on sharing below 0.25 percent under the Reference Price and above 1.25 percent over the Reference Price for the fourth year of the extension from November 1, 2009, through October 31, 2010, inclusive.

The Reference Price is based upon a comparison of charges paid by MidAmerican under firm transportation contracts and applicable maximum interstate pipeline tariff rates, with certain specific limitations. Volumes and related costs or credits currently reflected for all non-PGA (purchased gas adjustment) customer gas usage, including sales for resale transactions and transportation customer balancing, will be excluded from supply reference volumes. The supply reference price will be determined by multiplying the weighted monthly price index by volumes purchased on a monthly basis that were delivered to PGA customers.

The achievement of an award or the imposition of a penalty during the first six-month period of each year of the four-year IGSP extension will not preclude the

imposition of a penalty or achievement of an award during the second six-month period of each year of the IGSP extension and offsetting of penalties or award between six-month periods of each year shall not be permitted. All other provisions of the IGSP shall remain unchanged.

In the order extending the IGSP to October 31, 2006, the Board expressed concern whether negotiations between MidAmerican and Northern Natural Gas Company (Northern) would be at arm's length after they became affiliates. Northern is an affiliate of MidAmerican and it is also one of the interstate pipelines transporting natural gas to MidAmerican and rates paid by MidAmerican to Northern make up a significant part of the IGSP calculation. MidAmerican states that it has been providing Consumer Advocate with monthly information concerning communications and transactions between MidAmerican and Northern. No objection or complaint has been received concerning these contracts or rates paid by MidAmerican to Northern and Consumer Advocate supports the continuation of the IGSP.

The Board will grant the extension of the IGSP for four years as requested. Under the terms of the settlement between MidAmerican and Consumer Advocate, MidAmerican will receive an incentive award only if it meets more restrictive benchmarks and then only up to the limits described above. It is the Board's understanding that Consumer Advocate will continue to monitor MidAmerican's contracts with Northern. Under these conditions, the IGSP should continue to benefit MidAmerican customers.

**IT IS THEREFORE ORDERED:**

The Incentive Gas Supply Procurement Plan is extended from November 1, 2006, to October 31, 2010, subject to the agreement between MidAmerican Energy Company and the Consumer Advocate Division of the Department of Justice filed October 19, 2006.

**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 18<sup>th</sup> day of December, 2006.