FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. FA19-2-000
July 2, 2020

MidAmerican Energy Company
Attention: Thomas B. Specketer
Vice President and Chief Financial Officer
666 Grand Avenue, Suite 500
Des Moines, IA 50309

Dear Mr. Specketer:

1. The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed an audit of MidAmerican Energy Company (MEC). The audit covered the period from January 1, 2016 through December 31, 2019.

2. The audit evaluated MEC's compliance with: (1) approved terms, rates, and conditions of its transmission formula rate mechanism as provided in Attachment O of the Midcontinent Independent System Operator, Inc.'s Open Access Transmission, Energy and Operating Reserve Markets Tariff, and other jurisdictional rates on file with the Commission; (2) the accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101; (3) the reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report, under 18 C.F.R. § 141.1; and (4) requirements in Preservation of Records of Public Utilities and Licensees at 18 C.F.R. Part 125. The enclosed audit report contains one finding and four recommendations that require MEC to take corrective action.

3. On June 19, 2020, you notified DAA that MEC accepts the one finding and four recommendations in the draft audit report and will submit within 30 days of the issuance of the final audit report a plan for implementing the audit recommendations. A copy of your verbatim response is included as an appendix to this report. I hereby approve the audit report.

4. MEC should submit its implementation plan to comply with the recommendations within 30 days of this letter order. MEC should make quarterly submissions to DAA describing the progress made to comply with the recommendations, including the completion date for each corrective action. As directed by the audit report, these submissions should be made no later than 30 days after the end of each calendar quarter, beginning with the first quarter after this audit report is issued, and continuing until all the corrective actions are completed.

5. The Commission delegated the authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311. This letter order constitutes final agency action. MEC may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713.

6. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of non-compliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

7. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Mr. Steven D. Hunt, Director and Chief Accountant, Division of Audits and Accounting at (202) 502-6084.

Sincerely,

Larry R. Parkinson

Larry R. Parkinson
Director
Office of Enforcement

Enclosure

Federal Energy Regulatory Commission
Office of Enforcement
Division of Audits and Accounting

Audit Report

Audit of MidAmerican Energy Company's Compliance with:

- The Transmission Formula Rate Mechanism in Attachment O of the MISO Open Access Transmission Tariff;
- Commission Accounting Requirements Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101;
- Reporting Requirements of the FERC Form No. 1 and Supplemental Form 3-Q under 18 C.F.R. Part 141.1; and
- Record Retention Requirements in Preservation of Records of Public Utilities and Licensees at 18 C.F.R. Part 125.

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I. Executive Summary

A. Overview

The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed an audit of MidAmerican Energy Company (MEC). The audit evaluated MEC's compliance with (1) approved terms, rates, and conditions of its transmission formula rate mechanism as provided in Attachment O of the Midcontinent Independent System Operator, Inc.'s (MISO) Open Access Transmission, Energy and Operating Reserve Markets Tariff (OATT), and other jurisdictional rates on file with the Commission; (2) the accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees (USofA) under 18 C.F.R. Part 101; (3) the reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report, under 18 C.F.R. § 141.1; and (4) requirements in Preservation of Records of Public Utilities and Licensees at 18 C.F.R. Part 125. The audit covered the period January 1, 2016 to December 31, 2019.

B. MidAmerican Energy Company

MEC is an investor-owned electric and natural gas utility company, with electric transmission operations located in the MISO footprint. Headquartered in Des Moines, Iowa, MEC provides retail electric service in Iowa, Illinois, and South Dakota and retail natural gas service in Iowa, Illinois, South Dakota, and Nebraska. MEC's electric transmission operations are governed by MISO's OATT.

C. Summary of Compliance Finding

Audit staff's compliance finding is summarized below. Section IV of this report contains a detailed discussion of the finding and related impacts. Audit staff found one area of noncompliance:

- MEC improperly recorded a transaction related to compromise settlements in Account 920, Administrative and General Salaries, instead of Account 426.5, Other Deductions. As a result, MEC included approximately $11,000 in its formula rate computation, and the revenue requirement, used to set rates for wholesale customers, was overstated.

