STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-2012-0001

ORDER APPROVING SETTLEMENT

(Issued October 8, 2012)

I. INTRODUCTION AND PROCEDURAL HISTORY

On February 21, 2012, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) a proposed annual increase in its Iowa retail electric revenue of approximately $76 million, or 6.7 percent over its current revenues; this increase, if approved, would not take place until 2013. Pursuant to Iowa Code § 476.6(10), MidAmerican implemented a temporary rate increase of approximately $38.7 million, or about 4 percent over current Iowa retail electric revenue, ten days after its February 21, 2012, filing; the increased rates are subject to refund.

MidAmerican has a revenue freeze agreement in place through December 31, 2013, but the agreement allows MidAmerican to exit the revenue freeze if its return on equity falls below 10 percent. In its filing, MidAmerican said its return on equity was 8.94 percent for the 2011 test year.

MidAmerican asked for approval of two adjustment clauses, one for environmental compliance costs and the other for coal and coal transportation costs. MidAmerican stated the combined clauses would be capped at $38.7 million in 2012

and $76 million in 2013. Under MidAmerican's original proposal, the two adjustment clauses would end on December 31, 2013, unless MidAmerican requested and received a one-year extension from the Board. The Board held six consumer comment hearings throughout MidAmerican's service territory.

On March 15, 2012, Deere & Company (Deere) and the Iowa Industrial Group (IIG) each filed a petition to intervene. The Board issued an order granting the interventions on March 29, 2012. On June 8, 2012, Alcoa Inc. (Alcoa) filed a petition to intervene. The Board issued an order granting Alcoa's petition on June 14, 2012. The Consumer Advocate Division of the Department of Justice (Consumer Advocate) is also a party to these proceedings.

On March 16, 2012, the Board issued an "Order Docketing Tariff, Establishing Procedural Schedule, Requiring Additional Information, Granting Waiver, and Approving Corporate Undertaking." The waiver requested by MidAmerican related to rate case filing requirements for advertising and rate case expense, which MidAmerican said it was not seeking to recover in this rate proceeding. MidAmerican filed the additional information requested in the order.

On April 20 and May 22, 2012, the Board issued orders requiring MidAmerican to file additional information and certain coal-related contracts. MidAmerican filed additional information on May 18 and June 1, 2012. The contract filing requirement is ongoing, and MidAmerican has filed additional contracts.

On July 27, 2012, MidAmerican, Consumer Advocate, and IIG filed a "Joint Motion for Approval and Settlement Agreement." MidAmerican, Consumer Advocate,

and IIG said that they had resolved all issues in this proceeding in the proposed settlement, including those relating to both temporary and final rates. The three settling parties asked that the Board modify the existing procedural schedule to eliminate the filing of additional testimony and briefs and that the Board waive the requirement found in 199 IAC 7.18(2) to hold a settlement conference. The three settling parties also asked that the Board proceed to issue an order approving the proposed settlement without condition or modification or promptly schedule a hearing should the Board determine it needs to further develop the record before ruling on the proposed settlement.

On July 30, 2012, Deere filed a statement of position indicating that it did not oppose or contest either the proposed settlement or the joint motion. Deere specifically joined in the request to waive the settlement conference and waived its right to receive notice of, or participate in, such a conference.

On August 1, 2012, Alcoa filed a statement of position indicating that it did not contest the proposed settlement or joint motion. Alcoa joined in the request that the requirement for a settlement conference be waived and that any remaining testimony or briefing be eliminated.

The Board issued an order on August 2, 2012, modifying the procedural schedule and granting waiver. The Board modified the procedural schedule to eliminate any further requirements for filing of testimony and briefs. However, the Board indicated that the hearing date of October 1, 2012, would be retained, at least temporarily, so that the Board may determine whether it has any questions to ask

about the proposed settlement. The Board also waived the requirement to hold a settlement conference pursuant to 199 IAC 7.18(2).

No pleadings or motions were filed contesting the proposed settlement. On September 26, 2012, the Board issued an order cancelling the hearing in Docket No. RPU-2012-0001 and indicated that it could proceed to rule on the proposed settlement without further proceedings.

II. SUMMARY OF SETTLEMENT

The proposed settlement would result in an aggregate increase to MidAmerican's Iowa electric retail revenue of $38.7 million in 2012 and $76 million during calendar year 2013. The proposed settlement states that both the Consumer Advocate's and MidAmerican's test year revenue requirement evidence is consistent with this result. The proposed settlement provides that these revenue increases shall be recovered through a single adjustment clause consistent with the cost allocation and rate design methodology described in the testimony of MidAmerican witness Czachura. The proposed settlement provides that the adjustment clause shall recover costs on a per kWh basis for all customers except industrial customers with demand (kW) charges; for those customers, there will be both a per-kW demand and per-kWh energy component.

