

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA**

**IN THE MATTER OF THE CONSIDERATION)  
OF THE NEW PURPA STANDARDS )**

**Docket No. NG09-006**

**COMMENTS  
OF  
MIDAMERICAN ENERGY COMPANY**

Pursuant to the South Dakota Public Utilities Commission's (Commission) Order issued on October 23, 2009, MidAmerican Energy Company ("MidAmerican") hereby submits its Comments in this proceeding, and in support of its Comments, MidAmerican states as follows:

**Background**

On December 19, 2007, the President signed the Energy Independence and Security Act of 2007 (EISA) into law. The Act adds two new federal standards to the Public Utility Regulatory Policies Act of 1978 (PURPA) for state commissions and utilities to consider. The standards are (1) Energy Efficiency; and (2) Rate Design Modification to Promote Energy Efficiency Investments.

The Commission commenced this proceeding to consider the two new PURPA standards at its October 6, 2009, meeting. The Commission unanimously voted to open a docket and complete its consideration by December 19, 2009, and set an intervention deadline of October 30, 2009.

At its October 6, 2009, meeting, the Commission set forth its procedural schedule wherein utilities and Commission Staff are to submit comments by October 30, 2009. A hearing is to be held on November 30, 2009. The issue at hearing is whether the Commission should implement the two new federal standards.

MidAmerican's Comments address the general PURPA/EISA standards within the comments below.

### **Comments**

MidAmerican is a multi-jurisdictional public utility providing natural gas and electric service to customers in the states of Iowa, Illinois, Nebraska and South Dakota. Pursuant to the Commission's directive, MidAmerican addresses the standards below to assist the Commission with its consideration of the EISA PURPA standards.

#### **A. Energy Efficiency**

Section 532(b) of EISA 2007 amends Section 303(b) of PURPA (16 U.S.C. 3203(b)) by adding a new standard that requires consideration of "Energy Efficiency" for gas utilities. The new standard provides:

- (5) ENERGY EFFICIENCY. – Each natural gas utility shall -
  - (A) integrate energy efficiency resources into the plans and planning processes of natural gas utility; and
  - (B) adopt policies that establish energy efficiency as a priority resource in the plans and planning processes of the natural gas utility.

PURPA Section 532.

MidAmerican notes that it recently began offering energy efficiency programs in its South Dakota service territory. MidAmerican also offers energy efficiency programs in Iowa and Illinois. MidAmerican does not go through a formal planning process in any of the jurisdictions it serves; however, MidAmerican does consider its energy efficiency resources as a priority resource in its system wide resource planning. MidAmerican does not believe it is necessary for the Commission to adopt a formal planning process to encourage cost-effective energy efficiency programs as a priority resource as many utilities such as MidAmerican use energy efficiency as a priority resource

without using a formal planning process.

In the state of Iowa, for approximately the last 18 years MidAmerican has been filing formal energy efficiency plans every five years. The Iowa energy efficiency plan is reviewed regularly and may be updated as needed. In 2008, a pilot energy efficiency plan was filed in Illinois. The Illinois pilot plan runs through 2012. An energy efficiency plan was approved for South Dakota in April 2009. The South Dakota energy efficiency plan runs through 2011. It is anticipated that new energy efficiency plans will be filed in both Illinois and South Dakota when the current plans expire.

Additionally, MidAmerican notes it also makes a Purchased Gas Adjustment (PGA) filing monthly in each state. Included as part of that filing in Iowa is an analysis of MidAmerican's contracted services as compared to system demand requirements. MidAmerican must contract for sufficient services to maintain reliable gas service to all customers on even the coldest day. MidAmerican contracts for adequate services to meet its maximum daily system demand requirement, and annually analyzes the demand for changes due to new customer growth and energy efficiency. Energy efficiency programs reduce system demand, and as such are reflected in reduced contractual requirements as soon as practical.

The Commission already encourages the filing of energy efficiency plans. Consequently, it would not be necessary for the Commission to adopt new planning standards or adopt policies that establish energy efficiency as a priority resource in the plans and planning processes of the natural gas utility.

