one-third or fewer of those eligible will take the service. This information provides an indication that the numbers of customers that will take a permanent small volume transportation service will likely not be so great as to have a significant financial impact on MidAmerican or IPL and certain conditions can be placed on the service that should alleviate any remaining risk to the utilities. The primary proposed limitation would be a cap on the number of customers who can switch to the service. Imposition of a cap on the number of customers will limit the need for significant increases in expenditures by the utilities associated with the service and should reduce most of the potential financial risk that may exist. This incremental approach will also reduce the possibility of unforeseen circumstances causing significant adverse effects on PGA customers.

MidAmerican and IPL provided information regarding when the number of customers taking the service would require significant additional expenditures that provides a starting point for setting caps. MidAmerican indicated in the response to the Board's February 15, 2007, order that the total number of small volume transportation customers it could serve without adding additional staff would be approximately 1,000 customers. If staff additions were made, MidAmerican's existing billing system is projected to be able to handle about 5,000 small volume transportation customers. MidAmerican indicated in earlier filings that billing system changes would cost at least $1 million.

In response to the February 15, 2007, order, IPL indicated that it believes it could handle two to three times the number of accounts it currently has enrolled in

the pilot project without a significant increase in costs. This assumes the new accounts would be similar in size to those currently taking service under the pilot.

Over the years of the pilot projects, MidAmerican and IPL should have accumulated enough information about how each pilot project has operated to address any problems with the components to be included in a permanent service. MidAmerican and IPL have been providing the service since 1998 and have made adjustments to the service over the years. There may be issues concerning the proper rates to be charged for the service, however, there is little evidence in the information presented to the Board in this docket that approval of small volume transportation service will have a significant adverse effect on MidAmerican or IPL.

One of MidAmerican's primary objections to a permanent service is that its monthly customer usage forecasts are not very accurate. MidAmerican made the choice to forecast the usage for customers under the pilot project, rather than allowing each customer to forecast its own usage. Since MidAmerican decided to perform the forecasting, it has had sufficient opportunity to refine its forecasting over the years since 1998. MidAmerican's latest filing, on June 25, 2007, purports to show that the forecast causes a daily imbalance of between 15 and 19 percent. To address this problem going forward, MidAmerican can either improve the forecasting methodology to reduce the potential for significant imbalances or it can allow small volume transportation customers to forecast their own usage.

The Board is not persuaded by MidAmerican's suggestion that the Board should wait for the cost of telemetry equipment to decline to where it makes purchasing the telemetry equipment an option for small volume transportation customers. If and when this occurs, MidAmerican can make the necessary filing to have the Board reconsider this issue. The Board is unwilling to put a decision on the issue of a permanent small volume transportation service on hold for a future event that is uncertain, at best.

The participation level under the pilot projects indicates that many, but not all, small volume customers are interested in small volume transportation service. In the absence of countervailing factors, it is generally in the public interest to supply customers with the services they want, so long as other customers are not harmed by doing so. Here, based on nearly ten years' experience with the pilot projects, it should be possible to design a small volume transportation service offering that benefits the customers who opt to use it without adversely affecting other customers.

The obligation to serve will remain in effect and IPL and MidAmerican will continue to serve as the provider of last resort. Therefore, they will be required to provide service to small volume transportation customers electing to return to system service and to provide service to small volume transportation customers in the event they experience a supply failure. Small volume customers do not have the resources to maintain backup service and are not in a position to protect themselves from failure of supply. As recognized by the Board over the years, small volume customers are less able to protect themselves in case of failure of supply and so should be allowed to return to system gas with certain reasonable restrictions. In addition, the tariffs can be structured to limit the risk of sudden shifts of customers from transportation back to system gas service.

The Board previously addressed the issue of the utility's obligation as the provider of last resort in the "Order Adopting Amendments" issued February 19, 2001, in Docket No. RMU-00-07, In re: Natural Gas Market Certification. In that docket and in the "Order Adopting Amendments" issued April 8, 2004, in Docket No. RMU-03-6, the Board stated that the utility has the obligation to supply gas to small volume transportation customers who wish to return to system gas or who wish to continue to transport and experience supply failure. Therefore, this issue had been addressed and resolved before the settlement was approved in Docket No. SPU-04-1. In addition, MidAmerican and IPL have in place tariffs that establish replacement costs to be paid when small volume transportation customers lose their supply. These tariffs were filed as required in 199 IAC 19.14(6)"g" and were approved by the Board in 2003 when Docket No. NOI-98-3 was closed. They are intended to recover costs associated with procuring short-term emergency supply and should not affect PGA customers.

