BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF SOUTH DAKOTA

IN RE:	)	
MIDAMERICAN ENERGY COMPANY	)	
	)	**DOCKET NO. EL14-_____**
	)	

DIRECT TESTIMONY
OF
DEBRA L. KUTSUNIS

Q. Please state your name and business address.

A. Debra L. Kutsunis. MidAmerican Energy Company ("MidAmerican"), 106 East Second Street, Davenport, Iowa 52801.

Q. By whom are you employed and in what capacity?

A. I am employed by MidAmerican as manager, regulated pricing.

Q. Please describe your education and business experience.

A. I am a graduate of Augustana College in Rock Island, Illinois where I received a Bachelor of Arts degree in Accounting and Business Administration in 1979. I have been employed at MidAmerican or a predecessor company, Iowa-Illinois Gas and Electric Company ("Iowa-Illinois") since August 1983. Since August 2002 I have been manager, regulated pricing, where I direct activities related to gas and electric pricing, tariff filings and rate cases. From January 1998 through July 2002 I held the positions of regulatory analyst and manager, customer choice initiatives in MidAmerican's unregulated retail services division. Prior to January 1998, I held various analyst and senior analyst positions in the rates, gas supply, customer service and accounting departments. Prior to joining Iowa-Illinois, I was employed in public accounting.

Q. Have you testified before the South Dakota Public Utilities Commission ("Commission") or other regulatory bodies previously?

A. Yes, I have testified before the Iowa Utilities Board and Illinois Commerce Commission in electric rate case and energy efficiency proceedings.

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to sponsor MidAmerican's tariffs, support proposed changes to MidAmerican's Energy Cost Adjustment ("ECA") clause and describe how MidAmerican's proposed Transmission Cost Recovery ("TCR") clause will function. I also sponsor rate case expenses and cash working capital.

Q. Are you sponsoring any exhibits in the filing?

A. Yes. I am sponsoring Exhibit DLK 1.1, which includes the following schedules:

- Schedule A: Rate Schedules Being Eliminated
- Schedule B: Proposed Tariff No. 2
- Schedule C: Transmission Cost Recovery Clause Calculation
- Schedule D: Roll-out of ECA and TCR Amounts from Base Rates
- Schedule E: Rate Case Expenses
- Schedule F: Cash Working Capital

Q. Please describe the final tariff changes being proposed.

A. The proposed final tariff is a complete revision of the existing South Dakota electric tariff. MidAmerican has not had an electric base rate case since its formation in 1995, so the tariff has remained substantially unchanged since then. MidAmerican is proposing to cancel its entire electric rate schedule MidAmerican Energy Company Electric Tariff No. I ("Tariff No. I") and replace it with a new MidAmerican Energy Company South Dakota Electric Tariff No. 2 ("Tariff No. 2"). MidAmerican is proposing revised language to provide uniformity with MidAmerican's other service territories and additional clarity. These changes reflect input from employees in MidAmerican's

customer service and delivery organizations who work with customers on a daily basis.

Q. How are the proposed tariffs organized?

A. The tariffs are still organized into the six major sections listed below as prescribed by the South Dakota Administrative Rules § 20:10:13:04, but Section 5 has been divided into seven new subsections for greater clarity:

1. Table of Contents
2. Preliminary Statement
3. Electric Rate Schedules
4. Contracts With Deviations
5. Rules and Regulations for Electric Service
    a. Electric Service Policies
    b. Customer Service Policies
    c. Technical and Operational Requirements
    d. Expansion of Electric Distribution System
    e. Existing System Modifications
    f. Miscellaneous Fees and Charges
    g. Electric Interconnection of Distributed Generation Facilities
6. Sample Forms

Q. Please describe the Electric Service Policies subsection.

A. The Electric Service Policies subsection provides definitions of terms used throughout the tariff and identifies general provisions and other general requirements. This is a new subsection that includes requirements for service

that were not completely stated in the previous tariff such as: availability of the tariff, customer fire or casualty, exclusive service, protection of service, and agency. Existing language regarding irregularities and interruption of service, resale or redistribution of electricity, and limitations of liability has also been relocated to this subsection of the tariff.

