# STAFF MEMORANDUM

**TO:** COMMISSIONERS AND ADVISORS

**FROM:** KRISTEN EDWARDS, ERIC PAULSON, JOSEPH REZAC, AND LORENA REICHERT

**RE:** DOCKET EL16-004 – IN THE MATTER OF THE FILING BY MIDAMERICAN ENERGY COMPANY FOR APPROVAL OF TARIFF REVISIONS TO ITS TRANSMISSION COST RECVOERY 2015 RECONCILATION AND NEW FACTOR CALCULATION

**DATE:** March 24, 2016

## BACKGROUND

On February 12, 2016, MidAmerican Energy Company (MEC or Company) filed an Application for Approval of Transmission Cost Recovery (TCR) with the South Dakota Public Utilities Commission (Commission). The Company proposes their annual true-up of the actual amounts collected in the first partial year of the TCR, an estimated amount of revenues collected from January 2016 through March 2017, and the forecasted recovery of revenue requirements for April 2016 through March 2017. MEC proposes TCR rates effective April 4, 2016.

SDCL § § 49-34A-25.1 through 25.4 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for the jurisdictional costs of new or modified transmission facilities with a design capacity of 34.5 kV or more and which are more than five miles in length.

In Docket EL14-072, the Commission approved the establishment of the TCR, and the revenue requirement and rates associated with the first year of the TCR. MEC's Transmission Cost Recovery adjustment clause includes costs assessed to MEC 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 MEC'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). MEC's TCR clause utilizes the MEC rate templates filed with the FERC. MEC's TCR replaces the overall rate of return reflected in the FERC rate template with the 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 the last rate case, EL14-072. This information is used to compute an adjustment applicable to that portion of the MEC regionally allocated transmission costs to be recovered via the TCR clause. Staff and MEC developed this methodology in EL14-072 in order to accomplish the intent of the "refined split method" used for other utilities in a manner that is more administratively efficient.

In this docket, MEC proposes to recover a revenue requirement of $299,814, consisting of the forecasted revenue requirements of $263,829, plus the $18,784 true-up of actual amounts under collected in the first partial year of the TCR, plus $17,202 an estimate of amounts that will be under collected in the months of January 2016 through March 2016. MEC used the methodology as approved by the commission in docket EL14-072 including using the ROE as approved in the previous rate case where applicable in this filing.

The Company proposed to implement the following rates per kWh to the respective customer classes effective April 4, 2016:

| | |
|---|---|
| Residential | $0.00170 |
| Small General Service Demand | $0.00172 |
| Small General Service Energy | $0.00035 |
| Large General Service | $0.00121 |
| Water Pumping Service | $0.00085 |
| Lighting | $0.00075 |

## STAFF'S ANALYSIS AND ADJUSTMENTS

Staff conducted a comprehensive review of MEC's filing, assessed the filing's compliance with the statutes authorizing the transmission facilities tariff mechanism, obtained additional information through discovery, and ultimately came to a determination based on this analysis.

As a result of Staff's analysis, the Company agreed to the changes discussed below.

### 2015 TRUE-UP & APRIL 2016 – MARCH 2017 TCR REVENUE REQUIREMENT

**Revenue Requirement**
As a result of the following changes, the revised forecasted revenue requirement is $305,013, subject to later true-up to actual costs and recoveries, based on the forecasted revenue requirements of $267,982, plus $18,790 true-up of actual amounts under collected in the first partial year of the TCR in 2015, plus an estimate of the amounts that will be under collected in the months of January 2016 through March 2016, of $18,240.

**Carrying Charge**
The TCR will apply a carrying charge to be based on the monthly over-or-under recoveries on the cumulative over/under collection balance including carrying charges.

The parties agree the updated under-collection of the remaining balance as of December 31, 2015, modifying the accounting for the carrying charge, is $18,790. As proposed by the company, the previous months' carrying charges were not factored in to the current month carrying charge calculation on an ongoing basis. This has been corrected so that the carrying charge is now a rolling charge based on all over/under collections and carrying charges from the previous month. The modified treatment of the carrying charge is also applied to the forecasts for 2016.

**Capital Structure, Cost of Debt, and ROE**
The filing used a capital structure and cost of debt as of December 31, 2015, to calculate the April 2016 through March 2017 revenue requirements. MEC use the ROE approved in its last general rate case, Docket EL14-072.

**Filing Fee**
The Parties agree the filing fee is an eligible expense for inclusion in the TCR, and the revised TCR includes an estimate of $4,000 for the EL16-004 filing fee. The actual amount billed to the Company will be reflected in the next true-up filing.

**APRIL 2016 – MARCH 2017 TCR RATES**
The revised TCR rates are designed to be implemented effective April 4, 2016. The revised rates are based on forecasted sales from April 2016 through March 2017. The revised rates include revisions to the carrying charge calculation, inclusion of the carrying charge, costs assessed by MISO, including a portion of the costs associated with its regionally-allocated electric transmission facilities as reflected in MEC's transmission rates approved by the FERC, MISO administrative costs (MISO FERC Transmission Rate Schedule 10), and MISO regional transmission costs (MISO FERC transmission Rate Schedules 26 and 26-A). The net MISO costs used to determine the revenue requirement are allocated to customer classes based on the 12-CP allocation factors noted on page 5 of the filing. The revised TCR rates by customer class are as follows:

| | |
|---|---|
| Residential | $0.00173 |
| Small General Service Demand | $0.00175 |
| Small General Service Energy | $0.00037 |
| Large General Service | $0.00123 |
| Water Pumping Service | $0.00087 |
| Lighting | $0.00076 |

**OTHER ISSUES**

**ARSD 20:10:13:26**
The initial filing did not contain the reporting requirements contained in ARSD 20:10:13:26. This requirement provides valuable information pertaining to tariff rate changes. One of the key pieces of information that Staff was trying to gather was part (10) of this rule, Estimation of the number of customers whose cost of service will be affected and annual amounts of either increases or decreases, or both, in cost of service to those customers. Staff data request DR1-7 requested a report on this rule. As noted in the response to DR1-7 by MEC, a new application was filed on March 4 containing all of the relevant information pursuant to ARSD 20:10:13:26.

**Customer Notice**
ARSD 20:10:13:18 and ARSD 20:10:13:19 require various notices to customers. In the initial filing, MEC did not include proposed customer notices that will meet the requirements of ARSD 20:10:13:18 and ARSD 20:10:13:19. In Staff DR1-6, the company provided customer notices that meet the requirements of ARSD 20:10:13:18 and ARSD 20:10:13:19. However, MEC requests that the Commission not require individual customer notification of the rate change pursuant to ARSD 20:10:13:19, but instead allow the notice to be published in MEC's customer offices only.

## RECOMMENDATION

**APRIL 2016 – MARCH 2017 TCR rates**
Staff believes the Company's filing is consistent with the Settlement Stipulation approved in Docket EL14-072. The Company has responded to all data requests asked by Staff. Staff recommends the

Commission approve the revised April 2016 through March 2017 TCR revenue requirement and above mentioned revised APRIL 2016 – MARCH 2017 TCR rates with an effective date of April 4, 2016.

**Customer Notice**

Staff does not take a position on the Company's request for a waiver of the requirement to provide customer notices pursuant to ARSD 20:10:13:19. Staff would note on this issue, the company has a very small footprint in South Dakota with only around 4,500 customers. At the same time, while the increase percentage is small, the dollar impact is roughly $0.53 per month for the average residential customer using 750 kWh. The requirements of what needs to be contained in the customer notice are set forth in ARSD 20:10:16:01(2).