PUBLIC VERSION

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF MIDAMERICAN ENERGY COMPANY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES

STAFF MEMORANDUM SUPPORTING SETTLEMENT STIPULATION

DOCKET EL14-072

Commission Staff (Staff) submits this Memorandum in support of the Settlement Stipulation (Settlement) of June 3, 2015, between Staff and MidAmerican Energy Company (MidAmerican or Company) in the above-captioned matter.

BACKGROUND

MidAmerican's South Dakota electric rates were last increased in 1995. On August 4, 2014, the Company filed an application with the South Dakota Public Utilities Commission (Commission) requesting approval to increase rates for electric service to its customers in its South Dakota retail service territory by approximately $1.6 million annually or approximately 13.8%. A typical residential electric customer using 852 kWh per month would see an increase of $9.65 per month.

Some of the primary drivers as discussed throughout testimony are general inflation, construction of Walter Scott, Jr. Energy Center Unit 4, Greater Des Moines Energy Center, and wind generation projects, and the construction of scrubbers and other environmental improvements to its existing coal-fired generators. MidAmerican's proposed increase was based on a historical test year ended December 31, 2013, adjusted for what MidAmerican believed to be known and measurable changes, a 10.70% return on common equity, and a 7.596% overall rate of return on rate base.

The Commission officially noticed MidAmerican's filing on August 7, 2014, and set an intervention deadline of October 24, 2014. No petitions to intervene were filed. On August 26, 2014, the Commission issued an Order Assessing Filing Fee and Suspending Operation of Proposed Rates. On December 31, 2014, MidAmerican filed a Notice of Intent to Implement Interim Electric Rates effective on and after February 1, 2015.

Settlement discussions between Staff and MidAmerican commenced on April 7, 2015. Thereafter Staff and MidAmerican (jointly, the Parties) held several settlement discussions in an effort to arrive at a mutually acceptable resolution of the issues presented in MidAmerican's filing. Ultimately, the Parties reached a comprehensive agreement on MidAmerican's overall revenue deficiency and other issues presented in this case including, but not limited to, class revenue responsibilities, rate design, and tariff concerns.

OVERVIEW OF SETTLEMENT

Staff based its revenue requirement determination on its comprehensive analysis of MidAmerican's filing and information obtained during discovery. Staff accepted some Company adjustments, made corrections where necessary, modified other adjustments, and rejected those that do not qualify as known and reasonably measurable. Lastly, Staff introduced new adjustments not reflected in MidAmerican's filed case.

Company and Staff positions were discussed thoroughly at the settlement conferences. As a result, some positions were modified and others were accepted where consensus was found. Ultimately, the Parties agreed on a comprehensive resolution of all issues. Staff believes the settlement is based on sound regulatory principles and avoids additional costly and unnecessary litigation.

As noted below under the "Wind VIII" and "Capital Projects In-Service by 05/31/2015" subsections of the "RATE BASE" section, the Parties have agreed to a two-step increase to best balance the interests of the Parties. This approach ensures that ratepayers will not be paying for the Highland Wind project and Southland Substation project until they are used and useful, thus conforming to the matching principle and known and measurable standard, and will alleviate the need for MidAmerican to file back-to-back rate cases. The Parties agree MidAmerican's ultimate revenue deficiency once the Highland project and Southland Substation project are in-service is approximately $648,000, which results in an approximate 5.66% increase in retail revenue. However, customers will be seeing a bill credit from the effective date of rates until both projects are in service, as the initial revenue deficiency excluding these two projects is approximately $294,000. These revenue requirements and supporting calculations described in this Memorandum and attachments depict Staff's positions regarding all components of MidAmerican's South Dakota jurisdictional revenue requirement.

STAFF OVERVIEW OF SETTLEMENT

Staff believes this settlement provides MidAmerican with an annual level of revenues relative to its current service costs that is fair, just, and reasonable. These settlement rates allow MidAmerican a reasonable opportunity to earn a return that is adequate to enable it to continue providing safe, adequate, and reliable service to its South Dakota retail customers.

Staff's determination of the settlement revenue requirement begins with total Company test year costs for the twelve months ended December 31, 2013, and allocates those total Company amounts to the South Dakota retail jurisdiction. Staff then adjusted the December 31, 2013, test year results for known and measurable post-test year changes. Staff Exhibit___(PJS-1), Schedule 3 illustrates Staff's determination of MidAmerican's pro forma operating income under present rates. Staff Exhibit___(PJS-2), Schedule 2 illustrates Staff's calculation of MidAmerican's South Dakota retail rate base, and Staff Exhibit___(PJS-1), Schedule 2 and Staff Exhibit___(PJS-2), Schedule 1 summarize the positions. Staff Exhibit___(PJS-1), Schedule 1 summarizes Staff's determination of MidAmerican's revenue deficiency and total revenue requirement collected through base rates[1].

