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October 19, 2011

Joel S. Wiebe, Senior Project Manager  
Plant Licensing Branch III-2  
Division of Operating Reactor Licensing  
Office of Nuclear Reactor Regulation  
U.S. Nuclear Regulatory Commission  
Washington, D.C. 20555-0001

Re: Quad Cities Nuclear Power Station, Units 1 and 2 – Requests for  
Additional Information Related to MidAmerican Energy Company's  
Decommissioning Funding Status Report (TAC Nos. ME5524 and ME5525) -  
Supplemental Submission

Dear Mr. Wiebe:

Attached please find a hard copy of the pre-filed testimony of Thomas C. Foster submitted in Docket No. RPU-07-2, before the Iowa Utilities Board, with all pages included. As you noted in your email of this date, the copy of this document submitted in our October 11, 2011 submission was missing pages. The attached document contains all of the pages of that pre-filed testimony. I apologize for the oversight and any inconvenience it caused.

I would note that Tables 1 and 2, on pages 16 and 18, pertaining to economic analyses of the wind power project that was the primary focus of Docket No. RPU-87-2, have lines that were redacted in the public filing with the Iowa Utilities Board. (The unredacted versions of pages 16 and 18 were filed subject to an application for confidential treatment with that agency.) Since these wind analyses do not pertain to Quad Cities Nuclear Power Station we have provided only the redacted versions of pages 16 and 18. If you wish to see the unredacted pages please let me know and we can submit the confidential versions of these pages (i.e., that contain the redacted information in Tables 1 and 2).

Again, please let me know if you require additional information. My contact information is provided above.

Sincerely,

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

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<b>IN RE:</b>	:	
	:	
<b>APPLICATION OF MIDAMERICAN ENERGY COMPANY FOR A DETERMINATION OF RATEMAKING PRINCIPLES</b>	:	<b>DOCKET NO. RPU-07-__</b>
	:	
	:	

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**DIRECT TESTIMONY  
OF  
THOMAS C. FOSTER**

1   **Q.    Please state your name and business address.**

2   A.    My name is Thomas C. Foster. My business address is 666 Grand Avenue,  
3        Des Moines, Iowa 50309.

4   **Q.    By whom are you employed and in what position?**

5   A.    I am employed by MidAmerican Energy Company (“MidAmerican” or  
6        “Company”). My title is Director, Investments, Regulatory Finance and Analysis.

7   **Q.    Please describe your educational background and business experience.**

8   A.    I hold a Bachelor of Business Administration degree with a major in Finance and  
9        a Master of Arts degree in Economics, both from the University of Iowa. I have  
10       previously been employed by the Iowa Utilities Board (“Board”) as a Financial  
11       Analyst and later by Iowa Southern Utilities Company (“Iowa Southern”) as a  
12       Rate Economist. Through a series of transactions, Iowa Southern is now part of  
13       Alliant Energy Corporation. While employed by the Board and Iowa Southern, I  
14       had normal rate administration responsibilities and testified before the Board in a  
15       number of proceedings. Later, I was employed by Iowa Wesleyan College as an

1 Associate Professor of Business Administration and taught undergraduate courses  
2 in both finance and economics. I joined Iowa-Illinois Gas & Electric Company, a  
3 predecessor to MidAmerican in 1992 and served in its Rate Department  
4 conducting electric embedded and marginal class cost of service studies and  
5 performing rate design. When MidAmerican was formed in 1995, I joined the  
6 Treasury Department where I was responsible for overseeing the investment of  
7 the Company's pension, other post-retirement and nuclear decommissioning trust  
8 funds, and preparing capital structure and cost of capital calculations for various  
9 purposes, including regulatory proceedings. In 2000, my functions were moved  
10 to the Financial Services Department where, in addition to the previously  
11 mentioned responsibilities, I prepare or review major capital budgeting proposals  
12 related to the electric generation business of the Company and am responsible for  
13 analyzing the creditworthiness of transmission customers taking service under the  
14 Company's open access transmission tariff.

15 I am a member of the American Economics Association, the Chartered  
16 Financial Analyst ("CFA") Institute, and the CFA Society of Iowa. I have  
17 previously served as chairman of the board of directors of the CFA Society of  
18 Iowa and in various executive positions for that group. I also hold the designation  
19 of Chartered Financial Analyst.