Q. Please provide an overview of the Customer Service Policies subsection.

A. The Customer Service Policies subsection provides information about the policies that govern the Company's interaction with customers. This subsection includes information about application for service, bill payment options, credit requirements, disconnection and reconnection of service, deferred payments and preferred due dates. This section also includes additional information about the assignment of rates and billing adjustments. Customer Service Policies includes all information from the former "Credit and Collection – Customer Deposits" subsection, in a more organized manner, except for the various charges which have been moved to the new Miscellaneous Fees and Charges subsection. Additionally, this subsection incorporates various paragraphs from the former "Service Rules and Regulations" subsection which are customer-service oriented, including application, billing and payment for service, some disconnect information, billing adjustments, diversion or unauthorized use, and meter testing.

Q. What information is included in the Technical and Operational Requirements subsection?

A. Existing language from the former "Service Rules and Regulations" subsection regarding regulative and protective devices and master metering has been refined and is now included in this subsection. This section also defines standard service and outlines customer and Company responsibilities, inspections, and parallel generation. Metering and other facilities provided by the customer and Company are also described in this portion of the tariff.

Q. Please describe the Expansion of Electric Distribution System subsection.

A. This subsection of the tariff expands language from the former "Electric Extension Policy" subsection and defines Company and customer obligations for expansion of the electric distribution system more clearly. The section identifies the free standard service allowance and defines the base revenue credit available for electric distribution extensions. This tariff also describes refundable advances, which may be required for electric distribution extensions where construction costs exceed the base revenue credit. New language was also added for system expansions over $100,000, distribution system facilities provided and additional surety required for extensive plant additions over $1 million.

Q. Are any provisions in the proposed Expansion of Electric Distribution System subsection different than the provisions of the current tariff?

A. Yes. Changes were made to simplify the application of the system expansion policies. Some of the major differences are as follows:

- There is no longer any differentiation in the proposed tariff between a customer within city limits and outside city limits.

- The treatment of overhead and underground expansions has been made more consistent in the proposed tariff. Underground expansions still require additional site preparation that is unique to underground expansions, but the standard expansion and service line extension policies are the same for both.
- The revenue credit that is applied against construction costs to determine if a refundable advance is needed is now explicitly defined as three times base revenue.
- The proposed refund period for the refundable advance is extended from five years to ten years.
- Proposed new language in subsection "Existing System Modifications" within Section 5 clarifies the requirements for an overhead to underground conversion.

Q. Please describe the major elements of the Existing System Modifications subsection of the tariff.

A. This portion of the tariff provides information about relocations, conversion of overhead to underground, or other modifications to facilities. The tariff requires customers to pay for such relocations or modifications when caused by the customer.

Q. What is provided in the Miscellaneous Fees and Charges subsection of the tariff?

A. This subsection of the tariff provides a single location for other charges or fees applicable to multiple rate schedules. Examples of such charges are returned check charges and the cost of meter testing. Placing all additional charges in a single section of the tariff will make it easier for customers to identify all additional charges which may apply to them.

Q. What changes are you proposing to miscellaneous fees and charges for purposes of final rates?

A. MidAmerican is proposing to change the returned check charge. Electric Tariff No. I currently includes a charge of $11. The current gas tariff includes a charge of $30 and has been in place since 1999. As most of MidAmerican's electric customers are also MidAmerican gas customers and a myriad of returned check fees is confusing and difficult to administer, MidAmerican is proposing a $30 charge for returned checks for consistency with its gas tariff.

MidAmerican also proposes to continue customer-requested turn-on or turn-off service at no charge during normal working hours. After normal working hours, MidAmerican is proposing a charge for time and materials for turn-on or turn-off.

MidAmerican is also proposing to update charges for reconnection following a disconnection of service. Tariff No. I currently includes a charge of $20 during regularly scheduled working hours and $30 after hours, Sundays and holidays. MidAmerican is proposing to adopt a time and materials charge throughout its service territory with this tariff.

Q. Please describe the Electric Interconnection subsection of the tariff.

A. Electric Interconnection provides the technical standards and requirements for connecting distributed generation facilities to MidAmerican's system consistent with South Dakota Administrative Rules § 20:10:36.

Q. What is included in subsection Sample Forms?

A. This subsection of the tariff includes a copy of the proposed standard residential bill form, residential and commercial application for service, deferred payment agreement, disconnect notice, and the customer information release form. Having these forms in the tariff provides a handy reference for current and prospective customers.