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[1] Please see Staff Exhibit___(PJS-5), Schedules 1, 2, and 3 and Staff Exhibit___(PJS-6), Schedules 1 and 2 for corresponding summaries of the "Step 1" revenue requirement excluding the Highland Wind project and the Southland Substation project.

The base revenue increase by rate schedule is shown on Staff Exhibit___(PJS-4), Schedule 1. Staff Exhibit___(PJS-4), Schedules 2-1 through 2-4 reflect the settlement base rates for each rate schedule. The comparison between present and settlement rates and resulting bill impacts for the Residential Service rate schedules is shown on Exhibit___(PJS-4), Schedule 3.

Unless otherwise noted, all of the changes discussed below are changes from the Company's filed position.

RATE BASE

Average Rate Base – The Company proposed a test year average rate base based on an average of the 12 month-end account balances, January 31, 2013 through December 31, 2013. The settlement revises this to an average of the 13 month-end account balances, December 31, 2012 through December 31, 2013. This resulted in an increase in rate base of approximately $70,000.

Environmental Projects – The Company proposed an adjustment to reflect changes to plant in-service, accumulated depreciation, and accumulated deferred income taxes associated with seven environmental projects being placed in service in 2013 and 2014 at the Ottumwa Generating Station, Neal Energy Center Unit 3, and Neal Energy Center Unit 4. These projects were undertaken to comply with Environmental Protection Agency (EPA) regulatory requirements, including the Cross-State Air Pollution Rule (CSAPR), the Mercury and Air Toxics Standard (MATS), and Best Available Control Technology under New Source Review permitting requirements.

The settlement revises this adjustment to: 1) Reflect actual costs through March 31, 2015, and reasonably known and measurable changes after March 31, 2015; 2) Reflect 13-month average rate base in lieu of 12-month average rate base; 3) Annualize accumulated deferred income taxes for projects placed in-service in 2013; and 4) Reflect bonus depreciation through 2014. The net effect of these changes reduces rate base by approximately $340,000.

Wind VIII – MidAmerican proposed an adjustment to reflect changes to plant in-service, accumulated depreciation, and accumulated deferred income taxes associated with its Wind VIII project. Wind VIII consists of five individual wind projects (Lundgren, Macksburg, Vienna 2, Wellsburg, and Highland) with projected in-service dates occurring at the end of the test year through 2015. These projects add 1,050 MW of wind generation to MidAmerican's fleet, for a total wind portfolio of 3,335 MW. With the addition of Wind VIII, approximately 39% of MidAmerican's owned generation capacity will come from wind.

The settlement revises this adjustment to: 1) Reflect actual costs through March 31, 2015, and reasonably known and measurable changes after March 31, 2015; 2) Reflect 13-month average rate base in lieu of 12-month average rate base; 3) Annualize accumulated deferred income taxes for the project placed in-service in 2013; and 4) Reflect bonus depreciation through 2014.

The Highland Wind project is not expected to be in-service at the time final rates will go into effect. The project should not be included in base rates until it is used and useful and providing service to customers. However, excluding these costs significantly impacts the revenue requirement. In the

interest of avoiding back-to-back rate cases in order to include these costs in rates, the Parties agreed to a two-step increase. Under this settlement, ratepayers will not pay for the costs associated with the Highland Wind project until after the entire project is placed in-service. Staff believes the two-step increase is in the best interest of customers as it balances the need for the Company to recover the costs associated with the project with Staff's concerns about the project being used and useful prior to being included in rates, while avoiding an additional rate case which would impose more costs on customers.

The net effect of these changes, including the exclusion of the Highland Wind project, reduces rate base by approximately $7,234,000. When the Highland Wind project is included in rate base for the second step of the increase, this increases rate base by approximately $6,511,000, resulting in a net reduction to rate base of approximately $723,000.

Capital Projects In-Service by 05/31/15 – The Company proposed an adjustment to reflect changes to plant in service, accumulated depreciation, and ADIT associated with five projects placed in service post-test year.