D. Summary of Recommendations and Corrective Actions Taken

Audit staff's recommendations to remedy the finding are summarized below. Section IV contains detailed recommendations for the finding. MEC will need to implement corrective actions to address these four recommendations:

1. Strengthen processes and procedures to ensure that MEC properly records compromise settlement amounts in accordance with Accounting Release AR-12.

2. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculations of the refunds resulting from the inclusion of compromise settlement amounts in the rates of MEC, plus interest; (2) determinative components of the refund; (3) refund method; (4) customers to receive refunds; and (5) period(s) in which refunds will be made.

3. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

4. Refund the amounts disclosed in the refund report to wholesale customers, with interest calculated in accordance with section 35.19a of the Commission's regulations.

E. Compliance and Implementation of Recommendations

Audit staff further recommends that MEC submit for audit staff's review:

- A plan for implementing audit staff's recommendations. MEC should provide this plan to DAA within 30 days after the final audit report is issued.

- Quarterly reports to DAA describing MEC's progress in implementing each corrective action recommended in the final audit report. MEC should make these nonpublic quarterly filings no later than 30 days after the end of each calendar quarter, beginning with the first quarter after submission of the implementation plan, and continuing until MEC completes all recommended corrective actions.

- Copies of any written policies and procedures developed in response to the recommendations in the final audit report. These documents should be submitted for audit staff's review in the first quarterly filing after MEC completes a written policy or procedure.

II. Background

A. MidAmerican Energy Company

MEC is a public utility with electric and natural gas operations and is the principal subsidiary of MHC Inc. (MHC). MHC is a holding company that conducts no business other than the ownership of its subsidiaries and the provision of related corporate services. MHC's nonregulated subsidiaries include Midwest Capital Group, Inc. and MEC Construction Services Co. MHC is the direct wholly owned subsidiary of MidAmerican Funding, LLC, (MidAmerican Funding), which is an Iowa limited liability company with Berkshire Hathaway Energy Company (BHE) as its sole member. BHE is a holding company based in Des Moines, Iowa that owns subsidiaries principally engaged in energy businesses.

MEC’s transmission and distribution systems include 4,000 miles of transmission lines in four states, 38,300 miles of distribution lines, and 380 substations. MEC serves over 783,000 electric and 765,000 natural gas customers in Iowa, Illinois, South Dakota, and Nebraska, an area covering over 11,000 square miles. MEC also owns or contracts for approximately 11,188 MW of generation capacity. Approximately 75 percent of MEC’s revenues is derived from electric operations, while approximately 25 percent of MEC’s revenues is derived from gas operations, when both wholesale and retail revenues are combined.

In addition to making retail sales of electricity and natural gas, MEC sells electricity at wholesale, principally in markets operated by Regional Transmission Organizations, and sells natural gas on a wholesale basis to other utilities and market participants. MEC is a transmission owning member of MISO, and participates in MISO’s capacity, energy, and ancillary services markets.

B. Transmission Formula Rate and Transmission Incentives

MEC’s electric transmission operations are located within MISO’s footprint, and MEC’s wholesale transmission revenues are calculated according to MEC’s formula rate found in Attachment O of the MISO OATT. Pursuant to Section VI of MEC’s formula rate protocols, which are also set forth in Attachment O of the MISO OATT, MEC submits annual informational filings to the Commission by March 15 of each year. The informational filings show MEC’s projected net revenue requirements that are effective January 1 of each rate year. These filings also contain supporting documentation and workpapers for inputs not included in the FERC Form No. 1 to support projected costs. MEC’s annual true-up must be posted on MISO’s website and MISO’s Open Access Same-time Information System by June 1 of each year. By September 1 of each year, MEC submits its initial projected net revenue requirement for the following year to

MISO, and interested parties have the ability to submit information requests. MEC is required to make a good faith effort to respond to all requests within 15 business days. After that period, interested parties can make informal challenges, and MEC is required to make a good faith effort to respond to the challenges within 20 days, followed by the ability for interested parties to make formal challenges with the Commission. This timeline repeats each year. Additionally, MEC is authorized to participate in the Southwest Power Pool, Inc. and PJM Interconnection, L.L.C. markets and can contract with several other major transmission-owning utilities in the region.