**B. Rate Design Modifications to Promote Energy Efficiency Investments**

Section 532(b) of EISA 2007 amends Section 303(b) of PURPA (16 U.S.C. 3203(b)) by adding a new standard that requires consideration of “Rate Design Modifications to Promote Energy Efficiency Investments.” The amendment provides:

**(6) RATE DESIGN MODIFICATIONS TO PROMOTE ENERGY EFFICIENCY**

**(A) IN GENERAL.**—The rates allowed to be charged by a natural gas utility shall align utility incentives with the deployment of cost-effective energy efficiency.

**(B) POLICY OPTIONS.**—In complying with subparagraph (A), each State regulatory authority and each non-regulated utility shall consider—

- (i) separating fixed-cost revenue recovery from the volume of transportation or sales service provided to the customer;
- (ii) providing utility incentives for the successful management of energy efficiency programs, such as allowing utilities to retain a portion of the cost-reducing benefits accruing from the programs;
- (iii) promoting the impact on adoption of energy efficiency as one of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives; and
- (iv) adopting rate designs that encourage energy efficiency for each customer class.

PURPA Section 532.

MidAmerican generally supports adoption of rate design modification policies to promote energy efficiency since energy efficiency will play a very important role in meeting future resource needs. Although MidAmerican’s South Dakota energy efficiency plan already includes timely cost recovery of energy efficiency costs, the Commission may want to consider other policy changes to move energy efficiency to an even higher level.

For example, adopting rate designs that reduce or eliminate financial harm to utilities from declining sales will encourage utilities to make energy efficiency an integral part of their business. Gas utility earnings have already been impacted by implementation of energy efficiency programs

and natural conservation as building stock and appliance efficiencies improve. In order to help ensure the continuing financial health of utilities implementing energy efficiency it will be important to ensure that utility fixed costs continue to be recovered despite declines in sales.

However, it is important to recognize that for most customers, the cost of natural gas is the major component in the total cost of gas service. Since gas utilities pass through the cost of gas, price signals included in non-gas costs may be overshadowed.

There are several modifications the Commission could consider to help minimize the financial impact of energy efficiency program on natural gas utilities. They include:

- Decoupling, which separates the level of utility revenue from the amount of therms sold, removes the disincentive for a utility to pursue energy efficiency by eliminating the impact of resulting reductions in sales;
- Inclusion of the fixed costs of providing service to customers in the fixed monthly basic service charge;
- Granting of utility incentives for successful management of energy efficiency programs, such as those approved by the Commission;
- Inclusion of pro forma adjustments in rate cases to recognize the expected impact of use per customer reductions resulting from energy efficiency programs; and
- More frequent rate cases.

While decoupling likely provides the best assurance that utilities are compensated for usage reductions related to energy efficiency programs, it is also the most complicated solution. Decoupling may confuse customers, and it could result in customer backlash related to energy efficiency if the perception is that rates are being immediately adjusted to compensate for any usage

reductions. Perhaps the best solution is a combination of the other options. Movement of all fixed costs to the fixed monthly basic service charge also provides good assurance of lost margin recovery. However, it may be impractical to move all fixed costs to the basic service charge because of substantial impacts to small-use customers. An increase in the fixed costs included in the basic service charge could be effectively combined with utility incentives, pro forma adjustments or more frequent rate cases. By increasing the amount of fixed cost recovery, the magnitude of incentives or pro forma adjustments would be decreased or the frequency of rate cases reduced.

MidAmerican's recommendations are:

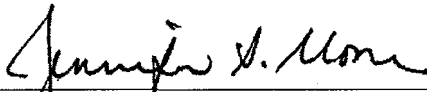
- The Commission should consider the movement of all fixed costs to the fixed monthly basic service charge. In doing so, the Commission should consider whether such a move would result in substantial negative impacts to small-use customers. This could be accomplished in the context of individual rate cases. The Commission need not adopt the standard.
- The Commission has already allowed incentives for the successful management of energy efficiency programs. The Commission need not adopt the standard.
- While MidAmerican believes the Commission should consider energy efficiency goals as one factor in establishing retail rate design, the Commission need not adopt the standard in order to do so. The Commission already has that authority.

**WHEREFORE**, MidAmerican Energy Company respectfully requests the South Dakota Public Utilities Commission give these comments due consideration. MidAmerican representatives will be made available to meet with the Commission or Commission Staff to answer any additional questions or to provide any additional information.

Dated this 30<sup>th</sup> day of October, 2009.

Respectfully submitted,

MIDAMERICAN ENERGY COMPANY

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