STATE OF IOWA
DEPARTMENT OF COMMERCE
IOWA UTILITIES BOARD

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

POST-HEARING BRIEF OF MIDAMERICAN ENERGY COMPANY

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Pursuant to the procedural orders in this docket,[1] MidAmerican Energy Company ("MidAmerican" or "Company") files this brief in support of the Stipulation and Agreement[2] to which most of the parties in this proceeding have agreed. The Joint Settlement Agreement establishes the ratemaking principles that would govern MidAmerican's cost recovery for its proposed 591 megawatts ("MWs") of additional wind generation ("Wind XII" or "Project"), as well as rate mitigation and retail energy benefits principles that balance the benefits of Wind XII between MidAmerican and its customers. As further discussed below, the ratemaking principles agreed to in the Joint Settlement Agreement are reasonable and, if adopted by the Iowa Utilities Board ("Board"), will allow the Project to move forward, meeting multiple customer needs, and further solidifying Iowa as a leader in the field of renewable and reliable energy supply.

Wind XII is historic in that, when constructed, the renewable energy from the Project will make MidAmerican the first investor-owned utility in the country capable of serving 100% of its customers' annual energy needs with renewable energy.[3] MidAmerican's 100% renewable vision is no gimmick, but a well-recognized way for MidAmerican and its customers to benefit from renewable energy produced by MidAmerican's fleet of renewable generation.[4] Nor is Wind XII

[1] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Order Modifying Procedural Schedule (September 7, 2018). The procedural schedule was modified at the hearing, identifying a deadline for filing post-hearing briefs of October 29, 2018. *See*, Hearing Transcript at p. 204, line 15 (subsequent citations to the hearing transcript are in the following format: "Tr. at page number:line numbers"). As part of the changes to the procedural schedule, the Board did not modify its expected decision date of December 3, 2018, which remains critical for MidAmerican. *See also, In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Direct Testimony of Mike Fehr (May 30, 2018) ("Fehr Direct").

[2] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Stipulation and Agreement (September 14, 2018) ("Joint Settlement Agreement").

[3] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Direct Testimony of Adam Wright at pp. 21-22 (May 30, 2018) ("Wright Direct").

[4] *See e.g.*, 199 IAC Chapter 30 (identifying a methodology for the Board to certify the annual renewable energy percentage that utilities provide to customers each year). The Sierra Club apparently disagrees with the Board's efforts to provide the benefits of Iowa's renewable energy to customers, arguing that it is "difficult to make the case that customers are in fact using 100% renewable energy." *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Pre-Hearing Brief of Sierra Club at p. 11 (September 14, 2018).

the end of the road for MidAmerican's commitment to renewable energy since MidAmerican plans to continue its 100% renewable vision as load increases over time.[5] MidAmerican still sees a future where it will develop additional cost-conscious renewable generation, including solar and energy storage, and a storage facility currently under development.[6] MidAmerican also continues to see a future where coal resources will be retired.[7] However, this case is about Wind XII, which is another step in MidAmerican's 100% renewable vision.

This docket is about a record that shows Wind XII is good for customers, good for the Iowa economy, and good for the environment. The reasonableness of the Wind XII Project is attested to by the diversity of interests represented in the parties who have signed on to the Joint Settlement Agreement, and is underscored by the fact that the Project will allow MidAmerican to capture a significant amount of economic benefits to the state through the production tax credit, which is expiring.

Even the Environmental Law and Policy Center and the Iowa Environmental Council (the "Environmental Intervenors") and the Sierra Club[8] recognize the reasonableness of Wind XII – they have not argued that Wind XII should not be built. While supportive of more wind generation, the Environmental Intervenors and the Sierra Club seek to misdirect attention to MidAmerican's facilities that are not at issue in this docket – specifically, MidAmerican's coal generation that is used to serve customers through the regional energy market and particularly when renewable

[5] Wright Direct at p. 4.
[6] Tr. at 73:3-74:12.
[7] Tr. at 69:13-20.
[8] The Sierra Club indicated its support for the project in its data request responses. *See* MidAmerican Hearing Exhibit 3 (indicating that "Sierra Club supports application of MidAmerican's proposed ratemaking principles to justify the current investment, in the context of this proceeding."); *see also, In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Pre-Hearing Brief of Sierra Club at p. 3 (September 14, 2018) (Sierra Club fully supports a truly "100% renewable future for MidAmerican, and agrees that the proposed 591 MW Wind XII project should play a role in that future.").

generation is not available.[9] The Environmental Intervenors and the Sierra Club attempt to distort the long-standing process used in ratemaking principles dockets by asserting that the Board should condition ratemaking principles for Wind XII on the retirement of coal generation and/or a study of the cost effectiveness of MidAmerican's coal generation. The Board should not follow this misdirection as it will lead to increased uncertainty in the ratemaking principles process and frustrate the goal of encouraging the development of generation in Iowa.

The Environmental Intervenors argue that environmental benefits may be greater if coal generation is retired as part of the Wind XII docket. However, this myopic view, and the ratemaking principles that arise from it, will not make Wind XII any more reasonable for customers. That is, Wind XII's environmental benefits are what they are and, if the Project is constructed, those benefits will remain the same regardless of any actions taken relative to other MidAmerican facilities. Alternatively, some of the proposals offered by the Environmental Intervenors and the Sierra Club would have a direct impact of reducing the customer benefits associated with Wind XII by reducing revenue sharing.[10]

Iowa's advance ratemaking process has been an extraordinarily successful piece of Iowa's energy policy and Iowa's renewable energy leadership since it was passed by the Iowa Legislature in 2001, and adjusted to include renewable generation in 2003.[11] In evaluating the proposals by the Environmental Intervenors and the Sierra Club, it is critical that the Board focus on the language of Iowa Code § 476.53 (as interpreted and applied by the Iowa Supreme Court), the intent

[9] Tr. at 57:7-21.
[10] Tr. at 161:12-21. MidAmerican witness Wright identified that reordering the application of assets in the Rate Mitigation principle would be acceptable to MidAmerican in the event all stakeholders agreed; since stakeholders do not agree to any reordering, MidAmerican does not support any reordering and supports the Joint Settlement Agreement as filed "100 percent." Tr. at 93:12-19.
[11] 2001 House File 577; 2003 House File 659.

behind that language, and the Board's earlier decisions. With this focus, the Board will see a Joint Settlement Agreement that is reasonable, consistent with the law and recent decisions by this Board[12] and, unlike some of the Environmental Intervenors' and the Sierra Club's proposals, does not undermine the certainty the statute was designed to create.