On October 28, 2011, MEC and MISO filed with the Commission proposed revisions to MISO's OATT to allow MEC to recover certain transmission rate incentives, pursuant to section 219 of the Federal Power Act and Order No. 679. MEC requested approval to include 100 percent of prudently incurred Construction Work in Progress in its rate base and to recover 100 percent of prudently incurred costs of transmission facilities that were cancelled or abandoned for reasons beyond MEC's control. MEC also requested authorization to use a forward-looking formula rate mechanism in connection with four new transmission projects, the Sheldon-Webster Project, the Hampton-Blackhawk Project, the Oak Grove-Galesburg Project, and the Ottumwa-Adair Project (collectively known as Multi-Value Projects). The Commission approved MEC's requests and granted the transmission rate incentives with an effective date of January 1, 2012.[1]

C. Berkshire Hathaway Energy Inc.

BHE is a holding company that owns a diversified portfolio of locally managed businesses principally engaged in the energy industry, and is a consolidated subsidiary of Berkshire Hathaway Inc. BHE has a portfolio of over $90 billion of assets, which includes its Commission-regulated entities,[2] and serves over 11.8 million electric and gas customers.

BHE's operations are organized as eight business segments: PacifiCorp; MidAmerican Funding (which primarily consists of MEC); NV Energy (which primarily consists of Nevada Power Company and Sierra Pacific Power Company); Northern Powergrid (which primarily consists of Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc); BHE Pipeline Group (which consists of Northern

[1] *See MidAmerican Energy Company*, Order on Transmission Rate Incentives and Formula Rate Proposal, 137 FERC ¶ 61,250 (2011).

[2] The BHE Commission-regulated entities are PacifiCorp, MEC, NV Energy, Northern Natural Gas Company, Kern River Gas Transmission Company, and BHE U.S. Transmission.

Natural Gas Company and Kern River Gas Transmission Company); BHE Transmission (which consists of AltaLink and BHE U.S. Transmission); BHE Renewables; and HomeServices of America. BHE, through these locally managed and operated businesses, owns four utility companies in the United States serving customers in 11 states, two electricity distribution companies in Great Britain, two interstate natural gas pipeline companies in the United States, an electric transmission business in Canada, interests in electric transmission businesses in the United States, a renewable energy business primarily investing in wind, solar, geothermal, and hydroelectric projects, the second largest residential real estate brokerage firm in the United States, and one of the largest residential real estate brokerage franchise networks in the United States.

D. Accounting Systems

MEC uses the Oracle Financials E-Business Suite of applications for the majority of its accounting systems. This includes MEC's General Ledger, Accounts Payable, Purchasing, Inventory, Procurement, Expenses, and Sales Orders. In addition to the Oracle applications, MEC has other applications that interface with the Oracle applications, such as the Cyborg Human Resources System (which MEC used until replacing it in 2019 with Oracle's ACCERO payroll and human resources system, a work management system where work orders are defined and flow into other systems) and the Hyperion Financial Management Consolidation System, in which financial information is consolidated.

The majority of MEC's plant information is housed in MEC's PowerPlant Asset Management System (PowerPlant). This system includes the calculation of Allowance for Funds Used During Construction (AFUDC) and depreciation. It also includes a comprehensive on-line unit catalog, support for automatic and window-driven closing and unitization, specific and mass assets, the tracking of overheads and other costs by retirement unit, and a full audit trail for all plant transactions. PowerPlant can automatically calculate reserve transactions with transfers and perform partial, full, or group retirements, transfers, and adjustments.