#### **PURPOSE OF TESTIMONY**

20 **Q. What is the purpose of your prepared direct testimony?**

21 **A.** The purpose of my testimony is to sponsor portions of Section 2 (Economic  
22 Evaluation) of MidAmerican's Application for a Determination of Ratemaking

1 Principles ("Ratemaking Principles Application") concerning the Wind IV Iowa  
2 Projects. I will describe how MidAmerican will determine if a wind project is  
3 economic under the methodology outlined in the Wind IV Iowa Stipulation and  
4 Agreement ("Wind IV Stipulation") entered into between the Company and the  
5 Office of Consumer Advocate ("OCA"). I will also discuss how MidAmerican  
6 proposes to apply portions of the amount currently included in electric rates for  
7 the decommissioning of the Quad Cities Nuclear Power Station to rate  
8 equalization efforts between MidAmerican's service territory zones, and perhaps  
9 investment in selected power plants. In addition, I will discuss the results of an  
10 economic analysis for the 75 MW expansion to the Pomeroy Project site that is  
11 described by MidAmerican witness Tom Budler and is a part of the Wind IV Iowa  
12 Projects. I will also discuss the projected results for a 465 MW project (assumed  
13 to be a series of projects that, for the purposes of this testimony, are collectively  
14 referred to as "Project X") to be constructed in 2008. Finally, I will sponsor two  
15 requested ratemaking principles, the principle describing the Economic Test for  
16 Qualifying Projects and the Return on Equity principle.

### **RATEMAKING PRINCIPLES APPLICATION**

17 **Q. What information are you sponsoring in Section 2 of the Ratemaking**  
18 **Principles Application?**

19 **A.** Section 2.1 (Present Value Calculations) describes the assumptions employed in  
20 the analyses presented in the Ratemaking Principles Application as well as the  
21 economic test that will be used to determine if a proposed project should be  
22 included in the Wind IV Iowa Projects. Section 2.2 (Cost of Capital) discusses

1 the rate of return that will be incorporated into such analyses, and Section 2.3  
2 (Cash Flows) outlines the sensitivity analysis undertaken with regard to the  
3 proposed projects included in the Ratemaking Principles Application. These  
4 sections utilize the ratemaking principles that are offered for the Board's approval  
5 in the proposed Wind IV Stipulation in this proceeding. The Wind IV Stipulation  
6 is further explained in the testimony of MidAmerican witnesses Dean Crist.

7 **Q. Please briefly describe the information you are sponsoring in Section 2.1 of**  
8 **the Ratemaking Principles Application (Present Value Calculations).**

9 A. As indicated above, this section describes the assumptions employed and the  
10 economic test that will be used to determine if a proposed project qualifies to be  
11 included in the Wind IV Iowa Project portfolio. Once the Company believes it  
12 has reliable projections of the construction and transmission interconnection costs,  
13 the economic test will be performed. These projected costs will include securing  
14 rights to a building site, transmission facilities and the cost of towers and turbines.  
15 The Company will also incorporate its best estimate of reasonable incremental  
16 revenue and operating cost (including operation and maintenance expenses,  
17 forecasts of the value of environmental credits and estimates of system  
18 operational benefits) in the application of the economic test. Given these inputs,  
19 the Company will model the construction and operation of the proposed project.

20 **Q. Please describe the basic calculations the Company will make to employ the**  
21 **economic test that will be applied to a proposed Wind IV Iowa Project.**

1 A. The annual revenue requirements for each proposed project will be calculated  
2 over the 20-year life of the project, present valued, levelized and converted to a  
3 dollars per kWh basis. The annual revenue requirement represents the cost  
4 customers would ordinarily be responsible for in electric rates. However, the  
5 modeling will also calculate the incremental benefits that the proposed project is  
6 reasonably expected to produce. These include projected production tax credits  
7 (“PTCs”), a value of environmental credits that the project may make available  
8 over its life, capacity sales that MidAmerican may be able to make and changes in  
9 net system costs (higher wholesale margins and/or lower system energy costs)  
10 likely to result from the addition of the proposed project to the MidAmerican  
11 generation portfolio. These project benefits will also be present valued, levelized  
12 and converted to a dollar per kWh basis.