MidAmerican recognizes that ensuring it has cost-effective generation to meet customers' needs is an important part of the Board's regulatory jurisdiction over MidAmerican.[13] This is why the Board has jurisdiction over MidAmerican's rates and why MidAmerican's rates are subject to Board review or complaint.[14] As identified at hearing, MidAmerican is committed to identifying cost-effective generation additions and, where it makes sense, retirements,[15] to ensure that MidAmerican's rates remain low and predictable for customers.[16] The current proceeding, however, is about the Board's assessment of whether MidAmerican has met the conditions precedent and requirements to obtain ratemaking principles for additional wind generation that MidAmerican expects to add at no net cost to customers. Adding additional principles or requirements as proposed by the Environmental Intervenors and the Sierra Club in this docket or to require another proceeding to obtain ratemaking principles would contravene the purpose of the statute, create uncertainty, and jeopardize Wind XII and future projects like it.[17]

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[12] *See In Re: Interstate Power and Light Company*, Docket No. RPU-2017-0002, Final Decision and Order (April 17, 2018) ("New Wind II Order"); *In Re MidAmerican Energy Company*, Docket No. RPU-2016-0001, Order Approving Settlement with Reporting Requirements, Attachment (August 26, 2016) ("Wind XI Order").

[13] As identified in the Rebuttal Testimony of Neil Hammer, MidAmerican does not agree that Sierra Club witness Chernick's analysis properly values MidAmerican's generation. *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Rebuttal Testimony of Neil Hammer ("Hammer Rebuttal") at pp. 11-13 (August 10, 2018).

[14] *See e.g.*, Iowa Code §§ 476.1; 476.2; 476.3; 476.6.

[15] The record reflects that MidAmerican retired coal facilities when it made economic sense to do so. *See* Tr. at 69:21-25. MidAmerican also continues to see a future where coal facilities are retired. Tr. at 69:13-20.

[16] Tr. at 92:20-25 (indicating that MidAmerican customers expect low and stable rates).

[17] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Rebuttal Testimony of Adam Wright at pp. 10-11 (August 10, 2018); Tr. at 31:23-32:19.

The results of the analysis for Wind XII are clear: the principles in the Joint Settlement Agreement are reasonable, particularly in light of the current federal production tax credit law (which is phasing out) and the benefits that Wind XII will bring to Iowa and MidAmerican's customers. The record also shows that adding Wind XII will address multiple customer needs, including the addition of more low cost renewable energy.[18] Wind XII will also increase revenue sharing and the retail energy benefits for customers.[19] In addition, the record shows that Wind XII will reduce MidAmerican's emissions.[20]

There is no allegation that Wind XII will render MidAmerican's rates unreasonable; in fact, MidAmerican expects to build, operate, and maintain Wind XII at no net cost to customers.[21] There is also no credible allegation that the ratemaking principles in the Joint Settlement Agreement represent an unbalanced outcome between ratepayers and the utility, particularly in light of the increased revenue-sharing benefits the Project will provide.

Historically, MidAmerican has a strong track record of adding cost-effective renewable generation that benefits customers, while maintaining some of the lowest rates in the country.[22] MidAmerican's Chief Executive Officer and President Adam Wright summarized the situation:

> As we're sitting here today moving towards advancing a 100 percent renewable vision, we're going to add economic wind generation at no net cost to our customers. We're going to get to the point where we're the only investor-owned utility in the country who can claim to serve their customers with 100 percent renewable energy on an annual basis. Our rates are low, the ninth lowest in the country. We have high reliability, great customer service, and we're a clear leader in [the] renewable space.[23]

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[18] Wright Direct at pp. 3-4, 18-20, 39.
[19] Tr. at 105:18-25.
[20] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Direct Testimony of Tom Specketer, Confidential Schedules 1-4, PROMOD, CO_2 tab (May 30, 2018) ("Specketer Direct"); MidAmerican Hearing Exhibit 1.
[21] Tr. at 94:17-22.
[22] Wright Direct at p. 21.
[23] Tr. at 35:12-21.

This is the track record that Wind XII will be a part of, a track record that the Board can continue to rely upon. The record shows that MidAmerican's customers agree that the principles in the Joint Settlement Agreement are reasonable. Given the law and the record in this case, the Board should approve the Joint Settlement Agreement without the proposed changes that invite the Board to convert this docket from a focus on attracting new generation to Iowa to an alternative focus on retiring existing generation.

I. WIND XII AS SETTLED IS JUST AND REASONABLE; IT IS GOOD FOR CUSTOMERS, IOWA, AND THE ENVIRONMENT.

The parties to the Joint Settlement Agreement (the Office of Consumer Advocate, Facebook, Inc., Google LLC, and the Iowa Business Energy Coalition)[24] represent a broad spectrum of MidAmerican's customers, showing that the principles establish a reasonable balance of the benefits and risks of the Project. This is not surprising since the record shows that, over the life of the Project, it is reasonably expected to address multiple customer needs, including:

- Approximately $270 million of increased tax base for communities that host wind turbine sites – mostly rural communities – over the life of the Project;
- Approximately $220 million of easement payments for landowners that host wind turbine sites over the life of the Project;
- An economic development asset for Iowa that will help attract business expansion and new businesses that are seeking ways to use more renewable energy;
- Additional wind generation that will position MidAmerican and the State of Iowa for compliance with current and future environmental regulations, and strengthen Iowa's position as a leader in renewable generation; and

[24] With parties like Facebook, Inc. and Google LLC participating in the settlement, it is clear that MidAmerican's 100% renewable vision is working to attract sustainability-minded companies to locate and expand in Iowa. *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Application at pp. 3, 18-19 (May 30, 2018).

