

**STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD**

IN RE:)
)
MIDAMERICAN ENERGY COMPANY) **DOCKET NO. RPU-2013-0004**
)

NON-UNANIMOUS SETTLEMENT AGREEMENT

ARTICLE I

Introduction

On May 17, 2013, MidAmerican Energy Company (“Company”), filed with the Iowa Utilities Board (“Board”), an application for a rate increase pursuant to Iowa Code § 476.6 (2013) and for a proposed temporary annual increase in its Iowa retail electric revenue of approximately \$45.15 million. In addition, Company proposed a permanent annual increase in its Iowa retail electric revenue of approximately \$135.5 million to be phased in over three years, with the first \$45.15 million increase proposed to be effective on August 15, 2013. Company, in final rates, proposed another \$45.15 million increase to be effective on January 1, 2015, and a third and final \$45.15 million increase to be effective on January 1, 2016. The Company’s rate case filing also included a proposed ten-year rate equalization plan to balance rates in its three pricing zones, eliminating differences that resulted from past acquisitions and mergers. On August 15, 2013, the Board entered an order authorizing an interim rate increase of \$45.15 million, subject to refund. This settlement agreement (“Settlement Agreement” or “Agreement”) is being filed with the Board pursuant to Iowa Code § 17A.12(5) (2013) and 199 IAC § 7.18(11) (2013).

ARTICLE II

Purpose

This Settlement Agreement has been prepared and executed by the Company and Office of Consumer Advocate (“OCA”), the Environmental Law and Policy Center and Iowa Environmental Council (hereinafter referred to collectively as “Parties” or individually as a “Party”), for the purpose of settling on a mutually-acceptable outcome of the issues in this case, without resolving the material issues or facts involved therein. This Settlement Agreement is applicable only to Docket No. RPU-2013-0004, except to the extent necessary to implement this Agreement in relevant future proceedings in accordance with its terms. The Parties have entered into this Agreement in order to avoid the burden, expense, delays, and uncertainties of further litigation. This Agreement has been executed as a compromise settlement of disputed claims, and the execution of the Agreement does not constitute admission or concession on the merits of those claims on the part of any party. The Environmental Law and Policy Center, and Iowa Environmental Council enters into the settlement agreement only as to the substantive provision set out in Article XVI, LED Street Lighting, and the Environmental Law and Policy Center and Iowa Environmental Council do not take a position as Articles V through XV.

ARTICLE III

Condition Precedent

This Settlement Agreement will not become effective unless and until the Board enters an order approving the Agreement in its entirety without condition or modification.

ARTICLE IV

Privilege and Limitation

This Settlement Agreement will become binding upon the parties upon its execution;

provided, however, that if this Settlement Agreement does not become effective in accordance with Article III above, it will be null and void. This Settlement Agreement represents a settlement on a mutually-agreeable outcome without resolution of specific issues of law or fact that were raised by the Parties. This Settlement Agreement relates only to the specific matters referred to herein. No Party waives any claim or right that it may otherwise have with respect to any matter not expressly provided for herein. No party will be deemed to have approved, accepted, agreed, or consented to any ratemaking principle or treatment, any method of cost-of-service, cost-of-capital, or capital structure determination, or any method of cost allocation underlying the provisions of this Settlement Agreement (or the attachments thereto), or be prejudiced or bound thereby in any other current or future proceeding before the Board. Except as necessary to implement this Settlement Agreement, the Agreement, any waiver of rules necessary to effectuate this Agreement, and any Board order referring to this Agreement or waiver request shall not, directly or indirectly, be referred to for any reason in any other current or future proceeding before the Board except with the written consent of the Parties.

ARTICLE V

Time Period

For settlement purposes, the Parties agree that the justness and reasonableness of rates in this case is to be determined on the basis of a representative pro forma annual revenue requirement determined on the basis of a test period ending December 31, 2012, as adjusted.

ARTICLE VI

Revenue Requirement Support

The Parties are in agreement that the Company's base rates shall be allowed to increase as described in Article IX below. The Parties arrive at that conclusion based upon somewhat

different determinations as to the rate base, revenue requirement, and cost of capital. Attached are two sets of schedules in support of the Settlement Agreement. Schedules A1, B1, and C1 were prepared by Company. Schedules A2, B2, and C2 were prepared by OCA. While the specific schedules differ, they independently support the same revenue requirement.

ARTICLE VII

Depreciation Deferral

For settlement purposes, the Parties agree that Company shall establish a voluntary depreciation deferral. The deferral will reduce annual depreciation expense by approximately \$50.0 million with an offsetting increase to regulatory assets. The regulatory asset created by the deferrals will be included in rate base for purposes of revenue sharing calculations and future rate filings.

ARTICLE VIII

Adjustment Clauses

For settlement purposes, the Parties agree that Company shall implement a transmission cost adjustment as set forth in Company's proposed tariffs in its application and set forth as Schedule D and an energy adjustment clause as set forth in Schedule E. The energy adjustment clause shall not include chemical costs. The Company shall file a reconciliation as a compliance filing showing the breakdown for the revenue requirement between base rates and the adjustment clauses.

ARTICLE IX

Rate Phase-In

For settlement purposes, the Parties agree that Company shall implement a rate increase over a three-year period with the first year's rate increase equal to the interim rates previously

approved by the Board, a second year increase to commence on January 1, 2015, and a third year increase to commence on January 1, 2016. The 2015 and 2016 increases shall be designed to increase rates by approximately \$45.15 million each year.