13 **Q. Please briefly describe the Company’s economic test and how this test**  
14 **provides a measure that reflects the impact of a wind project on retail**  
15 **ratepayers.**

16 A. It is a goal of MidAmerican and, while I am not representing the OCA in this  
17 proceeding, I believe the OCA shares this fundamental principle, that existing  
18 ratepayers not be adversely affected by an incremental investment in wind  
19 capacity over the 20-year depreciable life of the investment. In order to test  
20 whether this is true, the incremental benefits of a wind project, converted to a  
21 comparable dollar per kWh basis, will be subtracted from the revenue  
22 requirement, after it, too, has been converted to a dollar per kWh basis. If the net  
23 result is a negative value, that result means that the project benefits will be

1 expected to exceed the project's revenue requirement. If the net result of the  
2 subtraction exercise is zero, then the project can be expected to recover its  
3 revenue requirement. In either of these two cases, the economic evaluation would  
4 signal that the project should be pursued as part of the Wind IV Iowa Project  
5 portfolio. On the other hand, if the net result of the subtraction of the project  
6 benefits from the project's revenue requirement yields a positive value that means  
7 that the project benefits are not expected to cover the project costs and  
8 construction of that project might require incremental support from retail  
9 customers at some future point in time. Section 5.2 of the Ratemaking Principles  
10 Application contains a discussion of the economic test principle that is being  
11 requested.

12 **Q. Are there any other implications to the economic test if the result is a**  
13 **negative value?**

14 A. As mentioned above, if the economic test results in a negative value, then the  
15 estimated benefits are more than enough to offset the estimated revenue  
16 requirement. Under these circumstances, MidAmerican will determine the  
17 amount of additional capital expenditure that would result in the economic  
18 evaluation yielding a result of zero. This level of capital expenditure will serve as  
19 a "soft spending cap" for the particular project. The Company would make this  
20 calculation at the same time that the project economic test calculation is prepared.

21 **Q. How will the ultimate, actual capital expenditures be treated?**

22 A. The Wind IV Stipulation addressed this question in the following manner. (1) In  
23 the event that actual capital costs of a Wind IV Iowa Project are lower than the

1 projected capital costs, rate base shall consist of actual costs. (2) In the event that  
2 actual capital costs exceed the capital expenditures that would result in an  
3 economic evaluation result greater than zero (i.e., the actual capital expenditures  
4 exceed the “soft spending cap”), MidAmerican will be required to establish the  
5 prudence and reasonableness of such excess before it can be included in rates.  
6 These conditions imply that as long as the Company is able to complete a project  
7 at or below the “soft spending cap” there would be no subsequent prudence  
8 review required for a project meeting these criteria.

9 **Q. How will this process work during the remaining years of the revenue**  
10 **sharing agreement?**

11 A. In the situation where a capital expenditure exceeded the “soft spending cap”, the  
12 increment above the “soft spending cap” will be excluded from rate base unless  
13 there is a proceeding where the Company demonstrates the prudence of such  
14 expenditure and the Board allows the inclusion of the incremental capital  
15 expenditure in rate base.

16 **Q. How will MidAmerican inform the Board of the status of Wind IV Iowa**  
17 **Projects as they are completed?**

18 A. The Company proposes to include a report to the Board as a part of the current  
19 annual revenue sharing filing where any project completed during that year will  
20 be compared to its “soft spending cap”. If the capital expenditure is less than or  
21 equal to the “soft spending cap”, those expenditures will be included in rate base  
22 for purposes of the revenue sharing calculation. Any amount that exceeds the  
23 “soft spending cap” will be noted and clearly excluded from the rate base

1 calculation utilized for the revenue sharing calculation. Prior to submission to the  
2 Board, MidAmerican will review the “soft spending cap” analysis with the OCA.

3 **Q. Please describe the information contained in Section 2.2 of the Ratemaking**  
4 **Principles Application (Cost of Capital).**

5 A. This section contains the capital structure and cost of the components of the  
6 capital structure utilized in MidAmerican’s analyses described above. The capital  
7 structure is assumed to be 50% long-term debt and 50% equity. Preferred stock is  
8 assumed to be an immaterial portion of the Company’s capital structure going  
9 forward. A 50% long-term debt, 50% equity capital structure is consistent with  
10 the financial ratio metrics, published by Standard & Poor’s, necessary to maintain  
11 a single-A credit rating. A long-term debt cost of 7% is assumed for modeling  
12 purposes. The Company is requesting an 11.7% return on equity as a ratemaking  
13 principle in this proceeding.

14 **Q. Is this return on equity consistent with that previously allowed by the Board**  
15 **for wind generation investments?**

16 A. Yes. In Docket No. RPU-03-1, MidAmerican’s first wind ratemaking proceeding  
17 the average of the most recent 12 months of A-rated public utility bond yields was  
18 6.11% and the Board found a return of 12.2% reasonable. In Docket No. RPU-  
19 04-3, the comparable single A-rated public utility bond yield was 6.19% and the  
20 Board again allowed an ROE of 12.2%. In Docket No. RPU-05-4, the 12-month  
21 average of single A-rated public utility bond yields was 5.66% and the Board  
22 allowed an ROE of 11.9%. At the current time the 12-month average of single A-  
23 rated public utility bond yields is 6.08% - somewhat higher than that observed in

1 the RPU-04-3 proceeding. As a result, the stipulated ROE of 11.7%, slightly  
2 below that allowed in RPU-04-3, appears to continue to be within the range of  
3 reasonableness of ROEs previously allowed by the Board in wind ratemaking  
4 proceedings. Section 5.5 of the Ratemaking Principles Application contains a  
5 discussion of the return on equity principle.

