

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
BEFORE THE IOWA UTILITIES BOARD

IN RE:	
MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-2018-0003

**POST-HEARING BRIEF**

The Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, files its Post-Hearing Brief in this docket.

**I. STATEMENT OF THE CASE**

On May 30, 2018, MidAmerican Energy Company (“MidAmerican”) filed an application for the Iowa Utilities Board (“IUB” or “Board”) to determine ratemaking principles for its latest wind project, Wind XII. The project will add 591 MW of wind energy generation and enable MidAmerican to serve 100% of the annual energy needs of its customers with renewable energy when the project is completed in 2020, thus positioning MidAmerican to achieve its 100% renewable energy vision. The proposed cost cap of \$1.560 million per MW for Wind XII is less than the \$1.792/MW cost cap established in Wind XI. The total project cost based on this cost cap is approximately \$920 million. The project is contingent on MidAmerican securing 100% production tax credits (“PTC”) for all wind generators. (Appl. at 4). It is expected that MidAmerican will, through its corporate structure, be able to fully utilize PTC tax benefits generated by Wind XII as these PTCs are earned. (Wright Rebuttal at 4-5).

On June 1, 2018, OCA filed an Appearance in this docket. On August 3, 2018, the Board issued an Order Granting Petitions to Intervene, granting the interventions of Iowa Business Energy Coalition (IBEC), Facebook, Inc. and Google LLC (Tech Customers), Iowa Energy

Council and Environmental Law and Policy Center (Environmental Intervenors), Sierra Club, Interstate Power and Light (IPL) and ITC Midwest LLC (ITC). OCA filed direct and rebuttal, reply to intervenor, and sur-rebuttal testimonies and exhibits in accordance with the procedural schedule established in this matter. MidAmerican filed rebuttal testimony and exhibits and a Motion to Strike and/or Exclude Certain Testimony on August 10, revised rebuttal testimony on August 14, and return on equity rebuttal testimony on August 17, 2018. OCA and other parties responded to the Motion to Strike and/or Exclude Certain Testimony on or about August 17, 2018. On September 14, 2018, the parties submitted a Joint Statement of Issues. Also on September 14, 2018, MidAmerican, OCA, Tech Customers, and IBEC filed a Stipulation and Agreement purporting to resolve all issues among the signatories regarding Wind XII application in Docket No. RPU-2018-0003, and a Motion to Approve Stipulation and Agreement. Environmental Intervenors and Sierra Club did not join in the settlement and separately filed comments recommending alternative resolutions. Settlement conferences were held on September 26 and October 4, 2018. This matter came on for hearing before the Board on October 12, 2018.

## **II. ARGUMENT**

### **A. Wind XII Satisfies The Criteria In Iowa Code Section 476.53 And Is A Reasonable Project When Coupled With The Settlement Agreement Terms.**

Iowa policy promotes the development of renewable energy resources. Iowa Code §§ 473.3, 476.41, 476.53A; 476.53 (encouraging projects that facilitate the transition to carbon-constrained environment; directing consideration of environmental policies and volatility of fuel costs in connection with applications for ratemaking principles on new generation; and authorizing ratemaking principles for new alternative energy production facilities). This policy is reinforced by the recently released Iowa Energy Plan. (Wright Direct at 12-13). In addition to

reducing fuel costs and fuel price volatility, additional wind resources improve MidAmerican's ability to address current and future environmental regulations, including possible regulations of CO<sub>2</sub>. (Wright Direct at 22, 24-25, 36; Turner Direct at 21-22).

Based on the ratemaking principles recommended by MidAmerican in this case, MidAmerican projects that it can develop Wind XII at no net cost to customers.<sup>1</sup> (Wright Direct at 15; Specketer Direct at 26-28, 39). MidAmerican has proposed ratemaking principles for Wind XII which are very similar to, and perhaps more favorable than, the principles approved for Wind XI. (Wright Direct at 15). This project is contingent on satisfying 100% PTC eligibility, and MidAmerican states that it can utilize all PTCs generated from its wind projects as the PTCs are generated. (Appl. at 4; Wright Rebuttal at 4-5). These are extremely important factors in the economic analysis of this project. Wind XII is a reasonable long-term electric supply option due to the availability of PTCs and MidAmerican's ability to timely use the PTCs. (Shi Direct at 19).