The settlement revises this adjustment to: 1) Reflect actual costs through March 31, 2015 plus reasonably known and measurable changes occurring after March 31, 2015; 2) Reflect 13-month average rate base in lieu of 12-month average rate base; 3) Reflect bonus depreciation through 2014; and 4) exclude 50% of the Pinehurst Trail project[2] to account for the portion of the project that is revenue producing.

The Southland Substation project is not expected to be in-service at the time final rates will go into effect. The project should not be included in base rates until it is used and useful and providing service to customers. Therefore, as discussed above under Wind VIII, the Parties agreed to a two-step increase. Under this settlement, ratepayers will not pay for the costs associated with the Southland Substation project until after the project is placed in-service. Staff believes the two-step increase is in the best interest of customers as it balances the need for the Company to recover the costs associated with the projects with Staff's concerns about the projects being used and useful prior to being included in rates.

The net effect of these changes, including the exclusion of the Southland Substation project, reduces rate base by approximately $433,000. When the Southland Substation project is included in rate base for the second step of the increase, this increases rate base by approximately $244,000, resulting in a net reduction to rate base of approximately $189,000.

Sales Growth 2013 – The Company proposed an adjustment to reflect the incremental changes in plant in service, accumulated depreciation, and ADIT associated with the increase in year-end customers over

[2] The Pinehurst Trail project extends distribution facilities to serve a new residential subdivision in Dakota Dunes, SD. This project also completes a circuit loop tie to East Sawgrass Trail to the remainder of the electrical system serving the Dakota Dunes and adjoining areas, allowing customers to be served from more than one source. Approximately 50% of this project is for system improvements to reliability and approximately 50% is for growth.

average customers. The settlement rejects this adjustment, reducing rate base by approximately $144,000.

Depreciation Study – During the 2013 test year MidAmerican implemented revised depreciation rates applicable to electric production plant based on an engineering study of electric plant in service on December 31, 2012. Because the accrual rate changes were implemented in August, 2013 and not on January 1, MidAmerican proposed adjustments to annualize the effects of the changes. Staff accepted these adjustments as appropriate annualizations.

Generating Stations Retirement – This adjustment proposed by the Company is the result of the retirements of Walter Scott Energy Center Units 1 and 2 and Neal Units 1 and 2. The adjustment removes the plant in service, accumulated depreciation, and accumulated deferred income tax balances associated with these plants from rate base. Staff generally agreed with this adjustment but made revisions to:

1. Remove Neal 1 and 2 from the adjustment, as these units will not retire until March 31, 2016 and therefore do not meet the 24 month requirement under ARSD 20:10:13:44;
2. Revise rate base to an average of the 13 month-end account balances, December 31, 2012, through December 31, 2013, versus the as filed 12 month-end account balances, January 31, 2013, through December 31, 2013; and
3. Updated Walter Scott 1 and 2 to reflect actual percentages of equipment retired.

These revisions increase rate base by approximately $25,000.

Cash Working Capital – MidAmerican's proposed rate base included an allowance for cash working capital based on their lead-lag analysis. A lead-lag analysis examines the timing of the Company's receipt of service revenues from customers in relation to the Company's payment of expenses to vendors and employees. This analysis also includes a rate base deduction for tax collections which the Company receives in advance of turning the related payments over to the taxing authorities. Staff carefully examined MidAmerican's revenue lag and expense lead day determinations and used these calculations to make an adjustment to rate base with the following modifications:

1. Included a separate expense lead for vacation pay;
2. Included a separate expense lead for incentive compensation;
3. Revised the expense lead day for sales tax to remain consistent with past Staff practice; and
4. Revised expenses per day to incorporate into the lead-lag analysis the impacts of Staff's recommended adjustments to *pro forma* operating expenses.

These modifications, including the exclusion of the Highland Wind and Southland Substation projects, decrease rate base by approximately $366,000. When the Highland Wind and Southland Substation projects are included in rate base for the second step of the increase, this will increase rate base by approximately $5,000, resulting in a net reduction to rate base of approximately $361,000.

Other Working Capital – The settlement reflects a more recent 13-month average for materials and supplies, fuel stocks, prepayments, customer advances, customer deposits, accumulated provision for uncollectibles, and accumulated provision for injuries and damages. The net effect of these changes decreases rate base by approximately $295,000.