As indicated earlier, reasonable conditions can be placed in permanent tariffs to limit when and under what conditions a small volume transportation customer may switch back to system gas. PGA customers can also be protected by reasonable small volume transportation switching conditions in permanent tariffs. The Board considers these protections sufficient to protect PGA customers from existing risks of significant cross-subsidization. Removal of the provider of last resort requirement would be a substantial barrier that would prevent many small volume customers from transporting gas.

Finally, the Board has held enough workshops and opened enough dockets that it is not necessary to delay a decision to allow for further discussion. MidAmerican has suggested the Board conduct surveys of small volume customers to find out what they think about the service. The Board considers the number of customers taking the service under the pilots and the inquiries it has received about expanding the service to other small volume customers to be sufficient indication that the service is perceived as beneficial by some customers. The fact that customers continue to take the service and have taken the service since 1998 also shows that some customers find the service beneficial. If the service is offered and customers do not use the service, then MidAmerican will experience less of its perceived risk.

B. Tariff issues

1. Standby service

MidAmerican concurs in the recommendation of Consumer Advocate that the Board remove the obligation to standby under 199 IAC 19.14(6)"g" in the event a customer's alternative supply is not delivered. MidAmerican points out that under the pilot project tariff, a monthly-metered customer that fails to receive gas from its supplier must pay firm supply standby service charges when it takes gas, but is not required to elect an amount of standby reserve. MidAmerican contends that monthly-metered customers should be required to provide or pay for firm capacity that can be delivered in the future.

MidAmerican asserts that even though IJUMP claims not to have had any failures of supply to its customers, the customers may not always have firm capacity to ensure future deliverability. IJUMP primarily relies on zone delivery, which is acceptable when interstate pipelines are not requiring delivery on a primary point basis; however, zone delivery may pose delivery reliability issues during periods when capacity is tight. MidAmerican indicates that it has seen tightening of available pipeline capacity recently. If significant migration to or from monthly-metered service should occur, per unit costs for MidAmerican to retain capacity as the supplier of last resort may increase. If MidAmerican is forced to retain capacity to serve existing monthly-metered customers, MidAmerican's total capacity reserve margin would likely exceed the 5 percent tolerance level approved by the Board.

The Board is not convinced that monthly-metered customers should be required to pay for firm capacity that can be delivered in the future. There are other options for limiting the risk to MidAmerican and IPL associated with small volume transportation customers coming back on the system. Limits can be set on when and how often a customer may make the switch back to system gas. If the zone delivery or the reserve margin issues become a problem for MidAmerican or IPL, those issues can be addressed in the future.

2. Predictability of load

MidAmerican indicated that it conducted an analysis to determine whether IJUMP's statement that schools and local governments have predictable load was accurate. MidAmerican states that this analysis shows this statement is not correct.

MidAmerican states that it conducted the analysis to determine how well the monthly-metered forecasting model predicted daily usage of a school by developing monthly-metered forecasts for six daily-metered schools. MidAmerican then used the monthly-metered forecasting model to calculate a daily-metered customer school account and developed a profile for six schools. On June 25, 2007, MidAmerican filed the results of an expanded study on this question.

The results of MidAmerican's analysis are shown on three attachments to the May 24, 2007, filing. The data shows that the six schools have heat sensitive loads; that the absolute average daily imbalance for the six schools was 17 percent, depending on the month; and that the variance ranged from 12 to 29 percent throughout the heating season. As another test, MidAmerican developed profiles using the actual weather and the actual usage for the six schools during the same comparison period of November 2006 to March 2007. The results show the absolute daily imbalance to be 25 percent.

MidAmerican suggests that this analysis indicates that weather is not the primary factor in the imbalance variance. It is only one of several variables, such as changes in the use of the school facilities, vacation and snow days, and special events. MidAmerican points out that less accurate forecasting or more erratic usage, or both, bring larger daily imbalances that must be covered by the PGA swing assets supporting the balancing charges being charged by MidAmerican in the pilot project.

The Board understands MidAmerican's point that forecasting daily usage is not 100 percent accurate, however, that fact is not, by itself, a reason to deny small volume transportation customers the benefits of transportation service. First, it is possible that forecasting accuracy will improve with increased experience and a larger, more diverse customer class. In addition, MidAmerican charges a swing service fee to compensate for any imbalances, that have occurred throughout the month. These imbalances are also cashed out each month. It appears that the swing service fees and other charges should cover the imbalances as demonstrated by MidAmerican's studies. Also, MidAmerican has the option to propose an alternative tariff requirement that places the forecasting requirement on customers. For all these reasons, this problem has not been shown to be so severe as to prevent the provision of a permanent small volume transportation service. These issues can be addressed in the development of the permanent tariffs.

