

Cost Recovery and Performance Incentive

1. Overview

This section provides an overview of MidAmerican's cost recovery and performance incentive proposals. It includes a description of the guiding principles MidAmerican used to develop cost recovery factors, as well as the calculations of the factors themselves.

2. Guiding Principles

MidAmerican Energy Company believes it is appropriate for cost recovery of energy efficiency programs to be current, or with a minimum of regulatory lag, rather than deferred until the filing of a rate case. Contemporaneous recovery reduces the cost of capital to fund energy efficiency programs, thereby lowering costs to customers. It also allows the company, regulators and customers to immediately assess the magnitude of bill impacts and adjust program spending as appropriate.

The following general principles guide MidAmerican's proposal for recovery of energy efficiency costs:

- Gas program costs will be collected from gas customers and electric program costs collected from electric customers.
- Costs for residential and non-residential programs will be recovered from residential and non-residential customer classes respectively
- Costs will be recovered volumetrically.
- Costs will be reconciled annually with over- or under-collections plus carrying costs rolled into the following recovery year.

- Overall plan budgets will only be increased with Commission approval, but spending may be adjusted between programs within fuels and customer class without specific Commission approval.

MidAmerican proposes the recovery of energy efficiency charges through the use of a separate volumetric factor collection mechanism rather than adding it to the purchased gas adjustment (PGA) factor for gas or fuel adjustment clause (FAC) for electric because the PGA and FAC are not class-specific.

MidAmerican's energy efficiency cost recovery factor will be separately stated on the customer bill, and the Company's current billing system will be updated to add this functionality.

The gas energy efficiency programs will be available to, and costs recovered from, gas sales service customers and monthly metered gas transportation customers, but not daily metered gas transportation customers. Monthly metered transportation customers are currently schools and government facilities that could benefit from a variety of nonresidential energy efficiency programs. Daily metered transportation customers will be excluded from the programs and cost recovery. Since these customers are not purchasing commodity from the gas utility, the volumetric charge for energy efficiency cost recovery would be a significantly higher percentage of their gas utility bill than customers that purchase commodity from the gas utility. Daily metered transportation customers are also more likely to already be actively managing their gas costs.

The electric energy efficiency program will only be available to, and costs recovered from, non-lighting electric customers until such time as a segment within the

electric energy efficiency program benefiting street lighting and private area lighting customers is established so they may also participate. Street lighting and private area lighting are inherently off-peak users of electricity and generally do not contribute to the system peak for which additional capacity must be acquired.

3. Cost Recovery Factors

MidAmerican's proposed natural gas and electric energy efficiency tariffs are included as attachments E1-1(G) and E1-1(E) at the end of this section. Each tariff includes a formula that defines the components of the calculation of the respective energy efficiency cost recovery factors.

The cost recovery mechanism for gas energy efficiency programs consists of two components to recover from sales service and monthly metered transportation customers approved energy efficiency expenditures, performance incentives earned from the prior period and the reconciliation amount. Expenditures include all costs budgeted for programs and administrative expenses. Performance incentives are described in detail later in this section. The reconciliation amount is the over- or under-collection plus carrying costs where the over- or under-collection is the difference between actual energy efficiency expenditures and actual energy efficiency factor revenues from the prior program period. The carrying costs are the approved rate of return from MidAmerican's last South Dakota gas rate case applied to the over-or under-collection. The first component, which will recover approved projected program period expenditures, will be calculated and implemented as the cost recovery factor at program inception and annually thereafter each January 1. The second component will be determined after each program period ends to allow sufficient time for calculations. This component, which will recover

the performance incentive award and reconciliation amount from the previous program period, will be added to the existing recovery factor to become the new cost recovery factor effective April 1 through December 31. Each of these factors is calculated separately for residential and non-residential customer classes. See attachment E1-2(G/E) for simplified gas and electric factor calculations and attachments E1-3(G1-G3) for a more detailed gas factor reconciliation example.

Similarly, for electric customers (excluding street and private lighting customers), the cost recovery mechanism for electric energy efficiency programs is comprised of two recovery components – one for approved energy efficiency expenditures and the other for performance incentives earned from the prior period and the reconciliation amount. Expenditures include all costs budgeted for programs and administrative expenses. Performance incentives are described in detail later in this section. The reconciliation amount is the over-or under-collection plus carrying costs where the over- or under-collection is the difference between actual energy efficiency expenditures and actual energy efficiency factor revenues from the prior program period. The carrying costs are the approved rate of return from the last rate case applied to the over-or under-collection.