OCA's testimony and this brief focus on the following principles proposed by MidAmerican in this case:

- (1) A project cost cap of \$1.560 million per MW as compared to the \$1.792 million per MW cap approved for Wind XI;
- (2) Return on equity (ROE) of 11.25% for Wind XII as compared to 11% ROE for Wind XI;
- (3) Continuation of the Rate Mitigation principle approved for Wind XI, providing for a revenue share threshold based on MidAmerican's weighted average cost of common equity or 11% (where all "other rate base" earns a minimum return of 9.5%) and allocating 100% of revenues above the revenue sharing threshold to customers by applying these amounts to accelerate depreciation on MidAmerican's generating plants in a prescribed allocation and order.

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<sup>1</sup> Of several scenarios evaluated, one scenario based on lower gas prices and no CO<sub>2</sub> costs predicted revenue a requirement increase.

- (4) Continuation of Iowa Retail Energy Benefits principle approved for Wind XI, which would exclude calculated retail energy benefits from the energy adjustment clause (EAC) until Wind XII is placed in rate base, but include these benefits in the calculation of revenue sharing by applying these benefits to accelerate depreciation on MidAmerican's generating plants in a prescribed order.

(Wright Direct at 16-18).

The lower cost cap proposed for Wind XII is a positive attribute. In assessing the reasonableness of the cost cap, OCA witness Dr. Shi considered the capacity factors of the wind turbines planned for Wind XII. Dr. Shi found that the cost cap for Wind XII is lower than the cost cap for Wind XI on a nameplate capacity basis (\$/kW) and also on an energy cost basis (\$/kWh). (Shi Direct at 4-5). The fact that MidAmerican has successfully managed construction costs for several wind projects and developed these projects within their respective ratemaking principle cost caps lends additional credibility to MidAmerican's proposed caps in this case.

(Shi Direct at 5-6; Wright Direct at 30-31; Fehr Direct at 17-19).

MidAmerican's economic analysis projects that the PTC revenues and wholesale market revenues generated from Wind XII being dispatched in the energy market administered by the Midcontinent Independent System Operator (MISO) will enable MidAmerican to implement the project at no net cost to customers. (Wright Direct at 15; Shi Direct at 13-14). A key variable in those analyses is the projection of energy market prices, which is a factor that impacts many aspects of the project's economics, including energy sales revenues the project generates and the costs of energy purchases MidAmerican incurs after installation of Wind XII. *Id.*

PTC revenues and wholesale revenues from Wind XII flow into the revenue sharing calculation provided for in the rate mitigation principle established in Wind XI, which MidAmerican proposed to continue unchanged in this case. MidAmerican also proposed to retain and apply retail energy benefits resulting from Wind XII, contingent on MidAmerican

achieving the revenue sharing threshold established through the rate mitigation principle, to further advance depreciation on MidAmerican's existing rate base. Accelerating depreciation on existing assets does not produce immediate benefits for customers (Turner Direct at 5-6, 20), but it does mitigate the magnitude of a future rate increase when Wind VIII through Wind XII are added to MidAmerican's rate base. (Specketer Direct at 10-11). Wind XII is expected to have little impact on the projected date of MidAmerican's next rate case. (Specketer Direct at 35). Customers will likely see no rate impact from the project over the next several years, assuming MidAmerican's future rate case estimates are accurate, because MidAmerican will not flow the PTC, fuel savings (retail energy benefits), or wholesale revenues associated with Wind XII through its energy adjustment clause (EAC) until Wind XII assets are placed in rate base as part of a general rate case.

The benefits of Wind XII are primarily dependent on the wind generators meeting their expected capacity factors and MEC realizing energy market price projections used in its modeling. (Wright Direct at 15; Turner Direct at 6-7; Shi Direct at 7, 10; Specketer Direct at 38). If these projections do not materialize, MidAmerican can file a rate case and assure its recovery of all costs within the cost cap, all prudently incurred costs beyond the cost cap and, if necessary, prudently incurred costs to cancel the project. (Turner Direct at 7). MidAmerican's ability to file a rate case largely shields it from most risks associated with Wind XII, but it also means that MidAmerican's customers ultimately bear most of the risk associated with the project. Accordingly, OCA witness Turner recommended revisions to the ratemaking principles to provide more benefits to customers and thereby reach a better balance of the risks and benefits assumed by MidAmerican's ratepayers in connection with the Wind XII project.

