Pursuant to the Iowa Utilities Board’s (“Board”) Order Establishing Schedule and Delegating Authority, MidAmerican Energy Company (“MidAmerican” or “Company”), provides the following Final Comments for Policy Charette One.

I. Introduction

MidAmerican shares the sentiment expressed by many of the parties, the current ratemaking provisions and procedures are adequate to achieve the current statutory intent and stated policy objectives of House File 617. Nonetheless, MidAmerican is receptive to potential changes that may better align with accomplishing these aims if all associated risks receive the appropriate weight. MidAmerican appreciates this opportunity to offer additional comments in response to thoughts shared during the charrette.

MidAmerican takes pride in its ability to deliver safe and reliable service at stable, affordable rates. This extends to MidAmerican’s role in elevating Iowa to its status as not only a renewable energy leader, but a regional energy leader, continuing a celebrated tradition of harvesting its natural resources to further enrich Iowans. The benefits are undeniable. To this end, MidAmerican has invested billions into the state over the prior two decades. However, neither
MidAmerican nor the utility industry were the sole authors of this success story. This success is a product of collaboration to achieve the policy goals the legislature expressed in statute.

For MidAmerican, a series of regulatory decisions frame the Company’s approach to realizing these goals, which leverages reasonable advantages and opportunities to deliver safe, adequate, reliable and affordable utility service. Our approach is unique, but it does not provide an escape from regulation, as some suggest. Rather, MidAmerican’s approach is rooted in over 20 years of stakeholder collaboration that seeks balanced outcomes, affirmation of prudent Board decisions, and frequent regulatory filings that provide detailed information on the Company’s operations.

MidAmerican’s ability to maintain rate stability by minimizing rate case filings has not deprived the Board of appropriate oversight. To the contrary, beyond the reporting requirements applicable to all utilities (e.g., Form IE-1/IG-1), MidAmerican files a regular cadence of Company-specific compliance filings that provide an incredible degree of transparency into its operations. Each February, the Company’s annual revenue sharing filing offers an in-depth look into the electric service financials, the detail of which mirrors the information supporting a rate case application. Relatedly, the triennial cost-of-service compliance filing goes one step further, using the revenue sharing financials along with other inputs to refresh the cost-of-service methodology approved in the most recent electric rate case to ensure key allocators are still functioning as approved. Additional filings such as the annual separate jurisdiction report, annual Rate ICR reporting, semi-annual wind project reports and regular adjustment clause reporting consistent with 199 IAC, Chapter 20 provide even further detail for regulatory oversight.

Another misconception regarding MidAmerican’s business model relates to the Company’s development and ownership of generation assets and the associated benefits.
Consistent with the directives of Iowa Code §§ 476.53 and 476.53A, MidAmerican has made significant investments in its generation fleet. These resources yield benefits beyond the incremental job creation, land lease payments and tax revenues. As a starting point, they provide energy, capacity, and reliability benefits that run directly to MidAmerican’s customers – contrary to the assumptions of some, much of the electricity generated by MidAmerican stays within the state, serving Iowa load.

By its nature, there are times where the renewable energy produced exceeds Iowa load. When that occurs, MidAmerican maximizes the customer benefit of these assets by participating in the wholesale market. Revenues generated in Iowa benefit retail customers through revenue sharing’s mitigation of future cost pressures associated with financing rate base additions. Despite this fact, wholesale exports of Iowa-generated energy are consistent with the express intent of Iowa Code § 476.53A and benefits MidAmerican’s retail customers.

MidAmerican’s generation ownership also provides benefit to Iowa utility customers beyond its own. The Company’s joint ownership ventures with smaller municipal utilities and power cooperatives afford their customers the benefits associated with baseload resource ownership. Absent MidAmerican’s majority stake in these ventures, the communities outside of the Company’s service territory served by these smaller utilities may not enjoy these benefits.

II. Iowa’s Current Ratemaking Framework Delivers the Policy Objectives of House File 617

The current authority granted to the Board through statute affords the necessary discretion and flexibility for the agency to regulate each of the utilities based on their circumstances and conditions. Rather than a one-size-fits-all paradigm, Iowa’s current ratemaking policy and procedures allow for distinct approaches that, when applied properly, can leverage a utility’s strengths to maximize the benefit to customers and the state more broadly.
MidAmerican’s strength is collaborating with stakeholders to reach pragmatic solutions that produce rate stability, such as revenue sharing. Following a year of strong financial performance this mechanism uses 90 percent of revenues earned above an imputed threshold to accelerate the depreciation of generation plant balances, alleviating future cost pressures and avoiding expensive rate cases. The prioritization of low and stable rates – especially, when coupled with reliable service and a strong renewable portfolio – also attracts load, which can also benefit customers by increasing the electric sales volumes over which costs are spread.