Q. What are the primary elements of the Electric Rate Schedules section of the tariff?

A. This is the section of the tariff that provides the rate schedules, including applicable charges. Each rate schedule also describes its application to specific customers. The rate schedules are identified with alphabetic designations which are designed to be intuitive for readers searching for a specific rate. Residential Service, for example, will be designated as "Rate RS – Residential Service" rather than "RBD – Residential Base Use." General Service – Energy Only, for example, will be designated as "Rate GE – General Energy Service" rather than "GBD – General Service, Base – Energy Only Metering."

Q. Please describe the new rate schedules.

A. MidAmerican is proposing to consolidate and unify its rate schedules. MidAmerican is proposing to move from 29 different price schedules, some with multiple rate code designations associated with a single price code, to 19

permanent rate schedules, clauses and riders. These rates are based on the cost of service study and rate design sponsored by MidAmerican witness Charles Rea. The new rate schedules proposed include:

- Rate RS – Residential Service is available to all residential customers for use in single-family dwelling units using less than 50,000 kWh annually. Cost of service classifications of Residential Base and Residential Heat correspond to Rate RS.
- Rate RST – Residential Time-of-Use Service is an optional rate available to all customers qualifying for Rate RS who prefer a time-differentiated rate.
- Rate GE – General Energy Service is available to any non-residential customer and residential customers using more than 50,000 kWh annually. Cost of service classifications of SGS Energy Base and SGS Energy Heat correspond to Rate GE.
- Rate GET – General Energy Time-of-Use Service is an optional rate available to any customers qualifying for Rate GE who prefer a time-differentiated rate.
- Rate GD – General Demand Service is available to any non-residential customer and requires a demand meter. The rate includes billing a minimum demand charge based on 10 kW. Cost of service classifications of SGS Demand Base and SGS Demand Heat are associated with Rate GD.
- Rate GDT – General Demand Time-of-Use Service is an optional time-differentiated rate available to customers who would be billed under Rate GD as their standard rate.

- Rate LS – Large Electric Service is available to any non-residential customer and requires a demand meter. The rate includes billing a minimum demand charge based on 200 kW. Rate LS is included in the cost of service classifications of LGS Base and LGS Heat.
- Rate LST - Large Electric Time-of-Use Service is an optional time-differentiated rate available to non-residential customers who would be billed under Rate LS as their standard rate.
- Rate SS – Substation Service is available to any non-residential customer taking service directly from a Company-owned substation whose primary voltage is 69 kV and above. The rate includes billing a minimum demand charge based on 200 kW. Rate SS is included in the cost of service classification of VLGS.
- Rate SST – Substation Time-of-Use Service is an optional time-differentiated rate available to non-residential customers who would be billed under Rate SS as their standard rate.
- Rate MWP – Municipal Water Pumping is available to municipal water and sewage pumping plants. Rate MWP corresponds to the cost of service classification of Water Pumping.
- Rate SAL – Street and Area Lighting is available to municipalities and non-governmental entities for the purpose of lighting public streets and highways and other dusk to dawn lighting services. Rate SAL is included in the cost of service classification of Lighting.
- Rate QF – Cogeneration & Small Power Production Facilities provides the rates, terms and conditions for purchases by the Company from customers with

cogeneration or small power production facilities 100 kW or less. This new rate corresponds to the former Rider No. 54 – Qualifying Cogeneration and Small Power Production Purchases.

Q. Please describe the Clauses and Riders portion of the tariff.

A. The clauses and riders include additional charges that are applicable to all rates. These clauses and riders include:

- ETA – Electric Tax Adjustment, which includes state and local taxes. This is a continuation of the current ETA.
- Clause TCR – Transmission Cost Recovery, which recovers certain transmission costs. This is a new adjustment clause. The application and function of the TCR clause is discussed further at a later section of this testimony.
- Clause ECA – Energy Cost Adjustment, which recovers costs related to the production of energy and purchased power. This is an existing adjustment clause with modifications. The changes to the ECA are discussed further in a later section of this testimony.
- Clause EECR – Energy Efficiency Cost Recovery, which recovers the cost of approved electric energy efficiency programs. The only change to this section is the reference to the new rate designations. There is no change to the application and function of the EECR.
- Rider EF – Excess Facilities, which defines the payment provisions for customers requesting additional facilities in excess of a normal installation. This is a new rider.

- Rider SPS – Standby and Supplementary Power Service which applies to customers with customer-owned generation and provides power for all or a portion of the customers needs. This is a new rider.

