

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. TF-07-220 (SPU-04-1)
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**ORDER CLARIFYING JUNE 24, 2008, ORDER AND
DENYING MODIFICATION OF ORDER ON REHEARING**

(Issued September 16, 2008)

PROCEDURAL BACKGROUND

On June 24, 2008, the Utilities Board (Board) issued an order in Docket No. TF-07-220 rejecting a proposed permanent small volume gas transportation compliance tariff filed by MidAmerican Energy Company (MidAmerican) and directing MidAmerican to file revised compliance tariff sheets consistent with the order on or before July 24, 2008. On July 14, 2008, MidAmerican filed a request for clarification of the June 24, 2008, order or, in the alternative, a request for rehearing and request for stay. MidAmerican requested clarification of several issues related to interstate pipeline capacity for small volume gas transportation service and suggested an alternative capacity release mechanism to the one directed by the Board. MidAmerican requested the Board stay the requirement to file the proposed compliance tariff on July 24, 2008, to allow the Board a full opportunity to consider the request for clarification or rehearing.

On July 16, 2008, the Board issued an order staying the filing of the revised compliance tariff and establishing a response date to MidAmerican's filing. On

July 21, 2008, Cornerstone Energy, LLC, d/b/a Constellation NewEnergy-Gas Division (Cornerstone), filed a response. On July 30, 2008, Iowa Joint Utility Management Program, Inc. (IJUMP), filed a response to MidAmerican's request for clarification and responded to the points of clarification sought by MidAmerican.

On August 13, 2008, the Board granted the alternative request for rehearing to allow for full consideration of the request for clarification. Iowa Code § 476.12 requires that the Board either grant rehearing or deny rehearing within 30 days of the request for rehearing. If the Board does not act within the 30-day time limit, the request for rehearing is deemed denied. The Board granted rehearing to preserve the alternative request while it considered the request for clarification.

REQUEST FOR CLARIFICATION

MidAmerican requests clarification regarding the Board's decision in the June 24, 2008, order that required MidAmerican to offer small volume gas transportation customers the option of taking zone delivery of interstate pipeline capacity with the understanding that if zone delivery capacity is not available in the area where the customer is taking service, the customer may choose to return to system supply or take primary point delivery capacity. For purposes of the request, MidAmerican assumes "zone delivery capacity" refers to capacity utilized by a small volume customer that may have a primary firm delivery point at some location other than the town border station that serves the customer.

MidAmerican explains the concept by describing a scenario where a customer located in Sioux City has zone delivery capacity with a primary firm delivery point in Des Moines. This customer can use the zone delivery capacity, but must use an alternate delivery point of Sioux City. MidAmerican states its experience indicates that if primary delivery point capacity is available, natural gas will flow to that point utilizing zone delivery capacity. However, MidAmerican indicates that the opposite is not necessarily true. The availability of zone-delivery capacity does not guarantee that primary delivery point capacity will be available at a particular point within the zone.

Based upon the explanation above, MidAmerican requests the Board address the following points for clarification concerning interstate pipeline capacity.

1. Capacity Constraints

MidAmerican

MidAmerican states that the Board's order suggests that the capacity constraint issue is a simple matter of whether zone delivery capacity is available for customers. In fact, MidAmerican would expect capacity within a zone to be available at most locations for most customers. However, if capacity becomes constrained, the natural gas delivered to a customer with zone delivery capacity may be interrupted or reduced.

MidAmerican asks the Board to clarify the June 24, 2008, order so that in cases where zone delivery capacity is available, but the route of the capacity to the customer (primary delivery point) shows the potential for constraints, MidAmerican

can, in its discretion, require the customer to either take primary delivery point capacity from MidAmerican or return to sales service.

IJUMP

IJUMP argues that MidAmerican should be required to comply with the Board's June 24, 2008, order that required MidAmerican to file revised tariff sheets with the existing pilot project pipeline capacity provisions. IJUMP argues that MidAmerican should first comply with the Board's order before offering an alternative. The alternative, IJUMP argues, should have supporting information. IJUMP points out that the only information filed by MidAmerican in support of the alternative is a map of the Northern Natural Gas Company (Northern) interstate pipeline system. IJUMP points out that MidAmerican's proposed clarification would apply to parts of the Northern system that are not constrained and to other interstate pipelines serving MidAmerican.