Although all customers benefit from MidAmerican’s current model of rate stability, some participants suggest that utilities should be required to file regular rate cases, based on an arbitrary date and not need. That suggestion should be rejected. Utilities subject to a regular cadence of rate cases have no incentive to manage their expenses because the level reflected in rates will be reset in its next rate case. Utilities that file rate cases based on need and that prioritize rate stability for customers must effectively manage expenses because of their impact on overall company performance, resulting in a cost-effective service model. Additionally, while the minimization of cost pressures through effective management is easy to conceptualize, the ability to defer a rate case provides an additional benefit from a rate base and depreciation perspective, especially in a high load growth environment.

Utilities experiencing high load growth require investment in long-lived, capital-intensive assets to ensure the continued local supply of electric needs. Customer base rates do not reflect the impact of new capital investments and the associated increase in annual depreciation expense until a utility files a rate case application to seek recovery of these costs. In this regard, requiring routine rate case filings irrespective of need would unnecessarily increase base rates. Plant depreciates with time. Generally, plant book value decreases for each year that passes from when the plant
goes into service until the utility seeks recovery of the associated costs. For example, if ten years pass from when plant with a 20-year depreciable life goes into service until the rate case application test year, the rate base impact of this plant is approximately one-half of what it would have been if included shortly after going into service. Further, base rates did not reflect the capital cost or annual depreciation expense associated with the plant for ten years. Simply put, requiring regular rate cases without cause would result in the premature inclusion of asset costs not currently reflected in rates, increasing base rates without reason.

MidAmerican acknowledges the importance of enabling regulatory oversight when utilizing this model, but as noted above, that oversight is not lacking. The Company’s annual revenue sharing filing provides the Board and interested parties a comprehensive summary of MidAmerican’s financials. The Company also recognizes the value in conducting periodic reviews of the approved cost-of-service methodology under using this approach, like the triennial cost-of-service compliance filings. There is value analyzing the stability of key allocators approved in the last rate case as system usage characteristics may change through time. This is of increased importance for allocators that only rely on a handful of data points to distribute a significant portion of the revenue requirement – i.e., four system peaks of the various classes. However, to the extent that the cost-of-service methodology is shown to be stable, such reviews should not be an opportunity for certain parties to advocate for previously litigated positions the Board opted not to approve.

III. Advance Ratemaking is Crucial to Continued Achievement of House File 617

The first charrette included significant discussion about repealing the statutory authority for advance ratemaking on the theory that advance ratemaking’s goals have been “achieved.” That is not a valid assertion when the reasons behind the adoption of advance ratemaking are examined. Advance ratemaking grew out of previous Board decisions that stopped utility investment in
generation. A prime example includes the events surrounding Iowa-Illinois Gas and Electric’s (‘‘IIGE’’) decision to construct the Louisa Generating Station (‘‘Louisa’’).

In April 1979, the Iowa State Commerce Commission (the Iowa Utilities Board’s predecessor) granted a generating certificate for Louisa to IIGE. As required by statute, the Commission found Louisa to be in the public interest and required by present and future public convenience, use and necessity.\(^1\) Based on those findings and in reliance on the generating certificate issued by the Commission, IIGE moved forward with Louisa’s construction; however, when IIGE moved to include the plant in rates as part of its rate case a few years later, the Commission found that, although the plant was clearly used and useful and the decision to construct the plant was prudent, it would arbitrarily deny recovery of all common equity for capacity above a previously unannounced reserve. IIGE ultimately appealed this decision to the Iowa Supreme Court, which affirmed the Commission’s decision and compounded the problem by finding that prudency is based on the best facts available at the time the utility seeks recovery of an asset, and not on the best facts known when the utility makes the investment.

The lack of certainty stopped Iowa utilities from investing in generation, increased Iowa’s reliance on out-of-state resources, and subjected customers to price volatility and reliability risks. The advance ratemaking statute helped end these issues. MidAmerican, along with the Governor’s office, the Office of the Consumer Advocate, and the Board, worked collaboratively to develop the law which has allowed utilities to develop dispatchable baseload generation that helped increase the region’s reliability as well as renewable projects that have harnessed Iowa’s strong wind resource for the benefit of utility customers (through MidAmerican’s GreenAdvantage Program and revenue sharing) and residents (through economic development). Most importantly,

the ratemaking principles statute fixed the prudency issue by giving utilities the option of a binding prudency determination before investing in projects.