Q. Is MidAmerican proposing to eliminate any rates or riders in this filing?

A. Yes. MidAmerican is discontinuing a number of rates where there are no longer customers taking service under the rate or there is no longer a need to separately designate the rate. A summary of rates being eliminated and the reason for their elimination is attached as Exhibit DLK 1.1, Schedule A.

Q. Are MidAmerican's proposed tariffs included in this filing?

A. Yes. Included in this filing are MidAmerican's proposed tariff sheets as Exhibit DLK 1.1, Schedule B. In addition, MidAmerican will supplement this filing with a comparison within 30 days of the present and proposed tariffs including cross-referencing.

Q. Do the rate schedules proposed in this tariff reflect the revised rates requested in this case?

A. Yes. The proposed rate schedules include the revised rates to implement the revenue requirement described in the direct testimony of MidAmerican witness Tunning and rate design of MidAmerican witness Rea in this case. Filing requirement 20:10:13:41, comparison of sales, services and revenues, demonstrates that the proposed rates will recover the revenue requirement.

Energy Cost Adjustment Clause

Q. Please describe MidAmerican's proposed changes to the Energy Cost Adjustment ("ECA") clause.

A. MidAmerican is proposing to modify the ECA to become effective with final rates in this rate case. MidAmerican's existing ECA is designed to recover the fuel and purchased power costs related to sales to South Dakota retail customers. With this filing, MidAmerican seeks to also include consumable chemical costs. MidAmerican also proposes to apply production tax credits ("PTCs") at the pre-tax level, reduced for any negative energy settlements from the related renewable energy projects, and 90% of the revenue from sales of renewable energy credits ("RECs") to offset some of these costs. Because these credits may be very volatile from month-to-month, MidAmerican is proposing to change to an annualized ECA clause.

Q. What fuel and purchased power costs will be included in MidAmerican's base rates?

A. MidAmerican is proposing to continue to include all fuel and purchased power costs related to South Dakota jurisdictional sales in the ECA so that none of these costs remain in base rates.

Q. Are there differences between the ECA as currently authorized by the Commission and MidAmerican's proposal?

A. Yes. MidAmerican's proposed ECA cost recovery includes three additional items: (i) costs for consumable chemicals used at coal-fired generating stations to meet environmental emission control requirements. Such chemical costs include those incurred to purchase supplies of lime, urea and activated carbon and are recorded in accounts 502009, 502010 and 502011; (ii) offset of energy costs with PTCs recorded in account 409.1 at the pre-tax level, reduced for any

negative energy settlements from those renewable power projects that result during the period the projects are eligible for the production tax credit, as recorded in account 447043; and (iii) 90% of revenue from sales of renewable energy credits, carbon dioxide credits or other environmentally related benefits associated with renewable power projects as recorded in account 456. My testimony below demonstrates that these items are reasonable for inclusion in the ECA.

Q. Please explain why the additional items MidAmerican is proposing for inclusion in its ECA are reasonable.

A. The chemical costs which MidAmerican proposes to include in the ECA are necessary for supplying energy due to environmental requirements and are beyond management's direct control; and certain of the costs, such as the cost of urea, which is a byproduct of natural gas, can reflect price volatility, similar to other costs currently recovered in the ECA.

MidAmerican is also proposing to offset fuel and purchased power costs with PTCs at the pre-tax level reduced for any negative energy settlements from those renewable power projects that result during the period the projects are eligible for the production tax credit as well as 90% of revenue from sales of RECs. MidAmerican believes these benefits, which are directly related to the generation of wind and other renewable energy, should flow back to the benefit of customers. These credits are also appropriate for inclusion in an adjustment clause because they are outside of the direct control of management and subject to change in level.

Q. Please explain why the costs of consumable chemicals should be included in the ECA.

A. Costs for consumable chemicals are beyond direct control of management, as the quantity of chemicals used is subject to changing environmental laws and regulations and depends upon the quantity of generation from each of MidAmerican's coal-fired generation units dispatched by the Midcontinent Independent System Operator, Inc. ("MISO") to meet customer loads. Costs for lime, urea, and activated carbon have been volatile from 2010 through 2013 as shown in the table below. Additionally, a primary component of urea is natural gas, the costs of which are subject to automatic adjustment in natural gas retail rates:

	Lime	Urea	Activated Carbon	Total
2013	2,945,293	1,025,767	422,799	4,393,859
% change from 2012	-17%	-24%	-26%	-20%
2012	3,562,265	1,353,135	574,465	5,489,865
% change from 2011	+5%	+85%	-13%	+15%
2011	3,373,692	729,809	658,343	4,761,844
% change from 2010	-25%	+4%	-11%	-20%
2010	4,510,372	704,304	741,048	5,955,724

Amounts are total Company.

