

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

| | |
|--|---------------------|
| IN RE: MIDAMERICAN ENERGY COMPANY | DOCKET NO. RPU-07-2 |
|--|---------------------|

**ORDER REQUIRING ADDITIONAL INFORMATION AND SCHEDULING A
TECHNICAL CONFERENCE**

(Issued June 7, 2007)

On April 19, 2007, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) an application for determination of ratemaking principles pertaining to the "Wind IV Iowa Projects," a proposal to construct additional wind generation of up to 540 MW. MidAmerican seeks approval of ratemaking principles that follow the pattern established in MidAmerican's three prior filings for ratemaking principles concerning wind power projects consisting of: (i) the original 310 MW Wind Power Project; (ii) the Wind Power Expansion Project, which allowed MidAmerican to expand the original 310 MW project by adding 30 to 90 MW at the two sites where the original 310 MW of wind turbines were constructed; and (iii) the 2006-2007 wind power project for an additional 545 MW of wind capacity. The locations for the added wind turbines and ancillary facilities that will comprise the Wind IV Iowa Projects have not been determined.

As part of its filing, MidAmerican submitted a stipulation and settlement signed by MidAmerican and the Consumer Advocate Division of the Department of Justice. In reviewing the ratemaking principles application and settlement, the Board has

several questions. The questions can best be answered in written form because they may require data or information that witnesses may not have readily available at a hearing. Therefore, the Board will ask the questions now and, in view of the expedited procedural schedule requested by MidAmerican and set by the Board in its May 25, 2007, order, require MidAmerican to respond to the questions within seven days of the date of this order.

The questions are as follows:

1. The May 29, 2002, Board order in Docket No. RPU-01-9 for the Greater Des Moines Energy Center granted a 12.23 percent for cost of equity, taking into account the risks associated with new generation (page 25). In that regard the Board stated it believes "because of the large capital cost, deregulation in the wholesale markets, and the ever-present possibility of retail restructuring or deregulation, generation investments are more risky than other regulated-utility investments." (Page 24).

- a. Does MidAmerican believe that the likelihood of retail restructuring or deregulation has decreased since 2002? Explain.
- b. Does MidAmerican believe that the risk associated with generation investments (especially if built pursuant to Iowa Code § 476.53) has decreased since 2002? Explain.
- c. In Docket No. RPU-01-9, the Board ruled that the risks associated with a generation investment justified a return that was at the top of the normal risk premium range. Based upon the 12-month A-rated utility bond average of 6.08 percent in this instant case, the top of the normal risk premium range would be 10.58 percent. Explain the justification (beyond references to other stipulations subsequent to the litigated Docket No. RPU-01-9) for a 11.7 percent return when such return exceeds the top of that risk premium range by 112 basis points?

2. Iowa Code § 476.53(3)"c"(2) requires that for a utility to be eligible for advance ratemaking treatment, the proposed facility should be reasonable when compared to other long term feasible alternative sources of supply. Part of this consideration involves determining whether the Wind IV Iowa Projects are economically reasonable, in terms of projected costs versus projected revenue benefits. The ratemaking principle proposed in this docket regarding "Economic Tests for Qualifying Projects," which applies to a project development period through 2013, would allow MidAmerican the flexibility to construct wind projects when the timing and economics seem advantageous, based on the results of its Economic Tests. MidAmerican provides an Economic Test for its proposed 75 MW Pomeroy project expansion (Pomeroy II) and a second Economic Test for the remaining 465 MW of the 540 MW Wind IV total (Project X). However, since MidAmerican has no definite plans for the remaining 465 MW, this second Economic Test is hypothetical.

- a. How can the Board determine whether construction of the remaining 465 MW between now and the end of 2013 is economically reasonable before the actual Economic Tests are conducted?

Further, the ratemaking principal regarding "Economic Tests for Qualifying Projects" indicates that MidAmerican will perform the actual Economic Tests for future projects prior to any decision to construct the project. However, the ratemaking principle does not indicate whether MidAmerican will provide the Board these Economic Tests for review prior to construction. The ratemaking principle states that if actual project costs end up exceeding the earlier-estimated costs and

projected benefits, MidAmerican will be subject to prudence review for the excess costs before they can be included in customer rates. However, if the Board has no opportunity to review the Economic Test prior to project construction, it appears it will have no basis for evaluating actual costs after the fact.

- b. Please state whether the ratemaking principal regarding "Economic Tests for Qualifying Projects" can be modified to allow for the filing and Board review of an Economic Test at least 60 days before new project construction begins, to allow for identification and correction of potential errors in the analysis, and to provide a basis for comparison with actual project costs after the project is completed.

3. Subrule 199 IAC 7.7(3) states: "Spreadsheets, workbooks, and databases shall include all cell formulae and cell references to allow board staff to analyze and reproduce calculations."

Please provide a full electronic copy of the confidential workbook "Table 2 1 Confidential 04_07_07.xls" including all cell formulae and cell references.

4. On page 7 of Witness Dale Stevens' direct testimony, it is stated that MidAmerican will be capacity deficient for load plus reserves starting in 2009.

- a. What steps is MidAmerican taking to ensure that customer demand for electricity will be met in year 2009 and beyond?
- b. Please describe the process used by MidAmerican to consider various long-term resource alternatives.
- c. How are candidate supply-side resources (renewable and non-renewable resources) identified and selected? Are demand-side resources considered in the long-term planning process?
- d. What is the next generation resource after the proposed Wind IV Projects that MidAmerican has considered to meet its forecasted electric demand? Has MidAmerican analyzed the impact of this unit? How did the company analyze the impact of this unit?

Furthermore, in addition to the questions posed, Board staff also finds it necessary to schedule a technical conference to enable the Board's staff to discuss with MidAmerican the type of information required to carry out the Board's statutory responsibilities.

The Board needs additional information to complete its review and determine what additional procedures, if any, are necessary to conclude this docket. For example, the Board has questions about the Economic Test for Pomeroy II and MidAmerican's long-term resource plan. The technical conference will be held on Monday, June 18, 2007, in Conference Rooms 3 and 4 at the Board's offices at 350 Maple Street, Des Moines, Iowa. The technical conference will begin at 10 a.m. The conference will last as long as necessary, but the Board does not anticipate that it will extend into the afternoon. There will be no transcript made of the discussions because the conference is only intended to provide Board staff with additional information so that the Board can determine whether a hearing is necessary. Because the filing is incomplete, the timetable set by MidAmerican (which called for a final Board order to be issued by June 15) cannot be met. The Board will move as expeditiously as possible to complete its statutory responsibilities. MidAmerican can assist in this process by filing comprehensive responses to this order.

IT IS THEREFORE ORDERED:

1. MidAmerican Energy Company shall provide the information identified in this order within seven days of the date of this order.

2. A technical conference to address the issues discussed in this order is scheduled for Monday, June 18, 2007, at 10 a.m. The conference will be held in Conference Rooms 3 and 4 in the Board's offices at 350 Maple Street, Des Moines, Iowa. Persons with disabilities requiring assistive services or devices to observe or participate should contact the Utilities Board at (515) 281-5256 in advance of the scheduled date to request that appropriate arrangements be made.

UTILITIES BOARD

/s/ John R. Norris

/s/ Curtis W. Stamp

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Krista K. Tanner

Dated at Des Moines, Iowa, this 7th day of June, 2007.