The prudency determination required by the ratemaking principles is not a free pass. The statute requires transparency and insight into the utility’s planning process. MidAmerican process, which has been affirmed by the Iowa Supreme Court, involves carefully considering the proposed project against several criteria. The process gives stakeholders and the Board insight into MidAmerican’s needs and decision making before principles are awarded and the process has resulted in significant alterations to proposals to the benefit of customers. The chief concern among participants advocating for integrated resource planning seems to be that Iowa’s process is different than other states. That alone is not sufficient to discontinue a process that has accelerated the transition to renewable resources at no net cost to customers, and when combined with revenue sharing, helps achieve many of House File 617’s goals. In sum, these participants overlook the benefits Iowa’s planning process have created and downplay the risks of a changed process, including a slow planning process that prohibits utilities from taking advantage of competitively priced projects that benefit customers.

Integrated resource plans are used in a number of other states but are not the panacea proponents have offered in this case. Upending Iowa’s regulatory environment to implement some undefined IRP requirement without addressing any of the readily-apparent problems does not improve Iowa’s regulatory paradigm, especially when few other states, IRP or not, have seen the kind of continued success in the renewable transition while driving economic growth and creating customer benefits. Iowa policymakers should not be so quick to abandon a regulatory regime with a long track record of success for a vague regime that promises to do everything “better” without evidence.
IV. **Advance Ratemaking has Provided Significant Benefits to Iowans**

Some participants in the charette also downplayed the policy goals identified in the Iowa Code and the benefits these projects have created for Iowans. One of the most mentioned rationales for ending advance ratemaking is that Iowa has enough generation. This is simply untrue. As a result of the Iowa’s significant load growth and the increasing capacity limitations from other portions of MISO subject to carbon reduction and clean electricity directives, Iowa’s rate-regulated utilities will need additional capacity in the future. Without advance ratemaking, utilities may be forced to seek increasingly expensive capacity in the MISO wholesale capacity market instead of risking disapproval of some or all costs associated with capacity needed to serve Iowans.

Additionally, there is a misconception that energy generated in Iowa is not serving Iowans. Again, this is not true. Although Iowa’s rate-regulated utilities participate in regional energy markets, not all of MidAmerican’s energy and capacity goes into the market for the distribution; MidAmerican’s generation largely serves customers within Iowa, when those needs are met the company may be in the position to assist neighboring states while generating revenues that return to Iowans.

Further, Iowa’s renewable energy portfolio, the direct result of advance ratemaking, is a significant benefit to Iowa customers. Energy and capacity revenue from MidAmerican’s sales into the regional markets may flow back to customers through revenue sharing, thereby reducing the impact of any rate increases the company may need in the future.

Other commenters have noted that generation will still be constructed in Iowa. This is likely true. However, what they leave out is that Iowa customers will not realize the same benefits if those projects are built by private entities. Specifically, third parties not regulated by the Iowa
Utilities Board may still build the same generation and transmission systems but would not be bound to the best interests of our communities because they aren’t part of these communities. Iowans would not receive the benefits of the federal production tax credits or lower EAC costs. Iowans would also not be able to rely on that generation to meet their needs for energy or capacity outside of purchasing it on the market, which would likely only happen in emergencies when the price of that energy or capacity has jumped dramatically, like customers have seen in California and Texas.

Instead of seeking to remove the tool which has allowed Iowa to become a renewable generation leader, Iowa policymakers should consider how to put us in a position to continue leading into the future. One change that would make Iowa more competitive and support an all-of-the-above approach to energy resources would be permitting advance ratemaking for stand-alone energy storage projects. The current language of Iowa Code § 476.53(3)“a”(1)(a) does not permit advance ratemaking for energy storage facilities, which will be crucial to expanding Iowa’s renewable generation advantages. Energy storage bolsters the benefits of Iowa’s renewable generation, allowing Iowa to take full advantage of its wind and solar resources and to monetize them in the regional markets for the benefit of Iowa customers.

Another small change that would have a significant impact is the introduction of a consideration deadline, similar to the deadline imposed by the General Assembly for utility rate cases at Iowa Code §§ 476.6(9)“a” and 476.33(1). Advance ratemaking has successfully permitted utilities to propose necessary projects and receive approval in relatively short periods of approximately 10 months. However, recent advance ratemaking dockets have taken much longer, significantly damaging the project economics and reducing benefit to customers. A deadline for final action by the Board would provide the parties with more certainty in creating project
timelines, lowering risks to customers that utilities will be stuck with stranded costs if a project is denied or ballooning costs if the project is approved after significant delay.

