

THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA

=====

IN THE MATTER OF THE APPLICATION  
OF MIDAMERICAN ENERGY COMPANY FOR  
AUTHORITY TO INCREASE RATES FOR  
NATURAL GAS SERVICE

NG04-001

=====

Transcript of Proceedings  
August 17, 2004

**ORIGINAL**

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BEFORE THE PUBLIC UTILITIES COMMISSION,  
ROBERT SAHR, CHAIRMAN  
GARY HANSON, VICE CHAIRMAN  
JIM BURG, COMMISSIONER

COMMISSION STAFF

John Smith  
Karen Cremer  
Greg Rislov  
Keith Senger  
Dave Jacobson  
Michele Farris  
Martin Bettmann  
Pam Bonrud

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SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

APPEARANCES

Suzan M. Stewart, MidAmerican

Reported By Cheri McComsey Wittler, RPR

**PRECISION REPORTING**  
**L I M I T E D**

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25 Pam Bonrud  
  
26 APPEARANCES  
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28 Suzan M. Stewart, MidAmerican  
  
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36 Reported By Cheri McComsey Wittler, RPR

1 CHAIRMAN SAHR: This is the time and  
2 place for the hearing in NG04-001 involving  
3 MidAmerican Energy. It is Tuesday, August 17 at  
4 approximately 1:15 p.m. My name is Bob Sahr. I'm  
5 the Chairman of the South Dakota Public Utilities  
6 Commission, and with me here in Pierre are  
7 Gary Hanson, Vice Chairman of the Commission, and  
8 Jim Burg, Commissioner.  
9 At this point in time I would ask that we take  
10 appearances and then my understanding is that we do  
11 have a settlement or a proposed settlement and at  
12 that point in time I'd like to have MidAmerican  
13 make a brief presentation on that and then we can  
14 go to staff and see what sort of questions we may  
15 have from Commissioners.  
16 So if you would, please, if the attorneys  
17 would make appearances and please note anyone who  
18 is here on behalf of your organization.  
19 MS. STEWART: My name is Suzan M.  
20 Stewart, S-U-Z-A-N, S-T-E-W-A-R-T. I'm managing  
21 senior attorney for MidAmerican Energy Company. My  
22 address is P.O. Box 778, Sioux City, Iowa 51102.  
23 With me today I have James Howard, vice president  
24 of regulatory affairs, Debra Kutsunis, manager  
25 rates, Richard R. Tunning or Rick Tunning and, I'm

1 APPEARANCES BY TELEPHONE 2  
2 Bob Towers  
3 Basil Copeland  
4 -----  
5 TRANSCRIPT OF PROCEEDINGS, held in the  
6 above-entitled matter, at the South Dakota State  
7 Capitol, Room 412, 500 East Capitol Avenue, Pierre,  
8 South Dakota, on the 17th day of August 2004,  
9 commencing at 1 o'clock p.m.  
10  
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1 sorry, I do not know Rick's title. Could you state  
2 that, please.  
3 MR. TUNNING: Manager of financial  
4 reporting.  
5 MS. STEWART: Ron Dake from our  
6 Sioux Falls office. Ron, could you state your  
7 title.  
8 MR. DAKE: Manager of operations of  
9 South Dakota.  
10 MS. STEWART: Michelle Olson.  
11 MS. OLSON: I'm the supervisor of  
12 the Sioux Falls customer office.  
13 MS. STEWART: And Melanie Acord.  
14 MS. ACORD: Senior transitional  
15 pricing analyst.  
16 MS. STEWART: And we are here  
17 prepared to address the settlement with you today  
18 and answer any questions you may have and urge you  
19 to approve it as filed.  
20 CHAIRMAN SAHR: Thank you. Staff.  
21 MS. CREMER: Karen Cremer from  
22 staff, and with me is Dave Jacobson, Keith Senger,  
23 Michelle Farris, and Martin Bettmann.  
24 CHAIRMAN SAHR: Thank you.  
25 Mr. Copeland and Mr. Towers. Mr. Towers, why don't

1 you go ahead and identify yourself.  
 2 MR. TOWERS: Robert T. Towers,  
 3 Chesapeake Regulatory Consultants, consultant to  
 4 the Commission staff.  
 5 CHAIRMAN SAHR: Thank you.  
 6 Mr. Copeland.  
 7 MR. COPELAND: This is Mr. Basil  
 8 Copeland, also Chesapeake Regulatory Consultants.  
 9 CHAIRMAN SAHR: Are any of the  
 10 Interveners present? And nobody's on the line from  
 11 the Interveners?  
 12 With that in mind, why don't we go ahead and  
 13 have MidAmerican present the settlement.  
 14 MS. STEWART: I would ask Mr. Howard  
 15 to describe the settlement to you.  
 16 CHAIRMAN SAHR: Thank you.  
 17 MR. HOWARD: I'm not sure how much  
 18 detail you want. As noted in the settlement  
 19 stipulation, we did file the case back in April of  
 20 2004. The requested increase was about  
 21 \$1.6 million. Subsequent to that we met with staff  
 22 and updated some of the proforma adjustments and  
 23 offered some additional adjustments to some of the  
 24 items based on some of the things that had changed,  
 25 particularly with respect to post retirement

1 benefits, decisions that had been made after we  
 2 filed the case with the Commission. I believe that  
 3 was on July 15 or thereabouts.  
 4 On July 27, I believe, we met with the  
 5 Commission staff, and one of the Interveners was in  
 6 attendance, Northwestern Corporation -- or Services  
 7 Corporation. At that time we pretty much agreed on  
 8 all of the adjustments with the exception of ROE  
 9 and rate design.  
 10 CHAIRMAN SAHR: I'm sorry. You  
 11 agreed on all the adjustments except for?  
 12 MR. HOWARD: Rate design and the  
 13 allocation of an increase to the different customer  
 14 classes and also return on equity, and return on  
 15 equity appeared to be at least in my mind the big  
 16 issue. MidAmerican was not willing to accept an  
 17 ROE below 10.75 percent because our president and  
 18 CEO of MidAmerican Energy Holdings Company did not  
 19 want any fallout from any published number that low  
 20 related to ROE and the impact it may have in the  
 21 other jurisdictions in which we operate and any  
 22 cases we might file in those jurisdictions.  
 23 Staff would not offer anything above  
 24 10 percent, and so we were really kind of at a  
 25 stalemate.

1 Subsequent to those discussions on the 27th  
 2 MidAmerican had discussions with Commission staff  
 3 about possible other adjustments that other  
 4 companies had made that we had not made, and we  
 5 requested information and testimony and schedules  
 6 on how those calculations were calculated.  
 7 In the meantime I guess from my perspective I  
 8 have a tendency to look more at -- rather than ROE,  
 9 I tend to look at what MidAmerican might reasonably  
 10 expect to receive if it were to litigate a case  
 11 before a Commission or a board and based on some  
 12 calculations that we made, came up with a number  
 13 that I felt was for settlement purposes,  
 14 reasonable, presented it to staff and staff looked  
 15 at some of the subsequent adjustments that we had  
 16 talked about. They looked at some of the existing  
 17 adjustments that we had proposed on I think it was  
 18 July 15, and they were able to come up with the  
 19 revenue requirement or come close to it and the  
 20 revenue increase that at least in my mind I felt  
 21 was reasonable also.  
 22 That was the basis of the settlement  
 23 stipulation that you see before you. It does not  
 24 state an ROE. In fact, just the contrary so that  
 25 MidAmerican believes that it has some protection in

1 terms of the financial press and any released ROE  
 2 that might go to the financial press or appear in  
 3 the financial press.  
 4 Had MidAmerican not received I guess that kind  
 5 of protection, I can safely say that we would not  
 6 have settled the case but rather would have  
 7 litigated the case. So with that, I guess I would  
 8 like to say I commend the staff of this Commission  
 9 for being willing to work with the company to  
 10 arrive at what I believe is a reasonable solution  
 11 for both the customers and the company. And it's  
 12 also fairly consistent with the kinds of  
 13 settlements or litigated outcomes that MidAmerican  
 14 has received in other jurisdictions with respect to  
 15 gas cases in terms of the percent of revenue.  
 16 And we would urge the Commission to approve  
 17 the settlement stipulation. That's probably more  
 18 than you ever wanted to hear.  
 19 CHAIRMAN SAHR: No. I thought that  
 20 was quite useful. Thank you.  
 21 COMMISSIONER BURG: Very brief.  
 22 CHAIRMAN SAHR: Staff.  
 23 MR. JACOBSON: Well, I think  
 24 MidAmerican laid it out pretty well. The staff  
 25 prepared a memo which went through on an

1 issue-by-issue where we took -- the stances we took  
 2 and we made from the company's originally filed  
 3 case. Hopefully you'll be able to follow that  
 4 through and it somewhat explains within the  
 5 settlement agreement -- there's some language  
 6 explaining the stance on return on equity that the  
 7 company and staff took.

8 Hopefully that will answer most of your  
 9 questions. We stand ready to answer any additional  
 10 questions you may have.

11 CHAIRMAN SAHR: Thank you.

12 Questions from the Commissioners or advisers?

13 MR. RISLOV: If I could ask either  
 14 staff or company, I don't care which one, just to  
 15 explain what went through the process of  
 16 determining the allocation of the rate increase in  
 17 rates?

18 I think that's going to be very interesting  
 19 for the customers as well as the Commissioners to  
 20 know exactly what -- you know, where we ended up on  
 21 rate design.

22 MR. TOWERS: That was Greg Rislov, I  
 23 believe?

24 MR. RISLOV: Excuse me, Bob. You're  
 25 absolutely right.

1 MR. TOWERS: I can say something  
 2 about that. The company may wish to say more. The  
 3 distribution of the rate increase reflected a  
 4 compromise on differences in theories between the  
 5 companies filing and what the staff would have  
 6 filed had it filed testimony -- at least had I  
 7 filed testimony, and I was prepared to do so.

8 And the difference in views of cost allocation  
 9 among customer classes was the treatment that the  
 10 company gave to a large portion of the cost of  
 11 distribution mains. The company proposed to treat  
 12 as a customer-related cost about 45 percent of the  
 13 cost of distribution main and allocate those costs  
 14 to the various classes on the basis of the number  
 15 of customers served in each class.

16 This company has basically three classes of  
 17 customers labeled small volume, medium volume, and  
 18 large volume. This allocation was a significant  
 19 portion of cost on the basis of number of customers  
 20 had the effect of putting about 99 percent of those  
 21 costs into the small volume category because that  
 22 represents the allocation factor based on numbers  
 23 of customers. And, in fact, that class is  
 24 responsible for a much smaller percentage of the  
 25 actual usage of the system -- and I had some

1 numbers at hand that I'm searching for.

2 The other class represents about 99.5 percent  
 3 of the customers by the company who place about  
 4 83 percent of the peak demand on the company's  
 5 system and use about 74 percent. So I disagree  
 6 strongly. I disagree strongly with the allocation  
 7 of those costs on the basis of numbers of  
 8 customers. I would allocate those costs on the  
 9 basis of peak usage, which is the factor that the  
 10 company uses to allocate the remainder of  
 11 distribution of mains costs.

12 And, of course, the allocation of distribution  
 13 mains costs affects other costs that are allocated  
 14 among the classes as well because that goes into a  
 15 number of composite factors, which affects the  
 16 allocation of these other costs.

17 So the company was proposing a distribution of  
 18 the rate increase with that -- the customer factor  
 19 involved, which resulted in about a -- an almost  
 20 8 percent increase in the margin revenues for the  
 21 small volume class as compared to the overall  
 22 increase that they were suggesting, which was about  
 23 \$1,600,000 so about 7 percent.

24 And at the same time the company was proposing  
 25 a rate reduction of about 10 percent in margin

1 revenues for medium volume customers. The change  
 2 that I made in the allocation of costs would have  
 3 actually resulted in a small increase to the medium  
 4 volume customers rather than a decrease at all and  
 5 a much smaller decrease to the small volume users.

6 The settlement agreement recognized  
 7 implicitly, I guess, the controversy and tried to  
 8 reach some settlement in between those two  
 9 positions. Recognizing that both of these are  
 10 theories on how costs should be allocated, there  
 11 isn't any precise way of identifying with  
 12 specificity any costs that are associated with each  
 13 class. So the compromise was to leave the medium  
 14 volume rates where they are, that is there would be  
 15 no reduction as the company proposed, nor would  
 16 there be the small increase which my calculations  
 17 yielded and in effect the benefit of doing that was  
 18 transferred primarily to the small volume class,  
 19 that being the major class.