- Electric rate stability and certainty for a significant portion of the state's population (i.e., residents, business owners, and industrial customers in MidAmerican's service territory).[25]

Additionally, the Iowa Economic Development Authority recently cited the benefits of Wind XII in its Progress Report on the Iowa Energy Plan, noting the benefits to customers. Specifically, the Progress Report stated:

> In May 2018, MidAmerican announced plans for Wind XII, when combined with its other projects, would make MidAmerican the first investor-owned utility in the country to generate 100 percent of its customers' annual energy needs from renewable sources. The project will mean another $922 million in investment, 300 full-time construction-related jobs, 28 full-time, on-going positions and $6.9 million in Iowa property taxes.[26]

The Environmental Intervenors attempt to argue that, without their proposals, the environmental benefits of Wind XII will not materialize.[27] To support their position, the Environmental Intervenors base their argument on a single price assumption from MidAmerican's Wind XI case and compare it to the price assumption in the Wind XII docket.[28] The Environmental Intervenors failed to account for the fact that there were three price forecasts provided in Wind XI. The two price forecasts not analyzed by the Environmental Intervenors showed coal production similar to (or greater than) the analysis provided with Wind XII.[29] Just like in Wind XI, under all scenarios provided in the Wind XII docket, CO_2 emissions are lower with the addition of new wind, which means Wind XII will result in additional reductions in MidAmerican's emissions,

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[25] *Id.* at p. 7; *see also* Fehr Direct; Wind XII will also increase MidAmerican's "fuel diversity, the supply of less expensive energy to customers, and compliance with future environmental regulations requiring clean energy." *Next Era Energy Resources LLC v. Iowa Utilities Board*, 815 N.W.2d 30, 40 (Iowa 2012).
[26] Iowa Energy Plan, Progress Report at p. 11, Iowa Economic Development Authority (September 2018) (*available at*: https://www.iowaeconomicdevelopment.com/userdocs/IEDA_EnergyPlanProgressRpt_2018.pdf).
[27] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Pre-Hearing Brief of the Environmental Intervenors at p. 2 (September 14, 2018).
[28] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Sur-rebuttal Testimony of Keri Johannsen at pp. 6-7 (August 24, 2018); Hammer Rebuttal at pp. 9-11.
[29] Tr. at 195:2-12.

including reduced CO_2 emissions.[30] The Environmental Intervenors are simply incorrect in arguing that, without their proposed conditions, the environmental benefits of Wind XII will not materialize.

The record *in this case* shows that all scenarios analyzing Wind XII result in lower emissions versus scenarios where Wind XII is not added.[31] This analysis of projected emissions reductions must also be considered in the context of what MidAmerican has actually achieved. Since 2005, MidAmerican achieved a net reduction of emissions of 25.5% through 2017.[32] Additional reductions are expected as a result of Wind XI and XII.[33] The record shows that Wind XII will continue MidAmerican's strong record of environmental respect.

At the hearing, there was discussion about how the Iowa Code encourages utilities to manage carbon emissions – particularly the utility's carbon intensity – to facilitate a transition to a carbon-constrained environment.[34] The Iowa Code specifically encourages utilities to consider proposals to alter existing generation (e.g., fuel switching or added environmental controls) that will reduce the utility's carbon intensity.[35] MidAmerican's track record demonstrates it is a leader in the effort to reduce carbon intensity, with the addition of over 6,000 MW of no emissions wind generation, and the resulting reduction in both carbon intensity and net carbon emissions.[36] This record shows that MidAmerican is facilitating a transition to a "carbon-constrained environment",

[30] MidAmerican Hearing Exhibit 1.
[31] Specketer Direct, Schedules 1-6.
[32] MidAmerican Hearing Exhibit 1, pp. 3-4 (the equation is: 20,260,020 tons (2005) minus 15,086,987 tons (2017) equaling a 5,173,033 ton difference (5,173,033 divided by 20,260,020 equals 25.5%).
[33] *Id.* at 2-4.
[34] Tr. at 90:19-24.
[35] Iowa Code § 476.53(1).
[36] MidAmerican Hearing Exhibit 1 shows reductions in both carbon intensity and overall net reductions in CO_2 emissions. *See* Footnote 32 for the calculation regarding net reductions in CO_2 emissions.

even in light of the uncertain future of federal environmental regulation.[37] The record reflects that MidAmerican is moving in the direction of reduced carbon intensity without the need for ratemaking principles that force retirements or cost-effectiveness tests.[38] Imposing additional requirements introduces uncertainty to the process and materially reduces (if not eliminates) the value of the advanced ratemaking statute in fulfilling the goal of reducing carbon intensity.[39]

II. THE JOINT SETTLEMENT AGREEMENT IS CONSISTENT WITH THE LANGUAGE AND INTENT OF IOWA CODE § 476.53; PROPOSALS BY THE ENVIRONMENTAL INTERVENORS AND THE SIERRA CLUB ARE INCONSISTENT WITH THAT LANGUAGE AND INTENT.

a. Iowa Code § 476.53

Iowa Code § 476.53 is designed to attract new generation and transmission resources to Iowa.[40] Thus, when enacting this law, Iowa's Legislature and Governor made it clear they were moving away from the "least-cost" standard of the past to establish a reasonableness standard with respect to proposed additions to a utility's generation fleet.[41] This reasonableness standard was intended to be applied to the "facility" for which ratemaking principles have been proposed[42] not