III. Introduction

A. Objectives

The audit evaluated MEC's compliance with: (1) approved terms, rates, and conditions of its transmission formula rate mechanism as provided in Attachment O of the MISO's OATT, and other jurisdictional rates on file with the Commission; (2) the accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101; (3) the reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report, under 18 C.F.R. § 141.1; and (4) requirements in Preservation of Records of Public Utilities and Licensees at 18 C.F.R. Part 125. The audit covered the period January 1, 2016 to December 31, 2019.

B. Scope and Methodology

Audit staff performed the following actions to facilitate the testing and evaluation of MEC's compliance with Commission requirements relevant to the audit objectives:

General

- *Review of Public Information* – Reviewed publicly available information relating to MEC's operations, structure, history, regulatory oversight, tariff, and other pertinent business and regulatory aspects before commencing the audit on November 1, 2018. Materials reviewed included MEC's FERC Form No. 1 filings, other filings, and relevant Commission orders; MEC's corporate website; trade and industry press; and news articles.

- *Conferring with Commission Staff* – Conferred with Commission staff in the Office of Energy Market Regulation and the Office of General Counsel to ensure that audit report findings were consistent with Commission precedent and policy.

- *Regulatory Standards and Criteria* – Identified regulatory requirements and criteria to evaluate MEC's compliance with audit objectives. These requirements and criteria included the rates, terms, and conditions in MEC's transmission tariff, Commission accounting and reporting requirements in 18 C.F.R. Parts 101 and 141, and Commission rules, regulations, letter orders, and other requirements for jurisdictional public utilities. This review also included MEC's rate and accounting filings to understand the nuances of MEC's rates and jurisdictional operations.

- *Data Requests* – Issued formal data requests to obtain information and audit evidence. Information requested included MEC's internal policies and procedures, financial accounting data, information supporting amounts and disclosures in MEC's FERC and MISO filings, internal and external audit reports, Board of Directors and Audit Committee meeting minutes, corporate compliance program documents, and other pertinent information not publicly available.

- *Site Visit to MEC Headquarters* – Conducted a site visit to MEC's corporate headquarters to discuss, observe, and evaluate MEC's procedures, practices, and controls intended to ensure compliance with Commission regulations. The visit enabled audit staff to:

    - Discuss MEC's corporate structure, departmental functions, and employee responsibilities, and meet with key Company officials;

    - Learn about MEC's transmission system and operations – in particular, the assets, departments, activities, functions, systems, and processes used in its operations;

    - Interview executives, managers, and staff responsible for accounting, financial reporting, transmission operations, and corporate compliance;

    - Review Board of Directors and Audit Committee meeting minutes and internal and external audit reports;

    - Discuss management and operation of MEC's corporate compliance program;

    - Discuss and observe internal accounting and reporting procedures, processes, and controls relevant to audit scope; and

    - Discuss MEC's preservation of records policies, procedures, and practices.

- *Interviews and Meetings* – Held an opening conference with MEC to discuss audit objectives, scope, and process. Likewise, held a closing conference about fieldwork completion and the extent of audit findings and recommendations. Conducted regular phone conferences and interviews with MEC employees to discuss technical and administrative matters relevant to the audit.

- *Audit Testing* – Evaluated MEC's compliance with the Commission's accounting and financial reporting requirements, and MEC's wholesale transmission formula rate tariff by evaluating, on a test basis, evidence supporting the amounts used in the determination of rates billed to wholesale transmission customers and MEC's operational processes for implementing the requirements of the formula rate.

Accounting, Recordkeeping, and Financial Reporting

- *Accounting Processes and Procedures* – Evaluated MEC's accounting processes, procedures, and internal controls used to comply with Commission accounting regulations under 18 C.F.R Part 101. Held discussions with and interviewed MEC employees regarding accounting practices, adherence to MEC accounting policies and procedures, system processes used for FERC accounting, and internal controls intended to achieve compliance with FERC accounting regulations.

- *Accounting Systems* – Reviewed MEC's accounting systems used to capture, manage, and retain financial information, including the general ledger, work order systems, expenses and billing systems, and other key processes. Examined the systems' ability to capture transactions consistently to ensure information reported in financial statements and other reports was accurate and complete.