Rate Case Expense – MidAmerican proposed to amortize projected rate case costs of $299,000 for EL14-072 over 5 years and not include any of the costs in rate base. The settlement reflects a 5 year amortization of $78,884 in actual costs incurred as of May 26, 2015. Half of the rate case costs, or $39,442, is included in rate base, representing the average unamortized balance of the 5 year period. The company proposed the 5 year amortization period and staff accepted that period. Staff felt the 5 years helped to limit the impact the rate case expense would have on consumers' bills while still allowing the company to recoup those costs in a timely fashion. The net effect of these changes increases rate base by approximately $39,000.

OPERATING INCOME

Interest Synchronization – The settlement synchronizes the tax deduction for interest expense with the weighted cost of long-term debt and the historic test year rate base as adjusted for known and measurable changes.

Property Taxes – The Company proposed to adjust the 2013 test year to the 2014 projected levels for property taxes on wind facilities that were in service prior to 2013. Staff generally agreed with this adjustment but revised it to only allow increases which were known. This revision decreases jurisdictional operating expense by approximately $13,000.

Payroll Adjustment – The Company proposed this adjustment to annualize 2013 test year payroll and recognize the 2014 increases for union employees, based on contracts in place. The Company also proposed to adjust test year non-union payroll for actual increases experienced on January 1, 2014. These adjustments are accompanied by adjustments to increase the corresponding costs of payroll taxes and the Company 401(k) match. The settlement accepts these adjustments.

Retirement Plan Costs – MidAmerican's annual retirement-related costs, including pensions, SERP and OPEB, vary significantly and largely unpredictably. Much of the volatility in the annual expense is attributable to market forces, to changes in the actuarial assumption relied on to calculate the annual expense, and to changes in the value of plan assets. In order to smooth the annual expense for ratemaking purposes, MidAmerican proposed to average the expense over a three-year period, 2012-2014. This expense averaging technique is similar to the way in which pension costs were treated by Staff and accepted by the Commission in Black Hills Power's recent rate proceeding. Staff accepted MidAmerican's expense adjustment, which reflects the three-year average expense for its retirement-related costs.

Depreciation on Rate Base Adjustments – MidAmerican proposed to increase depreciation expense for the depreciation associated with the rate base adjustments. The settlement revises this adjustment to reflect the changes agreed to for the rate base adjustments. The net effect of these changes, including the exclusion of the Highland Wind and Southland Substation projects, reduces depreciation expense by approximately $177,000. When the Highland Wind and Southland Substation projects are included for the second step of the increase, this increases depreciation expense by approximately $234,000. The result is a net increase to depreciation expense of approximately $57,000.

Wind VIII – The Company proposed an adjustment to annualize estimated amounts for wholesale revenue, operations and maintenance expense, property tax expense, and production tax credits (PTCs) associated with the Wind VIII projects. The settlement revises this adjustment to exclude the adjustment for property tax expense as this was not known and measurable, consistent with the property tax expense adjustment discussed above. For the first step of the rate increase, all amounts associated with the Highland Wind project are excluded. The net effect of these changes, including the exclusion of the Highland Wind project, reduces operating expenses by approximately $500,000 and reduces wholesale revenues by approximately $278,000. When the Highland Wind project is included for the second step of the increase, this increases operating expenses by approximately $478,000 and increases wholesale revenues by approximately $278,000, resulting in a net reduction to operating expenses of approximately $22,000 and a net impact of $0 to wholesale revenues. Excluding the Highland Wind project also decreases PTCs by approximately $655,000 (grossed up for taxes).

Sales Growth – The Company proposed an adjustment to estimate the increased revenue that would result from the increase in year-end customers over average customers. The settlement rejects this adjustment, reducing operating revenue by approximately $53,000.

Coal Plant Retirements – This adjustment proposed by the Company is the result of the retirements of Walter Scott Energy Center Units 1 and 2 and Neal Units 1 and 2 and the conversion of Riverside Generating Station to natural gas.

The first part of this adjustment removes test year wholesale margins lost with the retirements of Walter Scott 1 and 2 and Neal 1 and 2. As the Parties agree that 100% of wholesale margins will now be credited to ratepayers through the Energy Cost Adjustment (ECA), the settlement rejects this adjustment.

The second part of this adjustment reduces operation and maintenance cost at these units to post-closure levels for Walter Scott 1 and 2 and Neal 1 and 2 and post-conversion levels for Riverside. Staff agreed in principle with this adjustment but made one revision to correct post-closure operation and maintenance at Riverside and another revision to remove Neal 1 and 2 from the adjustment, as these units will not retire until March 31, 2016, and therefore do not meet the 24 month requirement under ARSD 20:10:13:44.