[37] Tr. at 182:2-4 (identifying the Environmental Intervenors' view that federal environmental regulation is uncertain); *see also*, Iowa Code §476.53(1). Additional evidence of MidAmerican's commitment to a carbon-constrained environment is shown through MidAmerican's parent company, Berkshire Hathaway Energy Company, which is a signatory to American Business Act on Climate Pledge along with other major companies like Alcoa, Apple, Bank of America, Cargill, Coca-Cola, General Motors, Goldman Sachs, Google, Microsoft, Pepsi, UPS and Walmart. *See*, *In Re: MidAmerican Energy Company*, Docket No. RPU-2016-0003, Direct Testimony of William Fehrman at pp. 6-7 (April 14, 2016) (citing Berkshire Hathaway Energy Company's pledge, available at: https://www.berkshirehathawayenergyco.com/news/berkshire-hathaway-energy-joins-american-business-act-on-climate-pledge).

[38] Tr. at 69:21-25; MidAmerican Hearing Exhibit 1.

[39] Tr. at 91:15-25.

[40] Iowa Code § 476.53(1) ("It is the intent of the general assembly 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.").

[41] *See* 2001 House File 577, Sections 12 (adopting new Section 476.53) and 14 (deleting "all feasible alternatives" and "least-cost alternatives" from the decision criteria of Section 476A.6); *see also, In Re: MidAmerican Energy Company*, Docket No. RPU-2009-0003, Final Decision and Order at p. 23 (December 14, 2009) (citing *In Re: MidAmerican Energy Company*, Docket No. RPU-01-9, Order at p. 6 (May 29, 2002).

[42] Iowa Code § 476.53(3)(c)(2) ("The rate-regulated public utility has demonstrated to the board that the public utility has 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. The rate-regulated public utility may satisfy the requirements of this

whether the utility's other generation assets remain reasonable with the addition of the generation asset subject to ratemaking principles. Whether one agrees with it or not, this policy shift was intentional and upheld by the Iowa Supreme Court.[43]

Iowa Code § 476.53 was a public policy departure from past practice when investment decisions by utilities were disallowed after the fact, creating significant uncertainty for utilities in Iowa.[44] This uncertainty created a significant disincentive for utilities to undertake new generation additions under this traditional ratemaking approach.[45] In response, the Iowa Legislature adopted Iowa Code § 476.53 with the clear intent of attracting new generation to the state by: (1) creating greater certainty for utilities by establishing, at the front end, the ratemaking principles that would apply to its cost recovery for certain generation projects; (2) eliminating the "least-cost" standard that resulted in regulatory uncertainty regarding cost recovery; and (3) dispensing with the after-the-fact second-guessing that discourages investment.[46] The results are hard to argue with since numerous generating facilities in Iowa, including gas-fired plants, coal-fired plants, and thousands of MWs of wind generation, have been developed in Iowa since 2001.

Despite this history and track record, the Environmental Intervenors and the Sierra Club offer proposals in this docket that are inconsistent with both the letter and intent of the law. For example, the Environmental Intervenors propose to require the retirement of coal generation as a condition to obtain ratemaking principles.[47] The Environmental Intervenors and the Sierra Club

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subparagraph through a competitive bidding process, under rules adopted by the board, that demonstrate *the facility* or lease is a reasonable alternative to meet its electric supply needs.") (emphases added).

[43] *Next Era Energy Resources LLC v. Iowa Utilities Board*, 815 N.W.2d 30, 40 (Iowa 2012).

[44] *See e.g., In Re: Iowa Illinois Gas and Electric Company, 1984 WL 1022172 (Iowa S.C.C.), 59, P.U.R. 4th 385.*

[45] *Id.*

[46] 2001 House File 577, Sections 12 (adopting new Section 476.53) and 14 (deleting "all feasible alternatives" and "least-cost alternatives" from the decision criteria of Section 476A.6); *see also, In Re: MidAmerican Energy Company*, Docket No. RPU-2009-0003, Final Decision and Order at p. 23 (December 14, 2009) (citing *In Re: MidAmerican Energy Company*, Docket No. RPU-01-9, Order at p. 6 (May 29, 2002).

[47] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Environmental Intervenors' Objection to Settlement at pp. 10-11 (September 28, 2018).

also offer proposals that will require cost-effectiveness tests and integrated resource planning for generation that is currently in MidAmerican's fleet. These are similar to the requirements that the Iowa Legislature dispensed with (or never adopted, in the case of integrated resource planning) for "least-cost" planning requirements. Applying a cost-effectiveness test for the generation fleet as a condition for obtaining ratemaking principles for new generation was explained by Mr. Wright at hearing:

> What I mean is it [adding cost-effectiveness tests for existing generation to the advance ratemaking process] could cause us to go through a process that leads us down a path that contradicts the legislative intent of the state, and we would get in a situation where we're looking at removing assets instead of adding assets, which is what the advance ratemaking principle is actually about, and that creates uncertainty, because in the future we could have load increases, there could be environmental issues that come into play to bear, things that we're just not necessarily aware of yet that require us to have those assets to serve our customers, and in the future if that capacity is needed, then we're in a position where we have to buy it, and we don't know at what cost. So it creates uncertainty for our generation mix and serving our customers reliably and cost effectively.[48]

With this uncertainty in the process, MidAmerican (and potentially other utilities) would be discouraged from using the ratemaking principles process.[49]

The Board certainly has an interest in ensuring cost-effective generation for MidAmerican's customers. Indeed, the record shows that MidAmerican has the same goal of ensuring that customers pay reasonable rates and can rely on MidAmerican's service. The record also shows that MidAmerican's efforts are working: MidAmerican is moving towards its 100% renewable vision (at a projected no net cost to customers), customers are experiencing revenue sharing, and customers pay low rates for reliable service.[50] The principles in the Joint Settlement

[48] Tr. at 33:24-34:14.
[49] Tr. at 32:12-19.
[50] Tr. at 35:12-21; Tr. at 105:18-105.