20 So that was kind of conceptually how those  
 21 numbers were arrived at and agreed to. And then  
 22 Martin Bettmann -- yeah. Martin was actively  
 23 involved in setting the unit charges and to some  
 24 extent the distribution of the increase and the  
 25 development of the unit charges go kind of hand in

<p>13</p> <p>1 hand, that is you have to do several things at the 2 same time. 3 There was one other important and related 4 issue to the cost allocation, the rate design, and 5 that was -- had to do with the company's proposal 6 to increase, again, the small volume customer 7 service charge which presently is at a level of 8 7.50 a month. They were proposing to raise that up 9 to \$10 per month. That, again, was based on an 10 analysis of what the company deemed to be 11 customer-related costs, including the 12 customer-related component of mains that I 13 discussed earlier in connection with the class 14 allocation. 15 I take a much more narrow view of customer 16 costs that can justify what will be recovered in a 17 service charge, and the phrase I use is direct 18 customer cost, cost that can be directly identified 19 with the service to an individual customer such as 20 the cost of the service line, the cost of a meter 21 but not all the other costs that are simply the 22 result of the necessity to allocate system-wide 23 costs to classes so portions of overheads, employee 24 benefits costs, and that sort of thing get 25 allocated to these categories like services and</p>	<p>15</p> <p>1 rate, the commodity, if you will, the delivery 2 charge. 3 That's about all I can think of to say on cost 4 allocation and that aspect of rate design. Does 5 that respond to your question? 6 MR. RISLOV: Yes, it does. Thank 7 you. 8 CHAIRMAN SAHR: Other questions? 9 COMMISSIONER BURG: I have two short 10 ones. You indicate that a generic inflation 11 adjustment based on court precedents in prior 12 South Dakota case for O&amp;M expenses is not otherwise 13 adjusted. What exactly does that mean? What was 14 that court precedent, and how did that apply here? 15 MR. SENGER: I can't give you the 16 court case number, and it was somewhat before my 17 time, but it was a decision some time ago, I think 18 between Ottetail and the Commission. My 19 understanding is that the Commission turned down a 20 company proposed adjustment for increase. That 21 adjustment was elevated all the way to the Supreme 22 Court. The Supreme Court overturned the Commission 23 and indicated that an inflationary adjustment was 24 an adjustment that the Commission had to accept in 25 that case.</p>
<p>14</p> <p>1 meters. 2 I purge those kind of overhead costs from the 3 customer cost analysis, and yet even when I did 4 that I show for the small volume class a customer 5 cost -- a direct customer cost of about \$9.50. 6 That wouldn't justify the \$10 the company was 7 requesting, but it, I think, amply supports the 8 move that staff and the company eventually agreed 9 on, which was to increase the present charge from 10 \$7.50 to \$8 and the reason for limiting the 11 increase in the service charge has to do with, 12 again, customer impact, the extent to which that 13 affects smaller users more than it does larger 14 users. 15 And that, again, is very important because for 16 this company the small volume class includes a 17 really diverse group of customers, residential, 18 commercial, and industrial, all of whom qualify as 19 small volume, but even though they are categorized 20 as small volume the volumes of gas consumption 21 varies quite a bit within that class customer by 22 customer. So we thought it was important to 23 continue to temper increase in the customer charge 24 and, of course, the remainder of those costs are 25 recovered in the initial block of that small volume</p>	<p>16</p> <p>1 From there on forward Commission staff has 2 taken the position that an inflationary adjustment 3 for other O&amp;M that has not been adjusted in other 4 areas of the case can be adjusted for inflation. 5 What I mean by other O&amp;M not otherwise adjusted 6 would be you have a category of other operation and 7 maintenance expenses. For example, a company may 8 come forth and make an adjustment to labor. 9 Therefore, we take labor out of that O&amp;M. They 10 make an adjustment for rate case expense. We take 11 rate case expense out of O&amp;M. 12 All the other O&amp;M that has not been adjusted, 13 some others may not apply, but we adjust that by 14 inflationary rate. 15 COMMISSIONER BURG: Is that 16 inflationary factor you use, is that historical? 17 MR. SENGER: Yes. 18 COMMISSIONER BURG: It's not 19 prospective. 20 MR. SENGER: The first step that we 21 do is we take the other O&amp;M not otherwise adjusted 22 and multiply it times half the inflationary rate 23 during the test year. That essentially takes the 24 expenses that were incurred at the beginning of the 25 test year and brings them up to an inflationary</p>

1 rate had they been incurred at the end of the test  
2 year.

3 And then another step that has been done in  
4 this case is we took that adjusted rate and looked  
5 from the inflationary rate from the end of the test  
6 period to the most current inflationary rate that  
7 we can find and adjust it furtherwise. And staff's  
8 viewpoint is whether it's a decrease or an increase  
9 it essentially -- what it does is it brings those  
10 adjustments -- those expenses to a current day  
11 expense.

12 COMMISSIONER BURG: Okay. That  
13 covered mine.

14 MR. HOWARD: One other comment I  
15 would like to make if I could go back on, I guess,  
16 a summary of the settlement and the discussions,  
17 and that's on the provision in the settlement  
18 stipulation that precludes MidAmerican from filing  
19 a case that will have an effective date prior to  
20 September 1, 2007 in South Dakota.

21 I don't think we've ever offered that here.  
22 In Iowa in the last gas case we offered a two-year  
23 moratorium. That two years is up November, I  
24 think, 27th of this year. We are not going to file  
25 a case in Iowa this year. But one thing that we

1 are looking at more closely under the new  
2 management of this company is -- and you can see it  
3 in this case because the prior case which was three  
4 years prior to this one I think the increase was  
5 for slightly in excess of \$3 million. I think it  
6 was like 3.2. 3.3 was the asking. This one was we  
7 came in at a level of 1.6. And in Iowa we were on  
8 the border of requesting an increase this year but  
9 elected not to for some other reasons.

10 But I just wanted to point that out because I  
11 don't think that's ever been offered in  
12 South Dakota through moratorium.

13 COMMISSIONER BURG: Are you  
14 anticipating -- you said you're not filing in Iowa,  
15 but do you think that will be part of another next  
16 case in Iowa?

17 MR. HOWARD: It depends on what kind  
18 of a settlement we can reach with the Office of  
19 Consumer Advocate in Iowa.

20 COMMISSIONER BURG: I was wondering  
21 if that becomes your mode of standard operating to  
22 sort of assure that you won't be within the  
23 two-year period of time.

24 MR. HOWARD: The reason we did it in  
25 the last case was because of some concessions the

1 Office of Consumer Advocate made and the amount of  
2 revenue increase and we agreed to ask and we agreed  
3 to do that as a result of that. And MidAmerican,  
4 you know, agreed to this due to the fact that we  
5 could compromise and reach an agreement on a  
6 revenue increase in this particular case.

7 CHAIRMAN SAHR: Could you discuss,  
8 and I would be happy to have staff give their input  
9 on this as well, with the last rate increase would  
10 you discuss which classifications of customers --  
11 excuse me for using a lay term -- felt that the  
12 most, and my recollection is wasn't there a pretty  
13 significant impact on medium-sized customers in  
14 that rate increase?

15 MR. HOWARD: Melanie, do you know  
16 what the rate increases were in the last case?

17 MS. ACORD: No, I do not.

18 MR. HOWARD: I don't have those. We  
19 can get those for you. I'm guessing that the  
20 distribution was probably very similar to what we  
21 see here.

22 MR. TOWERS: In the last case the  
23 settlement agreement provided for it  
24 across-the-board adjustment. I know there's a  
25 uniform percentage increase in the margin revenues

1 from each customer.

2 CHAIRMAN SAHR: Mr. Towers, was that  
3 based on the peak usage?

4 MR. TOWERS: Well, again, it was  
5 based on, you know, competing theories as to how  
6 costs should be allocated and then looking at the  
7 results of both the company's cost allocation and  
8 the allocation that I sponsored in that case. And  
9 the compromise was let's -- I think the term was  
10 let's maintain the status quo and just increase  
11 revenues from each class by, I think, the  
12 percentage was -- well, I don't want to say what it  
13 was because I don't remember off the top of my  
14 head, but I do know it was uniform.

15 MR. HOWARD: I agree with you,  
16 Mr. Towers. You jogged my memory, and that was the  
17 basis of the last increase. It was  
18 across-the-board.

19 CHAIRMAN SAHR: And could you  
20 compare that to this increase and explain if there  
21 is, in fact, going to be a larger impact on the  
22 smaller customers, the justification for that.

23 MR. TOWERS: I think the attachment  
24 to staff's memorandum speaks to that. The top  
25 schedule prepared by Martin Bettmann shows that the

1 increase in margin revenues overall is 4.4 percent  
2 settlement level. The increase to small volume  
3 users is 4.7 percent. The increase to large volume  
4 is 5.4 percent and, as I mentioned, the medium  
5 volume class was left at its present rate levels.  
6 It was zero there.

7 So there's a somewhat higher increase in  
8 margin revenues for the small volume class than  
9 overall, but that's the result of not adjusting  
10 medium volume at all.

11 CHAIRMAN SAHR: So when that small  
12 or big customer stops me on the street and says  
13 what was the reason that I got a rate increase and  
14 the medium-sized person didn't, what should I say?

15 MR. TOWERS: Well, it's certainly  
16 based on a consideration of the allocation of the  
17 company's costs among the costs, and it does not  
18 strictly adhere to the cost allocation that I would  
19 prepare and it doesn't adhere to the company's cost  
20 allocation either but it's something that I would  
21 characterize as being in between and not meaning  
22 it's in between in any precise way but a compromise  
23 position.

24 MR. HOWARD: I was just going to  
25 say, I mean, it is the result of a settlement.

1 Staff's cost of service showed that this group of  
2 customers should actually have an increase. Our  
3 cost of service studies showed -- which was  
4 calculated on a different basis -- that this group  
5 of customers should have a decrease. So it was a  
6 compromise to leave them at no increase or no  
7 decrease, somewhere in between the two costs of  
8 services as a compromise.

9 CHAIRMAN SAHR: As with the way that  
10 you allocated the costs to each individual type  
11 customer classes; correct?

12 MR. HOWARD: Yes.

13 CHAIRMAN SAHR: Thank you. Staff,  
14 do you have any comments? Or maybe it's all been  
15 said or written.

16 MR. JACOBSON: Just one thing I  
17 would add. When you spoke about the percentage  
18 increases to the customer classes, the ones that we  
19 just talked about, the 4.7, 5.4, understand that  
20 those do not include the cost of gas so that is not  
21 a percentage the customer will see overall.

22 CHAIRMAN SAHR: Right. Commissioner  
23 Hanson.

24 VICE CHAIR HANSON: What are you  
25 doing within the rate structure itself to

1 discourage the overuse of natural gas, the waste of  
2 natural gas? When I was utilities Commissioner I  
3 put in a step increase, a block increase in the  
4 water usage so that when people used over a certain  
5 amount of water, then the rate increased.

6 Do you have anything of that nature?

7 MR. HOWARD: Actually, the -- in the  
8 gas utility the blocks are declining. So you have  
9 the customer charge or the service charge. Then  
10 the first block is higher and then the second block  
11 is generally lower. I don't recall, was the second  
12 block increased at a greater or lesser percent than  
13 the first block on small volume?

14 MS. ACORD: I believe it was  
15 greater. The second block was a greater increase.

16 MR. HOWARD: Right. That was my  
17 recollection. So I guess if you want to say that  
18 the tariff has a tendency to discourage customers  
19 more now from using larger amounts, it does because  
20 the second block is higher in relation to the first  
21 block than under the existing tariff. It is not  
22 higher but --

23 VICE CHAIR HANSON: It's not  
24 higher -- it decreases at a decreasing rate.

25 MR. HOWARD: Yes.

1 MR. BETTMANN: Commissioner Hanson,  
2 for the small volume customers previously there was  
3 a 6 cent differential between the first block and  
4 second block, the second block being lower and now  
5 it's down around 5 cents. So the difference is  
6 only 5 cents is gradually working that direction.  
7 And the other thing, when the company filed their  
8 proposed rates they had a declining block in the  
9 medium volume and we maintained a single rate  
10 instead of a -- just a flat rate instead of a  
11 stepped rate there.

12 VICE CHAIR HANSON: Thank you for  
13 the info. That's curious. I understand the  
14 philosophies of wanting to provide services as low  
15 cost as possible to your consumer, and we certainly  
16 are interested in that.

17 Do you think there would be benefit to  
18 maintaining the same amount of revenue but having a  
19 block rate of a different structure that would  
20 discourage use?

21 MR. TOWERS: I would point out one  
22 thing that I think you have to bear in mind. We're  
23 adjusting the delivery charge here only and not the  
24 cost of gas itself, and the delivery charge is  
25 small, a relatively small component of the

1 customer's total bill.  
 2 VICE CHAIR HANSON: Thank you.  
 3 That's perhaps a small lifesaver that Jim  
 4 appreciated you bringing up, but I still have a  
 5 philosophical concern.  
 6 MR. HOWARD: I guess what I was  
 7 going to say and I guess the thing I was struggling  
 8 with, every situation has two sides to the coin.  
 9 VICE CHAIR HANSON: Sure.  
 10 MR. HOWARD: And the immediate  
 11 impact on customers would be probably to raise  
 12 their rates significantly and they would have to  
 13 drastically change their consumption patterns. And  
 14 I'm not saying that's bad because environmentally  
 15 that may be good because you may wind up using less  
 16 gas in the long run and in the long-term that may  
 17 be beneficial for customers also.  
 18 But in the short-term to go from a declining  
 19 block rate to an inverse rate may have significant  
 20 impacts on customers.  
 21 VICE CHAIR HANSON: Well, it may.  
 22 However, it can be increased I'm saying with the  
 23 same amount of revenue generated so that the front  
 24 block would be decreased and the back block would  
 25 be increased so it would have an effect from -- if

1 someone used the same amount of gas, perhaps if  
 2 they're a large consumer, it might in fact be an  
 3 increase but the intention is like a teeter totter,  
 4 you decrease the front end and increase the front  
 5 end.  
 6 MR. HOWARD: I understand. But in  
 7 fact if customers see that, they are going to  
 8 change their consumption patterns because on the  
 9 back end their rates are going to go up. So I  
 10 guess I'm struggling with --  
 11 VICE CHAIR HANSON: Well, that's  
 12 fine. I've received as much of an answer as I  
 13 need. Sometime we can sit over coffee and arm  
 14 wrestle over the philosophy.  
 15 MS. STEWART: I don't know that we  
 16 have anyone who is an expert in that area, and I  
 17 certainly am not, but I do know that if you look at  
 18 the average consumption per customer of gas over  
 19 the past 10, 15 years, there have been dramatic  
 20 decreases. Regardless of whether we have a  
 21 moderately declining block structure or an inverted  
 22 structure, the cost of gas, the changes in the  
 23 housing stock, more efficient appliances have  
 24 really tremendously decreased per customer usage  
 25 and I've probably said more than a lawyer should

1 about that but I do think that is an accurate  
 2 statement.  
 3 COMMISSIONER BURG: I would like to  
 4 make a comment about that too because at the EPRI  
 5 meeting a couple of weeks ago this got to be a  
 6 large discussion is how do we deal with a declining  
 7 source. And one of the things that came out of it  
 8 is we have to find a way to decouple your income  
 9 from BTU usage or kilowatt hour usage because you  
 10 only make more money if you sell more kilowatts and  
 11 BTUs. So if we did increasing block rate, they  
 12 would probably have to put a base charge in that  
 13 would go up in order to maintain what you need. I  
 14 think that's going to be a real challenge, but we  
 15 need to get there.  
 16 One of the other things I actually asked the  
 17 question in the group, I said, is there anybody  
 18 here that thinks natural gas should have any  
 19 subsidies to encourage usage or development, and  
 20 frankly every person -- there's a lot of utility  
 21 people said probably beyond that point.  
 22 So there's a lot of things we can do to get  
 23 there. That's really off from what we're doing  
 24 today. But I agree with Commissioner Hanson that  
 25 this should be some of our goals. And, frankly,

1 the conference call that I was on during the --  
 2 during our meeting for a while is we were setting  
 3 up a session, a five-hour session, at our NARUC  
 4 meeting that is going to look at all the utilities  
 5 and how do we get funding. And that's one of the  
 6 things we want to look at is how do we get funding  
 7 for the next generation but not do it through --  
 8 not cover it through higher usage. And I think  
 9 we're going to need a lot of help from all the  
 10 companies on how do we decouple those two because  
 11 historically we've always done it that way.  
 12 MR. HOWARD: I wasn't trying to give  
 13 the impression, and if I did, that I was opposed to  
 14 it at all.  
 15 COMMISSIONER BURG: No, I didn't get  
 16 it.  
 17 MR. HOWARD: I was just trying to  
 18 think of some of the ramifications that could  
 19 result by changing it.  
 20 MR. RISLOV: If I can make an  
 21 observation too, about 4 years ago when gas was \$2  
 22 Mcf things were a little different. I think the  
 23 price increase in natural gas had created a rate  
 24 check all its own. I think if we look at what's  
 25 happened down in Georgia and even South Dakota



1 trying to allow these people who perhaps weren't  
2 expecting that type of increase to just pay their  
3 bill. The late payments have become astronomical  
4 in a relative sense compared to what they were 7, 8  
5 years ago. The market appears to be doing its own  
6 to take care of that problem, overconsumption, if  
7 you will.