IJUMP states that MidAmerican provides no support explaining how constraints would be determined, no history of constraints or analysis of past constraints, and no information concerning the potential effect of small volume customers' volumes on the system. IJUMP argues that MidAmerican's suggestion that it would be required to reserve primary delivery point capacity for all of its small volume customers is not correct. MidAmerican would not need to retain primary delivery point capacity for small volume customers that have primary delivery point capacity, but only for those in constrained areas that do not have primary delivery point capacity available from another source.

Board Discussion

In the June 24, 2008, order the Board rejected the provisions in MidAmerican's proposed permanent tariff related to interstate pipeline capacity and directed MidAmerican to file revised permanent tariff provisions that duplicate the capacity tariff provisions from its existing pilot project. The Board stated that MidAmerican had operated the pilot project under these provisions for many years and that MidAmerican had not shown that the significant changes proposed by MidAmerican were required. The Board also directed MidAmerican to offer small volume customers the option of taking zone delivery capacity with the understanding that "if zone delivery capacity is not available in the area where the customer is taking service, the customer will have to return to system supply or take primary point delivery capacity."

MidAmerican asks for clarification using an example of a Sioux City customer that has taken zone delivery capacity with a primary delivery point in Des Moines. MidAmerican would like to have the discretion to require the customer to either take primary delivery point capacity from MidAmerican or return to sales service if the route to the customer shows the "potential" that constraints could occur.

MidAmerican has provided no criteria or explanation concerning how it would determine a potential constraint might occur, nor has MidAmerican provided information on how Northern's capacity tariff provisions and contract requirements address the example. Without specific criteria or more information about the options the potentially constrained customer might have, MidAmerican's suggested clarification could provide MidAmerican with too much discretion concerning a small

volume gas transportation customer's service. Based on this record, the Board is not convinced the circumstances described by MidAmerican warrant providing MidAmerican the requested degree of discretion.

2. Primary Delivery Point Capacity

MidAmerican

MidAmerican interprets the Board's order to require it to permit a customer to take zone delivery capacity and, if capacity to the customer's primary delivery point is later constrained and deliveries are interrupted or reduced, MidAmerican must allow the customer to return to system supply or at that time take primary delivery point capacity from MidAmerican. MidAmerican further interprets the order to require it to retain adequate primary delivery point capacity for all of its small volume gas transportation customers so that they may return to system supply at the time of interruption or allocation. MidAmerican suggests that if the primary delivery point is constrained, no additional primary delivery point capacity will be available for MidAmerican to acquire to serve the customer as it returns to sales service.

MidAmerican states that this interpretation raises the following issues for clarification:

- a. What if the customer does not need primary delivery point capacity from MidAmerican (if the marketer has acquired primary delivery point capacity)?**

Board Discussion

The discussion in the June 24, 2008, order that indicated MidAmerican is required to allow a customer who is subject to a constraint to return to system gas or take primary delivery point capacity was describing the two options that a customer in

that situation would have. The customer could either return to MidAmerican's system gas or take primary delivery point service from MidAmerican or some other supplier. The language in the order does not require MidAmerican to retain primary delivery point capacity for all of its customers, especially if the customer has primary delivery point capacity from another supplier.

- b. Does the Board intend this requirement to increase MidAmerican's reserve margin? The cost of capacity reserved for small volume transportation customers would be reflected in the purchased gas adjustment (PGA), which means that PGA customers would pay for this capacity.**

IJUMP

IJUMP argues that MidAmerican does not need to increase its reserve margin for current small volume customers or for the small number of potential new customers. IJUMP argues that the proposed capacity provisions are onerous and MidAmerican has failed to show that the problems are systemic.

Board Discussion

The Board did not intend for MidAmerican to increase its reserve margin as a result of small volume transportation service. Small volume transportation service volumes, even if all 2,500 potentially eligible customers took the service and then all wanted to return to system supply, represent a relatively small total volume when compared to the total throughput on MidAmerican's system. This is one of the reasons for limiting the size of the program.

- c. **If the Board does not intend that MidAmerican retain adequate supplies of primary delivery point capacity for all of its small volume customers, those customers may face pipeline allocations or interruption of delivery if primary delivery points for those customers are constrained. Small volume transportation customers who do not have primary delivery point capacity (even though they may have purchased zone delivery capacity) will be curtailed first before any curtailments are made to customers taking system sales supply. MidAmerican asks if this is acceptable to the Board.**

Board Discussion

MidAmerican has described a hypothetical situation with regard to curtailments but has not shown it is a significant problem at this time. As stated earlier, MidAmerican has presented little information to show that allocations or curtailments will occur on the Northern system and how Northern tariffs and contracts would address this situation, if it was to occur. In addition, the Board has established the regulatory policy that utilities will be required to provide service to small volume transportation customers that either elects to return to system service or that experience a supply failure. Docket No. SPU-04-1, In re: Iowa Joint Utility Management Program, Inc., "Order Directing Filing of Permanent Small Volume Transportation Tariffs" (November 5, 2007). MidAmerican has tariff provisions in place that provide restrictions on small volume customers that return to system supply or experience supply failure and take service from MidAmerican and charges to compensate MidAmerican if this occurs. MidAmerican has the expertise to use its capacity resources to address these types of situations and MidAmerican can

request guidance from the Board if unusual circumstances occur. Under these conditions, the hypothetical described by MidAmerican is acceptable.