Agreement will allow for Wind XII to be added to the mix and continue these positive outcomes for customers.

b. Conditions Precedent

The ratemaking principles statute contains two conditions precedent to granting ratemaking principles for a project. First, the Board must find that the rate-regulated public utility has in effect a board-approved energy efficiency plan as required under Iowa Code § 476.6.[51] Second, the Board must find that the utility has demonstrated to the Board that the public utility has considered other sources for long-term electric supply and that the proposed facility or lease is reasonable when compared to other feasible alternative sources of supply.[52]

1. MidAmerican Has An Approved Energy Efficiency Plan.

The record is uncontested that MidAmerican has, in effect, a Board-approved energy efficiency plan as required by Iowa Code § 476.6. The first condition precedent is, therefore, fulfilled.[53]

2. Wind XII Is Reasonable When Compared To Other Sources of Supply.

With respect to the second condition precedent, the issue is whether MidAmerican considered other sources of supply and found that *the proposed facility is reasonable* when compared to other feasible sources of supply. "The standard is that the facility is reasonable, not least-cost."[54] As identified above, the Board has also noted that the least-cost analysis requirement was removed from the generation siting requirements (which do not apply to Wind XII) of Iowa

[51] Iowa Code § 476.53(3)(c).
[52] *Id.*
[53] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Joint Statement of Issues at p. 3 (September 14, 2018) ("Joint Statement of Issues").
[54] *In Re: MidAmerican Energy Company*, Docket No. RPU-2009-0003, Final Decision and Order at p. 23 (December 14, 2009).

Code Chapter 476A, and found that the removal of the least-cost requirement is "consistent with the intent of the ratemaking principles statute, which is to attract electric power generating facilities to this state."[55]

The testimony in this docket and the Joint Settlement Agreement confirm that MidAmerican fulfilled this requirement, through its consideration of Wind XII and alternative sources, in a manner consistent with prior cases.[56] Specifically, MidAmerican witness Hammer applied a nine-factor test to compare the proposed addition of wind generation to other feasible sources of supply.[57] Mr. Hammer found that Wind XII is reasonable, meets multiple customer needs, and is beneficial to customers. Mr. Hammer's analysis is identical to the analysis the Board used to determine what is reasonable in past ratemaking principles dockets, wherein it cited a proposed project's ability to meet needs for future environmental compliance, strengthening communities, strengthening Iowa's energy security, reducing fuel price risk, contributing to economic development, providing additional energy and capacity, and advancing Iowa energy policy.[58]

The objections by the Environmental Intervenors and the Sierra Club to MidAmerican's analysis of the reasonableness of Wind XII are not directed at Wind XII, but instead are directed at other generation in MidAmerican's fleet. Again, this is not the standard. The Environmental Intervenors and the Sierra Club attempt to argue that their proposed conditions are necessary to bring Wind XII within the "reasonableness" standard in Iowa Code § 476.53.[59] The Environmental

[55] *Id.* at p. 11 (citing *In Re: MidAmerican Energy Company*, Docket No. RPU-01-9, Order at p. 6 (May 29, 2002).
[56] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Direct Testimony of Neil Hammer (May 30, 2018) ("Hammer Direct").
[57] Hammer Direct at pp. 22-36.
[58] *Id.*
[59] Sierra Club Comments on Settlement at p. 3.

Intervenors and the Sierra Club cite a prior Board order to argue that the statute requires the Board to consider how the new facility will "fit into MidAmerican's current resource plan."[60] It is crucial, however, to understand the context of the Board's prior order, where it was addressing how the proposed facility would fit into the utility's existing fleet. Here, the Environmental Intervenors and the Sierra Club turn the standard on its head, asking the Board instead to consider how MidAmerican's existing fleet fits with the proposed Wind XII Project. This completely upends the standard and purpose of Iowa Code § 476.53.

Further, the Environmental Intervenors argue the Order in the Wind I proceeding (and MidAmerican's arguments there) show MidAmerican's agreement with and the Board's ability to do what the Environmental Intervenors are proposing in this docket.[61] The Environmental Intervenors' argument is misleading. The issue in the Wind I docket was not a consideration of MidAmerican's coal fleet, but involved a ratemaking principle applying a revenue freeze. The Board's final order in Docket No. RPU-03-1 states:

> In addition to the 10 percent return on equity threshold, there is another limited exception to the revenue freeze. If the Board issues an order authorizing more than $325 million to be spent on environmental improvements pursuant to Iowa Code § 476.6(25), MidAmerican may file a request with the Board seeking recovery of amounts in excess of $325 million. MidAmerican currently anticipates spending no more than $260 million on such improvements through January 1, 2011.[62]

This excerpt from the order, and the related principle, clarified that MidAmerican's then recent rate case settlement, which contained a revenue freeze[63] conditioned on a 10% return on equity,

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[60] *Id*.; *See, In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Pre-hearing Brief of the Environmental Intervenors at p. 5 (September 14, 2018).

[61] Tr. at 85:15-88:21; Environmental Intervenors Hearing Exhibit 301; *see also, In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Pre-hearing Brief of Environmental Intervenors at p. 4 (September 14, 2018).

[62] *In Re: MidAmerican Energy Company*, Docket No. RPU-03-01, Order Approving Stipulation and Agreement (October 17, 2003).