6 **Q. Please describe the information contained in Section 2.3 of the Ratemaking**  
7 **Principles Application (Revenue Requirements).**

8 A. Section 2.3 describes the calculation of the annual revenue requirement for the  
9 above-described analyses. The revenue requirement will include return,  
10 depreciation, taxes and operation and maintenance expenses. This calculation  
11 will employ the ratemaking principles requested in the Ratemaking Principles  
12 Application.

#### **FUNDING OF THE NUCLEAR DECOMMISSIONING TRUSTS**

13 **Q. Please address the proposed ratemaking provision being suggested with**  
14 **respect to funding of the Company's nuclear decommissioning trust funds.**

15 A. After concluding a review of the funding status of the Quad Cities Nuclear  
16 Decommissioning Trusts, and taking into consideration the recent 20-year  
17 extension of the operating license for the Quad Cities nuclear units (MidAmerican  
18 has a 25% ownership share; Exelon Generating Company, LLC, ("Exelon") has  
19 the remaining 75% ownership share and also operates the units), MidAmerican is  
20 proposing that the amount deposited to the trusts be reduced from approximately  
21 \$8.3 million per year to approximately \$1.6 million per year (The exact amount is  
22 \$1,595,964). The approximate \$6.7 million difference would be used to satisfy

1 the Board's previously required (Docket No. RPU-04-2) efforts at rate  
2 equalization, as approved in that docket or as subsequently ordered by the Board.  
3 MidAmerican witness Crist will further elaborate on this particular item.

4 If funds remain after the rate equalization funding, the remaining annual  
5 amount would be used during the remaining period of revenue sharing to reduce  
6 the Wind IV Iowa Projects' investment in rate base (including AFUDC) or the  
7 investment in Council Bluffs Energy Center Unit No. 4 plant (including AFUDC),  
8 whichever has the highest ROE.

9 **Q. Please provide an overview of the process MidAmerican goes through to  
10 determine appropriate decommissioning contribution levels for the nuclear  
11 decommissioning trusts.**

12 **A.** It is a multi-step process. First, Exelon as the operator of the facility retains the  
13 services of an industry-recognized expert to estimate the amount of funds needed  
14 to decommission the plant. Second, MidAmerican makes an assessment as to the  
15 level of contributions the trusts will require to be reasonably assured that adequate  
16 funds will be available at the time decommissioning is expected to begin in the  
17 year 2032. This assessment is made by a MidAmerican nuclear decommissioning  
18 trust committee that considers the potential escalation rates in decommissioning  
19 costs, the expected after-tax returns of the trusts and the pattern of contributions.  
20 Finally, if necessary, MidAmerican will seek the required rulings from the Board  
21 and the Internal Revenue Service ("IRS"). The IRS approval is required in order  
22 to make tax deductible contributions to the tax qualified trust funds and the IRS

1 relies on state public utility commission decisions in approving the schedules of  
2 such contributions to these trusts.

3 **Q. What was the basis for the cost estimate developed for decommissioning the**  
4 **Quad Cities Station Nuclear Plant (“Station”)?**

5 A. TLG Services, Inc. performed a site-specific study (“Study”) of the Station in  
6 2006, and the results of the Study are the basis for the total decommissioning  
7 estimate. TLG Services, Inc. is an industry leader in nuclear power plant  
8 decontamination and decommissioning planning and cost estimating. The Study  
9 shows that for Unit I, MidAmerican’s 25% share of the decommissioning cost, in  
10 2006 dollars, is \$164.806 million, and for Unit II, MidAmerican’s 25% share of  
11 the decommissioning cost, in 2006 dollars, is \$166.805 million. These estimates  
12 assume the DECON method of decommissioning, which is consistent with both  
13 MidAmerican and Exelon’s previous assumptions regarding the decommissioning  
14 method to be employed at this facility. The DECON method is a process where  
15 the equipment and structures of the facility that are radioactive are removed or  
16 decontaminated to a level that permits the property to be released for unrestricted  
17 use shortly after cessation of operations. The decommissioning costs for the two  
18 units are very close but not identical due to design differences between the two  
19 reactors and the sequencing of the decommissioning work.