8 I had a question regarding the settlement, and  
9 you mentioned there was no return on equity  
10 published within that settlement. From time to  
11 time someone comes to the staff or to the  
12 Commission and requests data, someone who's putting  
13 together something for Wall Street or whatever.

14 Is there an agreement between the two parties  
15 that there will never be a number with regard to  
16 equity published or presented to the public? Or is  
17 there some type of agreement that will have to be  
18 couched in a certain way? I don't understand where  
19 this is at.

20 MS. CREMER: Mr. Rislov, the staff  
21 memo is filed in a publicly filed document. So  
22 there is nothing between anyone as to like a  
23 confidentiality agreement? Is that what you're  
24 talking about?

25 MR. RISLOV: Right. Because of the

1 concern over the way the equity numbers depict it.

2 MS. CREMER: No.

3 MR. HOWARD: I guess from my  
4 perspective it was developed this way and presented  
5 this way in the stipulation so that if anyone  
6 called, 10 percent would not be the number that  
7 would be given other than what would be given was  
8 that staff and company arrived at a agreed upon  
9 revenue requirement and agreed upon revenue  
10 increase and each arrived at those numbers using  
11 whatever ROE was used.

12 Staff used 10 percent, but that is not the  
13 ROE -- it's staff's ROE, but it is not the ROE in  
14 this settlement because it is not MidAmerican's  
15 ROE.

16 And, like I mentioned earlier, our president  
17 and CEO was adamant that there never be published a  
18 number of 10 percent. And I felt we had that  
19 agreement with staff. It's staff's number, but  
20 that's not the ROE that was used to get to the  
21 number in this settlement.

22 CHAIRMAN SAHR: I'm more concerned  
23 about what the numbers actually yield than I am  
24 about what the number is, what the impact is and  
25 I'm going to ask staff a question on that in just a

1 minute and I think I know the answer to it. But I  
2 do want to say personally although I can appreciate  
3 the effects on markets and on your company and so  
4 on and so forth, I don't have a lot of thought  
5 about picking an ROE to make your president feel  
6 good.

7 And I don't mean that in any way, shape, or  
8 form as a derogative comment, but since we're  
9 talking about this on the record I want to make it  
10 clear that I'm looking at the overall settlement.  
11 And whether they want to say it's based on these  
12 numbers and this rate of return or these numbers  
13 and a different rate of return, different numbers  
14 different rate of return, I mean, to me how it's  
15 structured doesn't mean a lot. It obviously does  
16 to you but I want to make it clear if I'm approving  
17 this it's not because your president or your  
18 company wants it a certain way. It's because I  
19 think the overall settlement is good for the  
20 consumers of South Dakota.

21 And with that in mind, I do have a question  
22 for Mr. Jacobson, and it may just be reminding me  
23 what you may have already set forth in writing or  
24 that I could find on my own, but we're talking  
25 about this 10 versus 10.75. What is the bottom

1 line for the consumers? I mean, are we in the same  
2 spot and we're just putting different numbers into  
3 what we're going to multiply this by or where are  
4 we at?

5 MR. JACOBSON: The numbers reflected  
6 in the staff work papers and in staff's  
7 determination of the increase and the overall  
8 revenue requirement are not affected at all by what  
9 the company determines is their appropriate return  
10 on equity. Our numbers and our case are based  
11 strictly on how -- positions we took on all of our  
12 issues and would not change -- you know, we gave  
13 them our bottom line, and the backup information we  
14 have here is based on the appropriate stance to  
15 take on each issue and would not change regardless  
16 of how the company views particular adjustments.

17 Any time there's a settlement, and this has  
18 been true in the past, and specifically I recall  
19 one Excel case where return on equity was not  
20 really mentioned, but the reason is the same, in  
21 order to -- in order to obtain in our calculation  
22 of the revenue requirement our return on equity,  
23 which we wanted to reflect in there, the company  
24 was not able to accept that for fear of what would  
25 be viewed by other commissions and the regulatory

1 reaction.

2 That really doesn't make any difference to us

3 because our numbers are derived by taking

4 appropriate stance on each issue and come up with

5 an appropriate increase as we see it. Our work

6 papers do reflect a 10 percent return on equity and

7 reflect each adjustment we made from test year

8 operations to come up with that and we feel is

9 absolutely supported for settlement purposes.

10 How the company wishes to portray the value of

11 certain issues or the stance taken on whether

12 certain issues are accepted or not, it really

13 doesn't make any difference to us because our case

14 is based on our positions and our numbers, and that

15 makes it either acceptable to us in settlement or

16 not.

17 CHAIRMAN SAHR: Great. Thank you.

18 Any other questions or comments?

19 MR. JACOBSON: I would just add one

20 thing to Commissioner Hanson's comments about

21 switching to an inverted block rate, opposite of

22 what it is now. The Commission and staff have

23 taken -- have changed direction with certain -- the

24 way things were handled in the past, but there's

25 always been a tendency to avoid rate shock per se

1 to make a gradual movement in that direction. I

2 think Martin's portrayal of getting -- not

3 accepting a second block for medium volume

4 customers indicates -- and I can tell you that was

5 a concern of ours because there was in our eyes no

6 real justification for allowing a cheaper second

7 block in a medium volume rate.

8 And the concern is that whereas in some

9 services, for instance electricity, or if customer

10 charges aren't fully recovering the amount that

11 should be in a customer charge, there is more of a

12 support for having a declining block structure at

13 least to help recover those fixed costs. In this

14 case that wasn't evident and instead of moving in

15 one fell swoop to a position where certain

16 customer's rates are radically changed, it's been

17 precedent and historically we move in that

18 direction over a period of time and that way

19 alleviates customer -- negative customer reaction

20 and in some cases severe while still moving towards

21 the goal of an equitable rate.

22 So I think we took that approach at least

23 certainly with the medium volume rate in this case,

24 and that certainly is part of our -- you know, on

25 our mind while we look at these issues.

1 MR. HOWARD: I guess I would -- if I

2 could just say one thing. Based on your comment

3 about our president and CEO, I was not attempting

4 to place any kind of pressure on this Commission by

5 making that statement. The only thing I was trying

6 to say was that if the ROE was going to be stated

7 at 10 percent, we would not be sitting here today

8 talking about a settlement because he would not

9 agree to a settlement. He would litigate the case.

10 That was the only point I was trying to make.

11 I was not trying to place any pressure on the

12 Commission whatsoever by making that comment.

13 MS. CREMER: Suzan, do you want to

14 talk about the -- we have a joint Motion in front

15 of them for approval of the settlement stipulation.

16 My copy just went down the wave. I'm not sure what

17 more needs to be said. But that is in front of the

18 Commission. You could make your own Motion, but we

19 do have that Motion in front of you to be granted

20 or denied.

21 MS. STEWART: Yeah. We have filed

22 with -- all parties have joined in the filing of a

23 joint Motion for approval of settlement stipulation

24 that was filed with the Commission last week, and

25 attached to that are all the documents we talked

1 about today, the settlement stipulation, proposed

2 tariffs, proposed customer letter, and the proposed

3 rate design information and as well as the staff

4 memorandum, and I guess we would -- the joint

5 Motion indicates our parties are moving approval of

6 the stipulation as filed with the Commission in its

7 entirety.

8 MS. CREMER: It's being taken under

9 advisement. The deadline for the 180 days is

10 September 29?

11 MS. STEWART: That's correct.

12 MS. CREMER: And so if you choose to

13 reject the settlement stipulation, we would need

14 to, you know, hold a hearing in the next -- what

15 would that be, about a month, five weeks, and then

16 issue an order in that time.

17 CHAIRMAN SAHR: Do we have any

18 motions? Seeing none, then I will move that we go

19 into executive session, and hopefully somebody will

20 second it.

21 VICE CHAIR HANSON: Second.

22 CHAIRMAN SAHR: Off the record.

23 (A short recess is taken at which time the

24 Commission meets in executive session)

25 CHAIRMAN SAHR: I will move that we

1 approve the -- what's been labeled the joint Motion  
2 for approval of settlement stipulation in NG04-001.

3 VICE CHAIR HANSON: Second.

4 COMMISSIONER BURG: I will concur.

5 I'll just add I'm always concerned of the ease with  
6 which we seem to agree with the stipulations, but  
7 my history has told me this staff is very diligent  
8 and that it wouldn't be anybody's benefit to go to  
9 hearing on these kinds of things because it would  
10 add costs that are recoverable costs and I've  
11 learned that a long time ago and so I compliment  
12 the staff for sticking very adamantly for the  
13 consumers and for the company for working well on  
14 supporting the settlement.

15 CHAIRMAN SAHR: Any other additional  
16 thoughts or statements or anything else anyone  
17 would like to add?

18 Seeing none, then we will be adjourned.

19  
20  
21  
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25

1 STATE OF SOUTH DAKOTA )  
2 :SS CERTIFICATE  
3 COUNTY OF HUGHES )  
4

5 I, CHERI MCCOMSEY WITTLER, a Registered  
6 Professional Reporter and Notary Public in and for the  
7 State of South Dakota:

8 DO HEREBY CERTIFY that as the duly-appointed  
9 shorthand reporter, I took in shorthand the proceedings  
10 had in the above-entitled matter on the 17th day of  
11 August 2004, and that the attached is a true and  
12 correct transcription of the proceedings so taken.

13 Dated at Pierre, South Dakota this 8th day  
14 of September 2004.

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Cheri McComsey Wittler,  
Notary Public and  
Registered Professional Reporter

