

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE
STATE OF SOUTH DAKOTA

| | | |
|-----------------------------------|---|-----------------------------|
| IN THE MATTER OF THE |) | |
| APPLICATION OF MIDAMERICAN |) | |
| ENERGY COMPANY FOR |) | |
| AUTHORITY TO CONTINUE ITS |) | DOCKET NO. NG16-____ |
| INCENTIVE GAS SUPPLY |) | |
| PROCUREMENT PLAN IN |) | |
| SOUTH DAKOTA |) | |

**REQUEST FOR CONTINUATION OF THE
INCENTIVE GAS SUPPLY PROCUREMENT PLAN**

COMES NOW MidAmerican Energy Company (“MidAmerican”) and herein requests that the South Dakota Public Utilities Commission (“Commission”) authorize continuation of the Incentive Gas Supply Procurement Plan (“IGSPP”) for MidAmerican and its customers. The term of the most recent continuation of the IGSPP ended October 31, 2016. As is further identified in this Request for Continuation of the Incentive Gas Supply Procurement Plan (“Request”), based on the history of the IGSPP and the significant benefits it has provided to customers, MidAmerican proposes to extend the IGSPP for an additional three years without further modification other than to extend the term.

In support of this Request, MidAmerican states as follows:

IGSPP Chronology and History

1. On May 1, 1995, Midwest Gas, a division of Midwest Power Systems Inc. (“Midwest”) filed with the Commission an application for approval to increase its rates

for natural gas service in Docket No. NG95-006 and requested that the IGSP be implemented. The IGSP implemented a mechanism by which Midwest's performance in purchasing and transporting natural gas to its purchased gas adjustment ("PGA") customers (i.e., sales-service customers) would be measured against a market-based benchmark for the delivered cost of gas. The amount of cost savings between Midwest's actual gas costs compared to the benchmark would be shared by Midwest and its customers. Subsequent to the filing, on July 1, 1995, Midwest Power Systems Inc. merged with Iowa-Illinois Gas and Electric Company to form MidAmerican.

2. As a result of negotiations between MidAmerican and Commission Staff, a Settlement Stipulation was entered into between the parties on September 28, 1995; however, the Settlement Stipulation reserved for hearing all issues related to the IGSP. Commission Staff and MidAmerican filed testimony on the IGSP and briefed the legal issues prior to a hearing on the matter, which hearing was held on October 5, 1995.

3. On October 17, 1995, at its regularly scheduled meeting, the Commission voted to approve the Settlement Stipulation, which decision was reflected in an order issued on November 8, 1995. In that order, the Commission approved the IGSP, making the same revisions to the IGSP as the Iowa Utilities Board ("IUB") did, for a three-year experimental period having an effective date of November 1, 1995.

4. The IGSP was initially approved by the IUB in Docket No. RPU-94-3 (*Midwest Gas, a Division of Midwest Power Systems Inc.*, Docket No. RPU-94-3, Final Decision and Order, (May 19, 1995); and *Midwest Gas, a Division of Midwest Power Systems Inc.*, Docket No. RPU-94-3, Order Granting Rehearing in Part and Denying

Rehearing in Part, (June 30, 1995)). The IUB made certain modifications to the IGSP, which the Commission made as well as noted below in its November 8, 1995 Order:

- The IGSP was approved for an initial three-year period beginning November 1, 1995. [P 8].
- MidAmerican was required to use actual volumes rather than contract entitlements (i.e., maximum contract volumes a utility may receive without paying penalties) in the calculation of the commodity portion of the Reference Price. [P 10].
- A semi-annual review comparing MidAmerican's actual costs to the Reference Costs every six months. [P 11].
- For the first year, the top of the tolerance band was 3.5 percent and the bottom of the band was the Reference Price. For the second year, the top of the tolerance band was 3 percent and the bottom was the Reference Price. For the third year, the top of the tolerance band was 2.5 percent and the bottom was one-half percent below the Reference Price. [P 12].
- Total savings or excess costs are incorporated into an adjustment to the PGA formula for the subsequent semi-annual period. The adjustment is tracked during the collection period with true-ups or reconciliations of over- or under-collections. [P 13]. MidAmerican implemented the collection by incorporating the factor into seasonably comparable periods.

