

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

IN RE:)
)
THE AMERICAN CLEAN ENERGY)
AND SECURITY ACT OF 2009) **DOCKET NO. NOI-2009-0002**

**MIDAMERICAN ENERGY COMPANY’S FINAL COMMENTS ON THE AMERICAN
CLEAN ENERGY AND SECURITY ACT OF 2009**

BACKGROUND

On July 16, 2009, the Iowa Utilities Board (“Board”) opened an inquiry on federal climate legislation as passed in the U.S. House of Representatives, H.R. 2454, the American Clean Energy and Security Act, also known as the Waxman-Markey bill. The Board opened this inquiry to receive broad public input on how the provisions of the Waxman-Markey bill could affect Iowa. The Board asked participants to answer a series of questions in the initiating Order. Comments were filed by 29 participants. On September 9, 2009, MidAmerican Energy Company (“MidAmerican”) and other parties submitted reply comments to the responses filed by the participants. On September 28, 2009, the Board held a workshop to receive oral comments. At the workshop, the Board provided an opportunity to file one more round of written reply comments on or before October 19, 2009. On October 12, 2009, MidAmerican filed its ‘Overview of a State Alternative Compliance Mechanism – Meeting Real Emissions Caps without the Unnecessary Costs of Allowance Trading’ in response to interest by the Board.

Chairperson Berntsen opened the workshop by explaining the Board does not have a specific outcome in mind from this inquiry, other than to increase the collective knowledge of this important topic. Board member Tanner later elaborated stating the purpose of this Notice of Inquiry process is not for this Board to give thumbs up or thumbs down on the bill but to try to

find some common ground and commonsense approaches for Iowa. She encouraged participants, in reply comments, to tell the Board if areas of consensus can be found. Chairperson Berntsen stated his belief at the conclusion of the workshop that the inquiry had produced consensus in some areas of the legislation.

While participants differed on details and the scope of the impacts there were some common, recurring themes with respect to the impact of climate change legislation on Iowa. To that end, MidAmerican has attempted to highlight consensus principles it believes were reached through the Notice of Inquiry process. MidAmerican also believes that its alternative compliance mechanism approach, filed on October 12, 2009, serves to address many of the concerns addressed during the proceeding and is set forth as an option for meeting the consensus goals. In the alternative, MidAmerican also proposes specific changes to the Waxman-Markey bill to correct approaches the participants agreed were not acceptable from the Iowa perspective.

Work on the legislation continues in the United States Senate. For example, Senators Barbara Boxer and John Kerry recently released a discussion draft of their bill and MidAmerican has prepared a high level side-by-side comparison of the draft with Waxman-Markey, which is attached (Attachment A). Findings and consensus principles from this inquiry should provide participants and the Board with the tools to analyze impacts of new proposals and changes going forward.

CONSENSUS PRINCIPLES REACHED THROUGH THE INQUIRY

- Emission reduction goals should be set by Congress. The need for emission reductions was not a matter in dispute among participants to the Notice of Inquiry. There also was no dispute that these reductions should be achieved at the lowest cost possible to customers, with particular attention to managing the impact on low-income customers.

- Climate change legislation will result in increased costs to electric customers in Iowa because coal is a major source of energy production in the state. Meaningful emission reductions will require a transition of current generating capacity, both coal and natural gas, to low-carbon alternatives such as wind or nuclear power, and the greater use of energy efficiency.
- Greater federal support is needed for research and development to develop reasonable cost alternatives to existing fossil production.
- All parties agreed that Iowa should continue its focus on energy efficiency.
- All parties agreed that the state should continue its aggressive support for renewable energy.
- Parties agreed that allowances should only go to entities that need them to aid customers in the transition to a low-carbon future. If necessary, there should be a prohibition against windfall profits from allowances and the language in the bill prohibiting windfall profits should be clear. In addition, it was agreed that wholesale sales from integrated utilities should be on a level playing field with merchant generators in terms of allocation of allowances.

PROPOSALS FOR ADDRESSING CONSENSUS PRINCIPLES

MidAmerican believes that its State Alternative Compliance Mechanism provides a lower-cost, more certain option to achieving real emission reduction goals. In addition, the mechanism is consistent with the consensus principles agreed to by the participants in this Notice of Inquiry. MidAmerican hopes that the participants will give it serious consideration.

In the alternative, if a cap-and-trade regime like Waxman-Markey advances, Congress should pursue the modifications outlined below. These changes would help alleviate the wealth

transfer that exists under the current allowance allocation methodology. Refer to Attachment B containing a letter dated October 15, 2009, from MidAmerican Energy Holdings Company President and CEO Greg Abel to Senator Tom Harkin regarding MidAmerican's concerns with the Waxman-Markey allowance distribution formula. The letter includes a recent EPA analysis of the Waxman-Markey bill on a state-by-state basis that supports MidAmerican's concerns with the current allowance distribution formula. The analysis clearly demonstrates that coastal states such as California and New York are receiving more allowances than are necessary to cover their emissions associated with retail sales. Iowa, by comparison, receives less than 70%.

MidAmerican's Suggested Allowance Allocation Modifications:

- Use an allowance allocation based on 100 percent emissions. Such an approach is consistent with the consensus principles and would eliminate the distribution of 50% of the allowances based on retail sales. This approach would also render the 'Prohibition against Excess Distributions' provision unnecessary.
- Place wholesale sales from integrated utilities on a level playing field with merchant generators.
- Increase the overall allowance allocation to the electricity sector from 35 to 40 percent to be equivalent to the sector's share of emissions.
- Include a longer transition period to fully phase out the free allowance allocations.
- Incorporate a price collar to prevent extreme allowance price volatility.

CONCLUSION AND RECOMMENDATION

MidAmerican thanks the Board for initiating this forum for discussing climate change impacts on Iowa. Information exchange and public dialogue provide the basis for good public policy. Legislation of such significance as the Waxman-Markey bill should be scrutinized by

public entities such as the Board since it will have a central role in approving climate change approaches for the electric rate-regulated utilities and in managing the consumer impacts associated with the change.

MidAmerican recommends the consensus principles developed through this process be reflected in the Board's order closing the inquiry and serve to guide the Board as its expert advice is sought on these issues. MidAmerican has found value in the process and hopes that this exercise has also provided value to other inquiry participants to understand the impacts of climate legislation on Iowa, to guide advocacy, and as a basis for building coalitions to advance the consensus principles held in common by participants. MidAmerican's goal is not to defeat climate change legislation but to advocate an approach that assures real reductions, minimizes impacts on consumers, to the extent possible, and is fair to the Midwestern states.