Word Index

<b>\$</b>	<b>6</b>	[9] 5:22 5:23 6:8 6:11 7:3 7:15 7:17 17:10 32:16 <b>Advisement</b> [1] 36:9 <b>Advisers</b> [1] 9:12 <b>Advocate</b> [2] 18:19 19:1 <b>Affairs</b> [1] 3:24 <b>Affected</b> [1] 32:8 <b>Affects</b> [3] 11:13 11:15 14:13 <b>Ago</b> [5] 15:17 27:5 28:21 29:5 37:11 <b>Agree</b> [4] 20:15 27:24 35:9 37:6 <b>Agreed</b> [9] 6:7 6:11 12:21 14:8 19:2 19:2 19:4 30:8 30:9 <b>Agreement</b> [8] 9:5 12:6 19:5 19:23 29:14 29:17 29:23 30:19 <b>Ahead</b> [2] 5:1 5:12 <b>Alleviates</b> [1] 34:19 <b>Allocate</b> [4] 10:13 11:8 11:10 13:22 <b>Allocated</b> [5] 11:13 12:10 13:25 20:6 22:10 <b>Allocation</b> [17] 6:13 9:16 10:8 10:18 10:22 11:6 11:12 11:16 12:2 13:4 13:14 15:4 20:7 20:8 21:16 21:18 21:20 <b>Allow</b> [1] 29:1 <b>Allowing</b> [1] 34:6 <b>Almost</b> [1] 11:19 <b>Amount</b> [6] 19:1 23:5 24:18 25:23 26:1 34:10 <b>Amounts</b> [1] 23:19 <b>Amply</b> [1] 14:7 <b>Analysis</b> [2] 13:10 14:3 <b>Analyst</b> [1] 4:15 <b>Answer</b> [5] 4:18 9:8 9:9 26:12 31:1 <b>Anticipating</b> [1] 18:14 <b>Appear</b> [1] 8:2 <b>Appearances</b> [4] 1:17 2:1 3:10 3:17 <b>Appeared</b> [1] 6:15 <b>Appliances</b> [1] 26:23 <b>APPLICATION</b> [1] 1:4 <b>Apply</b> [2] 15:14 16:13 <b>Appreciate</b> [1] 31:2 <b>Appreciated</b> [1] 25:4 <b>Approach</b> [1] 34:22 <b>Appropriate</b> [4] 32:9 32:14 33:4 33:5 <b>Approval</b> [4] 35:15 35:23 36:5 37:2 <b>Approve</b> [3] 4:19 8:16 37:1 <b>Approving</b>	[1] 31:16 <b>April</b> [1] 5:19 <b>Area</b> [1] 26:16 <b>Areas</b> [1] 16:4 <b>Arm</b> [1] 26:13 <b>Arrive</b> [1] 8:10 <b>Arrived</b> [3] 12:21 30:8 30:10 <b>Aspect</b> [1] 15:4 <b>Associated</b> [1] 12:12 <b>Assure</b> [1] 18:22 <b>Astronomical</b> [1] 29:3 <b>Attached</b> [2] 35:25 38:11 <b>Attachment</b> [1] 20:23 <b>Attempting</b> [1] 35:3 <b>Attendance</b> [1] 6:6 <b>Attorney</b> [1] 3:21 <b>Attorneys</b> [1] 3:16 <b>August</b> [4] 1:8 2:7 3:3 38:11 <b>AUTHORITY</b> [1] 1:5 <b>Avenue</b> [1] 2:6 <b>Average</b> [1] 26:18 <b>Avoid</b> [1] 33:25
<b>1</b>	<b>7</b>	<b>B</b>	
1 [2] 2:8 17:20 1.6 [1] 18:7 10 [9] 6:24 11:25 26:19 30:6 30:12 30:18 31:25 33:6 35:7 10.75 [2] 6:17 31:25 15 [3] 6:3 7:18 26:19 17 [2] 1:8 3:3 17th [2] 2:7 38:10 180 [1] 36:9 1:15 [1] 3:4	6 [1] 24:3  7 [2] 11:23 29:4 7.50 [1] 13:8 74 [1] 11:5 778 [1] 3:22  8 [2] 11:20 29:4 83 [1] 11:4 8th [1] 38:13  9 99 [1] 10:20 99.5 [1] 11:2  <b>A</b> <b>Able</b> [3] 7:18 9:3 32:24 <b>Above-entitled</b> [2] 2:5 38:10 <b>Absolutely</b> [2] 9:25 33:9 <b>Accept</b> [3] 6:16 15:24 32:24 <b>Acceptable</b> [1] 33:15 <b>Accepted</b> [1] 33:12 <b>Accepting</b> [1] 34:3 <b>Accurate</b> [1] 27:1 <b>Acord</b> [4] 4:13 4:14 19:17 23:14 <b>Across-the-board</b> [2] 19:24 20:18 <b>Actively</b> [1] 12:22 <b>Actual</b> [1] 10:25 <b>Adamant</b> [1] 30:17 <b>Adamantly</b> [1] 37:12 <b>Add</b> [5] 22:17 33:19 37:5 37:10 37:17 <b>Additional</b> [3] 5:23 9:9 37:15 <b>Address</b> [2] 3:22 4:17 <b>Adhere</b> [2] 21:18 21:19 <b>Adjourned</b> [1] 37:18 <b>Adjust</b> [2] 16:13 17:7 <b>Adjusted</b> [7] 15:13 16:3 16:4 16:5 16:12 16:21 17:4 <b>Adjusting</b> [2] 21:9 24:23 <b>Adjustment</b> [10] 15:11 15:20 15:21 15:23 15:24 16:2 16:8 16:10 19:24 33:7 <b>Adjustments</b>	<b>B</b> <b>Backup</b> [1] 32:13 <b>Bad</b> [1] 25:14 <b>Base</b> [1] 27:12 <b>Based</b> [13] 5:24 7:11 10:22 13:9 15:11 20:3 20:5 21:16 31:11 32:10 32:14 33:14 35:2 <b>Basil</b> [2] 2:2 5:7 <b>Basis</b> [7] 7:22 10:14 10:19 11:7 11:9 20:17 22:4 <b>Bear</b> [1] 24:22 <b>Become</b> [1] 29:3 <b>Becomes</b> [1] 18:21 <b>Beginning</b> [1] 16:24 <b>Behalf</b> [1] 3:18 <b>Believes</b> [1] 7:25 <b>Below</b> [1] 6:17 <b>Beneficial</b> [1] 25:17 <b>Benefit</b> [3] 12:17 24:17 37:8 <b>Benefits</b> [2] 6:1 13:24 <b>Bettmann</b>	
<b>2</b>	<b>8</b>		
2004 [5] 1:8 2:7 5:20 38:11 38:14 2007 [1] 17:20 27 [1] 6:4 27th [2] 7:1 17:24 29 [1] 36:10	<b>8</b> [2] 11:20 29:4 83 [1] 11:4 8th [1] 38:13  <b>9</b> 99 [1] 10:20 99.5 [1] 11:2  <b>A</b> <b>Able</b> [3] 7:18 9:3 32:24 <b>Above-entitled</b> [2] 2:5 38:10 <b>Absolutely</b> [2] 9:25 33:9 <b>Accept</b> [3] 6:16 15:24 32:24 <b>Acceptable</b> [1] 33:15 <b>Accepted</b> [1] 33:12 <b>Accepting</b> [1] 34:3 <b>Accurate</b> [1] 27:1 <b>Acord</b> [4] 4:13 4:14 19:17 23:14 <b>Across-the-board</b> [2] 19:24 20:18 <b>Actively</b> [1] 12:22 <b>Actual</b> [1] 10:25 <b>Adamant</b> [1] 30:17 <b>Adamantly</b> [1] 37:12 <b>Add</b> [5] 22:17 33:19 37:5 37:10 37:17 <b>Additional</b> [3] 5:23 9:9 37:15 <b>Address</b> [2] 3:22 4:17 <b>Adhere</b> [2] 21:18 21:19 <b>Adjourned</b> [1] 37:18 <b>Adjust</b> [2] 16:13 17:7 <b>Adjusted</b> [7] 15:13 16:3 16:4 16:5 16:12 16:21 17:4 <b>Adjusting</b> [2] 21:9 24:23 <b>Adjustment</b> [10] 15:11 15:20 15:21 15:23 15:24 16:2 16:8 16:10 19:24 33:7 <b>Adjustments</b>		
<b>3</b>	<b>9</b>		
3.2 [1] 18:6 3.3 [1] 18:6	<b>9</b> 99 [1] 10:20 99.5 [1] 11:2  <b>A</b> <b>Able</b> [3] 7:18 9:3 32:24 <b>Above-entitled</b> [2] 2:5 38:10 <b>Absolutely</b> [2] 9:25 33:9 <b>Accept</b> [3] 6:16 15:24 32:24 <b>Acceptable</b> [1] 33:15 <b>Accepted</b> [1] 33:12 <b>Accepting</b> [1] 34:3 <b>Accurate</b> [1] 27:1 <b>Acord</b> [4] 4:13 4:14 19:17 23:14 <b>Across-the-board</b> [2] 19:24 20:18 <b>Actively</b> [1] 12:22 <b>Actual</b> [1] 10:25 <b>Adamant</b> [1] 30:17 <b>Adamantly</b> [1] 37:12 <b>Add</b> [5] 22:17 33:19 37:5 37:10 37:17 <b>Additional</b> [3] 5:23 9:9 37:15 <b>Address</b> [2] 3:22 4:17 <b>Adhere</b> [2] 21:18 21:19 <b>Adjourned</b> [1] 37:18 <b>Adjust</b> [2] 16:13 17:7 <b>Adjusted</b> [7] 15:13 16:3 16:4 16:5 16:12 16:21 17:4 <b>Adjusting</b> [2] 21:9 24:23 <b>Adjustment</b> [10] 15:11 15:20 15:21 15:23 15:24 16:2 16:8 16:10 19:24 33:7 <b>Adjustments</b>		
<b>4</b>	<b>99</b>		
4 [1] 28:21 4.4 [1] 21:1 4.7 [2] 21:3 22:19 412 [1] 2:6 45 [1] 10:12	<b>99</b> [1] 10:20 99.5 [1] 11:2  <b>A</b> <b>Able</b> [3] 7:18 9:3 32:24 <b>Above-entitled</b> [2] 2:5 38:10 <b>Absolutely</b> [2] 9:25 33:9 <b>Accept</b> [3] 6:16 15:24 32:24 <b>Acceptable</b> [1] 33:15 <b>Accepted</b> [1] 33:12 <b>Accepting</b> [1] 34:3 <b>Accurate</b> [1] 27:1 <b>Acord</b> [4] 4:13 4:14 19:17 23:14 <b>Across-the-board</b> [2] 19:24 20:18 <b>Actively</b> [1] 12:22 <b>Actual</b> [1] 10:25 <b>Adamant</b> [1] 30:17 <b>Adamantly</b> [1] 37:12 <b>Add</b> [5] 22:17 33:19 37:5 37:10 37:17 <b>Additional</b> [3] 5:23 9:9 37:15 <b>Address</b> [2] 3:22 4:17 <b>Adhere</b> [2] 21:18 21:19 <b>Adjourned</b> [1] 37:18 <b>Adjust</b> [2] 16:13 17:7 <b>Adjusted</b> [7] 15:13 16:3 16:4 16:5 16:12 16:21 17:4 <b>Adjusting</b> [2] 21:9 24:23 <b>Adjustment</b> [10] 15:11 15:20 15:21 15:23 15:24 16:2 16:8 16:10 19:24 33:7 <b>Adjustments</b>		
<b>5</b>	<b>8</b>		
5 [2] 24:5 24:6 5.4 [2] 21:4 22:19 500 [1] 2:6 51102 [1] 3:22	<b>8</b> [2] 11:20 29:4 83 [1] 11:4 8th [1] 38:13  <b>9</b> 99 [1] 10:20 99.5 [1] 11:2  <b>A</b> <b>Able</b> [3] 7:18 9:3 32:24 <b>Above-entitled</b> [2] 2:5 38:10 <b>Absolutely</b> [2] 9:25 33:9 <b>Accept</b> [3] 6:16 15:24 32:24 <b>Acceptable</b> [1] 33:15 <b>Accepted</b> [1] 33:12 <b>Accepting</b> [1] 34:3 <b>Accurate</b> [1] 27:1 <b>Acord</b> [4] 4:13 4:14 19:17 23:14 <b>Across-the-board</b> [2] 19:24 20:18 <b>Actively</b> [1] 12:22 <b>Actual</b> [1] 10:25 <b>Adamant</b> [1] 30:17 <b>Adamantly</b> [1] 37:12 <b>Add</b> [5] 22:17 33:19 37:5 37:10 37:17 <b>Additional</b> [3] 5:23 9:9 37:15 <b>Address</b> [2] 3:22 4:17 <b>Adhere</b> [2] 21:18 21:19 <b>Adjourned</b> [1] 37:18 <b>Adjust</b> [2] 16:13 17:7 <b>Adjusted</b> [7] 15:13 16:3 16:4 16:5 16:12 16:21 17:4 <b>Adjusting</b> [2] 21:9 24:23 <b>Adjustment</b> [10] 15:11 15:20 15:21 15:23 15:24 16:2 16:8 16:10 19:24 33:7 <b>Adjustments</b>		

**Word Index**

[5] 1:16 4:23 12:22 20:25 24:1  
**Between**  
 [9] 10:4 12:8 15:18 21:21 21:22 22:7  
 24:3 29:14 29:22  
**Beyond**  
 [1] 27:21  
**Big**  
 [2] 6:15 21:12  
**Bill**  
 [2] 25:1 29:3  
**Bit**  
 [1] 14:21  
**Block**  
 [23] 14:25 23:3 23:10 23:10 23:12 23:  
 13 23:15 23:20 23:21 24:3 24:4 24:4  
 24:8 24:19 25:19 25:24 25:24 26:21  
 27:11 33:21 34:3 34:7 34:12  
**Blocks**  
 [1] 23:8  
**Board**  
 [2] 7:11 20:18  
**Bob**  
 [3] 2:1 3:4 9:24  
**Bonrud**  
 [1] 1:16  
**Border**  
 [1] 18:8  
**Bottom**  
 [2] 31:25 32:13  
**Box**  
 [1] 3:22  
**Brief**  
 [2] 3:13 8:21  
**Bringing**  
 [1] 25:4  
**Brings**  
 [2] 16:25 17:9  
**BTU**  
 [1] 27:9  
**BTUs**  
 [1] 27:11  
**Burg**  
 [12] 1:11 3:8 8:21 15:9 16:15 16:18  
 17:12 18:13 18:20 27:3 28:15 37:4

**C**

**Calculated**  
 [2] 7:6 22:4  
**Calculation**  
 [1] 32:21  
**Calculations**  
 [3] 7:6 7:12 12:16  
**Capitol**  
 [2] 2:6 2:6  
**Care**  
 [2] 9:14 29:6  
**Case**  
 [30] 5:19 6:2 7:10 8:6 8:7 9:3 15:12  
 15:16 15:25 16:4 16:10 16:11 17:4 17:  
 19 17:22 17:25 18:3 18:3 18:16 18:25  
 19:6 19:16 19:22 20:8 32:10 32:19 33:  
 13 34:14 34:23 35:9  
**Cases**  
 [3] 6:22 8:15 34:20  
**Categories**  
 [1] 13:25  
**Categorized**  
 [1] 14:19  
**Category**  
 [2] 10:21 16:6  
**Cent**  
 [1] 24:3  
**Cents**  
 [2] 24:5 24:6  
**CEO**  
 [3] 6:18 30:17 35:3  
**Certain**  
 [7] 23:4 29:18 31:18 33:11 33:12 33:  
 23 34:15  
**Certainly**  
 [5] 21:15 24:15 26:17 34:23 34:24

**CERTIFICATE**  
 [1] 38:2  
**CERTIFY**  
 [1] 38:8  
**CHAIR**  
 [9] 22:24 23:23 24:12 25:2 25:9 25:21  
 26:11 36:21 37:3  
**Chairman**  
 [28] 1:10 1:11 3:1 3:5 3:7 4:20 4:24 5:  
 5 5:9 5:16 6:10 8:19 8:22 9:11 15:8  
 19:7 20:2 20:19 21:11 22:9 22:13 22:  
 22 30:22 33:17 36:17 36:22 36:25 37:  
 15  
**Challenge**  
 [1] 27:14  
**Change**  
 [5] 12:1 25:13 26:8 32:12 32:15  
**Changed**  
 [3] 5:24 33:23 34:16  
**Changes**  
 [1] 26:22  
**Changing**  
 [1] 28:19  
**Characterize**  
 [1] 21:21  
**Charge**  
 [12] 13:7 13:17 14:9 14:11 14:23 15:2  
 23:9 23:9 24:23 24:24 27:12 34:11  
**Charges**  
 [3] 12:23 12:25 34:10  
**Cheaper**  
 [1] 34:6  
**Check**  
 [1] 28:24  
**Cheri**  
 [3] 1:21 38:5 38:18  
**Chesapeake**  
 [2] 5:3 5:8  
**Choose**  
 [1] 36:12  
**City**  
 [1] 3:22  
**Class**  
 [14] 10:15 10:23 11:2 11:21 12:13 12:  
 18 12:19 13:13 14:4 14:16 14:21 20:  
 11 21:5 21:8  
**Classes**  
 [8] 6:14 10:9 10:14 10:16 11:14 13:23  
 22:11 22:18  
**Classifications**  
 [1] 19:10  
**Clear**  
 [2] 31:10 31:16  
**Close**  
 [1] 7:19  
**Closely**  
 [1] 18:1  
**Coffee**  
 [1] 26:13  
**Coin**  
 [1] 25:8  
**Commencing**  
 [1] 2:8  
**Commend**  
 [1] 8:8  
**Comment**  
 [5] 17:14 27:4 31:8 35:2 35:12  
**Comments**  
 [3] 22:14 33:18 33:20  
**Commercial**  
 [1] 14:18  
**Commission**  
 [25] 1:1 1:10 1:12 3:6 3:7 5:4 6:2 6:5  
 7:2 7:11 8:8 8:16 15:18 15:19 15:22  
 15:24 16:1 29:12 33:22 35:4 35:12 35:  
 18 35:24 36:6 36:24  
**Commissioner**  
 [17] 1:11 3:8 8:21 15:9 16:15 16:18  
 17:12 18:13 18:20 22:22 23:2 24:1 27:  
 3 27:24 28:15 33:20 37:4  
**Commissioners**  
 [3] 3:15 9:12 9:19