The next part of this adjustment removes test year property tax expense for Walter Scott 1 and 2 and Neal 1 and 2. Again, Staff rejected the Neal 1 and 2 part of the adjustment, as these units will not retire until March 31, 2016, and therefore do not meet the 24 month requirement under ARSD 20:10:13:44.

The final piece of this adjustment removes test year depreciation expense for Walter Scott 1 and 2 and Neal 1 and 2. Staff made one revision to use actual percentages of equipment retired at Walter Scott 1 and 2 and another revision to remove Neal 1 and 2 from the adjustment, as these units will not retire until March 31, 2016, and therefore do not meet the 24 month requirement under ARSD 20:10:13:44.

The cumulative result of these Staff revisions increases jurisdictional operating revenue by approximately $58,000 and increases jurisdictional operating expense by approximately $133,000.

Scrubber Consumables – MidAmerican proposed an adjustment to increase test year expenses for the estimated cost of chemicals to be consumed in the operation of environmental equipment installed at Neal Unit 3, Neal Unit 4, and Ottumwa Generating Station. The settlement accepts this adjustment.

Long-term Incentive Partnership (LTIP) – The Company's LTIP plan is intended to compensate selected participants for the Company achieving financial performance goals. Consistent with the Commission's prior treatment of incentive compensation plans that are driven by achieving financial performance goals, MidAmerican proposed an adjustment to eliminate its LTIP expense for ratemaking purposes. The Commission Staff accepted this adjustment.

Steam Maintenance – MidAmerican proposed to average steam maintenance costs over a 5 year period from 2009 through 2013. MidAmerican also proposed to use the Handy-Whitman steam production plant index to adjust the costs for inflation. MidAmerican used the average percent change of the index from 2009 to 2013 as the inflation factor. This settlement accepts that adjustment.

Electric Distribution Maintenance – MidAmerican proposed to average distribution maintenance costs over a 5 year period from 2009 through 2013. MidAmerican also proposed to use the Handy-Whitman distribution plant index to adjust the costs for inflation. MidAmerican used the average percent change of the index from 2009 to 2013 as the inflation factor. This settlement accepts that adjustment.

OGS Capacity Increase – The Company proposed an adjustment to increase operating revenue for capacity increases associated with the Ottumwa turbine upgrade project. The settlement rejects this adjustment, reducing operating revenue by approximately $12,000.

Weather Normalization – Staff challenged MidAmerican's weather normalization adjustment on the grounds that its statistical models were not actually measuring how usage responds to abnormal weather, but to how usage responds to normal weather patterns during the course of the year. Staff also found that for certain rate classes, sensitivity of usage to abnormal weather was not statistically significant. Staff proposed adjustments to the weather normalization adjustment that were accepted by MidAmerican for purposes of settlement. This adjustment increases operating revenue by approximately $26,000.

Late Payment Charges – This Company-proposed adjustment eliminates test year late payment revenue in lieu of using actual payment collection days in the cash working capital calculation, where, per statute, a 20-day period is used. This is consistent with past ratemaking treatment, and the settlement accepts this adjustment.

Energy Efficiency Cost and Revenues – The Company's filing included a pro forma adjustment to remove from the revenue requirement all revenues and operation expense amounts relating to energy efficiency programs as these costs and related recoveries are accounted for in a separate rider. The settlement accepts this adjustment.

Out-of-Period Tax Adjustment – The Company's 2013 income tax expense included certain tax adjustments recorded in 2013 that were related to amounts reflected on the Company's 2012 tax

return. Since these adjustments relate to 2012 transactions, they are not appropriate to include in the test year that underlies the Company's rate filing in this case. The Commission Staff's revenue requirement analysis reflects the same out-of-period tax adjustment that was included in the Company's original filing.

Rate Case Expense – MidAmerican proposed to amortize projected rate case costs for EL14-072 of $299,000 over a 5 year period. The settlement reflects a 5 year amortization of $78,884 in actual costs incurred as of May 26, 2015. The company proposed the 5 year amortization period and staff accepted that period. Staff felt the 5 years helped to limit the impact the rate case expense would have on consumers' bills while still allowing the company to recoup those costs in a timely fashion. The net effect of these changes is a reduction in operating expenses by approximately $44,000.