20 **Q. Please describe the actions of the MidAmerican nuclear decommissioning**  
21 **trust committee that led to the reduction in contributions to approximately**  
22 **\$1.6 million annually.**

1 A. The MidAmerican nuclear decommissioning trust committee received input from  
2 NISA Investment Advisors, L.L.C. (“NISA”), a firm that has been managing  
3 nuclear decommissioning trust assets since its inception in 1994. NISA is one of  
4 the largest NDT investment managers in the United States and offers portfolio  
5 management services, liability analysis reviews, and performance calculations.  
6 NISA assisted in the evaluation of reasonable returns for funds invested in the  
7 trusts and the allocation of funds to various investment classes. In January 2007  
8 the MidAmerican nuclear decommissioning committee met and discussed the  
9 input received from NISA. The committee focused on a long-run, after-tax return  
10 assumption consistent with the trusts’ actual historical experience. The  
11 committee also reviewed a methodology sponsored by the Nuclear Regulatory  
12 Commission in order to estimate the escalation rate of decommissioning costs.  
13 This led to a determination that a contribution level of approximately \$1.6 million  
14 annually would be likely to fulfill the decommissioning obligation. The  
15 MidAmerican nuclear decommissioning trust committee will meet in the future  
16 following any updates in the Study, significant changes in market conditions or  
17 any other factors that require the reassessment of the adequacy of the contribution  
18 levels to the trusts.

19 The proposed contribution level not only appears to give reasonable  
20 assurance that the trusts will be able to meet their decommissioning liability, but  
21 allows for the rate equalization efforts mentioned previously and for the possible  
22 reduction in rate base to minimize long-run rate fluctuations.

1 **Q. What is meant by the term “tax qualification” as it relates to nuclear**  
2 **decommissioning?**

3 A. A “tax-qualified” nuclear decommissioning trust fund is a fund that meets certain  
4 criteria as defined in Section 468A of the Internal Revenue Code (“Section  
5 468A”). Tax-qualified nuclear decommissioning trust funds are afforded  
6 favorable tax treatment as compared to non-qualified funds. There are two main  
7 tax advantages provided by a tax-qualified fund. The first is that deposits made  
8 into the trust fund can be treated as current-year tax deductions. The second is  
9 that earnings on the investments in the tax qualified trust fund are taxed at an  
10 applicable federal tax rate of 20% as compared to a 35% federal tax rate on  
11 earnings in a non-qualified trust fund.

12 **Q. Did the Energy Policy Act of 2005 include any modifications to the special**  
13 **rules for nuclear decommissioning and Section 468A?**

14 A. Yes. The Energy Policy Act of 2005 included a number of modifications to the  
15 special rules for nuclear decommissioning. Among the modifications were  
16 amendments to Section 468A which governs the tax qualification of nuclear  
17 decommissioning trust funds. These amendments are effective for taxable years  
18 beginning after December 31, 2005.

19 **Q. What were the requirements for tax qualification under Section 468A prior**  
20 **to the changes resulting from the Energy Policy Act of 2005?**

21 A. In order to ensure the continued tax qualification of the trust, any change in the  
22 funding levels had to be filed with and approved by the IRS. The IRS required a  
23 statement from an order of the state commission (a) approving the schedule of

1 decommissioning cost accruals; (b) finding that the decommissioning cost  
2 accruals were included in cost of service and were included in rates for  
3 ratemaking purposes; and (c) finding that the earnings rate assumed for the trust  
4 takes into consideration the tax rate change and the removal of the investment  
5 restrictions resulting from the Energy Policy Act of 1992.

6 **Q. How have the requirements for tax qualification changed as a result of the**  
7 **changes to Section 468A?**

8 A. There is no longer a cost of service requirement for tax-qualified funds.  
9 Previously, deposits into a tax-qualified fund were limited by the amount included  
10 in cost of service for ratemaking purposes so long as that amount did not provide  
11 greater than level funding (i.e., not front-loaded). Regarding the allowed level of  
12 funding into a tax-qualified fund, the revised Section 468A only states that “the  
13 amount which a taxpayer may put into the fund for any taxable year shall not  
14 exceed the ruling amount applicable to such taxable year.”

15 **Q. What was the rationale for the elimination of the cost of service**  
16 **requirement?**

17 A. The cost of service requirement was primarily eliminated to allow nuclear owners  
18 in states that now have deregulated generation to maintain the tax-qualified status  
19 of their trust funds in the absence of cost of service-based regulation.