- *Significant Accounting Matters* – Tested select balance sheet and income statement accounts to determine whether the nature of the costs recorded in those accounts complied with the USofA under 18 C.F.R. Part 101. Below are examples of significant accounting matters examined:

    - *Construction Work in Progress* (*CWIP)/Transmission Incentives* – Reviewed capital work orders to understand the nature of each project, the inclusion or exclusion of each project in rate base and in MISO's Transmission Expansion Plan, and MEC's controls for ensuring that AFUDC is not accrued on CWIP projects included in rate base. Examined select work orders to determine the types of costs included in construction project work orders.

    - *Allowance for Funds Used During Construction* (*AFUDC*) – Reviewed MEC's AFUDC calculations for compliance with Commission requirements.

  - *Rate Base* – Reviewed the additions and retirements to plant as a major component of rate base. Additionally, reviewed the various accounts included in working capital to test for the accuracy of accounting and reporting.

  - *Taxes* – Reviewed and tested the current and deferred tax computations to ensure that the correct amounts were recorded in the appropriate accounts. Tested the functionalization of the various items driving the deferred tax balances and evaluated their impact on the formula rate. In addition, reviewed and ensured that the impacts of the 2017 Tax Cuts and Jobs Act was properly implemented and factored into MEC's ratemaking procedures.

  - *Affiliate Transactions* – Reviewed transactions with MEC and its affiliates, as shown on Page 429 of the Company's FERC Form No. 1, to evaluate whether proper pricing and accounting were used.

- *Variance Analysis* – Performed variance analyses for accounts reported in the FERC Form No. 1 by investigating accounts with large balances, unusual activity, and/or significant year-to-year fluctuations. Followed up with MEC on each account fluctuation to understand the nature of the fluctuation and, where necessary, obtain additional information and support.

- *Review of Notes to Financial Statements* – Reviewed the Notes to Financial Statements beginning on page 123.1 of the FERC Form No. 1 for significant accounting matters and followed up with MEC on these matters to understand financial statements and transmission formula rate implications, if any.

<u>Transmission Formula Rate</u>

To evaluate MEC's compliance with terms and conditions of its FERC formula rate mechanism, audit staff:

- Evaluated MEC's compliance with its transmission cost-of-service formula rate and the related Protocols set forth in Attachment O to MISO's OATT, including MEC's filings containing inputs to the formula rate.

- Reviewed initial and all subsequent Commission orders relating to the formula rate, including MEC filings and orders approving related settlements.

- Determined the level of functionalization amongst the various operating arms of the Company. Evaluated the accuracy of allocation factors, return on equity, rate base, accumulated depreciation, and other costs included in the revenue requirement.

- Reviewed supporting documentation about specific cost treatment, deferrals, cost caps, disallowances, and other matters disclosed as part of approving the derivation of the formula rate.

- Evaluated processes, procedures, and controls used to prepare and review the formula rate and annual updates, true-ups, or informational filings associated with the formula rate.

- Reviewed formula rate mechanics (forward-looking, historical, true-up, and informational filings), including a comprehensive overview of the formula rate mechanism that the Company provided.

- Evaluated MEC's FERC Form No. 1 reporting processes and procedures to test the accuracy and completeness of MEC's reporting. As part of this evaluation, audit staff reconciled FERC Form No. 1 data with formula rate calculations and reviewed all discrepancies.

- Reviewed MEC's FERC Form Nos. 1 and 3-Q filings, including related notes to financial statements, to identify major accounting matters. Audit staff highlighted significant notes to understand financial statement and formula rate implications and identified underlying accounting entries for these significant accounting matters.

- Reviewed the allocation factors used by MEC to derive customers' billing rates to test whether correct allocation factors had been applied. As part of this review, audit staff verified a sample of components from allocation factors by reconciling balances back to the FERC Form No. 1.

- Evaluated whether MEC applied formula rate inputs in compliance with rate approval orders.

- Reconciled formula rate inputs derived from the FERC Form No. 1 to MEC's books and records. Evaluated compliance with the USofA for the inputs under review, including all related guidance and accounting releases and accounting treatment of input items.