[63] Importantly, Iowa Code § 476.53(4)(b) identifies that revenue freeze proposals are favored, noting that principles can include "reasonable restrictions upon the ability of a public utility to seek a general increase in electric rates under section 476.6…."

was to be further conditioned on MidAmerican having the ability to file for recovery of environmental improvement costs in the event the costs exceeded $325 million.[64] While this principle relates to costs associated with MidAmerican's coal facilities, it is about a revenue freeze, not the cost-effectiveness of the coal generation or environmental controls.[65]

More importantly, while MidAmerican identified that the Board had the authority to apply ratemaking principles relating to its revenue freeze, the point of that agreement was to *reduce* the uncertainty about MidAmerican's cost recovery as it sought to develop wind generation.[66] The Board did not impose (nor did MidAmerican agree that it could) a requirement for the Board to review the cost-effectiveness of the coal generation. MidAmerican's position in Wind I is consistent with the position here: the goal of the statute is to apply ratemaking principles designed to help increase certainty as utilities develop new generation. As noted above, the proposal in this docket would have the opposite effect.

The Environmental Intervenors and the Sierra Club seek to use this ratemaking principles case as a vehicle for a rate case style review of MidAmerican's existing generation coal generation. If the Iowa Legislature intended the advance ratemaking process to be a mini rate proceeding, they would have provided for this in the statute, and the Board would have applied this standard in the past. Instead, the Board followed the direction of the statute and compared the proposed facility to other feasible supply options. Recently, the Board confirmed this direction by refusing to consider a power purchase agreement related to nuclear generation in a wind ratemaking principles

[64] *In Re: MidAmerican Energy Company*, Docket No. RPU-03-01, Order Approving Stipulation and Agreement (October 17, 2003).
[65] The Environmental Intervenors also argue that past ratemaking principles in the early wind project dockets, are akin to what they are requesting in this docket. *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Objection to Settlement at pp. 3-6 (September 28, 2018). Once again, this argument is misleading. The cited ratemaking principles for revenue freezes, rate mitigation principles and retail energy benefits principles did not undermine the intent of Iowa Code §476.53.
[66] Environmental Intervenors Hearing Exhibit 301.

proceeding.[67] The Board has never used the advance ratemaking process in the way the Environmental Intervenors and the Sierra Club now suggest.

c. "Non-Traditional" Ratemaking Principles: I Do Not Think That Word Means What The Environmental Intervenors And The Sierra Club Think It Means.[68]

The Environmental Intervenors and the Sierra Club assert that their proposals are valid because the Board can adopt "non-traditional" ratemaking principles in advanced ratemaking proceedings.[69] While the ratemaking principles statute allows adoption of non-traditional ratemaking principles, they clearly must be harmonious with the intent of the statute. Historically, this has involved principles like revenue sharing, revenue freezes, and retail energy benefits proposals. The Board has not applied *planning* principles in the past.

Here, the Environmental Intervenors and the Sierra Club are not proposing ratemaking principles, but rather are proposing to revise Iowa Code § 476.53 to include planning principles without the benefit of legislation. They seek to: (1) alter the statute's focus from attraction of new generation to a focus on cost-effectiveness of existing generation; (2) re-impose the "least-cost" planning standard that House File 577 eliminated; and (3) re-introduce second-guessing and uncertainty to the generation planning process.

Iowa Code § 476.53's ratemaking principles process, as applied by the Board to date, is performing as intended, with remarkable development of new generation and transmission assets in Iowa. It has facilitated this historic transition to renewable generation, with a significant

[67] *See In Re: Interstate Power and Light Company*, Docket No. RPU-2017-0002, Final Decision and Order at pp. 30-35 (April 17, 2018).
[68] A variation on the quote by Inigo Montoya in the Princess Bride: "You keep using that word, I do not think it means what you think it means." The Princess Bride, film (1987).
[69] Iowa Code § 476.53(3)(b); *see also, In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Pre-hearing Brief of Sierra Club at p. 4 (September 14, 2018) (noting that the Board has approved revenue freezes, revenue sharing mechanisms, and retail energy benefits principles in the past, none of which are planning principles); *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Pre-hearing Brief of the Environmental Intervenors at p. 2 (September 14, 2018).

reduction in MidAmerican's carbon intensity and emissions. The advance ratemaking process has made Iowa a national renewable energy leader while significantly benefitting MidAmerican's customers, the environment, and the State and its economy. This is not the time to alter course and certainly not without the benefit of legislation that would provide a foundation for such a change in course.

III. MIDAMERICAN'S COAL GENERATION WILL CONTINUE TO BE USED AND USEFUL.

The Environmental Intervenors and the Sierra Club argue that MidAmerican has not met the burden to obtain ratemaking principles because they do not believe that MidAmerican has sufficiently answered a question the Board first asked in the Wind IX proceeding.[70] The question is not a condition precedent for the approval of advanced ratemaking principles nor did it require MidAmerican to engage in a cost-effectiveness test. Instead, the Environmental Intervenors and the Sierra Club are trying to make something of the Board's question that was not intended by the Board.

In the Wind IX final order, the Board identified that MidAmerican answered the question presented such that it was reasonable to approve the ratemaking principles.[71] In the Order approving the settlement in the Wind IX docket, the Board identified a series of issues relating to MidAmerican's overall system that could be "eligible for inclusion" in MidAmerican's next full rate proceeding.[72] Further, the Board identified that it was considering (and has since completed) an ARC proceeding relating to MidAmerican's electric supply.[73] In other words, even in the docket

[70] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Direct Testimony of Paul Chernick at pp. 3-4 (August 6, 2018).
[71] *In Re: MidAmerican Energy Company*, Docket No. RPU-2014-0002, Order Approving Settlement with Modifications at p. 2 (January 20, 2015) (indicating that the Board asked a series of questions and that MidAmerican provided responses). Notably, MidAmerican provided similar answers in this Docket.
[72] *Id*. at p. 18.
[73] *Id*. at pp. 18-19.

where this question was first raised, the Board limited its consideration to the impacts of the generation that was at issue in the docket, namely the 162 MW of additional wind generation.