MidAmerican also argues that IJUMP is wrong when it suggests that snow days and other erratic changes in usage benefit PGA customers since the PGA customers can use the unwanted gas. MidAmerican states that it must balance each gas day with the pipelines and this becomes more burdensome and costly when schools have reduced usage due to unanticipated closings.

The Board recognizes that schools can have unique problems with daily balancing that can affect the ability of the utility to stay in balance on a daily basis. However, as noted above, this problem may be alleviated by opening small volume transportation to a more diverse group. It can also be addressed through adjustments or accommodations in the permanent tariffs such as the weekend swing service discussed below.

3. Weekend swing service

MidAmerican supports the establishment of an optional weekend swing service with proper allocation of costs to a permanent monthly-metered service.

This is an issue that was raised by MidAmerican in meetings with Board staff last year. Some type of optional swing service could help to address the forecasting problem. This is an issue MidAmerican can address by working with the CNGPs and developing proposed tariff provisions for the Board's consideration.

4. Use of affidavits to establish firm capacity

MidAmerican agrees with IJUMP that CNGPs could provide an affidavit to the utility that customers have only used "primary firm pipeline capacity" for service as long as the capacity provides for point deliveries, rather than primary zone deliveries.

On this record, it is not clear that the issue of point deliveries to zone deliveries is a current problem. If MidAmerican and IPL believe it is, they can propose a requirement in permanent tariffs that small volume customers, or the CNGPs on behalf of the customer, provide an affidavit that they only use "primary firm pipeline capacity."

5. Penalty mechanism

MidAmerican states that it has a tiered penalty mechanism in place with two penalty charges: one applicable to over-and under-deliveries on non-critical days ($5 per Dth) and the other for failure to deliver the forecasted requirement on critical days

($30 per Dth, or three times the Chicago index price). MidAmerican states that it does not see any reason to change this tier system, as suggested by IJUMP. The two-tiered penalty mechanism gives a strong incentive for transporters to perform during critical periods.

Based on this record, the Board is satisfied with the two-tiered penalty mechanism MidAmerican has in place. This issue can be reviewed when proposed permanent tariffs are filed, if necessary.

6. Pipeline capacity concerns

MidAmerican questions whether IJUMP has presented two inconsistent recommendations concerning pipeline capacity. First, according to MidAmerican, IJUMP states that customers should pay for capacity acquired to serve customer needs as a sales service customer for either one year or for a lesser period if proper advance notice has been provided. Second, IJUMP wants its customers to have the right to freely jump back and forth between sales and transportation service with 60 days' notice by paying a $25 switching fee to be charged only after switching for the third time in a 12-month period. MidAmerican states that there should be a corresponding capacity charge to be applied at all times (both while the customer takes sales service and while the customer takes monthly-metered small volume transportation service) or else the utility will be forced to pass the capacity costs on to PGA customers.

The Board agrees that reasonable limits will need to be placed on a small volume transportation customer's ability to return to system gas. However, the Board is concerned that a capacity charge that includes future capacity for the small volume customer may be a barrier to the small volume customer being able to take the service and will not establish this requirement as part of the permanent service.

7. Administrative charges

MidAmerican states that IJUMP's suggestion that monthly administrative per-customer charges should be minimal, as low as $10 per account, is not based on utility cost of service. MidAmerican contends that cost of service is the most appropriate basis for setting charges for monthly-metered transportation service and that the cost of providing monthly-metered transportation service may depend more on the number of customers than on the volume of gas taken.

This is an issue that will need to be addressed separately for each utility. It appears that MidAmerican may need to adjust its rates if a permanent service is approved. MidAmerican has a volumetric charge in its pilot project tariffs while IPL has a fixed charge. IPL's current rate structure may recover the costs more accurately because the cost of providing monthly-metered service may depend more on the number of customers than the volume of natural gas transported. The Board will allow a cap to be placed on the number of customers who can take the small volume transportation service to limit the overall potential impact on MidAmerican and IPL; this should make it possible to estimate a reasonable monthly administrative charge.

8. Pool operator charge

MidAmerican disagrees with IJUMP that administrative charges should not be charged on a per customer basis but, instead, through a single pool operator charge where each pool operator pays a flat charge of $2,500 per month. MidAmerican believes that administrative costs are more customer-related and should be charged on a per customer basis. MidAmerican suggests that the IJUMP proposal would be a disincentive to new participants who would be faced with a large fixed expense regardless of the number of customers they served.