**Commissions**  
 [1] 32:25  
**Commodity**  
 [1] 15:1  
**Companies**  
 [3] 7:4 10:5 28:10  
**Company**  
 [32] 1:4 3:21 6:18 8:9 8:11 9:7 9:14  
 10:2 10:10 10:11 10:16 11:3 11:10 11:  
 17 11:24 12:15 13:10 14:6 14:8 14:16  
 15:20 16:7 18:2 24:7 30:8 31:3 31:18  
 32:9 32:16 32:23 33:10 37:13  
**Company's**  
 [6] 9:2 11:4 13:5 20:7 21:17 21:19  
**Compare**  
 [1] 20:20  
**Compared**  
 [2] 11:21 29:4  
**Competing**  
 [1] 20:5  
**Compliment**  
 [1] 37:11  
**Component**  
 [2] 13:12 24:25  
**Composite**  
 [1] 11:15  
**Compromise**  
 [7] 10:4 12:13 19:5 20:9 21:22 22:6  
 22:8  
**Conceptually**  
 [1] 12:20  
**Concern**  
 [4] 25:5 30:1 34:5 34:8  
**Concerned**  
 [2] 30:22 37:5  
**Concessions**  
 [1] 18:25  
**Concur**  
 [1] 37:4  
**Conference**  
 [1] 28:1  
**Confidentiality**  
 [1] 29:23  
**Connection**  
 [1] 13:13  
**Consideration**  
 [1] 21:16  
**Consistent**  
 [1] 8:12  
**Consultant**  
 [1] 5:3  
**Consultants**  
 [2] 5:3 5:8  
**Consumer**  
 [4] 18:19 19:1 24:15 26:2  
**Consumers**  
 [3] 31:20 32:1 37:13  
**Consumption**  
 [4] 14:20 25:13 26:8 26:18  
**Continue**  
 [1] 14:23  
**Contrary**  
 [1] 7:24  
**Controversy**  
 [1] 12:7  
**Copeland**  
 [5] 2:2 4:25 5:6 5:7 5:8  
**Copy**  
 [1] 35:16  
**Corporation**  
 [2] 6:6 6:7  
**Correct**  
 [3] 22:11 36:11 38:12  
**Cost**  
 [23] 10:8 10:10 10:12 10:13 10:19 13:  
 4 13:18 13:18 13:20 13:20 14:3 14:5  
 14:5 15:3 20:7 21:18 21:19 22:1 22:3  
 22:20 24:15 24:24 26:22  
**Costs**  
 [26] 10:13 10:21 11:7 11:8 11:11 11:  
 13 11:13 11:16 12:2 12:10 12:12 13:

11 13:16 13:21 13:23 13:24 14:2 14:  
 24 20:6 21:17 21:17 22:7 22:10 34:13  
 37:10 37:10  
**Couched**  
 [1] 29:18  
**COUNTY**  
 [1] 38:3  
**Couple**  
 [1] 27:5  
**Course**  
 [2] 11:12 14:24  
**Court**  
 [5] 15:11 15:14 15:16 15:22 15:22  
**Cover**  
 [1] 28:8  
**Covered**  
 [1] 17:13  
**Created**  
 [1] 28:23  
**Cremer**  
 [8] 1:13 4:21 4:21 29:20 30:2 35:13  
 36:8 36:12  
**Curious**  
 [1] 24:13  
**Current**  
 [2] 17:6 17:10  
**Customer**  
 [31] 4:12 6:13 10:9 10:12 11:18 13:6  
 13:11 13:12 13:15 13:18 13:19 14:3  
 14:4 14:5 14:12 14:21 14:22 14:23 20:  
 1 21:12 22:11 22:18 22:21 23:9 26:18  
 26:24 34:9 34:11 34:19 34:19 36:2  
**Customer's**  
 [2] 25:1 34:16  
**Customer-related**  
 [3] 10:12 13:11 13:12  
**Customers**  
 [23] 8:11 9:19 10:15 10:17 10:19 10:  
 23 11:3 11:8 12:1 12:4 14:17 19:10  
 19:13 20:22 22:2 22:5 23:18 24:2 25:  
 11 25:17 25:20 26:7 34:4

**D**

**Dake**  
 [2] 4:5 4:8  
**Dakota**  
 [13] 1:2 2:5 2:7 3:5 4:9 15:12 17:20  
 18:12 28:25 31:20 38:1 38:7 38:13  
**Data**  
 [1] 29:12  
**Date**  
 [1] 17:19  
**Dated**  
 [1] 38:13  
**Dave**  
 [2] 1:15 4:22  
**Days**  
 [1] 36:9  
**Deadline**  
 [1] 36:9  
**Deal**  
 [1] 27:6  
**Debra**  
 [1] 3:24  
**Decision**  
 [1] 15:17  
**Decisions**  
 [1] 6:1  
**Declining**  
 [6] 23:8 24:8 25:18 26:21 27:6 34:12  
**Decouple**  
 [2] 27:8 28:10  
**Decrease**  
 [6] 12:4 12:5 17:8 22:5 22:7 26:4  
**Decreased**  
 [2] 25:24 26:24  
**Decreases**  
 [2] 23:24 26:20  
**Decreasing**  
 [1] 23:24  
**Deemed**

Word Index

<p>[1] 13:10  <b>Delivery</b>  [3] 15:1 24:23 24:24  <b>Demand</b>  [1] 11:4  <b>Denied</b>  [1] 35:20  <b>Depict</b>  [1] 30:1  <b>Derived</b>  [1] 33:3  <b>Derogative</b>  [1] 31:8  <b>Describe</b>  [1] 5:15  <b>Design</b>  [6] 6:9 6:12 9:21 13:4 15:4 36:3  <b>Detail</b>  [1] 5:18  <b>Determination</b>  [1] 32:7  <b>Determines</b>  [1] 32:9  <b>Determining</b>  [1] 9:16  <b>Developed</b>  [1] 30:4  <b>Development</b>  [2] 12:25 27:19  <b>Difference</b>  [4] 10:8 24:5 33:2 33:13  <b>Differences</b>  [1] 10:4  <b>Different</b>  [8] 6:13 22:4 24:19 28:22 31:13 31:13  31:14 32:2  <b>Differential</b>  [1] 24:3  <b>Diligent</b>  [1] 37:7  <b>Direct</b>  [2] 13:17 14:5  <b>Direction</b>  [4] 24:6 33:23 34:1 34:18  <b>Directly</b>  [1] 13:18  <b>Disagree</b>  [2] 11:5 11:6  <b>Discourage</b>  [3] 23:1 23:18 24:20  <b>Discuss</b>  [2] 19:7 19:10  <b>Discussed</b>  [1] 13:13  <b>Discussion</b>  [1] 27:6  <b>Discussions</b>  [3] 7:1 7:2 17:16  <b>Distribution</b>  [8] 10:3 10:11 10:13 11:11 11:12 11:17  12:24 19:20  <b>Diverse</b>  [1] 14:17  <b>Document</b>  [1] 29:21  <b>Documents</b>  [1] 35:25  <b>Done</b>  [2] 17:3 28:11  <b>Down</b>  [4] 15:19 24:5 28:25 35:16  <b>Dramatic</b>  [1] 26:19  <b>Drastically</b>  [1] 25:13  <b>Due</b>  [1] 19:4  <b>Duly-appointed</b>  [1] 38:8  <b>During</b>  [3] 16:23 28:1 28:2</p>	<p style="text-align: center;"><b>E</b></p> <p><b>Ease</b>  [1] 37:5  <b>East</b>  [1] 2:6  <b>Effect</b>  [3] 10:20 12:17 25:25  <b>Effective</b>  [1] 17:19  <b>Effects</b>  [1] 31:3  <b>Efficient</b>  [1] 26:23  <b>Either</b>  [3] 9:13 21:20 33:15  <b>Elected</b>  [1] 18:9  <b>Electricity</b>  [1] 34:9  <b>Elevated</b>  [1] 15:21  <b>Employee</b>  [1] 13:23  <b>Encourage</b>  [1] 27:19  <b>End</b>  [5] 17:1 17:5 26:4 26:5 26:9  <b>Ended</b>  [1] 9:20  <b>Energy</b>  [4] 1:4 3:3 3:21 6:18  <b>Entirety</b>  [1] 36:7  <b>Environmentally</b>  [1] 25:14  <b>EPRI</b>  [1] 27:4  <b>Equitable</b>  [1] 34:21  <b>Equity</b>  [10] 6:14 6:15 9:6 29:9 29:16 30:1 32:10  32:19 32:22 33:6  <b>Essentially</b>  [2] 16:23 17:9  <b>Eventually</b>  [1] 14:8  <b>Evident</b>  [1] 34:14  <b>Exactly</b>  [2] 9:20 15:13  <b>Example</b>  [1] 16:7  <b>Excel</b>  [1] 32:19  <b>Except</b>  [1] 6:11  <b>Exception</b>  [1] 6:8  <b>Excess</b>  [1] 18:5  <b>Excuse</b>  [2] 9:24 19:11  <b>Executive</b>  [2] 36:19 36:24  <b>Existing</b>  [2] 7:16 23:21  <b>Expect</b>  [1] 7:10  <b>Expecting</b>  [1] 29:2  <b>Expense</b>  [3] 16:10 16:11 17:11  <b>Expenses</b>  [4] 15:12 16:7 16:24 17:10  <b>Expert</b>  [1] 26:16  <b>Explain</b>  [2] 9:15 20:20  <b>Explaining</b></p>	<p>[1] 9:6  <b>Explains</b>  [1] 9:4  <b>Extent</b>  [2] 12:24 14:12  <b>Eyes</b>  [1] 34:5</p> <p style="text-align: center;"><b>F</b></p> <p><b>Fact</b>  [6] 7:24 10:23 19:4 20:21 26:2 26:7  <b>Factor</b>  [4] 10:22 11:9 11:18 16:16  <b>Factors</b>  [1] 11:15  <b>Fairly</b>  [1] 8:12  <b>Fallout</b>  [1] 6:19  <b>Falls</b>  [2] 4:6 4:12  <b>Farris</b>  [2] 1:15 4:23  <b>Fear</b>  [1] 32:24  <b>Fell</b>  [1] 34:15  <b>Felt</b>  [4] 7:13 7:20 19:11 30:18  <b>File</b>  [3] 5:19 6:22 17:24  <b>Filed</b>  [12] 4:19 6:2 9:2 10:6 10:6 10:7 24:7  29:21 29:21 35:21 35:24 36:6  <b>Filing</b>  [4] 10:5 17:18 18:14 35:22  <b>Financial</b>  [4] 4:3 8:1 8:2 8:3  <b>Fine</b>  [1] 26:12  <b>First</b>  [5] 16:20 23:10 23:13 23:20 24:3  <b>Five</b>  [2] 28:3 36:15  <b>Five-hour</b>  [1] 28:3  <b>Fixed</b>  [1] 34:13  <b>Flat</b>  [1] 24:10  <b>Follow</b>  [1] 9:3  <b>Form</b>  [1] 31:8  <b>Forth</b>  [3] 16:8 31:4 31:23  <b>Forward</b>  [1] 16:1  <b>Frankly</b>  [2] 27:20 27:25  <b>Front</b>  [6] 25:23 26:4 26:4 35:14 35:17 35:19  <b>Fully</b>  [1] 34:10  <b>Funding</b>  [2] 28:5 28:6  <b>Furtherwise</b>  [1] 17:7</p> <p style="text-align: center;"><b>G</b></p> <p><b>Gary</b>  [2] 1:11 3:7  <b>Gas</b>  [16] 1:5 8:15 14:20 17:22 22:20 23:1  23:2 23:8 24:24 25:16 26:1 26:18 26:22  27:18 28:21 28:23  <b>Generally</b>  [1] 23:11  <b>Generated</b>  [1] 25:23</p>	<p><b>Generation</b>  [1] 28:7  <b>Generic</b>  [1] 15:10  <b>Georgia</b>  [1] 28:25  <b>Given</b>  [2] 30:7 30:7  <b>Goal</b>  [1] 34:21  <b>Goals</b>  [1] 27:25  <b>Gradual</b>  [1] 34:1  <b>Gradually</b>  [1] 24:6  <b>Granted</b>  [1] 35:19  <b>Great</b>  [1] 33:17  <b>Greater</b>  [3] 23:12 23:15 23:15  <b>Greg</b>  [2] 1:14 9:22  <b>Group</b>  [4] 14:17 22:1 22:4 27:17  <b>Guess</b>  [12] 7:7 8:4 8:7 12:7 17:15 23:17 25:6  25:7 26:10 30:3 35:1 36:4  <b>Guessing</b>  [1] 19:19</p> <p style="text-align: center;"><b>H</b></p> <p><b>Half</b>  [1] 16:22  <b>Hand</b>  [3] 11:1 12:25 13:1  <b>Handled</b>  [1] 33:24  <b>Hanson</b>  [14] 1:11 3:7 22:23 22:24 23:23 24:1  24:12 25:2 25:9 25:21 26:11 27:24 36:21  37:3  <b>Hanson's</b>  [1] 33:20  <b>Happy</b>  [1] 19:8  <b>Head</b>  [1] 20:14  <b>Hear</b>  [1] 8:18  <b>Hearing</b>  [3] 3:2 36:14 37:9  <b>Held</b>  [1] 2:4  <b>Help</b>  [2] 28:9 34:13  <b>HEREBY</b>  [1] 38:8  <b>Higher</b>  [6] 21:7 23:10 23:20 23:22 23:24 28:8  <b>Historical</b>  [1] 16:16  <b>Historically</b>  [2] 28:11 34:17  <b>History</b>  [1] 37:7  <b>Hold</b>  [1] 36:14  <b>Holdings</b>  [1] 6:18  <b>Hopefully</b>  [3] 9:3 9:8 36:19  <b>Hour</b>  [2] 27:9 28:3  <b>Housing</b>  [1] 26:23  <b>Howard</b>  [22] 3:23 5:14 5:17 6:12 17:14 18:17  18:24 19:15 19:18 20:15 21:24 22:12  23:7 23:16 23:25 25:6 25:10 26:6 28:</p>
---	--	---	--

**Word Index**

12 28:17 30:3 35:1  
**HUGHES**  
 [1] 38:3

**I**

**Identified**  
 [1] 13:18  
**Identify**  
 [1] 5:1  
**Identifying**  
 [1] 12:11  
**Immediate**  
 [1] 25:10  
**Impact**  
 [6] 6:20 14:12 19:13 20:21 25:11 30:24  
**Impacts**  
 [1] 25:20  
**Implicitly**  
 [1] 12:7  
**Important**  
 [3] 13:3 14:15 14:22  
**Impression**  
 [1] 28:13  
**Include**  
 [1] 22:20  
**Includes**  
 [1] 14:16  
**Including**  
 [1] 13:11  
**Income**  
 [1] 27:8  
**Increase**  
 [45] 1:5 5:20 6:13 7:20 9:16 10:3 11:18 11:20 11:22 12:3 12:16 12:24 13:6 14:9 14:11 14:23 15:20 17:8 18:4 18:8 19:2 19:6 19:9 19:14 19:25 20:10 20:17 20:20 21:1 21:2 21:3 21:7 21:13 22:2 22:6 23:3 23:3 23:15 26:3 26:4 28:23 29:2 30:10 32:7 33:5  
**Increased**  
 [4] 23:5 23:12 25:22 25:25  
**Increases**  
 [2] 19:16 22:18  
**Increasing**  
 [1] 27:11  
**Incurred**  
 [2] 16:24 17:1  
**Indicate**  
 [1] 15:10  
**Indicated**  
 [1] 15:23  
**Indicates**  
 [2] 34:4 36:5  
**Individual**  
 [2] 13:19 22:10  
**Industrial**  
 [1] 14:18  
**Inflation**  
 [2] 15:10 16:4  
**Inflationary**  
 [8] 15:23 16:2 16:14 16:16 16:22 16:25 17:5 17:6  
**Info**  
 [1] 24:13  
**Information**  
 [3] 7:5 32:13 36:3  
**Initial**  
 [1] 14:25  
**Input**  
 [1] 19:8  
**Instance**  
 [1] 34:9  
**Instead**  
 [3] 24:10 24:10 34:14  
**Intention**  
 [1] 26:3  
**Interested**  
 [1] 24:16  
**Interesting**  
 [1] 9:18