5. The first comparison filing was due July 1, 1996. After the IGSP was approved, MidAmerican was allowed to add a factor to the PGA for the next seasonally comparable six months. Subsequent comparison filings were due two months after the

expiration of the remaining six-month periods. The Reference Price is filed on a monthly basis as part of the PGA.

6. On October 30, 1998, in Docket No. NG98-010, MidAmerican filed with the Commission an application for approval to continue the IGSP, requesting the Commission to continue the program for the later of an additional three-year period, or until such time as its PGA was eliminated, whichever came first.

7. The Commission Staff and MidAmerican entered into a Settlement Stipulation, which was filed with the Commission on August 8, 1999.

8. On August 26, 1999, the Commission approved the Settlement Stipulation which included the following changes to the IGSP:

(a) The tolerance band and the proportion in which customers and MidAmerican share costs and savings resulting from gas costs falling above or below the tolerance band was modified consistent with Illustration A below, as similarly depicted in the Settlement Stipulation.

Illustration A:

| | | |
|--|----------------------|------------------------------------|
| Actual Costs Relative to Reference Price | Above 4% | 100% PGA |
| | 4.00% | Penalty: 60% PGA / 40% MidAmerican |
| | 3.50% | |
| | 3.00% | |
| | 2.50% | |
| | 2.00% | |
| | 1.50% | |
| | 1.00% | Tolerance Band (100% PGA) |
| | 0.50% | |
| | Reference Price | |
| | -0.50% | |
| | -1.00% | |
| | -1.50% | |
| | -2.00% | Award: 75% PGA / 25% MidAmerican |
| | -2.50% | |
| | -3.00% | |
| | -3.50% | |
| | -4.00% | |
| | -4.50% | |
| | -5.00% | Award: 50/50 Sharing |
| | -5.50% | |
| -6.00% | | |
| -6.50% | | |
| -7.00% | | |
| -7.50% | | |
| -8.00% | Award: 50/50 Sharing | |
| -8.50% | | |
| Below -8.50% | 100% PGA | |

(b) The reinstated IGSP, as modified, began November 1, 1999 and continued for a period of three years ending October 31, 2002;

(c) The calculation and performance of the IGSP mechanism was to remain consistent with the manner in which the IGSP was calculated and performed during the initial three year term; and

(d) Consistent with past practices, MidAmerican's hedging activity related to winter commodity prices was excluded from the calculation of the IGSP. Nonetheless, MidAmerican would continue, consistent with past practices, to include in the IGSP calculation other hedging activity, including the hedges associated with MidAmerican's leased storage optimization program.

9. On August 27, 2002, in Docket No. NG02-007, MidAmerican filed with the Commission an application for approval to continue the IGSP, requesting the Commission to continue the program for an additional three-year extension of the IGSP commencing November 2, 2002 and ending October 31, 2005, with the following administrative modifications:

(a) For purposes of calculating the Reference Price, MidAmerican would utilize the *Gas Daily* publication for the daily reference price and eliminate the use of the *Btu Daily* publication. The reason for the change was that the *Btu Daily* publication was no longer commonly used within the natural gas industry.

(b) For purposes of calculating the Reference Price, MidAmerican would utilize the actual index prices referenced in its gas supply agreements to calculate the monthly Reference Price. This change allowed MidAmerican to utilize its actual commodity gas costs, as opposed to the then current mechanism,

which utilized an average of published gas commodity costs from *Inside FERC* and *Natural Gas Intelligence* (“NGI”). In many instances, only one of the above-referenced indices was appropriate for purchasing gas at a particular delivery point (e.g., at Chicago the accepted gas reference price is published in NGI, whereas at Northern Natural Gas Company (“Northern”) Demarcation the accepted gas reference price is published in *Inside FERC*).

10. MidAmerican stated that if the Request was approved, MidAmerican would otherwise administer the IGSPP pursuant to the terms and conditions previously agreed upon by MidAmerican and Commission Staff as set forth in the Settlement Stipulation approved on August 26, 1999 in Docket No. NG98-010.

11. On October 28, 2002, the Commission issued its Final Decision and Order approving the continuation of the IGSPP, with the modifications proposed by MidAmerican, for a three-year period commencing November 1, 2002 and ending October 31, 2005.