To ensure there is no over- or under-collection, the proposed settlement provides that there is to be an annual reconciliation. If there is an over- or under-recovery in 2012, it will be factored into the adjustment clause for 2013. Any over- or

under-recovery in 2013 will be included as a pro forma adjustment, reflecting a three-year amortization, in the revenue requirement in the first general rate case applicable upon termination of the adjustment clause. However, there is to be no reconciliation if the adjustment clause is terminated prior to December 1, 2013, and the parties agree that no other refund obligation exists related to the ten-day implementation of temporary rates that have been used to implement the adjustment mechanism in this proceeding.

Appendix A to the proposed settlement illustrates how the year-end 2012 reconciliation will be calculated and shows the calculation of the 2013 adjustment clause rates. Appendix B shows the adjustment clause tariff rates in 2012 and 2013 for each customer class.

The proposed settlement leaves in place the revenue sharing mechanism under which MidAmerican has been operating, with the following modifications. The MidAmerican Iowa electric revenue sharing return on equity threshold is reduced from 11.75 percent to 10 percent; if MidAmerican's earnings do not exceed 10 percent, there is no revenue sharing with its retail customers. The proposed settlement also makes modifications to the levels of revenue sharing at various thresholds. The customers' share of any revenue sharing funds are to be used to reduce the investment in Walter Scott, Jr. Energy Center Unit No. 4, MidAmerican's newest coal facility which is located in Council Bluffs, Iowa.

The proposed settlement provides that the parties agree not to seek any rate change to become effective in retail electric sales prior to January 1, 2014, beyond

the rate changes addressed in the proposed settlement and changes permitted by Iowa Code §§ 476.6(16) and 476.6(22). However, there is an exception: MidAmerican may file for a rate increase in 2013, and in the event a general rate proceeding is commenced in 2013 and temporary rates are implemented in 2013, such temporary rates shall supersede the 2013 adjustment clause rates and only the applicable reconciliation provisions for 2012 will remain. None of the parties are obligated to support continuation of the adjustment clause beyond 2013.

The proposed settlement also provides that prior to MidAmerican's next Iowa electric general rate case proceeding, MidAmerican shall review its generation depreciable life assumptions and review and update as necessary its 2011 electric depreciation study. Finally, the proposed settlement provides it shall not become effective unless and until it is approved by the Board in its entirety without condition or modification, unless otherwise agreed by the parties.

III. BOARD DISCUSSION

Rule 199 IAC 7.18 provides that the Board will not approve a settlement unless it is "reasonable in light of the whole record, consistent with law, and in the public interest." The Board finds that the proposed settlement agreement meets these standards and will approve it.

This is an unusual rate case because instead of seeking a revenue requirement based on the totality of the utility's revenue, expenses, capital structure, and rate of return, MidAmerican is seeking a limited increase based on increased

expenditures for environmental compliance and coal and coal transportation. The settlement provides that both MidAmerican's and Consumer Advocate's respective calculation of the annual revenue requirement would support the increase being sought by MidAmerican. Consumer Advocate's testimony indicated that a revenue increase ranging from $116,497,790 (based on a return on equity of 8.5 percent) to $134,769,373 (based on a return on equity of 9.4 percent) would be justified. The Board's review of the evidence submitted in this proceeding confirms that the electric revenue increase proposed by MidAmerican is reasonable and less than the amount MidAmerican likely would have received in a full rate case.

One of the more significant features of MidAmerican's original proposal as summarized in its prefiled testimony was the interrelationship of the two adjustment clauses in implementing (or giving effect to) the annual cost caps. MidAmerican stated unequivocally that the annual cost caps would be absolute. Because the environmental cost adjustment clause was calculated first, this effectively limited the costs that could be recovered through the fuel adjustment clause. As a result, sizable portions of coal and coal transportation costs not recovered through MidAmerican's base tariff rates would likewise not be recoverable through the fuel adjustment clause. The cost caps in MidAmerican's proposal meant that 69 percent of MidAmerican's estimated incremental coal and coal transportation costs would not have been recoverable in 2012, and 46 percent would not have been recoverable in 2013. While the proposed settlement combined the two adjustment clauses originally proposed by MidAmerican, the limits as to what can be recovered under the cost cap

remain intact; MidAmerican is not recovering all the coal and transportation costs that would be supported by its prefiled testimony. This represents a benefit to MidAmerican's customers.

