

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

May 26, 2006

In Reply Refer To:  
MidAmerican Energy Company  
Docket Nos. ER06-368-000  
ER06-368-001

MidAmerican Energy Company  
401 Douglass Street  
P.O. Box 778  
Sioux City, Iowa 51102

Attention: Ms. Suzan M. Stewart  
Managing Senior Attorney

Reference: Facilities and Operating Agreement for Council Bluffs Energy  
Center Unit 4 Transmission

Dear Ms. Stewart:

1. On December 23, 2005, as amended on March 27, 2006, MidAmerican Energy Company (MidAmerican) filed a Facilities and Operating Agreement for Council Bluffs Energy Center Unit 4 Transmission (Agreement), dated November 17, 2005, between MidAmerican and the other owners of Council Bluffs Energy Center Unit 4 (Council Bluffs 4).<sup>1</sup> The Agreement provides for the rights and responsibilities of the Council Bluffs 4 owners for transmission facilities to accommodate the interconnection and output of Council Bluffs 4,

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<sup>1</sup> The Council Bluffs 4 owners are: MidAmerican; Central Iowa Power Cooperative; the City of Alta, Iowa; the City of Cedar Falls, Iowa; the City of Eldridge, Iowa; the City of Lincoln, Nebraska; the City of Montezuma, Iowa; the City of New Hampton, Iowa; the City of Pella, Iowa; City of Spencer, Iowa; the City of Sumner, Iowa; City of Waverly, Iowa; City of West Bend, Iowa; Corn Belt Power Cooperative and the Municipal Energy Agency of Nebraska.

including construction of facilities that will be jointly owned by the Council Bluffs 4 owners as tenants in common, and certain facilities that are wholly-owned by MidAmerican. MidAmerican requests an effective date of March 1, 2006.

2. MidAmerican states that Council Bluffs 4, a 790 MW coal-fueled steam turbine electric generating facility near Council Bluffs, Iowa, is currently under construction and is expected to become commercially operational in June, 2007. It states that the transmission facilities are needed to deliver power from Council Bluffs 4 to the transmission grid and to enhance reliability of the MidAmerican transmission system in western and central Iowa. MidAmerican states that the agreement is not intended to substitute for, or supplant, a generator interconnection agreement conforming to the *pro forma* Large Generator Interconnection Agreement (LGIA) in MidAmerican's Open Access Transmission Tariff (OATT) and states that an LGIA for Council Bluffs 4 is under development.

3. On February 23, 2006, Commission Staff issued a deficiency letter. MidAmerican filed its response to the deficiency letter on March 27, 2006.

4. Notices of MidAmerican's December 23, 2005 and March 27, 2006 filings were published in the *Federal Register*, 71 Fed. Reg. 1,424 and 71 Fed. Reg. 18,315 (2006), with comments, interventions and protests due on or before January 13 and April 17, 2006, respectively. None were filed.

5. The deficiency letter, among other things, requested that MidAmerican provide additional information, clarifying certain definitions in the Agreement and various components of the formulas for recovery of carrying costs and operation and maintenance costs. In its March 27, 2006 response to Commission Staff's deficiency letter, MidAmerican provides the requested clarification and proposes to revise the Agreement to incorporate such clarification.

6. Section III(A) of Exhibit B of the Agreement provides for MidAmerican to own, but for the Council Bluffs 4 owners to pay for certain network upgrades. Specifically, the Council Bluffs 4 owners would pay for 19.42 percent of the costs of the new Booneville-Norwalk 161 kV line including line terminals at Booneville and Norwalk substations, representing the costs to accelerate the timeline for construction of these facilities from a previously planned completion date of 2010 to the in-service date of Council Bluffs 4. MidAmerican states that the timeline acceleration is solely due to the Council Bluffs 4 project, and, but for the Council Bluffs 4 project, the costs would not occur.