20 **Q. How will the IRS determine the allowable level of funding to a tax-qualified**  
21 **fund if it no longer has a state commission-ordered cost of service amount for**  
22 **decommissioning funding upon which to rely?**

1 A. Because the elimination of the cost of service requirement has only recently  
2 become effective it is not yet evident how the IRS will rule when it does not have  
3 a state commission-ordered funding amount.

4 **Q. Given the elimination of the cost of service requirement for the tax-**  
5 **qualification of the fund, what language would you request that the Board**  
6 **put in its order regarding the amount of decommissioning funding in cost of**  
7 **service for ratemaking purposes?**

8 A. MidAmerican respectfully requests that the Board use the same type of language  
9 in the order approving the decommissioning funding level that was required prior  
10 to the changes to Section 468A. Because of the uncertainty at this time regarding  
11 potential IRS treatment, use of the prior Section 468A language provides the  
12 greatest assurance of continued tax-qualified decommissioning funding.  
13 MidAmerican respectfully requests that the Board provide an order that states the  
14 following:

15 MidAmerican's annual Iowa jurisdictional decommissioning costs  
16 included in the cost-of-service shall be \$1,595,964 divided equally  
17 between the two units commencing on January 1, 2007.  
18

19 **Q. Please explain how the above-mentioned \$6.7 million difference will be used**  
20 **to reduce investment in rate base, if any of that amount remains after rate**  
21 **equalization efforts.**

22 A. I have included a presentation that illustrates how reductions in rate base and the  
23 amortization of a regulatory liability over the life of the proposed project would  
24 be accomplished on confidential Tables 2.1-2(a) through 2.1-2(c) of the  
25 Ratemaking Principles Application. It is MidAmerican's belief that this

1 procedure meets the requirements of the Wind IV Stipulation and is consistent  
 2 with past ratemaking practices of the Board.

**ECONOMIC ANALYSIS FOR THE PROPOSED PROJECTS**

3 **Q. Please describe the results of the Company's analysis of its proposed 75 MW**  
 4 **project as a part of the Wind IV Iowa Projects.**

5 A. At this point, MidAmerican has only identified one site for the Wind IV Iowa  
 6 Projects. This is the 75 MW expansion of the Pomeroy site where 123 MW are  
 7 already being constructed in 2007. As is shown in confidential Table 1 below, the  
 8 test results for this project are negative indicating that, under the assumptions of  
 9 this analysis, retail customers should not need to provide incremental support to  
 10 make this project feasible.

CONFIDENTIAL TABLE 1	
MidAmerican Energy Company Wind IV Iowa Projects 75 MW Pomeroy Expansion Revenue Requirements <sup>\1</sup> (\$ per kWh)	
1	
2	
3	
4	
5	
<sup>\1</sup> These figures come from Confidential Table 2.1-1(c) that has been filed electronically. All figures are in \$/kWh. Line 1 represents the levelized revenue requirement for the project. Line 2 represents the levelized revenue requirement less the Production Tax Credit ("PTC"). Line 3 represents the levelized revenue requirement for the project less the PTC and the CO <sub>2</sub> Credit. Line 4 represents the levelized revenue requirement for the project less the PTC, CO <sub>2</sub> Credit and Capacity Sales. Line 5 represents the levelized revenue requirement for the project less the PTC, CO <sub>2</sub> Credit, Capacity Sales and net system benefits.	

1 **Q. Can you identify the factors in your analysis that are responsible for your net**  
2 **negative dollar per kWh result?**

3 A. The addition of the 75 MW Pomeroy expansion to the MidAmerican portfolio of  
4 generation resources will facilitate additional wholesale capacity and energy sales  
5 as well as production tax credits and benefits from the sale of CO<sub>2</sub> credits that are  
6 expected to more than offset the levelized revenue requirement of the project.

7 Accordingly, MidAmerican's Iowa electric customers are anticipated to receive  
8 net benefits because total project revenues will exceed total project costs.

9 **Q. Please describe the analysis included in the Ratemaking Principles**  
10 **Application for the 465 MW Project X.**

11 A. As MidAmerican witness Budler testifies, at this time MidAmerican does not  
12 have sites or transmission rights for the remaining 465 MWs for which  
13 ratemaking principles are being requested in this proceeding. However, I have  
14 included an analysis for these additional megawatts using costs assumptions  
15 provided by Mr. Budler that suggest that, if Mr. Budler's cost assumptions can be  
16 met, the additional 465 MWs would meet the economic test. These illustrative  
17 results are shown in confidential Table 2.