Bad Debt Expense – MidAmerican proposed an adjustment to increase bad debt expenses based on 0.30% of the proposed revenue deficiency. The settlement adjusts bad debt expense based on a five year uncollectible rate average applied to retail revenues. The net effect of this change, including the exclusion of the Highland Wind and Southland Substation projects, decreases jurisdictional operating expense by approximately $5,000. When the Highland Wind and Southland Substation projects are included in rate base for the second step of the increase, this will increase operating expense by approximately $1,000, resulting in a net reduction to operating expense of approximately $4,000.

Vegetation Management – Staff proposed to average vegetation management costs not included in the electric distribution maintenance adjustment over a 5 year period from 2009 through 2013. The effect of this adjustment reduces operation expenses by approximately $9,000.

Association Dues – Staff proposed an adjustment to the association dues expense included in the test year. The settlement removes association dues costs which do not provide for the provision of safe, adequate, and reliable electric service for South Dakota ratepayers. The effect of this adjustment reduces operation expenses by approximately $3,000.

Economic Development Donations – Staff proposed an adjustment to the association dues expense included in the test year. The settlement removes all costs associated with economic development donations included in the test year. The company does not have an economic development plan in place in their electric service territory, only for their gas service territory. The effect of this adjustment reduces operation expense by approximately $14,000.

OGS Economizer Replacement Maintenance Savings – In response to discovery, MidAmerican identified annual maintenance savings that will occur as a result of the OGS Economizer Replacement project. Reflecting these savings in the cost of service reduces operating expenses by approximately $1,000.

Performance Incentive Plan (PIP) – In addition to its LTIP, the Company offers the PIP, which is an incentive compensation program for non-union employees. MidAmerican's claimed revenue requirement included $71,812 for test year PIP expenses. The Commission Staff reduced for ratemaking purposes the test year PIP expense by 10 percent, or $7,181, to exclude that portion of PIP payments made for achieving financial goals.

Miscellaneous Fee Income – The Company proposed to increase fees for customer-requested turn-on or turn-off service after normal working hours, reconnects following disconnects, and returned checks; however, there wasn't a proposed adjustment for the additional revenue these increased fees would generate. Along with reducing the amount of the fee increases for turn-on and turn-off service and reconnects following disconnects (see below) to avoid customer rate shock, the settlement adjusts operating income to account for these increased revenues. The effect of the adjustment increases revenue by approximately $1,000.

	Current	**Proposed**	**Settlement**
Customer Requested Turn On/Off After Hours	-	211.00	45.00
Customer Requested Turn On/Off Weekends & Holidays	-	264.00	50.00
Reconnection After Disconnection Regular Working Hours	20.00	34.00	30.00
Reconnection After Disconnection After Hours	30.00	226.00	55.00
Reconnection After Disconnection Weekends and Holidays	30.00	279.00	60.00

COST OF CAPITAL AND RATE OF RETURN

MidAmerican's initial electric filing requested a 7.596 percent overall rate of return using a capital structure of 49.210 percent debt and 50.790 percent common equity, based on a 12 month average ending May 31, 2014. The embedded cost of debt associated with this capital structure was 4.391 percent, and the requested rate of return on equity was 10.70 percent. Staff's analysis initially challenged all three components of the overall rate of return: (1) embedded cost of debt, (2) the capital structure, and (3) the required return on equity.

[Begin Confidential]

[End Confidential], the settlement overall rate of return is 6.92 percent.

RATE DESIGN ISSUES

The Parties agree in principle on all issues regarding rate design and the class revenue distribution. The settlement position reached between Staff and MidAmerican is discussed below.

Class Cost Allocation/Spread of the Increase -- MidAmerican's class cost of service study indicated that revenues generated under present rates exceed the allocated cost of service for the Small General Service Class. At the same time, present rate revenues for the Large General Service class were significantly deficient, when compared with the other two rate classes. Revenues from the Residential Class were closer in line with the system-wide revenue deficiency on a percentage basis. The Commission Staff took issue with the way in which MidAmerican allocated the cost of transformers to the various classes of service based on the weighted number of customers in each class. Staff has routinely argued in electric rate cases that transformer costs should be allocated on the basis of class non-coincident peak ("NCP") loads. Under the Company's approach, the Commission Staff contends, far too much cost responsibility is allocated to the Residential class.