**Interveners**  
 [3] 5:10 5:11 6:5  
**Inverse**  
 [1] 25:19  
**Inverted**  
 [2] 26:21 33:21  
**Involved**  
 [2] 11:19 12:23  
**Involving**  
 [1] 3:2  
**Iowa**  
 [7] 3:22 17:22 17:25 18:7 18:14 18:16 18:19  
**Issue**  
 [7] 6:16 9:1 9:1 13:4 32:15 33:4 36:16  
**Issue-by-issue**  
 [1] 9:1  
**Issues**  
 [4] 32:12 33:11 33:12 34:25  
**Items**  
 [1] 5:24  
**Itself**  
 [2] 22:25 24:24

**J**

**Jacobson**  
 [7] 1:15 4:22 8:23 22:16 31:22 32:5 33:19  
**James**  
 [1] 3:23  
**Jim**  
 [3] 1:11 3:8 25:3  
**Jogged**  
 [1] 20:16  
**John**  
 [1] 1:13  
**Joined**  
 [1] 35:22  
**Joint**  
 [4] 35:14 35:23 36:4 37:1  
**July**  
 [3] 6:3 6:4 7:18  
**Jurisdictions**  
 [3] 6:21 6:22 8:14  
**Justification**  
 [2] 20:22 34:6  
**Justify**  
 [2] 13:16 14:6

**K**

**Karen**  
 [2] 1:13 4:21  
**Keith**  
 [2] 1:14 4:22  
**Kilowatt**  
 [1] 27:9  
**Kilowatts**  
 [1] 27:10  
**Kind**  
 [7] 6:24 8:4 12:20 12:25 14:2 18:17 35:4  
**Kinds**  
 [2] 8:12 37:9  
**Kutsunis**  
 [1] 3:24

**L**

**Labeled**  
 [2] 10:17 37:1  
**Labor**  
 [2] 16:8 16:9  
**Laid**  
 [1] 8:24  
**Language**  
 [1] 9:5  
**Large**  
 [5] 10:10 10:18 21:3 26:2 27:6  
**Larger**  
 [3] 14:13 20:21 23:19  
**Last**

[7] 17:22 18:25 19:9 19:16 19:22 20:17 35:24  
**Late**  
 [1] 29:3  
**Lawyer**  
 [1] 26:25  
**Lay**  
 [1] 19:11  
**Learned**  
 [1] 37:11  
**Least**  
 [5] 6:15 7:20 10:6 34:13 34:22  
**Leave**  
 [2] 12:13 22:6  
**Left**  
 [1] 21:5  
**Less**  
 [1] 25:15  
**Lesser**  
 [1] 23:12  
**Letter**  
 [1] 36:2  
**Level**  
 [3] 13:7 18:7 21:2  
**Levels**  
 [1] 21:5  
**Lifesaver**  
 [1] 25:3  
**Limiting**  
 [1] 14:10  
**Line**  
 [4] 5:10 13:20 32:1 32:13  
**Litigate**  
 [2] 7:10 35:9  
**Litigated**  
 [2] 8:7 8:13  
**Long-term**  
 [1] 25:16  
**Look**  
 [7] 7:8 7:9 26:17 28:4 28:6 28:24 34:25  
**Looked**  
 [3] 7:14 7:16 17:4  
**Looking**  
 [3] 18:1 20:6 31:10  
**Low**  
 [2] 6:19 24:14  
**Lower**  
 [2] 23:11 24:4

**M**

**Main**  
 [1] 10:13  
**Mains**  
 [4] 10:11 11:11 11:13 13:12  
**Maintain**  
 [2] 20:10 27:13  
**Maintained**  
 [1] 24:9  
**Maintaining**  
 [1] 24:18  
**Maintenance**  
 [1] 16:7  
**Major**  
 [1] 12:19  
**Management**  
 [1] 18:2  
**Manager**  
 [3] 3:24 4:3 4:8  
**Managing**  
 [1] 3:20  
**Margin**  
 [5] 11:20 11:25 19:25 21:1 21:8  
**Market**  
 [1] 29:5  
**Markets**  
 [1] 31:3  
**Martin**  
 [5] 1:16 4:23 12:22 12:22 20:25  
**Martin's**

[1] 34:2  
**Matter**  
 [3] 1:4 2:5 38:10  
**McComsey**  
 [3] 1:21 38:5 38:18  
**Mcf**  
 [1] 28:22  
**Mean**  
 [7] 15:13 16:5 21:25 31:7 31:14 31:15 32:1  
**Meaning**  
 [1] 21:21  
**Meantime**  
 [1] 7:7  
**Medium**  
 [10] 10:17 12:1 12:3 12:13 21:4 21:10 24:9 34:3 34:7 34:23  
**Medium-sized**  
 [2] 19:13 21:14  
**Meeting**  
 [3] 27:5 28:2 28:4  
**Meets**  
 [1] 36:24  
**Melanie**  
 [2] 4:13 19:15  
**Memo**  
 [2] 8:25 29:21  
**Memorandum**  
 [2] 20:24 36:4  
**Memory**  
 [1] 20:16  
**Mentioned**  
 [4] 21:4 29:9 30:16 32:20  
**Met**  
 [2] 5:21 6:4  
**Meter**  
 [1] 13:20  
**Meters**  
 [1] 14:1  
**Michele**  
 [1] 1:15  
**Michelle**  
 [2] 4:10 4:23  
**MidAmerican**  
 [16] 1:4 1:18 3:3 3:12 3:21 5:13 6:16 6:18 7:2 7:9 7:25 8:4 8:13 8:24 17:18 19:3  
**MidAmerican's**  
 [1] 30:14  
**Might**  
 [4] 6:22 7:9 8:2 26:2  
**Million**  
 [2] 5:21 18:5  
**Mind**  
 [6] 5:12 6:15 7:20 24:22 31:21 34:25  
**Mine**  
 [1] 17:13  
**Minute**  
 [1] 31:1  
**Mode**  
 [1] 18:21  
**Moderately**  
 [1] 26:21  
**Money**  
 [1] 27:10  
**Month**  
 [3] 13:8 13:9 36:15  
**Moratorium**  
 [2] 17:23 18:12  
**Most**  
 [3] 9:8 17:6 19:12  
**Motion**  
 [6] 35:14 35:18 35:19 35:23 36:5 37:1  
**Motions**  
 [1] 36:18  
**Move**  
 [4] 14:8 34:17 36:18 36:25  
**Movement**  
 [1] 34:1  
**Moving**  
 [3] 34:14 34:20 36:5