<b>CONFIDENTIAL</b>				
<b>TABLE 2</b>				
<b>MidAmerican Energy Company</b>				
<b>Illustrative 465 MW Wind Farm</b>				
<b>Revenue Requirements <sup>1</sup></b>				
<b>(\$ per kWh)</b>				
	<b>Base Case</b>	<b>Low Capacity</b>	<b>High Capacity</b>	<b>High CO<sub>2</sub></b>
1	██████	██████	██████	██████
2	██████	██████	██████	██████
3	██████	██████	██████	██████
4	██████	██████	██████	██████
5	██████	██████	██████	██████

<sup>1</sup> These figures come from Confidential Tables 2.1-3(c), 2.1-4(c), 2.1-5(c) and 2.1-6(c) that has been filed electronically. All figures are in \$/kWh.  
 Line 1 represents the levelized revenue requirement for the project.  
 Line 2 represents the levelized revenue requirement less the Production Tax Credit ("PTC").  
 Line 3 represents the levelized revenue requirement for the project less the PTC and the CO<sub>2</sub> Credit.  
 Line 4 represents the levelized revenue requirement for the project less the PTC, CO<sub>2</sub> Credit and Capacity Sales.  
 Line 5 represents the levelized revenue requirement for the project less the PTC, CO<sub>2</sub> Credit, Capacity Sales and net system benefits.

2 **Q. Does the result of your analysis suggest that proceeding with the Wind IV**  
 3 **Iowa Projects should lead to lower retail electric rates than would be the case**  
 4 **in the absence of the Wind IV Iowa Projects?**

5 **A.** Yes. While this conclusion is based upon projections, I believe it is entirely  
 6 consistent with the intent of Iowa's ratemaking principles law.

7 **Q. Please explain.**

8 **A.** Iowa's ratemaking principles law avoids after-the-fact second guessing as to what  
 9 constitutes prudent generation investment. The format agreed upon by the OCA  
 10 and MidAmerican is designed to protect customer interests consistent with

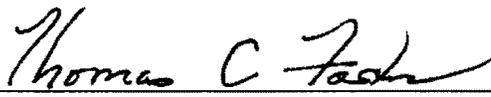
1 providing MidAmerican a reasonable opportunity to recoup the costs of sizable  
2 capital expenditures for new generation.

3 **Q. Does this conclude your direct testimony?**

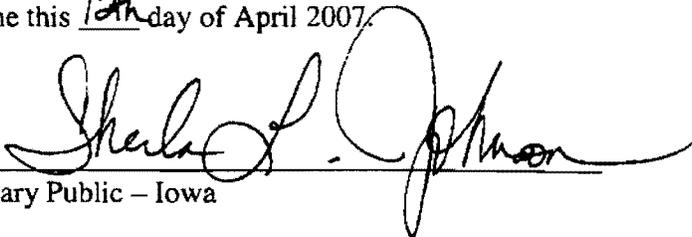
4 **A. Yes, it does.**

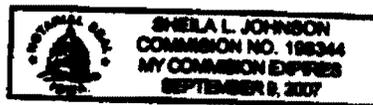
STATE OF IOWA                    )  
                                          ) ss:  
COUNTY OF POLK                )

I, Thomas C. Foster, being first duly sworn, depose and state that the statements contained in the foregoing prepared direct testimony are true and correct to the best of my knowledge, information and belief, and that such prepared direct testimony constitutes my sworn statement in this proceeding.

  
\_\_\_\_\_  
Thomas C. Foster

Subscribed and sworn to before me this 12<sup>th</sup> day of April 2007.