The Commission Staff agrees with MidAmerican that class revenues should be moved closer to the indicated cost of service (using an NCP allocation for transformer costs). The Commission Staff objected, however, to moving all classes to their indicated cost of service level in a single rate case. Were we to do so, customers in the Small General Service Class would receive a revenue decrease and Large General Service customers would see much larger-than-average increases. To effect gradualism in rate changes and to avoid rate shock for Large General Service customers, the Commission Staff supports a rate moderation plan and recommended that no class or subclass receive a revenue decrease as a result of this rate proceeding and no class or subclass receive an increase greater than 1.5 times the total Company increase. The Company offered a proposal reflecting these guidelines, which Commission Staff accepted. As a result, the Residential Base Use class will see a 5.65 percent increase in class revenues, the Small General Service customers will see no change in class revenues and the Large General Service customers will receive an 8.50 percent increase. The overall increase agreed to by the Company and the Commission Staff is 5.66 percent.

Rate Design – MidAmerican's initial proposal called for the consolidation of their 29 current price schedules, clauses, and riders into 19 price schedules, clauses, and riders. This meant the elimination of ten of their current electric subclasses, as determined by a cost of service study which identified a cost to serve convergence of the various subclasses.

Although Staff generally agreed with these proposed changes, revisions were needed to promote rate moderation and avoid rate shock, as discussed above regarding the spread of the increase. Thus, the Company decided to forego these tariff changes for settlement purposes.

MidAmerican's currently effective monthly customer service charge for the Residential class is $7.00. MidAmerican proposed to increase the present rate to $8.50. In settlement, the parties agreed to limit the increase to the Residential monthly customer service charge to $8.00, as Staff believes this monthly service charge is supported by the underlying costs to serve Residential customers.

OTHER ISSUES

Transmission Cost Recovery Adjustment – MidAmerican proposed to implement a Transmission Cost Recovery adjustment clause which would include costs assessed to MidAmerican by the Midcontinent Independent System Operator, Inc. (MISO), including a portion of the costs associated with its regionally-allocated electric transmission facilities as reflected in MidAmerican's transmission rates approved by the Federal Energy Regulatory Commission (FERC). The costs assessed by MISO include MISO administrative costs (MISO FERC Transmission Rate Schedule 10) as well as MISO regional transmission costs (MISO FERC transmission Rate Schedules 26 and 26-A). With respect to the portion of MidAmerican's regionally-allocated transmission facilities, Staff proposed to use the "refined split method" that it has used for Otter Tail Power Company and Xcel Energy based on the facts and circumstances in those other proceedings. The MidAmerican TCR clause will instead utilize the MidAmerican rate templates filed with the FERC. Replacing the overall rate of return reflected in the FERC rate template will be an overall rate of return based on the Company's actual capital structure, including short-term debt, actual long-term debt costs as of the prior year, 12-month average short-term debt costs for the prior year, and the ROE approved in this rate case. This information will be used to compute an adjustment applicable to that portion of the MidAmerican regionally allocated transmission costs to be recovered via the TCR clause.

Staff believes this methodology accomplishes the same intent as the "refined split method" in a manner that is more administratively efficient.

The TCR clause information will be updated each year in a filing pursuant to SDCL 49-34A-25.1-25.4, including an update to all elements of the cost of capital other than the ROE, which will be updated with a change in general rates. This filing will also include a reconciliation comparing actual costs to actual revenues collected for the previous year. The resulting over/under recovery, including a carrying charge, will be included in the calculation of the next year's revenue requirement and rates.

The forecasted TCR revenue requirement for the period July 13, 2015, through December 31, 2015, based on the methodology described above, is $79,805. The resulting rates per customer class are:

Customer Class	Rate per kWh
Residential	$0.00097
SGS Energy	$0.00204
SGS Demand	$0.00033
LGS	$0.00063
Lighting	$0.00030
Municipal Water Pumping	$0.00084

Energy Cost Adjustment Clause – MidAmerican proposed to make the following changes to the Energy Cost Adjustment (ECA) clause: 1) include costs for consumable chemicals used at coal-fired generating stations to meet environmental emission control requirements; 2) offset energy costs with PTCs at the pre-tax level, reduced for any negative energy settlements; 3) include 90% of the revenue from sales of renewable energy credits (RECs), carbon dioxide credits, or other environmentally related benefits associated with renewable power projects; and 4) change to an annualized ECA clause instead of monthly filings.

The settlement accepts changes 1, 2, and 3. However, in regards to item 4, Staff was concerned an annual ECA clause may subject customers to large changes in rates that would be amplified by an ECA factor that was only updated once a year. Therefore, the Parties agree that MidAmerican will review ECA balances quarterly. When the projected cumulative account balance divided by projected jurisdictional sales equals or exceeds ± $0.001, a revised ECA Factor will be determined and filed for implementation with the next month's billing cycle.