Word Index

<p><b>Multiply</b> [2] 16:22 32:3</p>	<p><b>Operate</b> [1] 6:21</p> <p><b>Operating</b> [1] 18:21</p> <p><b>Operation</b> [1] 16:6</p> <p><b>Operations</b> [2] 4:8 33:8</p> <p><b>Opposed</b> [1] 28:13</p> <p><b>Opposite</b> [1] 33:21</p> <p><b>Order</b> [4] 27:13 32:21 32:21 36:16</p> <p><b>Organization</b> [1] 3:18</p> <p><b>Originally</b> [1] 9:2</p> <p><b>Otherwise</b> [3] 15:12 16:5 16:21</p> <p><b>Ottertail</b> [1] 15:18</p> <p><b>Outcomes</b> [1] 8:13</p> <p><b>Overall</b> [7] 11:21 21:1 21:9 22:21 31:10 31:19 32:7</p> <p><b>Overconsumption</b> [1] 29:6</p> <p><b>Overhead</b> [1] 14:2</p> <p><b>Overheads</b> [1] 13:23</p> <p><b>Overturned</b> [1] 15:22</p> <p><b>Overuse</b> [1] 23:1</p> <p><b>Own</b> [4] 28:24 29:5 31:24 35:18</p>	<p>[3] 17:6 18:23 34:18</p> <p><b>Person</b> [2] 21:14 27:20</p> <p><b>Personally</b> [1] 31:2</p> <p><b>Perspective</b> [2] 7:7 30:4</p> <p><b>Philosophical</b> [1] 25:5</p> <p><b>Philosophies</b> [1] 24:14</p> <p><b>Philosophy</b> [1] 26:14</p> <p><b>Phrase</b> [1] 13:17</p> <p><b>Picking</b> [1] 31:5</p> <p><b>Pierre</b> [3] 2:6 3:6 38:13</p> <p><b>Place</b> [4] 3:2 11:3 35:4 35:11</p> <p><b>Point</b> [6] 3:9 3:12 18:10 24:21 27:21 35:10</p> <p><b>Portion</b> [2] 10:10 10:19</p> <p><b>Portions</b> [1] 13:23</p> <p><b>Portray</b> [1] 33:10</p> <p><b>Portrayal</b> [1] 34:2</p> <p><b>Position</b> [3] 16:2 21:23 34:15</p> <p><b>Positions</b> [3] 12:9 32:11 33:14</p> <p><b>Possible</b> [2] 7:3 24:15</p> <p><b>Post</b> [1] 5:25</p> <p><b>Precedent</b> [2] 15:14 34:17</p> <p><b>Precedents</b> [1] 15:11</p> <p><b>Precise</b> [2] 12:11 21:22</p> <p><b>Precludes</b> [1] 17:18</p> <p><b>Prepare</b> [1] 21:19</p> <p><b>Prepared</b> [4] 4:17 8:25 10:7 20:25</p> <p><b>Present</b> [4] 5:10 5:13 14:9 21:5</p> <p><b>Presentation</b> [1] 3:13</p> <p><b>Presented</b> [3] 7:14 29:16 30:4</p> <p><b>Presently</b> [1] 13:7</p> <p><b>President</b> [6] 3:23 6:17 30:16 31:5 31:17 35:3</p> <p><b>Press</b> [3] 8:1 8:2 8:3</p> <p><b>Pressure</b> [2] 35:4 35:11</p> <p><b>Pretty</b> [3] 6:7 8:24 19:12</p> <p><b>Previously</b> [1] 24:2</p> <p><b>Price</b> [1] 28:23</p> <p><b>Pricing</b> [1] 4:15</p> <p><b>Primarily</b> [1] 12:18</p> <p><b>Problem</b> [1] 29:6</p> <p><b>Proceedings</b> [4] 1:7 2:4 38:9 38:12</p> <p><b>Process</b> [1] 9:15</p>	<p><b>Professional</b> [2] 38:6 38:19</p> <p><b>Proforma</b> [1] 5:22</p> <p><b>Proposal</b> [1] 13:5</p> <p><b>Proposed</b> [9] 3:11 7:17 10:11 12:15 15:20 24:8 36:1 36:2 36:2</p> <p><b>Proposing</b> [3] 11:17 11:24 13:8</p> <p><b>Prospective</b> [1] 16:19</p> <p><b>Protection</b> [2] 7:25 8:5</p> <p><b>Provide</b> [1] 24:14</p> <p><b>Provided</b> [1] 19:23</p> <p><b>Provision</b> [1] 17:17</p> <p><b>Public</b> [6] 1:1 1:10 3:5 29:16 38:6 38:18</p> <p><b>Publicly</b> [1] 29:21</p> <p><b>Published</b> [4] 6:19 29:10 29:16 30:17</p> <p><b>Purge</b> [1] 14:2</p> <p><b>Purposes</b> [2] 7:13 33:9</p> <p><b>Put</b> [2] 23:3 27:12</p> <p><b>Putting</b> [3] 10:20 29:12 32:2</p>
<b>N</b>			
<p><b>Name</b> [2] 3:4 3:19</p> <p><b>Narrow</b> [1] 13:15</p> <p><b>NARUC</b> [1] 28:3</p> <p><b>Natural</b> [5] 1:5 23:1 23:2 27:18 28:23</p> <p><b>Nature</b> [1] 23:6</p> <p><b>Necessity</b> [1] 13:22</p> <p><b>Need</b> [5] 26:13 27:13 27:15 28:9 36:13</p> <p><b>Needs</b> [1] 35:17</p> <p><b>Negative</b> [1] 34:19</p> <p><b>Never</b> [2] 29:15 30:17</p> <p><b>New</b> [1] 18:1</p> <p><b>Next</b> [3] 18:15 28:7 36:14</p> <p><b>NG04-001</b> [3] 1:4 3:2 37:2</p> <p><b>Nobody's</b> [1] 5:10</p> <p><b>None</b> [2] 36:18 37:18</p> <p><b>Northwestern</b> [1] 6:6</p> <p><b>Notary</b> [2] 38:6 38:18</p> <p><b>Note</b> [1] 3:17</p> <p><b>Noted</b> [1] 5:18</p> <p><b>Nothing</b> [1] 29:22</p> <p><b>November</b> [1] 17:23</p> <p><b>Number</b> [12] 6:19 7:12 10:14 10:19 11:15 15:16 29:15 30:6 30:18 30:19 30:21 30:24</p> <p><b>Numbers</b> [15] 10:22 11:1 11:7 12:21 30:1 30:10 30:23 31:12 31:12 31:13 32:2 32:5 32:10 33:3 33:14</p>	<p><b>Operate</b> [1] 6:21</p> <p><b>Operating</b> [1] 18:21</p> <p><b>Operation</b> [1] 16:6</p> <p><b>Operations</b> [2] 4:8 33:8</p> <p><b>Opposed</b> [1] 28:13</p> <p><b>Opposite</b> [1] 33:21</p> <p><b>Order</b> [4] 27:13 32:21 32:21 36:16</p> <p><b>Organization</b> [1] 3:18</p> <p><b>Originally</b> [1] 9:2</p> <p><b>Otherwise</b> [3] 15:12 16:5 16:21</p> <p><b>Ottertail</b> [1] 15:18</p> <p><b>Outcomes</b> [1] 8:13</p> <p><b>Overall</b> [7] 11:21 21:1 21:9 22:21 31:10 31:19 32:7</p> <p><b>Overconsumption</b> [1] 29:6</p> <p><b>Overhead</b> [1] 14:2</p> <p><b>Overheads</b> [1] 13:23</p> <p><b>Overturned</b> [1] 15:22</p> <p><b>Overuse</b> [1] 23:1</p> <p><b>Own</b> [4] 28:24 29:5 31:24 35:18</p>	<p>[3] 17:6 18:23 34:18</p> <p><b>Person</b> [2] 21:14 27:20</p> <p><b>Personally</b> [1] 31:2</p> <p><b>Perspective</b> [2] 7:7 30:4</p> <p><b>Philosophical</b> [1] 25:5</p> <p><b>Philosophies</b> [1] 24:14</p> <p><b>Philosophy</b> [1] 26:14</p> <p><b>Phrase</b> [1] 13:17</p> <p><b>Picking</b> [1] 31:5</p> <p><b>Pierre</b> [3] 2:6 3:6 38:13</p> <p><b>Place</b> [4] 3:2 11:3 35:4 35:11</p> <p><b>Point</b> [6] 3:9 3:12 18:10 24:21 27:21 35:10</p> <p><b>Portion</b> [2] 10:10 10:19</p> <p><b>Portions</b> [1] 13:23</p> <p><b>Portray</b> [1] 33:10</p> <p><b>Portrayal</b> [1] 34:2</p> <p><b>Position</b> [3] 16:2 21:23 34:15</p> <p><b>Positions</b> [3] 12:9 32:11 33:14</p> <p><b>Possible</b> [2] 7:3 24:15</p> <p><b>Post</b> [1] 5:25</p> <p><b>Precedent</b> [2] 15:14 34:17</p> <p><b>Precedents</b> [1] 15:11</p> <p><b>Precise</b> [2] 12:11 21:22</p> <p><b>Precludes</b> [1] 17:18</p> <p><b>Prepare</b> [1] 21:19</p> <p><b>Prepared</b> [4] 4:17 8:25 10:7 20:25</p> <p><b>Present</b> [4] 5:10 5:13 14:9 21:5</p> <p><b>Presentation</b> [1] 3:13</p> <p><b>Presented</b> [3] 7:14 29:16 30:4</p> <p><b>Presently</b> [1] 13:7</p> <p><b>President</b> [6] 3:23 6:17 30:16 31:5 31:17 35:3</p> <p><b>Press</b> [3] 8:1 8:2 8:3</p> <p><b>Pressure</b> [2] 35:4 35:11</p> <p><b>Pretty</b> [3] 6:7 8:24 19:12</p> <p><b>Previously</b> [1] 24:2</p> <p><b>Price</b> [1] 28:23</p> <p><b>Pricing</b> [1] 4:15</p> <p><b>Primarily</b> [1] 12:18</p> <p><b>Problem</b> [1] 29:6</p> <p><b>Proceedings</b> [4] 1:7 2:4 38:9 38:12</p> <p><b>Process</b> [1] 9:15</p>	<p><b>Professional</b> [2] 38:6 38:19</p> <p><b>Proforma</b> [1] 5:22</p> <p><b>Proposal</b> [1] 13:5</p> <p><b>Proposed</b> [9] 3:11 7:17 10:11 12:15 15:20 24:8 36:1 36:2 36:2</p> <p><b>Proposing</b> [3] 11:17 11:24 13:8</p> <p><b>Prospective</b> [1] 16:19</p> <p><b>Protection</b> [2] 7:25 8:5</p> <p><b>Provide</b> [1] 24:14</p> <p><b>Provided</b> [1] 19:23</p> <p><b>Provision</b> [1] 17:17</p> <p><b>Public</b> [6] 1:1 1:10 3:5 29:16 38:6 38:18</p> <p><b>Publicly</b> [1] 29:21</p> <p><b>Published</b> [4] 6:19 29:10 29:16 30:17</p> <p><b>Purge</b> [1] 14:2</p> <p><b>Purposes</b> [2] 7:13 33:9</p> <p><b>Put</b> [2] 23:3 27:12</p> <p><b>Putting</b> [3] 10:20 29:12 32:2</p>
<b>O</b>			
<p><b>O&amp;M</b> [7] 15:12 16:3 16:5 16:9 16:11 16:12 16:21</p> <p><b>O'clock</b> [1] 2:8</p> <p><b>Observation</b> [1] 28:21</p> <p><b>Obtain</b> [1] 32:21</p> <p><b>Obviously</b> [1] 31:15</p> <p><b>Offer</b> [1] 6:23</p> <p><b>Offered</b> [4] 5:23 17:21 17:22 18:11</p> <p><b>Office</b> [4] 4:6 4:12 18:18 19:1</p> <p><b>Olson</b> [2] 4:10 4:11</p> <p><b>One</b> [16] 6:5 9:14 13:3 17:14 17:25 18:4 18:6 22:16 24:21 27:7 27:16 28:5 32:19 33:19 34:15 35:2</p> <p><b>Ones</b> [2] 15:10 22:18</p>	<p><b>P</b></p> <p><b>P.m.</b> [2] 2:8 3:4</p> <p><b>P.O.</b> [1] 3:22</p> <p><b>Pam</b> [1] 1:16</p> <p><b>Papers</b> [2] 32:6 33:6</p> <p><b>Part</b> [2] 18:15 34:24</p> <p><b>Particular</b> [2] 19:6 32:16</p> <p><b>Particularly</b> [1] 5:25</p> <p><b>Parties</b> [3] 29:14 35:22 36:5</p> <p><b>Past</b> [3] 26:19 32:18 33:24</p> <p><b>Patterns</b> [2] 25:13 26:8</p> <p><b>Pay</b> [1] 29:2</p> <p><b>Payments</b> [1] 29:3</p> <p><b>Peak</b> [3] 11:4 11:9 20:3</p> <p><b>People</b> [3] 23:4 27:21 29:1</p> <p><b>Per</b> [4] 13:9 26:18 26:24 33:25</p> <p><b>Percent</b> [20] 6:17 6:24 8:15 10:12 10:20 11:2 11:4 11:5 11:20 11:23 11:25 21:1 21:3 21:4 23:12 30:6 30:12 30:18 33:6 35:7</p> <p><b>Percentage</b> [5] 10:24 19:25 20:12 22:17 22:21</p> <p><b>Perhaps</b> [3] 25:3 26:1 29:1</p> <p><b>Period</b></p>	<p>[3] 17:6 18:23 34:18</p> <p><b>Person</b> [2] 21:14 27:20</p> <p><b>Personally</b> [1] 31:2</p> <p><b>Perspective</b> [2] 7:7 30:4</p> <p><b>Philosophical</b> [1] 25:5</p> <p><b>Philosophies</b> [1] 24:14</p> <p><b>Philosophy</b> [1] 26:14</p> <p><b>Phrase</b> [1] 13:17</p> <p><b>Picking</b> [1] 31:5</p> <p><b>Pierre</b> [3] 2:6 3:6 38:13</p> <p><b>Place</b> [4] 3:2 11:3 35:4 35:11</p> <p><b>Point</b> [6] 3:9 3:12 18:10 24:21 27:21 35:10</p> <p><b>Portion</b> [2] 10:10 10:19</p> <p><b>Portions</b> [1] 13:23</p> <p><b>Portray</b> [1] 33:10</p> <p><b>Portrayal</b> [1] 34:2</p> <p><b>Position</b> [3] 16:2 21:23 34:15</p> <p><b>Positions</b> [3] 12:9 32:11 33:14</p> <p><b>Possible</b> [2] 7:3 24:15</p> <p><b>Post</b> [1] 5:25</p> <p><b>Precedent</b> [2] 15:14 34:17</p> <p><b>Precedents</b> [1] 15:11</p> <p><b>Precise</b> [2] 12:11 21:22</p> <p><b>Precludes</b> [1] 17:18</p> <p><b>Prepare</b> [1] 21:19</p> <p><b>Prepared</b> [4] 4:17 8:25 10:7 20:25</p> <p><b>Present</b> [4] 5:10 5:13 14:9 21:5</p> <p><b>Presentation</b> [1] 3:13</p> <p><b>Presented</b> [3] 7:14 29:16 30:4</p> <p><b>Presently</b> [1] 13:7</p> <p><b>President</b> [6] 3:23 6:17 30:16 31:5 31:17 35:3</p> <p><b>Press</b> [3] 8:1 8:2 8:3</p> <p><b>Pressure</b> [2] 35:4 35:11</p> <p><b>Pretty</b> [3] 6:7 8:24 19:12</p> <p><b>Previously</b> [1] 24:2</p> <p><b>Price</b> [1] 28:23</p> <p><b>Pricing</b> [1] 4:15</p> <p><b>Primarily</b> [1] 12:18</p> <p><b>Problem</b> [1] 29:6</p> <p><b>Proceedings</b> [4] 1:7 2:4 38:9 38:12</p> <p><b>Process</b> [1] 9:15</p>	<p style="text-align: center;"><b>Q</b></p> <p><b>Qualify</b> [1] 14:18</p> <p><b>Questions</b> [7] 3:14 4:18 9:9 9:10 9:12 15:8 33:18</p> <p><b>Quite</b> [2] 8:20 14:21</p> <p><b>Quo</b> [1] 20:10</p>
<b>R</b>			
<p><b>Radically</b> [1] 34:16</p> <p><b>Raise</b> [2] 13:8 25:11</p> <p><b>Ramifications</b> [1] 28:18</p> <p><b>Rate</b> [43] 6:9 6:12 9:16 9:21 10:3 11:18 11:25 13:4 15:1 15:4 16:10 16:11 16:14 16:22 17:1 17:4 17:5 17:6 19:9 19:14 19:16 21:5 21:13 22:25 23:5 23:24 24:9 24:10 24:11 24:19 25:19 25:19 27:11 28:23 31:12 31:13 31:14 33:21 33:25 34:7 34:21 34:23 36:3</p> <p><b>Rates</b> [8] 1:5 3:25 9:17 12:14 24:8 25:12 26:9 34:16</p> <p><b>Rather</b> [3] 7:8 8:6 12:4</p> <p><b>Reach</b> [3] 12:8 18:18 19:5</p> <p><b>Reaction</b> [2] 33:1 34:19</p> <p><b>Ready</b> [1] 9:9</p> <p><b>Real</b> [2] 27:14 34:6</p> <p><b>Really</b> [7] 6:24 14:17 26:24 27:23 32:20 33:2 33:12</p> <p><b>Reason</b> [4] 14:10 18:24 21:13 32:20</p> <p><b>Reasonable</b> [3] 7:14 7:21 8:10</p>			



Word Index

Reasonably [1] 7:9	[1] 15:5	Service [9] 1:5 13:7 13:17 13:19 13:20 14:11 22:1 22:3 23:9	Somewhere [1] 22:7
Reasons [1] 18:9	Responsible [1] 10:24	Result [5] 6:6 13:25 22:8 24:14 34:9	Sorry [2] 4:1 6:10
Receive [1] 7:10	Resulted [2] 11:19 12:3	Session [4] 28:3 28:3 36:19 36:24	Sort [3] 3:14 13:24 18:22
Received [3] 8:4 8:14 26:12	Results [1] 20:7	Set [1] 31:23	Source [1] 27:7
Recess [1] 36:23	Retirement [1] 5:25	Setting [2] 12:23 28:2	South [13] 1:2 2:5 2:7 3:5 4:9 15:12 17:20 18:12 28:25 31:20 38:1 38:7 38:13
Recognized [1] 12:6	Return [11] 6:14 6:14 9:6 29:9 31:12 31:13 31:14 32:9 32:19 32:22 33:6	Settled [1] 8:6	Speaks [1] 20:24
Recognizing [1] 12:9	Revenue [11] 7:19 7:20 8:15 19:2 19:6 24:18 25:23 30:9 30:9 32:8 32:22	Settlement [35] 3:11 3:11 4:17 5:13 5:15 5:18 7: 13 7:22 8:17 9:5 12:6 12:8 17:16 17: 17 18:18 19:23 21:2 21:25 29:8 29:10 30:14 30:21 31:10 31:19 32:17 33:9 33:15 35:8 35:9 35:15 35:23 36:1 36: 13 37:2 37:14	Specifically [1] 32:18
Recollection [2] 19:12 23:17	Revenues [6] 11:20 12:1 19:25 20:11 21:1 21:8	Settlements [1] 8:13	Specificity [1] 12:12
Record [2] 31:9 36:22	Richard [1] 3:25	Several [1] 13:1	Sponsored [1] 20:8
Recover [1] 34:13	Rick [1] 3:25	Severe [1] 34:20	Spot [1] 32:2
Recoverable [1] 37:10	Rick's [1] 4:1	Shape [1] 31:7	SS [1] 38:2
Recovered [2] 13:16 14:25	Rislov [8] 1:14 9:13 9:22 9:24 15:6 28:20 29: 20 29:25	Shock [1] 33:25	Staff [32] 1:12 3:14 4:20 4:22 5:4 5:21 6:5 6:23 7:2 7:14 7:14 8:8 8:22 8:24 9:7 9:14 10:5 14:8 16:1 19:8 22:13 29:11 29:20 30:8 30:12 30:19 30:25 32:6 33: 22 36:3 37:7 37:12
Recovering [1] 34:10	Robert [2] 1:10 5:2	Short [2] 15:9 36:23	Staff's [6] 17:7 20:24 22:1 30:13 30:19 32:6
Reduction [2] 11:25 12:15	ROE [14] 6:8 6:17 6:20 7:8 7:24 8:1 30:11 30:13 30:13 30:13 30:15 30:20 31:5 35:6	Short-term [1] 25:18	Stalemate [1] 6:25
Reflect [3] 32:23 33:6 33:7	Ron [2] 4:5 4:6	Shorthand [2] 38:9 38:9	Stance [4] 9:6 32:14 33:4 33:11
Reflected [2] 10:3 32:5	Room [1] 2:6	Show [1] 14:4	Stances [1] 9:1
Regard [1] 29:15	RPR [1] 1:21	Showed [2] 22:1 22:3	Stand [1] 9:9
Regarding [1] 29:8	Run [1] 25:16	Shows [1] 20:25	Standard [1] 18:21
Regardless [2] 26:20 32:15	<b>S</b>		
Registered [2] 38:5 38:19	Safely [1] 8:5	Sides [1] 25:8	State [7] 1:2 2:5 4:1 4:6 7:24 38:1 38:7
Regulatory [4] 3:24 5:3 5:8 32:25	Sahr [26] 1:10 3:1 3:4 4:20 4:24 5:5 5:9 5: 16 6:10 8:19 8:22 9:11 15:8 19:7 20: 2 20:19 21:11 22:9 22:13 22:22 30:22 33:17 36:17 36:22 36:25 37:15	Significant [3] 10:18 19:13 25:19	Statement [2] 27:2 35:5
Reject [1] 36:13	Schedule [1] 20:25	Significantly [1] 25:12	Statements [1] 37:16
Related [5] 6:20 10:12 13:3 13:11 13:12	Schedules [1] 7:5	Similar [1] 19:20	Status [1] 20:10
Relation [1] 23:20	Se [1] 33:25	Simply [1] 13:21	Step [3] 16:20 17:3 23:3
Relative [1] 29:4	Searching [1] 11:1	Single [1] 24:9	Stepped [1] 24:11
Relatively [1] 24:25	Second [11] 23:10 23:11 23:15 23:20 24:4 24: 4 34:3 34:6 36:20 36:21 37:3	Sioux [3] 3:22 4:6 4:12	Stewart [12] 1:18 3:19 3:20 3:20 4:5 4:10 4: 13 4:16 5:14 26:15 35:21 36:11
Released [1] 8:1	See [7] 3:14 7:23 18:2 19:21 22:21 26:7 33:5	Sit [1] 26:13	Sticking [1] 37:12
Remainder [2] 11:10 14:24	Seeing [2] 36:18 37:18	Sitting [1] 35:7	Still [2] 25:4 34:20
Remember [1] 20:13	Seem [1] 37:6	Situation [1] 25:8	Stipulation [11] 5:19 7:23 8:17 17:18 30:5 35:15 35:23 36:1 36:6 36:13 37:2
Reminding [1] 31:22	Sell [1] 27:10	Slightly [1] 18:5	Stipulations [1] 37:6
Reported [1] 1:21	Senger [5] 1:14 4:22 15:15 16:17 16:20	Small [21] 10:17 10:21 11:21 12:3 12:5 12: 16 12:18 13:6 14:4 14:16 14:19 14:20 14:25 21:2 21:8 21:11 23:13 24:2 24: 25 24:25 25:3	Stock [1] 26:23
Reporter [3] 38:6 38:9 38:19	Senior [2] 3:21 4:14	Smaller [4] 10:24 12:5 14:13 20:22	Stops [1] 21:12
Reporting [1] 4:4	Sense [1] 29:4	Smith [1] 1:13	Street [2] 21:12 29:13
Represents [2] 10:22 11:2	September [3] 17:20 36:10 38:14	Solution [1] 8:10	Strictly [2] 21:18 32:11
Requested [2] 5:20 7:5	Served [1] 10:15	Someone [3] 26:1 29:11 29:12	Strongly [2] 11:6 11:6
Requesting [2] 14:7 18:8		Sometime [1] 26:13	Structure [5] 22:25 24:19 26:21 26:22 34:12
Requests [1] 29:12		Somewhat [3] 9:4 15:16 21:7	Structured [1] 31:15
Requirement [4] 7:19 30:9 32:8 32:22			Struggling [2] 25:7 26:10
Residential [1] 14:17			
Respect [2] 5:25 8:14			
Respond			