**B. The Settlement Agreement Provides A More Equitable Balancing Of Risks And Benefits Associated With Wind XII, And Should Be Approved.**

MidAmerican, OCA, Tech Customers, and IBEC entered into a full settlement of the case, including revisions to certain ratemaking principles to provide a more equitable balancing of risks and benefits for this project by creating more benefit for customers as described below.

1. Establishing A Lower ROE On Wind XII, 11%, Rather Than MidAmerican's Requested 11.25% ROE.

The Settlement Agreement adopts OCA witness Mr. Marcos Munoz's recommended 11% ROE. Mr. Munoz explained that an 11% ROE reflected a full and fair ROE for Wind XII, inclusive of a 50 basis point premium for wind generation, and was consistent with recently approved ROE ratemaking principles for IPL's wind projects in Docket No. RPU-2017-0002. (Munoz Direct Testimony (Aug. 3, 2018)). Mr. Munoz's ROE methodology is designed for the unique purpose of setting a reasonable ROE to apply for the 40-year life of Wind XII, which is distinct from a traditional ROE analysis. (Munoz Reply Testimony at Aug. 10, 2018). OCA witness Mr. Brian Turner endorsed the lower ROE recommended by Mr. Munoz in comparison to MidAmerican's 11.25% request, and explained that it is appropriate to revise the ratemaking principles in a manner that will provide more benefits for customers in order to achieve a better balance of risks and benefits to be borne by MidAmerican's retail customers for Wind XII. (Turner Direct at 6-7, 20-21).

2. Reinstating The Direct Application Of Retail Energy Benefits To Accelerate Depreciation Regardless Of Whether Revenue Sharing Threshold Is Achieved, Consistent With The Retail Energy Benefit Principle Approved In Wind X, Accompanied By Returning MEC To A Position Of Having Upside Revenue Sharing Opportunity Beyond The Revenue Sharing Threshold.

The Settlement Agreement adopts OCA's proposal to apply retail energy benefit savings directly to accelerate depreciation on assets and provides greater assurances that customers will

receive the fuel cost benefits of Wind XII because the crediting of retail fuel benefits to accelerate depreciation is not dependent on MEC achieving the revenue sharing. (Turner Direct at 15-18; Turner Surrebuttal at 3). Given MidAmerican's revenue sharing projections, the application of retail energy benefits directly to depreciate plant in rate base (regardless of revenue sharing) is projected to provide MidAmerican's ratepayers approximately \$80 million in additional benefits over the next 10 years. (Exhibit 1 to Motion to Approve Stipulation and Agreement; Tr. 105). This revised economic analysis also takes into account the upside revenue sharing opportunity provided for MidAmerican in the rate mitigation principle. (Tr. 105).

Allowing MidAmerican an upside revenue sharing opportunity will provide MEC an incentive to maximize revenues for revenue sharing, which can be achieved through among other means, maximizing wind generation output. The upside revenue sharing opportunity will also encourage MEC to optimize revenues above and beyond the revenue sharing threshold. These new upward sharing opportunities are not quantified in the economic analysis, but the revised sharing provisions will encourage MidAmerican to optimize its revenues above and beyond the revenue sharing threshold for its benefit and for the benefit of its customers. (Turner Direct at 19-20; Tr. 164).

The added customer benefits provided through the Settlement will result in greater acceleration of depreciation on rate base and thereby provides further mitigation of future rate impacts. (Turner Direct at 3).

**C. The Settlement Agreement Should Be Approved And Not Modified To Implement A Revised Order For Accelerated Depreciation On Generating Plants Pursuant To The Retail Energy Benefits Principle And Rate Mitigation Principles.**

The order of plants to receive accelerated depreciation through application of the Retail Energy Benefits and revenue sharing under the Rate Mitigation Principle is set to pay off plants

with higher ROEs first. (Tr. 161). Doing so assures more revenue sharing for as long as MidAmerican remains under the proposed Rate Mitigation principle. Older generating units that are not under advance ratemaking principles earn a lower ROE than units under ratemaking principles. Applying retail energy benefits and sharing amounts to higher ROE plants provides greater overall sharing benefits over time. (Tr. 161, 164). Accelerating depreciation on an older coal plant provides more flexibility for future operations including the possibility of early retirement but it does not assure early retirement. (Tr. 61, 98, 152). In the absence of an integrated resource plan justifying and proposing retirement of an older coal plant not under ratemaking principles, the reordering of plants for accelerated depreciation recommended by Sierra Club and Environmental Intervenors would reduce customer benefits and is unwarranted.