12. On October 5, 2005, the Commission issued its Final Decision and Order in Docket No. NG05-007, approving MidAmerican’s request to extend the IGSPP through October 31, 2010 on the same terms and conditions as approved in the Commission’s Final Decision and Order dated October 28, 2002 in Docket No. NG02-007.

13. On September 3, 2010, in Docket No. NG10-008, MidAmerican filed with the Commission an application for approval to continue the IGSPP, requesting the Commission to continue the program for a three-year period commencing November 1,

2010 and ending October 31, 2013, with the following modifications effective with such extension:

(a) MidAmerican would submit comparison filings of the actual costs of gas supply and transportation charges to the respective reference prices on an annual basis instead of semi-annually. This modification was intended to enhance the administrative efficiency of reporting on and reviewing the performance of the IGSP for MidAmerican, the Commission and Commission Staff. The schedule of the filings for the applicable 12-month periods was:

- Not later than December 31, 2011 for the 12-month period ending October 31, 2011;
- Not later than December 31, 2012 for the 12-month period ending October 31, 2012; and
- Not later than December 31, 2013 for the 12-month period ending October 31, 2013.

(b) Supply Reference Volumes. The supply reference volumes and associated costs would be determined by excluding all volumes and related costs and/or credit transactions currently reflected for purposes of sales for resale (“SFR”) transactions, transportation customer balancing or any non-PGA customer gas usage.

(c) Supply Reference Price.

(i) The supply reference price for supply used solely for the PGA customers, excluding long term fixed-price supplies, would be determined by multiplying the weighted average monthly index price

(weighted by MidAmerican's contracted pipeline receipt points) by volumes purchased on a monthly basis at first of the month index or fixed price that were delivered to PGA customers. A weighted average daily index price (weighted by MidAmerican's contracted pipeline receipt points available for daily supply) would be multiplied by volumes purchased at gas daily index price and/or a fixed price for delivery to PGA customers. MidAmerican proposed this modification to better reflect its procurement practices and its integrated distribution system, which makes it possible for MidAmerican to closely monitor prices on multiple pipelines and receipt points in order to procure the lowest cost supply for PGA customers. MidAmerican also believed that this modification would enhance the administrative efficiency of reporting on and reviewing the performance of the IGSP for MidAmerican, the Commission and Commission Staff because the proposed methodology was consistent with methodology in the Iowa IGSP.

(ii) With respect to the supply reference price for the long term fixed-price supply used solely for the PGA customers, the supply reference price would be equal to the actual price paid for such supply. MidAmerican believed the proposed modification would protect both the PGA customers and MidAmerican from future natural gas market conditions which neither party could control.

(iii) With respect to the gas supply premium costs that MidAmerican pays to suppliers or the gas supply discounts that

MidAmerican receives from suppliers on behalf of the PGA customers, primarily for winter natural gas supply requirements, the actual gas supply premium costs paid by MidAmerican to suppliers and the actual gas supply discounts received by MidAmerican from suppliers would be included in the supply charges component of the reference costs, which would set the reference costs of such premium costs and discounts equal to the actual costs MidAmerican pays suppliers or the actual discounts that MidAmerican receives from suppliers. MidAmerican stated that it incurs these premium costs or receives the discounts on behalf of the PGA customers in order to assure firm natural gas supplies are available primarily during the winter heating seasons when natural gas supplies can become limited. As such, MidAmerican believed the impact of these premiums and/or discounts should not impact the IGSP reward or penalty and as such, proposed to set the reference price equal to the actual costs for that reason. The proposed methodology was also consistent with methodology in the Iowa IGSP.

(iv) The total reference costs calculated would be compared to all net actual supply costs booked to the PGA customers only (all expenses billed to and credits incurred for non-PGA customers would appropriately be excluded from actual supply costs).

(d) Transportation Reference Volumes and Costs. The reference price for transportation commodity charges would be determined by multiplying the delivered supply and storage injection volumes (which exclude non-PGA

related volumes) by the weighted average transportation commodity price (weighted by MidAmerican's contracted pipeline receipt points). The reference price for all other transportation charges (e.g., storage injections and withdrawal charges, balancing service charges) ("TC") would be equal to actual costs. All transportation volumes and costs would be included as a component of total supply ("GC") costs for IGSP purposes (for both reference and actual costs) because some TC costs or credits are currently included in the actual GC costs component (e.g., SFR or transportation customer balancing transactions). MidAmerican proposed this modification to better reflect its procurement practices and its integrated distribution system, which makes it possible for MidAmerican to closely monitor prices on multiple pipelines and receipt points in order to procure the lowest cost supply for PGA customers. MidAmerican also believed that this modification would enhance the administrative efficiency of reporting on and reviewing the performance of the IGSP for MidAmerican, the Commission and Commission Staff because the proposed methodology was consistent with methodology in the Iowa IGSP.