  
\_\_\_\_\_  
Notary Public – Iowa



**MidAmerican Energy Company**  
**Contributions to Quad Cities Station Nuclear Decommissioning Trusts**

IRR: 5.27%

	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Balance Before Earnings</u>	<u>Earnings</u>	<u>Liabilities (Future \$)</u>	<u>Ending Balance</u>	<u>FLOWS for IRR</u>
0 2006						246,888,000	(247,785,982)
1 2007	246,888,000	797,982	247,795,982	13,564,182		261,360,164	(1,595,984)
2 2008	261,360,164	1,595,984	262,956,128	14,384,038		277,350,165	(1,595,984)
3 2009	277,350,165	1,595,984	278,946,129	15,269,319		294,215,449	(1,595,984)
4 2010	294,215,449	1,595,984	295,811,413	16,192,513		312,003,926	(1,595,984)
5 2011	312,003,928	1,595,984	313,599,890	17,168,242		330,786,132	(1,595,984)
6 2012	330,786,132	1,595,984	332,362,086	18,193,273		350,555,369	(1,595,984)
7 2013	350,555,369	1,595,984	352,151,333	19,276,522		371,427,854	(1,595,984)
8 2014	371,427,854	1,595,984	373,023,818	20,419,067		393,442,888	(1,595,984)
9 2015	393,442,888	1,595,984	395,038,850	21,624,155		416,663,005	(1,595,984)
10 2016	416,663,005	1,595,984	418,258,969	22,895,208		441,154,177	(1,595,984)
11 2017	441,154,177	1,595,984	442,750,141	24,235,838		466,985,979	(1,595,984)
12 2018	466,985,979	1,595,984	468,581,943	25,649,853		494,231,796	(1,595,984)
13 2019	494,231,796	1,595,984	495,827,780	27,141,271		522,969,031	(1,595,984)
14 2020	522,969,031	1,595,984	524,564,995	28,714,327		553,279,322	(1,595,984)
15 2021	553,279,322	1,595,984	554,875,286	30,373,492		585,248,778	(1,595,984)
16 2022	585,248,778	1,595,984	586,844,742	32,123,427		618,968,219	(1,595,984)
17 2023	618,968,219	1,595,984	620,564,183	33,969,257		654,533,440	(1,595,984)
18 2024	654,533,440	1,595,984	656,129,404	35,916,072		692,045,476	(1,595,984)
19 2025	692,045,476	1,595,984	693,641,440	37,969,455		731,610,896	(1,595,984)
20 2026	731,610,896	1,595,984	733,206,860	40,135,239		773,342,099	(1,595,984)
21 2027	773,342,099	1,595,984	774,938,083	42,419,577		817,357,640	(1,595,984)
22 2028	817,357,640	1,595,984	818,953,604	43,837,529		862,791,132	(1,595,984)
23 2029	862,791,132	1,595,984	864,387,096	45,223,095		909,610,191	(1,595,984)
24 2030	909,610,191	1,595,984	911,206,155	46,569,470		957,775,625	(1,595,984)
25 2031	957,775,625	1,595,984	959,371,589	47,869,666		1,007,241,255	(1,595,984)
26 2032	1,007,241,255	1,595,984	1,008,837,219	49,116,546	2,465,890	1,055,488,075	1,667,710
27 2033	1,055,488,075	797,980	1,056,286,055	48,869,189	56,209,543	1,046,945,678	56,209,543
28 2034	1,048,945,678		1,048,945,678	48,529,583	136,210,862	961,264,379	136,210,862
29 2035	981,264,379		981,264,379	44,472,980	191,663,780	814,073,579	191,663,780
30 2036	814,073,579		814,073,579	37,683,185	208,959,767	642,776,997	208,959,767
31 2037	642,776,997		642,776,997	29,738,134	195,440,370	477,074,760	195,440,370
32 2038	477,074,760		477,074,760	22,071,905	179,804,651	319,342,015	179,804,651
33 2039	319,342,015		319,342,015	14,774,388	118,720,054	217,396,347	118,720,054
34 2040	217,396,347		217,396,347	10,057,861	61,051,537	166,402,671	61,051,537
35 2041	166,402,671		166,402,671	7,696,634	39,179,703	134,921,602	39,179,703
36 2042	134,921,602		134,921,602	6,242,160	18,158,613	123,005,149	18,158,613
37 2043	123,005,149		123,005,149	5,890,844	14,209,175	114,486,819	14,209,175
38 2044	114,486,819		114,486,819	5,296,743	14,671,706	104,911,856	14,671,706
39 2045	104,911,856		104,911,856	4,853,756	15,545,798	94,219,813	15,545,798
40 2046	94,219,813		94,219,813	4,359,088	16,230,229	82,348,673	16,230,229
41 2047	82,348,673		82,348,673	3,809,868	41,231,178	44,927,363	41,231,178
42 2048	44,927,363		44,927,363	2,078,568	40,658,305	6,347,627	40,658,305
43 2049	6,347,627		6,347,627	283,673	6,641,300	0	6,641,300
					1,355,252,259		

Notes 1 The rate of return to net the trust assets to zero at the end of decommissioning represents a return after-taxes, investment management fees, trustee fees and trading commissions. It represents a full liquidation rate of return.

2 Annual earnings of the trust reflect the allocation of investments among equities and fixed income securities. As decommissioning approaches the asset allocation becomes more heavily weighted to fixed income securities.