MidAmerican's answer from Wind IX was similar to the answer provided in the Wind X and Wind XI dockets, and the Board did not identify concerns with the answers.[74] The answer in Wind IX, approved by the Board without additional study, is also similar to the information provided as part of the application in this docket.[75] The Environmental Intervenors and the Sierra Club have not identified why this docket should be different, other than their conclusion that MidAmerican's answers in this docket (and, apparently, in the Wind IX, X, and XI dockets) do not answer the Board's question.[76] The Environmental Intervenors and the Sierra Club cannot credibly argue that Wind XII will render plants to no longer be used and useful, particularly in light of the fact that the overall capacity impact to MidAmerican's generation fleet is approximately 92 MW[77] (though these 92 MW still provide an opportunity for MidAmerican and its customers to recognize significant economic benefits).

In this docket, MidAmerican answered the Board's Wind IX question similar to the way it answered the question in the past, and the record verifies that MidAmerican's generation continues to be used and useful with the addition of Wind XII. The Environmental Intervenors and the Sierra Club have not established why Wind XII is different from the prior docket where this question was addressed in the same manner as in the record of this case.

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[74] *See* Wind XI Order, *In Re: MidAmerican Energy Company*, Docket No. RPU-2015-0002, Order Approving Settlement with Modifications and Reporting Requirements (August 21, 2015); *In Re: MidAmerican Energy Company*, Docket No. RPU-2014-0002, Order Approving Settlement with Modifications (January 20, 2015).
[75] Hammer Direct at pp. 15-16; Tr. at 131-133.
[76] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Direct Testimony of Paul Chernick at pp. 3-4 (August 6, 2018).
[77] Hammer Direct at p. 3.

IV. THE RATEMAKING PRINCIPLES IN THE JOINT SETTLEMENT AGREEMENT ARE REASONABLE AND SHOULD BE ADOPTED.

The ratemaking principles endorsed by the parties in the Joint Settlement Agreement are reasonable and should be adopted to allow Wind XII to go forward. If the Board adopts the ratemaking principles, Wind XII can move forward consistent with Iowa's clear public policy of incenting and supporting the development of generation and transmission resources in the state, and the Board's policy and past application of the ratemaking principles statute.

a. Iowa Jurisdictional Allocation

The Joint Settlement Agreement identifies a principle of the Iowa Jurisdictional Allocation that is unchanged from MidAmerican's Application, and is also consistent with the principle applied in previous ratemaking dockets.[78] The Iowa Jurisdictional Allocation principle is supported by the testimony of MidAmerican witness Specketer and is uncontested by any testimony in this docket.[79]

b. Cost Cap

The Joint Settlement Agreement sets forth a cost cap of $1.560 million per MW (inclusive of Allowance for Funds Used During Construction ("AFUDC"), which is unchanged from MidAmerican's Application. This is a lower cost cap than the Board recently approved in the New Wind II docket. The Cost Cap principle is supported by the testimony of MidAmerican witness Fehr and is uncontested by any testimony in this docket.[80]

[78] *See In Re MidAmerican Energy Company*, Docket No. RPU-2016-0001, Order Approving Settlement with Reporting Requirements, Attachment (August 26, 2016) ("Wind XI Order").
[79] Joint Statement of Issues at pp. 3-4.
[80] *Id.* at p. 4.

c. Size Cap

The Joint Settlement Agreement sets forth a Size Cap principle of up to 591 MW, which is what MidAmerican proposed in its Application. The Size Cap is supported by the testimony of MidAmerican witness Fehr and is uncontested by any testimony in this docket.[81]

d. Depreciable Life

The Joint Settlement Agreement sets forth a depreciable life of 40 years for Wind XII with a specific process to follow in the event MidAmerican ever seeks to modify the depreciable life of the Project. The principle is unchanged from MidAmerican's Application, and is also consistent with the principle applied in previous ratemaking dockets.[82] The Depreciable Life principle is supported by the testimony of MidAmerican witness Fehr and is uncontested by any testimony in this docket.[83]

e. Return on Equity

The Joint Settlement Agreement identifies a principle on the Return on Equity, establishing a Return on Equity of 11.0% for the Wind XII project, along with a 10% return on equity for AFUDC, which is a modification to the principle as proposed in MidAmerican's Application, but which remains consistent with the principle applied in recent ratemaking dockets.[84] The reasonableness of the return on equity is addressed in the testimony of MidAmerican witness Vander Weide and Office of Consumer Advocate witness Marcos Munoz. With the changes made in the Joint Settlement Agreement, this principle is now uncontested.[85]

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[81] *Id.* at p. 4.
[82] Wind XI Order, Attachment; *see also*, New Wind II Order at p. 90; *see also*, Wright Direct at pp. 16-18 (providing a comparison of ratemaking principles from recent wind dockets).
[83] Joint Statement of Issues at pp. 4-5.
[84] Wind XI Order, Attachment; New Wind II Order at p. 90; *In Re: Interstate Power and Light Company*, Docket No. RPU-2016-0005, Order Cancelling Hearing and Approving Settlement Subject to Modification and Reporting Requirements (October 25, 2016).
[85] Joint Statement of Issues at p. 5.

f. Cancellation Costs

The Joint Settlement Agreement identifies a principle on Cancellation Costs, which is slightly modified from MidAmerican's application, but remains consistent with the principle applied in previous ratemaking dockets.[86] The Cancellation Costs principle is uncontested by any testimony in this docket.[87]

At hearing, there were questions raised about the language changes in this principle, specifically that the word "good" was replaced with the term "commercially reasonable" as a basis for seeking cancellation costs. MidAmerican witness Fehr identified that this does not substantially change the meaning of the principle and that the Board is still required to find any expenditures that would be recovered to be prudent.[88] Office of Consumer Advocate witness Turner identified his view that the change makes the wording more specific and narrow.[89] If anything, this change renders the Joint Settlement Agreement more reasonable.