Additional environmental controls being installed on MidAmerican's generation facilities are expected to increase the use of these consumable chemicals.

Q. Please explain why MidAmerican is proposing cost offsets by crediting the ECA with PTCs and RECs.

A. Similar to the fuel costs which are incurred in supplying energy and currently pass through the ECA, PTCs and RECs are generated in supplying energy. Also, similar to fuel costs, PTCs and RECs vary from month to month and season to season. Accordingly, MidAmerican requests that RECs and PTCs credits generated by MidAmerican's renewable energy production be used to offset costs incurred in supplying energy. MidAmerican is proposing to share 90% of REC revenues with customers and retain 10% of such revenues as an incentive, as the Commission has allowed for other utilities.

Q. Will MidAmerican include PTCs and RECs from all renewable energy sources?

A. MidAmerican will include 90% of revenue from the sale of RECs and 100% of PTCs for the South Dakota jurisdictional portion for all renewable energy facilities included in rate base and reflected in customer rates.

Q. Please explain how the inclusion of PTCs in the ECA will operate.

A. MidAmerican proposes to adjust the costs charged through the ECA by the pre-tax amount of federal PTCs, recorded in account 409.1, grossed up at the rate of 1.538. The credit will be reduced for any negative energy settlements from

those renewable power projects that result during the period the projects are eligible for the production tax credit.

Q. Why is it reasonable for PTCs to be grossed up at a rate of 1.538?

A. PTCs are a direct reduction to income taxes that must be paid. Grossing up the PTCs at a rate of 1.538 provides a reduction in revenue from the ECA by an amount that, when income tax rates are applied, would reduce income taxes by the amount of the PTCs.

Q. Does MidAmerican currently receive any carbon dioxide credits or environmentally related benefits, other than RECs or PTCs, that are associated with renewable power generation?

A. No, not at this time. However, MidAmerican is seeking general approval to return 90% of net revenues associated with the sale of other future environmental benefits to South Dakota retail customers through the ECA as an incentive. MidAmerican will file a compliance tariff filing to show the additional ECA element at the time if it is able to benefit from any such credits.

Q. Please provide an overview of how the ECA will function.

A. The ECA will be calculated annually and remain unchanged throughout the year. Annually, MidAmerican will estimate the next year's cost to generate and procure energy for its South Dakota jurisdictional retail load, net of PTC and REC offsets. These net costs, along with applicable true-up of costs from the previous reconciliation, will be divided by estimated South Dakota retail kilowatt-hour sales to determine an ECA factor rounded to the nearest $.00001/kWh. The factor will be applied to kilowatt-hours billed. ECA charges

will be billed monthly on a uniform per kilowatt-hour basis to all customers in all customer classes. The charge will be shown as a separate line item on the customer's monthly bill. The ECA tariff sheets included in Exhibit DLK 1.1, Schedule B provide the formula for this calculation. An example calculation using 2013 test year information is shown in Statement P of the filing requirements. The roll-out of the ECA costs from base rates is shown on Exhibit DLK 1.1, Schedule D.

Transmission Cost Recovery Clause

Q. Please provide an overview of MidAmerican's proposal for recovery of transmission-related revenue requirements from customers.

A. As outlined by MidAmerican witness Stevens' direct testimony, MidAmerican's jurisdictional transmission revenues and costs will be separated into two parts: those revenues and costs that are recovered in base rates and those costs that are recovered through the TCR clause.

Q. Please describe how MidAmerican separates the transmission costs between base rates and the TCR clause.

A. Test-year costs eligible for inclusion in the TCR clause are calculated by MidAmerican witness Stevens and test-year TCR clause values are calculated in Exhibit DLK.1.1, Schedule C. Roll-out of test year TCR amounts from base rates is shown on Exhibit DLK 1.1, Schedule D.

The balance of transmission costs and revenues that remain in the revenue requirement will be included in the base rates.