- Evaluated various MEC accounts incorporated into MEC's cost-of-service formula rate mechanism for compliance with relevant accounting regulations in the USofA.

IV. Finding and Recommendations

1. Accounting for Compromise Settlements

MEC improperly recorded a transaction related to compromise settlements in Account 920, Administrative and General Salaries, instead of Account 426.5, Other Deductions. As a result, MEC included approximately $11,000 in its formula rate computation, and the revenue requirement used to set rates for wholesale customers was overstated.

Pertinent Guidance

- Accounting Release AR-12,[3] effective February 1, 1980, discusses expenses "resulting from employment practices that were found to be discriminatory by a judicial or administrative decree or that were the result of a compromise settlement or consent decree,"[4] stating:

> The Uniform System of Accounts provides that all charges to utility operating expense accounts must be just and reasonable. Expenditures of the nature mentioned above [i.e., relating to employment practices found to be discriminatory] that can be readily identified and quantified should not be considered as just and reasonable charges to utility operations and should be classified to the appropriate nonoperating expense accounts.
>
> Types of expenditures usually related to discriminatory employment practices may include, but are not limited to, the following:
>
> 1. fines or penalties related to judicial or administrative decree imposed by governmental authorities,

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[3] Accounting releases are informal interpretations of the USofA to be followed in the absence of specific reference to prescribed accounting regulations and other Commission decisions. These interpretations express the views of the Chief Accountant as to the correct application of the provision of the USofA that the Commission has prescribed. As provided for in General Instruction No. 5 in the USofA, these interpretations do not preclude any company from submitting questions of doubtful interpretations to the Commission on matters dealt with in accounting releases.

[4] Accounting Release AR-12, Discriminatory Employment Practices (Feb. 1, 1980), *available at* www.ferc.gov/enforcement/acct-matts/docs/ar-12.asp (Accounting Release AR-12).

2. legal fees reimbursed to the plaintiffs,

3. in-house and outside legal costs in unsuccessful defense against charges of discriminatory practices,

4. damage awards to plaintiffs,

5. duplicate labor costs, such as back pay, bonus or other pay awards to plaintiffs where other employees have already been paid by the utility for prior services, and

6. cost of reporting, training and recruiting undertaken as a result of a court order, administrative decree or settlement which are in addition to those which otherwise would be incurred to assure continuing equal employment opportunity.

7. fines or penalties are to be recorded in Account 426.3, Penalties, and all other costs are to be recorded in Account 426.5, Other deductions.[5]

Background

Audit staff discovered that, in 2016, MEC reached a compromise settlement involving a claim of employment discrimination in which it agreed to pay the opposing party a sum of money based on three items. One of those items was attributed to back pay. MEC recorded approximately $11,000 related to back pay in Account 920 because of a coding error which labeled the entry as ordinary compensation. MEC viewed this amount as ordinary compensation due to the fact that these amounts were taxable as ordinary income. In this case, the back pay was a result of a settlement that resolved an employment discrimination claim and should have followed the accounting treatment for such settlement amounts.

MEC's accounting for these expenditures was not consistent with the Commission's accounting requirements. Accounting Release AR-12 requires companies to classify in Account 426.5 expenses "resulting from employment practices that were found to be discriminatory by a judicial or administrative decree or that were the result of a compromise settlement or consent decree." MEC improperly classified these expenditures in a general and administrative account, specifically Account 920. The improper accounting resulted in the improper recovery of these expenditures from MEC's wholesale transmission customers.

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[5] Accounting Release AR-12.

Recommendations

We recommend that MEC:

1. Strengthen processes and procedures to ensure that MEC properly records compromise settlement amounts in accordance with Accounting Release AR-12.

2. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculations of the refunds resulting from the inclusion of compromise settlement amounts in the rates of MEC, plus interest; (2) determinative components of the refund; (3) refund method; (4) customers to receive refunds; and (5) period(s) in which refunds will be made.

3. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

4. Refund the amounts disclosed in the refund report to wholesale customers, with interest calculated in accordance with section 35.19a of the Commission's regulations.

V. MidAmerican Energy Company's Response to Draft Audit Report

MIDAMERICAN ENERGY COMPANY
Obsessively, Relentlessly At Your Service

MidAmerican Energy Company
666 Grand Avenue
P.O. Box 657
Des Moines, IA 50306-0657

June 19, 2020

Steven D. Hunt
Director and Chief Accountant
Division of Audits and Accounting
Office of Enforcement
Federal Energy Regulatory Commission
888 First Street NE, Room 5K-13
Washington, DC 20426

RE: Docket No. FA19-2-000

Dear Mr. Hunt:

Enclosed is MidAmerican Energy Company's ("MEC") response to the Draft Audit Report of MidAmerican Energy Company, including its compliance with: (1) approved terms, rates, and conditions of its transmission formula rate mechanism as provided in Attachment O of the Midcontinent Independent System Operator, Inc.'s Open Access Transmission, Energy and Operating Reserve Markets Tariff, and other jurisdictional rates on file with the Commission; (2) the accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101; (3) the reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report, under 18 C.F.R. § 141.1; and (4) requirements in Preservation of Records of Public Utilities and Licensees at 18 C.F.R. Part 125 ("Draft Report") issued to MEC on June 4, 2020.

We appreciate the opportunity to comment on the Draft Report and agree with the findings and recommendations. MEC will submit its implementation plan within thirty days of issuance of the final report. On behalf of MEC, I would like to thank the audit staff for their professionalism throughout the course of the audit. MEC takes its compliance obligations very seriously, and we have used the feedback received from the audit to further improve our compliance processes. Should you have further questions, please do not hesitate to contact me at (515) 281-2979.

Best Regards,

Tom Specketer
Vice President and Chief Financial Officer
MidAmerican Energy Company
4299 Northwest Urbandale Drive
Urbandale, IA 50322

Attachment

1. MEC improperly recorded a transaction related to compromise settlements in Account 920, Administrative and General Salaries, instead of Account 426.5, Other Deductions. As a result, MEC included approximately $11,000 in its formula rate computation, and the revenue requirement, used to set rates for wholesale customers, was overstated.

   Response:

   MEC agrees with the finding.

2. Strengthen processes and procedures to ensure that MEC properly records compromise settlement amounts in accordance with Accounting Release AR-12.

   Response:

   MEC agrees with the recommendation and we are updating our accounting policies to specifically address the proper classification of compromise settlements to Account 426.5. In addition, we will require accounting review and sign off of all compromise settlements prior to payment.

3. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculations of the refunds resulting from the inclusion of compromise settlement amounts in the rates of MEC, plus interest; (2) determinative components of the refund; (3) refund method; (4) customers to receive refunds; and (5) period(s) in which refunds will be made.

   Response:

   MEC agrees with the recommendation and will submit a detailed refund analysis within 60 days of receiving the final audit report. MEC has completed a preliminary refund analysis and determined that its 2016 Attachment O (used for setting rates for service in the MidAmerican pricing zone) revenue requirement was overstated by $517 and Attachment MM (used for allocating MEC's regional transmission costs) revenue requirement was overstated by $150. It is notable that approximately 4% of MEC's 2016 Attachment O revenue requirement was allocated to wholesale customers; therefore approximately $21 of the Attachment O over-collection was paid by wholesale customers. In addition, MEC is allocated a share of its Attachment MM revenue requirement such that about $143 of the Attachment MM over-collection was allocated to other retail loads across the MISO footprint.

4. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

   Response:

   MEC agrees with the recommendation and a refund report will be filed with the Commission after receiving DAA's assessment of the refund analysis.

5. Refund the amounts disclosed in the refund report to wholesale customers, with interest calculated in accordance with section 35.19a of the Commission's regulations.

   Response:

   MEC agrees with the recommendation, and if a refund is determined to be required after DAA's assessment of the refund analysis, amounts disclosed in the refund report will be refunded to wholesale customers, with interest.