



MidAmerican Energy Company
One RiverCenter Place
106 East Second Street
P.O. Box 4350
Davenport, Iowa 52808

November 20, 2009

Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

Re: Request for Increase in Approved Budget
MidAmerican Energy Company's Energy Efficiency Plan
Docket No. EL-07-015

Dear Ms. Van Gerpen:

On March 31, 2009 the South Dakota Public Utilities Commission (Commission) approved MidAmerican Energy Company's (MidAmerican) Energy Efficiency Plan (Plan) and related tariff sheets to become effective on May 1, 2009. The Plan approved by the Commission included, among other things, a 2009 cost budget for both residential and non-residential customer classes for each gas and electric fuel. MidAmerican began implementing its Plan on May 1, 2009. On May 8, 2009 the Commission approved a number of minor revisions to tariff sheets needed to implement the Plan. Those changes did not impact the cost budget.

With this filing, MidAmerican is requesting to increase the plan budgets for 2009 by a total of \$48,000, distributed as follows:

	Approved Cost Budget	Requested Increase	Revised Cost Budget
Residential Gas	\$660,000	\$17,000	\$677,000
Non-residential Gas	\$144,000	\$16,000	\$160,000
Residential Electric	\$13,000	\$0.00	\$13,000
Non-residential Electric	\$20,000	\$15,000	\$35,000



Additionally, MidAmerican is requesting to increase the Plan budgets for 2010 by a total of \$38,900, distributed as follows:

	Approved Cost Budget	Requested Increase	Revised Cost Budget
Residential Gas	\$740,000	\$9,750	\$749,750
Non-residential Gas	\$201,000	\$14,250	\$215,250
Residential Electric	\$50,000	\$4,050	\$54,050
Non-residential Electric	\$35,000	\$10,850	\$45,850

MidAmerican respectfully requests approval to recover the revised cost budgets through the energy efficiency cost recovery mechanism. If approved, MidAmerican will include the revised budgets in the annual reconciliation and plan update to be filed prior to March 1, 2010 and reflected in revised cost recovery factors beginning in April 2010.

The revised cost budgets for 2009 include \$42,000 of additional costs related to advertising and promotion of the programs and \$6,000 for additional customer incentives. The revised cost budgets for 2010 include \$38,900 of additional costs related to advertising and promotion. The revised costs for both years include an assumed \$7,900 annual amortization of non-recurring start up costs of \$23,614 over the three-year Plan period. The remaining annual amortized costs of \$7,900 will be included in 2011.

MidAmerican is requesting these budget increases largely because of an oversight in its initial budget. The initial budget estimates did not include sufficient dollars for advertising and promotion. Advertising and promotion are essential to launching the Plan and include such activities as Website design and implementation, development of Plan materials, and meetings with trade allies. MidAmerican shares the Commission's desire to deliver these programs in the most cost-efficient manner, so activities related to advertising and promotion were limited to only those activities necessary for Plan implementation. While some of these costs are one-time launch activities, such as Website design, there are also ongoing costs such as updates to programs and continuing communication with trade allies. Many of the costs were incurred in the beginning of the Plan year and as such also impact the calculation of carrying charges in the annual reconciliation.

Attachment 1 to this letter provides additional details about the cost increases for advertising and promotion and the important role of trade allies in delivering energy efficiency messaging to South Dakota customers. After conferring with South Dakota Public Utility Commission staff members, MidAmerican undertook a thorough review of its proposed budget increases to ensure they were no

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greater than necessary. MidAmerican also investigated alternatives to its traditional advertising and promotion of the programs. However, based on past experience in other jurisdictions, it is MidAmerican's belief that without the use of mass media options for promoting the South Dakota energy efficiency programs (i.e., TV, radio and print advertising, etc.), the development and distribution of the Save some green[®] program brochures (i.e., HVAC, plumbing, insulation and other important contractors) is a critical sales tool required by trade allies to communicate and inform customers of the benefits of energy efficiency improvements and the existence of incentives offered by MidAmerican to purchase and install high efficiency equipment and systems to manage energy use.

The approved cost budget is one of the inputs to the formula used in calculating the Plan's performance incentive. The calculation compares the achieved net utility benefit to the Plan's expected net utility benefit. The performance incentive is capped at 30% of the Plan budget. Because it was MidAmerican's oversight that caused the original budget to be understated, MidAmerican is willing to cap any earned performance incentive at 30% of the original budget.

MidAmerican company personnel are available to meet with the Commission and Commission Staff regarding specific details regarding the impact of the revised budgets on MidAmerican's plan. If you have any questions, please feel free to contact me at 563-333-8846.

Sincerely,

A handwritten signature in cursive script that reads "Fredrick A. Leuthauser". The signature is written in black ink and is positioned above the typed name and contact information.

Fredrick A. Leuthauser
Manager, Energy Efficiency
MidAmerican Energy Company
Office: 563-333-8846
Fax: 563-333-8252

**MidAmerican Energy Company's Request for Energy Efficiency Budget Increase for
Additional Advertising and Promotional Expenditures**

MidAmerican Energy Company (MidAmerican) is requesting budget increases for its Energy Efficiency Plan for additional advertising and promotional and customer incentive costs. MidAmerican did not include sufficient dollars for advertising and promotion in its amended filing due to an oversight. While there were some dollars budgeted, they were not sufficient to cover the launch of the programs in South Dakota. MidAmerican has also experienced greater-than-anticipated incentives being paid to nonresidential electric customers. MidAmerican is proposing to amortize non-recurring start-up costs of \$23,614 over the three-year plan period to help reduce the impact of the changes on South Dakota customers. The amortized, non-recurring costs for three years is \$7,900.