In addition, the Parties agree that 100% of wholesale margins will be credited to ratepayers through the ECA. Flowing through the margins directly to customers through the ECA ensures that neither ratepayers nor the Company are disadvantaged by a non-representative margin included in base rates.

Given MidAmerican's significant investments in wind generation for which the favorable economics hinge on the benefits customers are to receive through the ECA, Staff pursued some protection for customers to ensure that some level of these benefits will continue. MidAmerican agreed to guarantee a pre-tax minimum of $5.5 million in PTCs will be included as a credit in the ECA over the moratorium period. If at the end of the moratorium period this pre-tax amount of PTCs has not been realized, MidAmerican will submit to the Commission a method to include the deficit PTCs in the ECA. MidAmerican will submit to the Commission in February of each year during the moratorium period as part of its annual ECA filing a summary of the cumulative amount of PTCs that have been credited to the ECA. As described further in the settlement stipulation, the guarantee described above will be subject to downward adjustment if MISO restricts wind energy production due to electric system conditions.

The monthly ECA factor for July will be applied to sales only through July 12, 2015. The ECA factor to be effective July 13, 2015, through December 31, 2015, is $(0.00038) per kWh. A reconciliation will be done in August comparing July ECA recoveries to July cost of energy. The cost of energy for the period of July 1-12 will be calculated using the current methodology of calculating recoverable fuel costs. The cost of energy for the period of July 13-31 will be calculated using the proposed methodology of calculating recoverable fuel costs. The amount of over/under recoveries relating to the July reconciliation will be added to the balance of over/under recoveries already on MidAmerican's books. The balance of the over/under recoveries will be included in projecting the cumulative excess or deficiency balance for the current year during the quarterly review.

Rate Moratorium – The Parties agree that MidAmerican shall not file any rate application for an increase in base rates which would go into effect prior to February 1, 2018, subject to the occurrence of certain extraordinary events.

Implementation of Rates – The tariffs shown on Exhibit A attached to the Stipulation are proposed to be implemented for service rendered on or after July 13, 2015. Customer bills will be prorated so that usage prior to that date is billed at the previous rates and usage on and after that date is billed at the new rates. As noted above under Wind VIII and Capital Projects In-Service by 5/31/15, the Parties have agreed to a two-step increase. Rates based on the revenue requirements including the Highland Wind Project and the Southland Substation Project will be implemented on July 13, 2015. In order to recognize that these two projects are not yet in-service, customers will receive a credit (step increase adjustment) on their bills from July 13, 2015, until the time the projects are placed in-service no later than December 31, 2015. MidAmerican will notify the Commission once both projects are in-service and the step increase adjustment will cease. The step increase adjustment factor is calculated by subtracting the revenue deficiency including the two projects from the revenue deficiency excluding the two projects and then dividing by total kWh. This results in a rate of $(0.00167) per kWh.

Interim Rate Refund – Interim rates were implemented on February 1, 2015. Approval of the Settlement will authorize a rate increase less than the interim rate level. The Company agrees to refund customers the difference between interim rates and new rates established by the settlement for usage during the period February 1, 2015, through July 12, 2015. As part of the refund, MidAmerican will include interest, calculated by applying a 7% annual interest to the average refund balance for each month that interim revenues were collected. The Company will file a separate proposal for the interim rate refund.

Depreciation Rate Study Commitment – Through discovery Staff reviewed the depreciation rate changes that have been implemented by the Company based on periodic engineering studies performed either by the Company or its consultants. Many of these depreciation rate changes were made between rate case filings with the Commission.

The annual depreciation expense allowances that are reflected in the Company's financial reports are affected by any changes in the accrual rates derived from the engineering studies commissioned by the Company and these expense allowances represent significant components of its gas and electric revenue requirements. Moreover, the ratemaking allowances for depreciation expense represent the recovery of plant investment from ratepayer contributions that are recognized in rate base determinations in subsequent rate cases by deducting amounts then reflected in the Company's financial reports as accumulated depreciation. Because of the significance of depreciation rate accruals rate changes between rate cases, Staff proposed that MidAmerican advise the Commission of the results of any depreciation studies conducted of its gas and electric utility plant. This commitment is incorporated in the NG14-005 and EL14-072 Settlement Stipulations.

RECOMMENDATION

Staff recommends the Commission approve the Settlement for the reasons stated above.