7. Addressing whether the assignment of the costs of network upgrades under the Agreement would violate the Commission's "or" pricing policy,<sup>2</sup> MidAmerican requests that the issue of "and" pricing be deferred to filings that involve transmission service pricing, which it states is outside the scope of this filing. It asserts that the Agreement is limited to the allocation of costs of certain facilities and is an inappropriate mechanism for the examination of "and" pricing for transmission service. According to MidAmerican, nothing in the Agreement prevents a customer from receiving appropriate credits against its transmission service charges based on its investment in MidAmerica's transmission system, and any challenge to "and" pricing can be raised by any owner when its transmission service agreement is filed with the Commission. MidAmerican also explains that the Council Bluffs 4 owners are a mix of entities comprised of network integration transmission service and point-to-point transmission service customers under the MidAmerican OATT, and some owners that will use their own transmission to deliver their share of the output of Council Bluffs 4 directly to their systems without requiring transmission service under the MidAmerican OATT. MidAmerican adds that all of its network integration transmission service customers are able to roll the cost of their investment in MidAmerican's transmission into MidAmerican's OATT rates, and thereby obtain a full revenue credit for their investment in MidAmerican's transmission system against their network transmission service charges.

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<sup>2</sup> Under the Commission's electric transmission pricing policy, under no circumstances may a non-independent transmission provider charge a transmission customer both the incremental cost of network upgrades that would not have been incurred but for the customer's requested service, and an embedded cost rate associated with existing network transmission facilities; that is "and" pricing. However, the transmission provider may charge the higher of the incremental cost or the embedded cost rate, so-called "or" pricing. *See Inquiry Concerning the Commission's Pricing Policy for Transmission Services Provided by Public Utilities Under the Federal Power Act, Policy Statement*, FERC Stats & Regs. ¶ 31,005 at 31,137-38 (1994), order on reconsideration, 71 FERC ¶ 61,195 (1995). *See also Standardization of Generator Interconnection Agreement and Procedures*, Order No. 2003, 68 Fed. Reg. 49,845 (Aug. 19, 2003), FERC Stats. & Regs. ¶ 31,146 (2003), *order on reh'g*, Order No. 2003-A, 69 Fed. Reg. 15,932 (Mar. 26, 2004), FERC Stats. & Regs. ¶ 31,160 at P 579-590, 612-22 (2004), *order on reh'g*, Order No. 2003-B, 70 Fed. Reg. 265 (Jan. 4, 2005), FERC Stats. & Regs. ¶ 31,171 (2004), *order on reh'g*, Order No. 2003-C, 70 Fed. Reg. 37,661 (June 30, 2005), FERC Stats. & Regs. ¶ 31,190 (2005).

8. We disagree with MidAmerican that it is inappropriate to address transmission service pricing in our review of the Agreement. The Commission allows transmission owners to charge upfront for network upgrades required for generator interconnections in construction and interconnection agreements. However, the Commission requires that such construction and interconnection agreements include provisions for credits for the cost such upgrades originally funded by the customer, plus interest, on a dollar-for-dollar basis against the non-usage sensitive portion of charges for transmission service taken by the customer to deliver the output from the generator. This ensures that the customer is not subject to “and” pricing when it takes delivery service for the output of the generating facility. Accordingly, we will require MidAmerican to amend the Agreement to include provisions for transmission service credits for the costs of network upgrades funded by the Council Bluffs 4 owners under Section III(A) of Exhibit B of the Agreement.

9. Further, the Commission requires interconnection and other agreements providing for transmission facilities service that are filed with the Commission to be done so as service agreements under the applicable OATT.<sup>3</sup> Accordingly, we will also require that MidAmerican designate the Agreement as a service agreement under its OATT.

10. We find the proposed Agreement, with the revisions proposed in MidAmerican’s response to the deficiency letter, and subject to the modifications discussed above, is just and reasonable. Accordingly, we accept it for filing, effective March 1, 2006, subject to MidAmerican filing a revised Agreement within 60 days of the date of this order that incorporates the clarification provided in response to questions 2 through 11 of the deficiency letter, includes provisions for transmission service credits as discussed above, and designates the Agreement as a service agreement under MidAmerican’s OATT.

By direction of the Commission.

Magalie R. Salas,  
Secretary.

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<sup>3</sup> *Southwest Power Pool, Inc.*, 92 FERC ¶ 61,109 (2000).