Some of MidAmerican's coal freight contracts are with the Burlington Northern Railroad (BN); both MidAmerican and the railroad are subsidiaries of Berkshire Hathaway. Pursuant to Board orders issued April 20 and May 22, 2012, MidAmerican submitted additional information about its business dealings with BN. The information supplied by MidAmerican indicates that its negotiations and resulting contracts with BN were arms-length negotiations and the shipping rates obtained were reasonable, given current market conditions.

The environmental cost adjustment clause proposed by MidAmerican sought depreciation expense for projects that were approved by the Board in MidAmerican's emissions plan and budget (EPB) dockets, projects approved by the Board in a ratemaking principles proceeding (Docket No. RPU-02-10), and surface impoundment projects associated with the management of coal combustion by-products. MidAmerican provided a detailed accounting for the various projects and the costs MidAmerican seeks to recover are consistent with those approved in the EPB and ratemaking principle dockets. Competitive bidding was used for projects approved in the EPB process. While the surface impoundment projects have not previously been considered by the Board, those projects have been permitted by the Iowa Department of Natural Resources and are required by environmental

regulations; the evidence submitted in this proceeding show the amounts spent to be reasonable.

The environmental cost adjustment clause also included operation and maintenance expenditures. The amount MidAmerican seeks to recover is consistent with amounts provided in MidAmerican's recent EPB filings.

The proposed settlement agreement combines MidAmerican's originally proposed environmental cost adjustment clause and fuel adjustment clause tariffs into a single Revenue Adjustment Clause that is effective for only a limited time (2012-2013), which makes the adjustment clause in the proposed settlement more like a surcharge than an automatic cost adjustment rider. Rate elements for 2012 from the previous two tariffs are combined by customer class. However, unlike the original proposal, the combined tariff also specifies the rates that are to become effective in 2013; under MidAmerican's original proposal, the 2013 rates were estimated and subject to final Board approval in a subsequent tariff filing. The rates in 2012 and 2013 are based on the cost cap amounts specified and supported in MidAmerican's original proposal (i.e., $37.8 million in 2012 and $76 million in 2013), and apply uniformly across MidAmerican's three rate zones.

As in its original proposal, MidAmerican will file annual reports that reconcile actual revenues collected with the amounts allowed for recovery, by customer class. However, unlike the original proposal, the amounts allowed for recovery will be fixed amounts (i.e., the cost cap amounts of $37.8 million in 2012 and $76 million in 2013), which will not be subject to later revision based on actual expenditures. In this

respect, the revenue adjustment clause will function more like a fixed-rate surcharge than a variable cost adjustment clause (as recommended by IIG). Also, unlike the original proposal, no over/under collections beyond the 2012 reconciliation amount will be factored into the revenue adjustment clause; the clause will terminate on December 31, 2013, unless the Board approves a one-year extension or MidAmerican implements temporary rates for a general rate proceeding. Any subsequent over/under collections after 2012 will be reflected in MidAmerican's next general rate case, based on a three-year amortization.

All of the parties view MidAmerican's methods for allocating costs among customer classes as generally reasonable for purposes of this proceeding and based on methods previously approved by the Board. An error made in calculating the average and excess allocator will be corrected by MidAmerican in the 2012 rates through the year-end reconciliation, as indicated by MidAmerican in response to questions asked by the Board in an April 20, 2012, order and has been corrected by MidAmerican in designing the 2013 rates agreed upon in the proposed settlement. The settlement rate design and methods for reconciling revenues and costs are reasonable.

Finally, the proposed settlement continues MidAmerican's revenue sharing mechanism. The primary change in the mechanism is lowering the threshold return on equity necessary to trigger revenue sharing with customers from 11.75 percent to 10 percent. Revenue sharing starts with 20 percent being returned to customers if earnings are between 10 and 10.5 percent and increases in increment ranges to a

maximum of 83.3 percent returned to customers if earnings are over 13 percent. However, because MidAmerican is not projecting returns above 10 percent in either 2012 or 2013, MidAmerican projects that there will be no revenue sharing. (Specketer Direct Testimony, pp. 4-5).

IV. ORDERING CLAUSE

IT IS THEREFORE ORDERED:

The settlement agreement filed on July 27, 2012, by MidAmerican Energy Company is reasonable in light of the whole record, consistent with law, in the public interest, and, therefore, is approved.

UTILITIES BOARD

/s/ Elizabeth S. Jacobs

/s/ Darrell Hanson

ATTEST:

/s/ Joan Conrad */s/ Swati A. Dandekar*
Executive Secretary

Dated at Des Moines, Iowa, this 8th day of October 2012.