**D. It Is Not Necessary To Condition Ratemaking Principles In This Case On A Requirement That MidAmerican Retire Other Assets Or Submit An Integrated Resource Plan, But The Board Should Review MidAmerican's Integrated Resource Plan For Meeting Future Capacity Needs Well In Advance Of Indicated Timelines For Projected Capacity Deficits.**

Wind XII is primarily an energy resource to produce low cost electricity. It will also provide some capacity credits after all required transmission interconnection studies are completed and necessary upgrades are constructed. (Shi Direct at 18). MidAmerican projects a capacity deficit beginning in the 2032-2033 MISO planning year when the Quad Cities Nuclear Power Station License with the Nuclear Regulatory Commission expires. (Shi Direct at 20). MidAmerican plans to use short-term capacity purchases to meet any short-term capacity shortfall if required. However, MidAmerican has not proposed any specific plan to address its long-term capacity needs.

MidAmerican is required to furnish reasonably adequate electric utility service and facilities to its customers at just and reasonable rates and terms. Iowa Code § 476.8 (2017).

State utility regulatory commissions are generally responsible for overseeing resource adequacy of public electric utilities. Iowa's advance ratemaking principle statute supports this mission and the legislature's overall goal to attract the development of electric power generating and transmission facilities within the state in sufficient quantity to ensure reliable electric service to Iowa consumers and provide economic benefits to the state. Iowa Code § 476.53(1) (2017).

All utilities conduct integrated resource planning. The Board may evaluate MidAmerican's long-term resource plans independently through an INU docket, for example, or in connection with a subsequent ratemaking principle request. Iowa's ratemaking principles statute does not specify least-cost planning criteria for new generation plant proposals. However, two conditions precedent to granting ratemaking principles under Iowa Code § 476.53(c): (1) a Board-approved energy efficiency plan, and (2) a finding that the public utility considered other sources for long-term electric supply and that the facility or lease is reasonable when compared to other feasible alternative sources of supply, are components of long-term resource planning processes. The general assembly intends that the development of electric power generating and transmission facilities under the advanced ratemaking statute "shall be implemented in a manner that is cost effective and compatible with the environmental policies of the state...." Integrated resource plans enable a utility to show that a particular resource is reasonable compared to other feasible alternatives and that the resource is cost effective and compatible with environmental policies. The Board has recognized that Iowa's advance ratemaking principles law contemplates the review of utility resource plans in advance ratemaking principle proceedings.<sup>2</sup>

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<sup>2</sup> *PURPA Standards in the Energy Independence and Security Act of 2007*, Docket No. NOI-08-3, "Order Declining to Adopt Standards and Continuing Inquiry," at 3 (IUB, Dec. 17, 2009).

OCA witness Dr. Shi explained that a long-term integrated resource plan is an important means by which the Board can assure that MidAmerican Energy Company will be able to meet its customers' long-term energy needs at rates and terms that are just and reasonable. It is Dr. Shi's opinion that MidAmerican needs to provide a comprehensive integrated resource plan to the Board and the OCA for its next generation resource plan change, or at least five years before the 2032-2033 MISO planning year when MidAmerican projects it will need to address long-term capacity short-fall. If MidAmerican were facing a more imminent capacity resource deficiency, an integrated resource plan would be an essential component of the ratemaking principles proceeding.

Given that wind is primarily an energy resource and justified in this case on economic considerations, OCA does not believe it is necessary to condition MidAmerican's ratemaking principles in this case on a demonstration that MidAmerican is abiding by a reasonable long-term integrated resource plan, including plans for generating plant retirement(s) and a comprehensive review new generation capacity option. However, an integrated resource plan is useful and should be reviewed as MidAmerican is planning to meet its long-term capacity to ensure that new generation satisfies legislative intent that new generation is reasonable in comparison to other feasible options, cost effective, and compatible with environmental policies.

## CONCLUSION

For all of these reasons, OCA requests the Board approve the Stipulation and Agreement filed on September 14, 2018, without condition or modification, because it is in the public interest and provides a reasonable resolution of MidAmerican's ratemaking principles application in this case.

Respectfully submitted,

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