- d. **MidAmerican explains that the Board's decision to limit the total number of small volume transportation customers to 2,500 rather than the 5,000 proposed by MidAmerican will have a limited affect on capacity release. MidAmerican points out that the location of customers, not the total number, has the greatest impact on the requirement for primary delivery point capacity.**

Board Discussion

The Board will retain the 2,500 customer limit. Even though MidAmerican suggests the limit has little effect on capacity release issues, the limit will provide MidAmerican with an outside limit of risk.

3. Alternative Capacity Release Mechanism

MidAmerican

MidAmerican proposes an alternative capacity release mechanism that will be available after July 30, 2008. MidAmerican states that at the beginning of this docket it was required to price prearranged releases at maximum tariff rates, not reflecting any discounts. The suppliers argued they should get the benefit of any discounts received by MidAmerican. MidAmerican states that the Federal Energy Regulatory Commission (FERC) has changed its regulations in Order No. 712 amending 18 CFR § 284.8 and will now allow an exception to the maximum rate policy for state-regulated retail access programs such as the small volume gas transportation service.

MidAmerican states that under this new decision, it will be able to release capacity to a small volume customer at MidAmerican's contract costs. MidAmerican states that it will re-file its tariff and, with Board approval, it will release, without posting for competitive bids, primary delivery point capacity to small volume gas transportation customers as long as it is used to serve the needs of state-regulated retail access transportation customers. MidAmerican suggests the Board may consider the effect of this new FERC decision on the implementation of small volume gas transportation service by MidAmerican.

Cornerstone

Cornerstone stated that it does not oppose the optional capacity release mechanism that is expected to be available on July 30, 2008.

IJUMP

IJUMP states that it does not currently oppose the optional capacity release mechanism. IJUMP opposes any delay in filing permanent tariff sheets in compliance with the Board's June 24, 2008, order.

Board Discussion

The Board agrees that the change in FERC policy with regard to pricing of released capacity to state-regulated retail access transportation customers addresses one of the issues concerning MidAmerican's original proposed tariffs. MidAmerican should include the new pricing for released capacity in its revised compliance tariff. The Board will still require MidAmerican to duplicate the capacity related tariff provisions contained in the pilot project tariff as required by the June 24,

2008, order. Under the pilot, a customer switching to small volume gas transportation service has the choice of either giving MidAmerican 12 months' notice of its intent to switch to transportation service (with no required capacity assignment) or to accept capacity assignment at MidAmerican's cost for the first 12 months of service.

Adding the new pricing option will give a small volume customer the opportunity to take released capacity from MidAmerican at MidAmerican's cost when the customer begins transporting or after the initial 12-month period.

REHEARING

The Board granted MidAmerican's alternative request for rehearing of the June 24, 2008, order to allow sufficient time to fully consider the request for clarification. After considering the request for clarification and reviewing the June 24, 2008, order, the Board has determined on rehearing that no modifications need to be made to the order. The Board has extended the pilot project to next April and there will not be a complete switch of pilot project customers to the permanent service until that time. In the June 24, 2008, order, the Board directed MidAmerican to file information annually regarding the small volume transportation service. The Board intends to review that information and the experience of customers taking the service to determine if changes to the tariffs are required after that filing.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The June 24, 2008, order is clarified as described in this order. All other requests for clarification are denied.
2. The Board has decided on rehearing that no modifications are required of the June 24, 2008, order.
3. MidAmerican Energy Company shall file revised compliance tariff sheets consistent with this order within 30 days of the date this order is issued.
4. MidAmerican Energy Company shall make an annual filing as described in the June 24, 2008, order on the anniversary date of the approval of the revised compliance tariffs filed in response to this order

UTILITIES BOARD

/s/ John R. Norris

/s/ Krista K. Tanner

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Darrell Hanson

Dated at Des Moines, Iowa, this 16th day of September, 2008.