Q. Please provide an overview of how the TCR clause will function.

A. Annually, MISO Schedule 9, 10, 10-FERC, 26 and 26-A costs will be netted with forecasted MISO Schedule 26 and 26-A administrative and general revenues for the upcoming year. These net costs will be allocated to customer class based on the 12-CP allocation from the most recent calendar year historical period for which the information is available. The allocated costs will be divided by forecasted annual kilowatt-hour sales for those customer classes with energy only rates to determine the TCR factor rounded to the nearest $0.00001. The factor will be applied to kilowatt-hour sales.

The allocated costs will be divided by annual kW retail demand for those customer classes with kW demand rate components to determine the TCR factor rounded to the nearest cent. The factor will be applied to all retail kW demand sales. TCR rates are calculated in Exhibit DLK 1.0, Schedule C.

Q. Will the forecasted TCR costs be reconciled to actual costs?

A. Yes. As described in MidAmerican witness Stevens' direct testimony, the TCR factor will be based on forecasted costs and forecasted sales. By March 1 of each year, MidAmerican will file an update to the TCR clause based on new MISO rates and will reconcile the previous 12-month TCR clause revenues against actual costs imposed by MISO for that same 12-month period.

Q. How does MidAmerican propose to reflect TCR charges on customer bills?

A. MidAmerican will reflect TCR charges as a separate line item on customer bills.

Standby and Supplementary Service Rider

Q. Why is MidAmerican proposing a standby and supplementary service rider in this proceeding?

A. MidAmerican does not currently have a standby and supplementary service rider in South Dakota. MidAmerican offers this service in its other jurisdictions and wants to be prepared to provide such service in South Dakota should customers request it.

Q. Please describe the important provisions of MidAmerican's proposed rider.

A. MidAmerican's proposed Standby and Supplementary service rider applies to large customers with customer-owned generation taking service under Rates LS or SS. It includes a reservation charge that is made up of separate generation, transmission and distribution components.

Q. How are the reservation charges for the components determined?

A. The reservation charge for generation is determined by multiplying the generation fixed costs component for the Large General Service class on a per-kW basis by the equivalent forced outage rate ("EFORd") for the customer. The EFORd will be based on the customer's actual forced outage rate for the prior 12 months, if such information is available. If not, the EFORd will be based on average EFORd rates as published by MISO for the type of generation determined to be most similar to that operated by the customer. This effectively gives the customer credit for the likelihood that he will experience a forced outage at the same time as the Company experiences a system peak. The lower

the customer's forced outage rate, the less likely it is that he will have an outage at the time of the Company's peak. Therefore, the customer would pay a lower reservation charge.

The reservation charge for transmission for customers with loads of five MW or less will be determined by multiplying the transmission component of the LS tariff rate plus the TCR clause charge for Rate LS by the customer's EFORd, as the customer is small enough for his load not to be specifically taken into account in transmission planning. For customers with loads in excess of five MW, the transmission reservation charge will be the transmission component of the LS tariff rate plus the related TCR clause charge. This is appropriate because for customers of this size, transmission planning will specifically account for the possibility that the customer's load must be served.

There will be two separate distribution charges, a substation charge and a distribution service charge. All customers will pay the substation charge, but customers taking service under Rate SS will not pay the distribution service charge, consistent with how the rate was developed. It is appropriate that customers pay the full charge for substation and distribution service (except Rate SS) because the distribution assets built to provide backup service to customers of this size will generally be sized specifically to meet the customer's load.

Q. Will customers taking service under this rider receive any benefits of customer diversity?

A. Yes. The rates charged in Rider SPS are based on the standard rates for the large general service class. These rates reflect the benefits of diversity for that class as a whole.

Q. What other charges are assessed to customers under the Standby and Supplementary Service rider?

A. When a customer experiences a forced outage, the customer will be charged costs related only to the energy consumed, as he has already paid for his demand requirements related to forced outages through his reservation charges. The energy charges will be set at the greater of the energy cost component of the LS tariff plus the ECA, or the MISO locational marginal price for MidAmerican's load zone plus 10%. This provision is designed to discourage potential use of standby and supplementary service as a way for customers to gain access to MISO market prices when those prices are low and to protect other customers from subsidizing standby service customers when market prices are high.

Q. How will a standby service customer's planned maintenance outages be handled?

A. For planned maintenance outages, customers will be charged a daily generation and transmission demand charge based on the highest demand set during the outage multiplied by the number of days the outage is in effect. The daily rate will be the applicable generation and transmission reservation charges divided by the average number of billing days per month. The LS tariff energy charge

will be applied to all energy used, as will the ECA. These charges will apply only for the days the customer is actually taking service from the Company.