The current advance ratemaking process has permitted Iowa utilities to build one of the largest renewables fleets in the country while maintaining affordable rates and consistent capacity standards without the need for arbitrary legislative directives. The end of advance ratemaking likely means the end of Iowa’s leadership in developing renewable generation and the resulting economic growth and benefits for Iowans. Ending advance ratemaking won’t result in the end of generation built in Iowa but would benefit unregulated third parties and large corporations at the expense of Iowa residential and small business customers. Instead of making Iowa less competitive in the future, Iowa should focus on amplifying its current advantages by making advance ratemaking more versatile and consistent, ensuring Iowa’s energy leadership now and for future generations of Iowans.

V. Innovative Ratemaking

MidAmerican, like most participants in the first charrette, believes that Iowa’s current ratemaking framework is adequate; however, the framework lacks sufficient flexibility and constrains the state’s ability to attract and retain load. Innovative ratemaking, which is the ability to adopt new rates or pilots outside of a general rate case, would resolve the flexibility issue and enhance Iowa’s competitive position. The Board previously held that it lacks the authority to approve innovative rates that respond to evolving customer needs.\(^2\) MidAmerican supports a statutory remedy granting such authority but the remedy must ensure non-participating customers are not negatively impacted and protect the success of the current utility industry in Iowa.

\(^2\) See Docket No. TF-2020-0273, Order Rejecting Tariff Without Prejudice at pp. 9-17, issued on June 4, 2021.
Any statutory changes should maintain a key Iowa regulatory tradition: solutions collaboratively crafted by Iowa-based stakeholders for the betterment of all Iowans. Based on comments during the charrette, not all participants support this tradition. With some suggestions, such as the adoption of retail choice, significant changes to service territory law and divestiture of generation assets, certain participants seemed to view the mere mention of innovative ratemaking as an opportunity to fundamentally overhaul the framework that continues to achieve the very policy objectives enumerated in House File 617. With the scope of the first charrette being the review of Iowa’s current policies, it is important to recall the 78th General Assembly’s own rejection of a proposal to abandon the traditional model in favor of retail choice. It is worth noting that this decision occurred within a national environment characterized by strong tailwinds supporting the restructuring movement, an enthusiasm that all but ceased since the California electricity crisis. Notably, in lieu of adopting retail choice, the 79th General Assembly opted to pass House File 577 during the subsequent session, which became the foundation for the state’s success over the prior 20 years.

The bases for the 78th General Assembly’s rejection of the 2000 Electric Choice and Competition Act remain valid. It is difficult to envision scenarios in which the adoption of the retail choice model does not create winners and losers among certain classes of utility customers. Retail choice inherently favors large, sophisticated customers that have resources to incur the transaction costs, both monetary and non-monetary, to secure the most favorable outcome. This results in a shifting of costs associated with generation assets – that were prudently incurred at the time of construction with these large, sophisticated customers’ loads in mind – to smaller, less sophisticated customers (residential customers and small businesses) who do not possess the

3 S.F. 2361 (2000).
resources to incur the necessary transaction costs. In theory, a third-party, alternate retail supplier could provide this service. In practice, unlike under the traditional utility model, such entities have consistently proven to not have customers’ best interest in mind, specifically when it comes to the assumption of risk.⁴

While proponents may argue that “opt-out” or “exit” payments address the issue of generation-related cost shifting, there is additional types of avoidable risk created under the retail choice model. MidAmerican’s affiliate, NV Energy, recently experienced increased reliability risk related to Nevada’s adoption of retail choice. During a 2020 heat wave, several alternate retail suppliers were unable to supply power to large customers who had previously elected the retail choice option. This resulted in NV Energy stepping in to essentially provide standby service to these customers, exposing non-retail choice customers to reliability risk even though these customers pay rates to recover costs associated with the generation resources necessary to serve their load. It is not difficult to understand how the retail choice framework could create a looming resource adequacy concern that complicates the utility’s planning process and its obligation to provide safe and reliable service at affordable rates.

Increased flexibility through innovative ratemaking authority is an opportunity to strengthen one of Iowa’s key advantages when it comes to economic development. Policy designed to enhance the state’s economic development potential should seek to improve the quality of life for all Iowans, not create a zero-sum game favoring large, out-of-state interests. Iowa should look

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to its past and the successes achieved since it last rejected similar proposals in favor of a ratemaking framework with the state’s best interest in mind.

Dated this 8th day of September, 2023.

Respectfully submitted,

MIDAMERICAN ENERGY COMPANY

By /s/ Andrew L. Magner
Andrew L. Magner
Senior Regulatory Attorney
666 Grand Avenue, Suite 500
Des Moines, Iowa 50309
Phone: (515) 281-2376
Email: Andrew.Magner@Midamerican.com

ATTORNEY FOR MIDAMERICAN ENERGY COMPANY