g. Environmental Benefits, CO_2 Credits and the Like

The Joint Settlement Agreement identifies a principle on the Environmental Benefits, CO_2 Credits and the Like, which modifies the principle as proposed in MidAmerican's Application to further clarify the elections that can be made by customers on Individual Customer Rates and that was first established in the Wind XI docket.[90] With the changes made in the Joint Settlement Agreement, this principle is now uncontested.[91]

[86] Wind XI Order, Attachment; New Wind II Order at p. 91.
[87] Joint Statement of Issues at pp. 5-6.
[88] Tr. at 109:11-110:16.
[89] Tr. at 163:17-164:7.
[90] Wind XI Order, Attachment.
[91] Joint Statement of Issues at p. 6.

h. Federal Production Tax Credits

The Joint Settlement Agreement identifies a principle on the Federal Production Tax Credits, which modifies the principle as proposed in MidAmerican's Application to further clarify the treatment of any tax credits that cannot be monetized in the year they are earned and the treatment of any assets that are not in commercial operation to receive 100% of the federal production tax credit. With the changes made in the Joint Settlement Agreement, this principle is now uncontested.[92]

i. Rate Mitigation

The Joint Settlement Agreement identifies a principle on Rate Mitigation, which modifies the principle as it was adopted in the Wind XI docket to establish revenue sharing at a 90%/10% split.

The Sierra Club seeks to modify this principle to reorder the application of revenue sharing to different plant balances.[93] As identified at hearing, a reordering would have a negative impact on the revenue sharing benefits and reduce the direct benefits of Wind XII to customers. The Joint Settlement Agreement establishes the proper balance between customers and MidAmerican, and includes the same application of revenue sharing as the Board approved in Wind XI. The principle does not require any modification to remain reasonable.

j. Iowa Retail Energy Benefits

The Joint Settlement Agreement identifies a principle on the Iowa Retail Energy Benefits, which modifies the principle as proposed in MidAmerican's Application to establish that certain energy benefits of Wind XII will be applied to rate base reductions as identified in the Joint

[92] *Id.*
[93] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Sierra Club Comments on the Stipulation and Settlement, Exhibit SC-01 (October 1, 2018).

Settlement Agreement. This treatment is similar to a principle adopted in MidAmerican's Wind X case.[94]

Similar to the rate mitigation proposal, the Sierra Club proposes to modify this principle to reorder the application of the retail energy benefits to different plant balances.[95] As identified at hearing, a reordering would have a negative impact on the revenue sharing benefits and reduce the direct benefits of Wind XII to customers. The Joint Settlement Agreement establishes the proper balance between customers and MidAmerican, and includes the same application of retail energy benefits approved by the Board in Wind X. The principle does not require any modification to remain reasonable.

In sum, the principles identified in the Joint Settlement Agreement set forth reasonable ratemaking principles that balance the benefits and risks of the Wind XII Project between MidAmerican and its customers. The principles are consistent with principles applied to prior dockets involving wind ratemaking principles and will allow the Wind XII Project to move forward. MidAmerican requests that the Board approve the principles in the Joint Settlement Agreement without modification.

V. NO CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY IS REQUIRED FOR WIND XII.

Consistent with well-established Board precedent, it is uncontested that, if Wind XII is built in accordance with a design that results in no single collector or gathering line being

[94] *See In Re MidAmerican Energy Company*, Docket No. RPU-2015-0002, Order Approving Settlement with Modification and Reporting Requirements at p. 15 (August 21, 2015) (this principle was called the "Customer Revenue Credit" in Docket No. RPU-2015-0002).
[95] *In Re: MidAmerican Energy Company*, Docket No. RPU-2018-0003, Sierra Club Comments on the Stipulation and Settlement, Exhibit SC-01 (October 1, 2018).

connected to 25 MW or more of nameplate generating capacity, no certificate of public convenience and necessity is required for the Project.

On June 6, 2003, pursuant to 199 IAC Chapter 4, the Board issued its Declaratory Order holding that MidAmerican was not required to obtain a siting certificate prior to commencing construction of Wind I.[96] The Board recently reaffirmed this position in Docket No. DRU-2017-0003.[97] The relevant facts and law with respect to the Wind XII Project are indistinguishable from those on which the declaratory orders in Docket Nos. DRU-03-3 and DRU-2017-0003 were based,[98] since MidAmerican will construct Wind XII in accordance with a design that results in no single collector or gathering line being connected to 25 MW or more of nameplate generating capacity. Therefore, it is reasonable to rely upon the declaratory rulings issued in Docket Nos. DRU-03-3 and DRU-2017-0003 with respect to Wind XII, and find that no certificate of public convenience and necessity it required.[99]

VI. CONCLUSION

Wind XII is a significant opportunity for MidAmerican customers, the State of Iowa, and the environment, and it will allow MidAmerican to realize its 100% renewable vision at no net cost to customers. As identified above and as established in the record, the Wind XII Project meets the statutory requirements for consideration of ratemaking principles, and the principles identified in the Joint Settlement Agreement are reasonable, balanced, and should be adopted by the Board. With approval of the Joint Settlement Agreement by December 3, 2018, MidAmerican will be able to move forward with the Project, secure production tax credits before they phase out, and bring

[96] *In Re: MidAmerican Energy Company*, Docket No. DRU-03-3, Declaratory Order (June 6, 2003).
[97] *In Re: Bertha and Stephen Mathis,* Docket No. DRU-2017-0003, Declaratory Order (February 2, 2018).
[98] *Id.*
[99] Because no Certificate of Public Convenience and Necessity is required for the Wind XII Project, Iowa Code § 476.53(4)(a) is inapplicable.

significant economic benefits to MidAmerican customers and the Iowa economy. This outcome is consistent with the fundamental basis of Iowa Code § 476.53 and should be approved by the Board.

Dated this 29th day of October, 2018.

Respectfully submitted,

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