Rate Case Expense

Q. Please describe MidAmerican's proposed rate case expense adjustment.

A. This adjustment increases test year operating expenses for the estimated cost associated with litigating this rate case. Prior to the conclusion of the case, this estimate will be updated with actual values where available. The adjustment amortizes such costs over a five-year period. MidAmerican witness Tunning includes a pro forma adjustment for rate case expense. Supporting information for rate case expense is attached as Exhibit DLK 1.1, Schedule E.

Q. Why are these costs amortized over five years for purposes of this adjustment?

A. Since these costs are nonrecurring, it would not be equitable to include the entire amount in test year results. However, some recovery of these costs is appropriate since they were incurred specifically on behalf of MidAmerican's South Dakota electric customers. Five years was used as a reasonable approximation of the time between rate filings.

Cash Working Capital

Q. What cash working capital requirements are you supporting in your testimony?

A. I am supporting the cash working capital requirements shown on Exhibit DLK 1.1, Schedule F .

Q. Please define cash working capital.

A. Cash working capital is generally the amount of day-to-day capital required to operate a business. Cash working capital is required to cover the time lag between the expenditure of cash in the production and delivery of services and the collection of revenues from the sale of such services.

Q. How is the level of cash working capital to be included in rate base determined?

A. The level of cash working capital needed is determined by comparing the amount and timing of payments of costs MidAmerican must make in order to provide electric service to its customers with the amount and timing of the receipt of revenue from customers for that service. The amounts of costs and revenues are obtained from MidAmerican's accounting and customer service systems.

MidAmerican Statement F, Schedule F-3, Page 1 shows the calculation of cash working capital needs. In summary, the difference, measured in days, between the revenue lag and the expense lead, is multiplied by the total daily expense to determine the cash working capital amount.

Q. What are lag days and lead days?

A. Lag days refers to the time period between the rendering of service to a customer and the payment by the customer for that service. The revenue lag days used will be consistent across all items needed to provide electric service. Lead days refers to the time period between MidAmerican's acquisition of labor, materials, services and all other costs used to provide electric service and the payment for those costs by the Company.

Q. In this proceeding, what is the number of revenue lag days you propose to use?

A. The number of revenue lag days MidAmerican proposes to use in this proceeding is 33.99 days. Because MidAmerican has a significant amount of sales for resale revenues, separate revenue lags are computed for sales for resale revenues and retail revenues. These separate revenue lags were 36.14 days for retail and 24.04 days for sales for resale. The composite revenue lag days were then calculated based on the weighting of the annual retail revenues and the sales for resale revenues. The bases for the components of these revenue lag days are explained and summarized in Schedule F-3 Workpapers.

Q. Please explain how you determined a collection period of 20.0 days.

A. In the Settlement Stipulation of Docket No. NG95-006, the Company and Commission staff agreed to the use of a 20-day pay lag cut off since Section V, Sheet No. 1 of the Company's tariff (Tariff No. 1) filed with the Commission states that bills will be due twenty (20) days after the mailing date. Since a calculation of the collection period made by the Company utilizing actual data supports an amount greater than the 20 days used, the Company has made a pro forma adjustment to the test period income statement to remove late payment penalties. This adjustment, supported by Company witness Tunning, corresponds to the use of the 20-day pay lag cut off which does not reflect cost of service for payments made after the 20-day period. Such treatment is consistent with the position taken by Commission Staff in prior rate cases.

Q. What is the number of lead days you are proposing for expense items?

A. The number of lead days proposed is 34.53. The bases for the lead days for each expense item are explained in Schedule F-3 Workpapers.

Q. Is the method you have used in performing the cash working capital calculation consistent with that used in your most recent South Dakota case?

A. Yes. The methodology described above is consistent with that used in MidAmerican's electric case Docket No. EL95-11 and gas cases Docket Nos. NG95-006, NG98-011, NG01-010 and NG04-001.

Q. What is the amount of cash working capital that is included in the rate base included in MidAmerican Schedule F-3 and supported in the testimony of MidAmerican witness Mary Jo Anderson?

A. The cash working capital included in rate base is negative $19,000 and the advance tax collection is negative $13,000.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.