ARTICLE X

Interim Increase

The Parties agree that if the Board enters an order approving this Agreement in its entirety without condition or modification, no refund shall be due to any of the Company's customers pursuant to the Corporate Undertaking ordered by the Board in its Docketing Order.

ARTICLE XI

Revenue Sharing

For settlement purposes, consistent with the existing revenue sharing in place for the Company, the Parties agree that Company shall implement revenue sharing as described in this Article beginning with calendar year 2014 results. The threshold for revenue sharing shall be all Iowa jurisdictional electric operating income, including the Iowa jurisdictional portion of wholesale sales revenue (generation and transmission) and related costs, that exceeds a return on common equity of 11%. The methodology used to calculate revenue sharing will be as approved by the Board in Docket No. RPU-03-01. Any revenue sharing proceeds for the customers' benefit shall be used to reduce the regulatory asset created by the depreciation deferral referenced in Article VII. In the event that the depreciation deferral regulatory asset is reduced to \$0 as a result of customers' revenue sharing benefits, any additional customers' revenue sharing benefits shall be used to reduce the investment in Walter Scott, Jr. Unit 4. Revenue sharing between the Company and its customers shall be apportioned such that 80% of the earnings shall benefit customers as described above and 20% of the earnings shall be retained by the Company. The

Company shall continue to file annual revenue sharing calculations for the preceding calendar year with the Board on or before February 15th of each year.

ARTICLE XII

Allocation of Revenue Requirement

For settlement purposes, the Parties agree that the revenue requirement shall be allocated to customer classes as follows as described on lines 111-126 of the revised rebuttal testimony of Company witness Rea:

- Generation costs: The Company's original Hourly Costing Model proposal will be modified to clearly delineate that retail fuel costs are captured through the energy component of the Hourly Costing Model and assigned to each hour of the year based on MISO LMP prices, and non-fuel costs are captured through the capacity component of the Hourly Costing Model.
- Transmission costs: Transmission costs shall be allocated based upon a 12 coincident peak (CP) allocator.
- Distribution wires costs: Distribution costs shall be allocated based upon a hybrid approach using a single system allocation, without any allocation of single-phase costs to the LGS and VLGS rate customers.
- Miscellaneous distribution costs: Costs for transformers, services, metering, and customer service costs shall be allocated based on the OCA's recommendations as outlined in the direct testimony of OCA witness Marcus at page 35, line 1 through page 41, line 10.

ARTICLE XIII

True-Up of Revenues

For settlement purposes, the Parties agree that MidAmerican may adjust its rates at the end of the phase-in period (on or about January 1, 2017) to account for revenue lost from customers switching to more favorable rates only if MidAmerican's actual earned return on equity for the prior calendar year and MidAmerican's forecasted return for the year the rates changed as a result of the true-up would go into effect are both lower than a return on equity of 11%.

ARTICLE XIV

Rate Equalization

For settlement purposes, the Parties agree that a ten-year rate equalization period as outlined in the direct testimony and rebuttal testimony of Charles B. Rea shall be implemented.

ARTICLE XV

Rate Freeze

For settlement purposes, the Parties agree that subject to the conditional exit explained in this Article, no Party shall seek or support an electric rate increase or rate decrease with final rates to become effective prior to January 1, 2018. The Parties shall be released from any obligation not to seek nor support an electric rate increase or rate decrease to become effective prior to January 1, 2018, only in the event that the Company projects its return on equity for 2015, 2016, or 2017 to be below 10% with such projection to be based upon the Company's actual prior year Iowa jurisdictional electric cost of service plus pro forma adjustments (to cost of service, rate base, revenues, etc.). Nothing in this Article shall be interpreted to prohibit Company from implementing new rates pursuant to Board order, or prohibit the Company from proposing any rates for any optional services.

ARTICLE XVI

LED Street Lights

For settlement purposes, the Parties agree that language in MidAmerican's street lighting tariff (Rate SL) shall be modified to clarify customer responsibilities related to installation of LED street lights, as shown in Schedule F. In addition, MidAmerican will develop a customer LED street light education sheet by January 15, 2014, that will inform customers regarding potential savings from LED lights, options customers will have for installation of LED lights and the process to order replacement of existing lights with LED lights. The education sheet will communicate to customers the potential benefits to the customer of designing new installations for LED street lights. MidAmerican will provide a copy of the education sheet for review and comment to Environmental Law & Policy Center and Iowa Environmental Council prior to January 15, 2014. Customer options for installation will include, but are not limited to, replacing existing street lights with LED lights as existing lights burn out or otherwise fail, replacing existing street lights with LED lights by street, and replacing all existing street lights with available LED street lights.

ARTICLE XVII

Waivers

To the extent necessary to support this Settlement Agreement, the Parties support any and all waivers from Board rules necessary to effectuate this Settlement Agreement.

ARTICLE XIII

Term

This Settlement Agreement shall remain in effect until interim or final rates are set in the Company's next Iowa electric rate case, unless this Settlement Agreement is terminated earlier in

accordance with Article V.

ARTICLE XIX

Timeliness of Approval

In entering into this Settlement Agreement, the Parties have contemplated that this Settlement Agreement will be approved by the Board as expeditiously as reasonably possible.

Respectfully submitted,

MidAmerican Energy Company

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