MidAmerican Energy Company
Experience with Energy Efficiency Incentives

- MidAmerican's experience in Iowa and Illinois
- MidAmerican's experience in South Dakota
- MidAmerican's views on lost margins
- Additional incentive considerations

Energy Efficiency Concerns

- Investing in energy efficiency is fundamentally different that investment in generation
  - If energy efficiency is given long-term investment treatment, it carries a greater perceived risk of cost recovery
  - If cost recovery is concurrent, utilities often have no opportunity to earn a return
  - Energy efficiency reduces utility revenues without an equal reduction in costs, diminishing utility returns
- While many utilities actively pursue energy efficiency in spite of these concerns, they have a responsibility to their investors to try and ensure these investments can be accomplished in ways that are not harmful to the financial health of the company

MidAmerican Experience in Iowa and Illinois

- Concurrent recovery of energy expenditures with annual true-up
- No incentive mechanism
- No explicit recovery of lost margins

MidAmerican Experience in South Dakota

- Concurrent recovery of energy expenditures with annual true-up
- Straight return on annual energy efficiency expenditures
  - Based initially on budgeted expenses
  - Rate of return established from most recent rate case
  - Trued up at end of year for actual expenses
- No explicit recovery of lost margins

Straight Return on Annual Energy Efficiency Expenditures

- MidAmerican is comfortable with an incentive that provides a straight return on annual energy efficiency expenditures
  - Provides balance between making energy efficiency equivalent to generation as a long term investment and providing no financial return for energy efficiency
  - Avoids the potentially contentious and time consuming nature of verifying savings impacts for the purposes of a lost margin calculation or an impact-based incentive

Lost Margin Considerations

- MidAmerican does not have specific treatment for lost revenues associated with energy efficiency in any jurisdiction
- Determining margins lost due to energy efficiency programs requires making many assumptions
  - Recovery process will likely be contentious
  - There may be significant uncertainty regarding the ultimate outcome
- Decoupling is a potential alternative for gas and/or electric distribution revenues, but may not be very customer friendly
  - Decoupling bill adjustments may be confusing
  - Customers may believe they are being penalized for saving energy or for the energy saved by others

Solutions for Lost Margins

- MidAmerican's preferred solution is to allow recovery of virtually all fixed costs through the basic service charge
  - Only small margin impacts are created if sales are reduced
  - Reduces volatility in customer bills caused by fluctuations in weather
- May need to implement gradually due to impacts on small-use customers
- May also want to evaluate whether impact on low-income customers needs to be mitigated

Other Incentive Considerations

- Energy efficiency is a significant driver of customer satisfaction at MidAmerican and is an important tool in helping customers resolve high bill complaints
- MidAmerican recognizes that energy efficiency is an important component of a total balanced generation portfolio