(e) Storage Supply Reference Costs.

(i) MidAmerican proposed to discontinue incorporating hedging activity in the IGSP calculation, including the hedges associated with MidAmerican's leased storage optimization ("LSO") program.

(ii) All storage supply reference costs would be determined by using the purchased (receipt) natural gas volumes that correspond to the month the gas was physically injected into storage, thereby eliminating the

need to adjust for planned storage within the IGSP with financial transactions (i.e., all reference and actual LSO purchases will correspond to the month that the gas was physically delivered to PGA customers or injected into storage).

(iii) The storage supply reference price would be determined in the same manner as the supply reference price as set forth above in paragraph 13(c) above.

(iv) The actual supply cost of storage injections would be the actual net booked costs associated with the month in which the physical storage injections occurred.

(v) MidAmerican believed that these modifications would simplify the calculation of the storage supply reference costs and result in a consistent reference price calculation for all supply purchased by MidAmerican on behalf of PGA customers, regardless if the supply is consumed immediately by PGA customers or injected into storage. MidAmerican also believed that this modification would enhance the administrative efficiency of reporting on and reviewing the performance of the IGSP for MidAmerican, the Commission and Commission Staff because the proposed methodology was consistent with methodology in the Iowa IGSP.

(f) All other provisions of the IGSP would remain unchanged.

14. On November 16, 2010, the Commission issued its Final Decision and Order in Docket No. NG10-008, approving the continuation of the IGSP, with the

modifications proposed by MidAmerican, for a three-year period commencing November 1, 2010 and ending October 31, 2013.

15. On September 3, 2013, in Docket No. NG13-005, MidAmerican filed with the Commission an application for approval to continue the IGSP, requesting the Commission to continue the program for a three-year period commencing November 1, 2013 and ending October 31, 2016, without modifications other than to extend the term.

16. On October 15, 2013, the Commission issued its Final Decision and Order in Docket No. NG13-005, approving continuation of the IGSP for a three-year period commencing November 1, 2013 and ending October 31, 2016.

Customer Benefits of the IGSP and Request to Continue

17. As reflected in Exhibit 1 and in the periodic filings made with the Commission since the Commission approved the IGSP in 1995, total savings of \$48.9 million have been realized relative to established reference prices. MidAmerican customers have realized \$38.3 million in savings (78 percent of total savings) and MidAmerican has earned awards totaling \$10.6 million (22 percent of total savings) since the inception of the IGSP. These results demonstrate that the IGSP has produced substantial benefits for MidAmerican's customers and based upon this success, continuation of the IGSP in accordance with the terms described in this Request is just and reasonable.

18. Based upon the extensive and favorable history of the IGSP and the significant benefits that it has provided to both customers and MidAmerican, MidAmerican herein requests the Commission approve this Request to extend the IGSP through October 31, 2019.

19. Effective with the requested extension of the IGSP (as set forth in paragraph 18 above), MidAmerican proposes to continue submitting comparison filings of the actual costs of gas supply and transportation charges to the respective reference prices on an annual basis. MidAmerican will submit comparison filings not later than December 31 of each year for the applicable 12-month period ending October 31 of such year. MidAmerican proposes that it would otherwise administer the IGSP pursuant to the same terms and conditions as approved in the Commission's Final Decision and Order dated October 15, 2013 in Docket No. NG13-005.

20. The extension of the IGSP as set forth above will provide an appropriate incentive for MidAmerican to continue achieving natural gas cost savings for customers. Accordingly, MidAmerican respectfully requests that the Commission authorize continuation of the IGSP as set forth herein and in accordance with the terms specified herein without additional modification. If the Commission modifies this Request or establishes a procedural process similar to a contested case proceeding, MidAmerican reserves the right to withdraw this Request without prejudice and/or to make a new request.