As discussed further below, MidAmerican is providing a breakdown of the costs and an explanation of why the costs are essential to rolling out the energy efficiency programs. Additionally, MidAmerican performed a benefit/cost analysis for the requested increase to the program budgets, and found the programs continue to be cost effective.

Advertising and Promotional Costs:

MidAmerican's revised advertising and promotional budgeted costs for 2009, including the amortization of nonrecurring start-up costs over three years, are as follows:

1. Production and printing of program brochures	\$33,993
2. SummerSaver brochure allocation	2
3. Trade Ally information and thank you card	1,651
4. Fulfillment services to mail materials to trade allies	3,222
5. Presentation envelope for trade ally materials	1,165
6. South Dakota Top Ten Tips brochure	983

7. Customer bill insert	1,225
8. Letter to trade allies	2,417
9. Advertising agency planning	180
10. Web site design	924
11. Sioux Empire Fair	2,395
12. Trade ally meetings	6,424
13. Cost to operate booklets	200
14. BusinessAdvantage booklets	934
15. Energy Efficiency labor and expenses	2,885
16. School event	250
17. ASHRAE membership dues	<u>200</u>
Total:	\$59,050

This represents a \$42,000 increase over MidAmerican's filed advertising and promotion budgets.

MidAmerican's 2010 revised budget for advertising and promotion is estimated at \$54,900, representing a \$38,900 increase over the filed budget. Both years' budgets include a \$7,900 amortization of \$23,614 of non-recurring start up costs, amortized over three years.

Amortization of startup costs will also be \$7,900 in 2011.

Advertising and promotion are essential to launching successful energy efficiency programs. Although MidAmerican's South Dakota plan did not incorporate more expensive advertising and promotional costs for television, radio, print or outdoor or Web banner advertising, it does include such activities as website design and implementation, development of plan materials, and communications with trade allies. Immediately following plan approval, MidAmerican began its typical trade ally promotional activities, not realizing these costs had not been included in MidAmerican's filed program budgets. MidAmerican purchased a list of South Dakota trade allies and combined this list with trade allies from western Iowa, resulting in a mailing list of 1,500 prospective allies. MidAmerican created program brochures, rebate forms and other communication pieces.

MidAmerican's experience with energy efficiency programs has demonstrated that these activities form the foundation for future customer participation. For example, program brochures for specific end-uses (e.g. lighting, insulation, HVAC equipment, motors/variable speed drives and kitchen equipment) are a necessary sales tool for trade allies to effectively communicate the eligibility requirements for and benefits of energy efficiency improvements to customers. Moreover, the communication materials increase trade ally and customer awareness of the existence of energy efficiency programs and the incentives/rebates encouraging purchase and installation of qualifying high efficiency equipment and systems.

Trade allies need some basic and simple tools to promote MidAmerican's programs during the sales process. They need program brochures listing eligible equipment, minimum qualifying efficiency requirements, rebate amounts for various efficiency levels and the terms and conditions of the programs. They also need rebate application forms so they can help customers apply for rebates. Trade allies need easy access to brochures and forms from MidAmerican's web site. Finally, it is helpful if the program brochures assist the trade ally in explaining the value proposition of the program. A program brochure should explain to customers what is in it for them and why they should care about energy efficiency. MidAmerican's brochures serve all of these functions for our customers and trade allies in South Dakota.

Because there are a number of differences between MidAmerican's South Dakota programs and programs from other jurisdictions, it was necessary for MidAmerican to create South Dakota specific brochures, increasing start-up costs. For example, MidAmerican's

programs in South Dakota required program brochure changes compared to Iowa because some Iowa measures are not included in the approved South Dakota Plan.¹

In particular, the resulting brochure costs for the Nonresidential Equipment electric program appear to be disproportionately large because of the number and complexity of end-uses eligible for rebates. Of the five nonresidential equipment brochures produced, two are charged entirely to the electric program (Nonresidential Motors/VSD brochure and Nonresidential Lighting brochure) and the other three brochures all contain end-uses which are electric, requiring further allocation of costs to the electric program.

Results of Cost Effectiveness Testing:

Including increased advertising and promotional costs, the cost effectiveness of the affected programs was calculated and the results are shown in the table below.

<u>Test</u>	<u>Original Results</u>	<u>New Results</u>
Residential Gas Programs		
Total Resource Cost	0.91	0.89
Societal Cost	1.22	1.20
Nonresidential Gas Programs		
Total Resource Cost	1.16	1.09
Societal Cost	1.57	1.47
Residential Electric Programs		
Total Resource Cost	0.89	0.86
Societal Cost	1.18	1.15

¹ Iowa residential measures not included in South Dakota are ENERGY STAR refrigerators, freezers, clothes washers and dishwashers and tankless water heaters, heat pump water heaters and compact fluorescent light bulbs. Iowa nonresidential measures not included in South Dakota are compact fluorescent light bulbs, light emitting diode strips lights, light emitting diode refrigerated case lighting, daylight harvesting ballast, lighting time clock/timer, ENERGY STAR clothes washers and dishwashers, vending machine controllers, tankless or condensing water heaters, heat pump water heaters and infiltration measures.

Nonresidential Electric Programs

Total Resource Cost	3.86	3.25
Societal Cost	5.38	4.55

Conclusion:

MidAmerican's South Dakota energy efficiency programs remain cost-effective including the additional necessary advertising and promotional expenditures. Many of the costs were one-time start-up costs that won't recur in future years. These non-recurring costs can be amortized over three years to minimize the bill impact for South Dakota customers. This is appropriate because the value of the investment of these costs will be realized over the full three years of the plan, not just in the first year. MidAmerican respectfully requests approval of the requested budget increases.