Based on this record, the Board agrees that administrative charges should be charged on a per customer basis. Whether a flat rate charge would be appropriate is an issue that can be considered in future rate cases, if necessary.

9. IPL's proposed options

IPL described two options that could be considered for permanent tariffs. IPL suggests under the first approach that it would consolidate the two small volume offerings and determine best practices from the two projects to form a single small volume offering. To adopt this option, IPL would need to know at what level telemetering and daily balancing would be required, who should be performing the nomination function. In addition, if the usage level were to be set too high, IPL would recommend a cap on participation.

The second approach IPL proposed would be for IPL to form differing usage break points given the smaller size of the pilot project's customers. IPL recommends establishing a rough estimate of usage to illustrate the differences between the customers taking service under the current SVT and the Pilot SVT.

If IPL believes that the pilot project tariffs should be modified when it proposes permanent tariffs, it may propose those changes as part of that filing. In this order, the Board is providing some guidance regarding the conditions it considers reasonable, if the pilot project tariffs are to be modified. This does not preclude IPL or MidAmerican from making other proposed changes; however, they will need to provide sufficient support for these changes.

PERMANENT SMALL VOLUME TRANSPORTATION SERVICE

Based upon consideration of the information provided in the docket and the history of the dockets addressing small volume transportation service, the Board has determined that MidAmerican and IPL should be required to offer a small volume transportation service on a permanent basis, in a manner similar to the pilot project service. The history of the Board's investigation into this issue shows that further discussion of the general issues involved in small volume transportation is not necessary. The Board has conducted workshops, adopted rules, opened inquiries, and reviewed many filings addressing this issue. This process has sufficiently analyzed the issues and has narrowed the focus of what service is reasonable. Several issues concerning the components of a permanent service will need to be worked out individually for each utility, but the question of whether the Board should mandate a permanent small volume transportation service has been fully explored and has been answered.

MidAmerican and IPL will be directed to file the current pilot project tariffs as permanent tariffs for small volume transportation service that include, at a minimum, the following three provisions:

(1) The tariffs should be available to all small volume customers, except residential customers, as defined by the tariffs. The utility should provide some factual support or a rationale for the volumes used to determine the eligibility of the small volume customer for the service. Reference should be made to the definition of small volume customer in 199 IAC 19.14(1).

(2) Utilities may propose a reasonable cap on the number of customers who may take service under the permanent small volume transportation tariffs. Any proposed cap should be supported by cost data and the utility should explain any differences from the information previously provided in this docket.

(3) The tariffs should provide that all small volume transportation customers will pay the same EECR factor they would pay as a system customer and that they will be able to participate in the energy efficiency programs offered by the utilities.

MidAmerican or IPL may also propose modifications to the pilot project tariffs consistent with the conditions discussed below. The proposed modifications may include, but are not limited to, the following provisions:

(1) Provide for a reconnection charge that is cost-based and is not a barrier to a small volume customer that decides to return to system gas. The utility may propose to charge the customer a higher charge during the winter heating season or provide some other condition of service that protects the utility and system customers from identifiable costs that would be generated by the customer switching back to system gas service. (As an example, Aquila has a $5 reconnection charge.)

(2) Include a bundled volumetric rate for nomination, dispatching, balancing, administration, and other costs (similar to the Aquila small volume transportation tariff), with cost support, or provide an explanation and cost support for separate charges for these components.

(3) Require that small volume transportation customers provide proof of firm interstate pipeline capacity, such as an affidavit. If the utilities consider this administratively impractical, then provide terms of service that address this issue to protect both the small volume transportation customer and system customers.

(4) Service may be offered to all small volume customers, not just heat-sensitive customers.

(5) Address any other terms of service that the utility considers necessary to make small volume transportation service a permanent and workable option.

The Board will require MidAmerican and IPL to prepare and file proposed permanent tariffs. Any issues left unresolved by this order or that are specific to the proposed tariffs can be raised after those filings are made. The proposed tariffs shall be filed on or before December 31, 2007, with a proposed effective date of April 30, 2008, which will allow the utilities and interested parties an opportunity to meet and discuss the proposed tariffs. This schedule will bring this matter to a conclusion and remove the uncertainty of whether the service will continue after the pilot projects end.

ORDERING CLAUSE

IT IS THEREFORE ORDERED:

MidAmerican Energy Company and Interstate Power and Light Company shall file proposed permanent small volume transportation tariffs consistent with this order on or before December 31, 2007, with an effective date of April 30, 2008.

UTILITIES BOARD

/s/ John R. Norris

/s/ Krista K. Tanner

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

Dated at Des Moines, Iowa, this 5th day of November, 2007.