**Word Index**

**Studies**  
 [1] 22:3  
**Subsequent**  
 [3] 5:21 7:1 7:15  
**Subsidies**  
 [1] 27:19  
**Suggesting**  
 [1] 11:22  
**Summary**  
 [1] 17:16  
**Supervisor**  
 [1] 4:11  
**Support**  
 [1] 34:12  
**Supported**  
 [1] 33:9  
**Supporting**  
 [1] 37:14  
**Supports**  
 [1] 14:7  
**Supreme**  
 [2] 15:21 15:22  
**Suzan**  
 [4] 1:18 3:19 3:20 35:13  
**Switching**  
 [1] 33:21  
**Swoop**  
 [1] 34:15  
**System**  
 [3] 10:25 11:5 13:22  
**System-wide**  
 [1] 13:22

**T**

**Tariff**  
 [2] 23:18 23:21  
**Tariffs**  
 [1] 36:2  
**Teetertotter**  
 [1] 26:3  
**TELEPHONE**  
 [1] 2:1  
**Temper**  
 [1] 14:23  
**Tend**  
 [1] 7:9  
**Tendency**  
 [3] 7:8 23:18 33:25  
**Term**  
 [2] 19:11 20:9  
**Terms**  
 [2] 8:1 8:15  
**Test**  
 [5] 16:23 16:25 17:1 17:5 33:7  
**Testimony**  
 [3] 7:5 10:6 10:7  
**Theories**  
 [3] 10:4 12:10 20:5  
**Thereabouts**  
 [1] 6:3  
**Therefore**  
 [1] 16:9  
**Thinks**  
 [1] 27:18  
**Thoughts**  
 [1] 37:16  
**Three**  
 [2] 10:16 18:3  
**Title**  
 [2] 4:1 4:7  
**Today**  
 [5] 3:23 4:17 27:24 35:7 36:1  
**Together**  
 [1] 29:13  
**Took**  
 [7] 9:1 9:1 9:7 17:4 32:11 34:22 38:9  
**Top**  
 [2] 20:13 20:24  
**Total**  
 [1] 25:1

**Towards**  
 [1] 34:20  
**Towers**  
 [14] 2:1 4:25 4:25 5:2 5:2 9:22 10:1 19:22 20:2 20:4 20:16 20:23 21:15 24:21  
**Transcript**  
 [2] 1:7 2:4  
**Transcription**  
 [1] 38:12  
**Transferred**  
 [1] 12:18  
**Transitional**  
 [1] 4:14  
**Treat**  
 [1] 10:11  
**Treatment**  
 [1] 10:9  
**Tremendously**  
 [1] 26:24  
**Tried**  
 [1] 12:7  
**True**  
 [2] 32:18 38:11  
**Trying**  
 [6] 28:12 28:17 29:1 35:5 35:10 35:11  
**Tuesday**  
 [1] 3:3  
**Tunning**  
 [3] 3:25 3:25 4:3  
**Turned**  
 [1] 15:19  
**Two**  
 [7] 12:8 15:9 17:23 22:7 25:8 28:10 29:14  
**Two-year**  
 [2] 17:22 18:23  
**Type**  
 [3] 22:10 29:2 29:17

**U**

**Under**  
 [3] 18:1 23:21 36:8  
**Uniform**  
 [2] 19:25 20:14  
**Unit**  
 [2] 12:23 12:25  
**Up**  
 [13] 7:12 7:18 9:20 13:8 16:25 17:23 25:4 25:15 26:9 27:13 28:3 33:4 33:8  
**Updated**  
 [1] 5:22  
**Urge**  
 [2] 4:18 8:16  
**Usage**  
 [9] 10:25 11:9 20:3 23:4 26:24 27:9 27:9 27:19 28:8  
**Useful**  
 [1] 8:20  
**Users**  
 [4] 12:5 14:13 14:14 21:3  
**Uses**  
 [1] 11:10  
**Utilities**  
 [5] 1:1 1:10 3:5 23:2 28:4  
**Utility**  
 [2] 23:8 27:20

**V**

**Value**  
 [1] 33:10  
**Varies**  
 [1] 14:21  
**Various**  
 [1] 10:14  
**Versus**  
 [1] 31:25  
**Vice**  
 [12] 1:11 3:7 3:23 22:24 23:23 24:12 25:2 25:9 25:21 26:11 36:21 37:3  
**View**

[1] 13:15  
**Viewed**  
 [1] 32:25  
**Viewpoint**  
 [1] 17:8  
**Views**  
 [2] 10:8 32:16  
**Volume**  
 [27] 10:17 10:17 10:18 10:21 11:21 12:1 12:4 12:5 12:14 12:18 13:6 14:4 14:16 14:19 14:20 14:25 21:2 21:3 21:5 21:8 21:10 23:13 24:2 24:9 34:3 34:7 34:23  
**Volumes**  
 [1] 14:20

**W**

**Wall**  
 [1] 29:13  
**Wants**  
 [1] 31:18  
**Waste**  
 [1] 23:1  
**Water**  
 [2] 23:4 23:5  
**Wave**  
 [1] 35:16  
**Week**  
 [1] 35:24  
**Weeks**  
 [2] 27:5 36:15  
**Whatever**  
 [1] 35:12  
**Whereas**  
 [1] 34:8  
**Wide**  
 [1] 13:22  
**Willing**  
 [2] 6:16 8:9  
**Wind**  
 [1] 25:15  
**Wish**  
 [1] 10:2  
**Wishes**  
 [1] 33:10  
**Wittler**  
 [3] 1:21 38:5 38:18  
**Wondering**  
 [1] 18:20  
**Wrestle**  
 [1] 26:14  
**Writing**  
 [1] 31:23  
**Written**  
 [1] 22:15

**Y**

**Year**  
 [7] 16:23 16:25 17:2 17:24 17:25 18:8 33:7  
**Years**  
 [5] 17:23 18:4 26:19 28:21 29:5  
**Yield**  
 [1] 30:23  
**Yielded**  
 [1] 12:17  
**Yourself**  
 [1] 5:1

**Z**

**Zero**  
 [1] 21:6

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

<b>IN THE MATTER OF THE APPLICATION OF</b>	)	<b>ORDER GRANTING JOINT</b>
<b>MIDAMERICAN ENERGY COMPANY FOR</b>	)	<b>MOTION FOR APPROVAL</b>
<b>AUTHORITY TO INCREASE RATES FOR</b>	)	<b>OF SETTLEMENT</b>
<b>NATURAL GAS SERVICE</b>	)	<b>STIPULATION</b>
	)	<b>NG04-001</b>

On April 2, 2004, MidAmerican Energy Company (MidAmerican), filed with the Public Utilities Commission (Commission) for approval to increase rates for natural gas service in its service territory by \$1,559,963 or approximately 1.5% of pro forma test year revenue. MidAmerican states the proposed increase for an average residential customer would be approximately \$2.50 per month. The proposed rates may potentially affect approximately 73,100 customers in MidAmerican Energy Company's service territory in southeastern South Dakota.

At its regularly scheduled meeting of April 26, 2004, the Commission found that pursuant to SDCL 49-1A-8, MidAmerican shall be assessed a filing fee as requested by the executive director up to the statutory limit of \$100,000. The Commission further established an intervention deadline of May 14, 2004. Pursuant to SDCL 49-34A-14, the Commission suspended the operation of the schedule of rates proposed by MidAmerican for 90 days beyond May 2, 2004. On May 14, 2004, Northern Natural Gas Company (Northern) filed a petition for intervention in this docket. On May 21, 2004, NorthWestern Services Corporation (NorthWestern) filed a petition to intervene in this docket. By order dated June 2, 2004, the Commission granted intervention to Northern. By order dated June 11, 2004, the Commission granted intervention to NorthWestern. By order dated July 27, 2004, the Commission extended the suspension of proposed rate for 60 days.

The Commission set the matter for hearing for August 17 and 18, 2004, starting at 1:00 P.M., on August 17, 2004, in Room 412, State Capitol, 500 East Capitol, Pierre, South Dakota. On August 3, 2004, the Commission received a letter from Commission Staff stating that MidAmerican and Commission Staff had reached a proposed settlement agreement. Staff requested that the Commission consider the settlement agreement on August 17, 2004. Based on Staff's letter, the Commission cancelled the hearing set for August 17 and 18, 2004, which was scheduled to hear the testimony of the parties. On August 12, 2004, the Commission received the Settlement Stipulation signed by all of the parties and a Joint Motion for Approval of Settlement Stipulation.

The Commission has jurisdiction over this matter pursuant to SDCL Chapters 1-26 and 49-34A, including 1-26-18, 1-26-19, 49-34A-2, 49-34A-3, 49-34A-4, 49-34A-6, 49-34A-8, 49-34A-8.1, 49-34A-10, 49-34A-11, 49-34A-12, 49-34A-13, 49-34A-13.1, 49-34A-14, 49-34A-16, 49-34A-17, 49-34A-19, 49-34A-19.1, 49-34A-19.2, 49-34A-20, 49-34A-21, 49-34A-22, and 49-34A-23.

On August 17, 2004, the Commission heard from MidAmerican and Commission Staff concerning the proposed Settlement Stipulation. After listening to the presentations, the Commission voted to grant the Joint Motion for Approval of Settlement Stipulation.

The tariff sheets approved by this order and effective for service rendered on and after September 30, 2004, are as follows:

Section No. I  
Sixth Revised Sheet No. 1, Cancels Fifth Revised Sheet No. 1

Section No. II  
Fourth Revised Sheet No. 1, Cancels Third Revised Sheet No. 1

Section No. III  
Third Revised Sheet No. 11, Cancels Second Revised Sheet No. 11  
Third Revised Sheet No. 12, Cancels Second Revised Sheet No. 12  
Fourth Revised Sheet No. 13, Cancels Third Revised Sheet No. 13  
Sixth Revised Sheet No. 14, Cancels Fifth Revised Sheet No. 14  
Sixth Revised Sheet No. 15, Cancels Fifth Revised Sheet No. 15  
Third Revised Sheet No. 16, Cancels Second Revised Sheet No. 16  
Fourth Revised Sheet No. 26, Cancels Third Revised Sheet No. 26  
Third Revised Sheet No. 27, Cancels Second Revised Sheet No. 27

Section No. III-A  
Fourth Revised Sheet No. 4, Cancels Third Revised Sheet No. 4  
Fifth Revised Sheet No. 5, Cancels Fourth Revised Sheet No. 5  
Fifth Revised Sheet No. 7, Cancels Fourth Revised Sheet No. 7  
Third Revised Sheet No. 8, Cancels Second Revised Sheet No. 8  
Fourth Revised Sheet No. 21, Cancels Third Revised Sheet No. 21  
Fourth Revised Sheet No. 34, Cancels Third Revised Sheet No. 34  
Third Revised Sheet No. 42, Cancels Second Revised Sheet No. 42  
Fourth Revised Sheet No. 46, Cancels Third Revised Sheet No. 46  
Original Sheet No. 47

It is therefore

ORDERED, that the Joint Motion for Approval of Settlement Stipulation is hereby granted. The Settlement Stipulation is incorporated by reference into this Decision and Order the same as if it had been set forth in its entirety herein.

Dated at Pierre, South Dakota, this 26th day of August, 2004.

<b>CERTIFICATE OF SERVICE</b>
The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.
By: _____
Date: _____
(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

\_\_\_\_\_  
ROBERT K. SAHR, Chairman

\_\_\_\_\_  
GARY HANSON, Commissioner

\_\_\_\_\_  
JAMES A. BURG, Commissioner