As with gas, separate electric cost recovery factors are calculated for residential and non-residential customer classes. The first component, which will recover approved projected program period expenditures, will be calculated and implemented as the cost recovery factor at program inception and annually thereafter each January 1. The second component will be determined after each program period ends to allow sufficient time for calculations. This component, which will recover the performance incentive award and reconciliation amount from the previous program period, will be added to the existing

recovery factor to become the new cost recovery factor effective April 1 through December 31. Each of these factors is calculated separately for residential and non-residential customer classes.

4. Performance Incentive

MidAmerican and Staff have agreed to a performance incentive program. The program allows MidAmerican to share the benefits of energy use reductions resulting from energy efficiency measures implemented. The incentive is capped at 30% of the Company's approved annual spending budget.

This shared incentive program is summarized as follows:

- The incentive will be calculated separately for gas and electric.
- Residential and non-residential programs will be combined for incentive calculations.
- Incentives cannot be negative (i.e. no penalty.)
- Net benefits are defined as the avoided cost of the energy savings minus the associated program costs.
- The kWh or therm savings assumed for each program in establishing the target net benefits calculation will be used in calculating the achieved net benefits (i.e. assumes avoided costs do not change.)
- Achieved net benefits will be calculated as a percentage of target net benefits.
- No incentive will be earned if less than 100% of targeted kWh or therm savings are achieved but will begin at 100% of kWh or therm savings achieved.

- The incentive will be based on six steps – 100%, 110%, 120%, 130%, 140%, and 150% of targeted energy savings – and not prorated between.
- The maximum incentive will be 30% of the approved budget.
- The calculation to yield the percentage multiplier per step will be the maximum incentive (30% of budget) divided by 150% of the target net benefits proposed in the plan divided by six steps for incentive levels.
- The percentage multipliers will be established at the time of initial plan filing.
- No incentive will be assumed in the initial year; incentive awards will be included in the following year's cost recovery factor.
- If customer response to programs exceeds expectations, MidAmerican will be allowed to adjust marketing, rebate levels and other program parameters in an effort to keep overall spending within budget.

Benefits are derived from cost decreases as well as generation, transmission and distribution credits. From these total benefits, costs of the program are subtracted to achieve utility net benefit. A summary of energy savings, budgets and utility net benefits for 2009 gas and electric energy efficiency are shown on attachment E1-4(G/E). The maximum incentive attainable for the first year at 30% of budget is \$241,200 for gas and \$9,900 for electric if 150% of the proposed target net benefits are achieved. The calculations for the estimated gas and electric incentives are included as attachments E1-5(G) and E1-5(E).

MidAmerican will calculate the performance incentive award for each program period-ended December 31 which will be recovered during the following year. Achieved

net benefits will be calculated as a percentage of target net benefits and the appropriate percentage multiplier at the step achieved will be applied to the plan budget to determine the dollar value of the performance incentive award. The performance incentive award calculation will be included with the annual energy efficiency cost recovery reconciliation.

5. Program Periods

MidAmerican is proposing to implement its initial energy efficiency program for three (3) plan periods commencing with the first full month following Staff approval of the proposed plan. For calculations contained in the attachments, a May 1, 2009 start date is assumed. The performance incentive and reconciliation calculations will be completed and filed with the South Dakota Public Utilities Commission following the end of each plan period. . MidAmerican proposes that the first plan period will be a stub period ending on December 31, 2009 and the following plan periods be based on calendar years ending December 31, 2010 and 2011.

MidAmerican believes that customers will find value in continuing energy efficiency programs in South Dakota and that energy efficiency programs will continue for many more years. However, in the event that energy efficiency programs do not continue beyond 2011, MidAmerican proposes to continue to collect any unrecovered energy efficiency costs, performance incentive awards and reconciliation amounts through the cost recovery factor until all such costs are recovered. Likewise, MidAmerican would return any over-collections to customers through the cost recovery factor until all over-collections are returned.

MidAmerican Energy Company
South Dakota Energy Efficiency
Contemporaneous Costs
Calculation of Gas and Electric ECR Factors
2009
Assumed May 1 - December 31, 2009 Program Year

	<u>Gas</u>			<u>Electric</u>		
	ECR Factor Numerator	Estimated Sales (Therms)	ECR Factor	ECR Factor Numerator	Estimated Sales (KWH)	ECR Factor
Residential	\$ 660,000 /	24,396,605 =	\$ 0.02705	\$ 13,000 /	26,478,611 =	\$ 0.00049
Non-residential	<u>144,000 /</u>	<u>18,284,243 =</u>	<u>\$ 0.00788</u>	<u>20,000 /</u>	<u>113,294,905 =</u>	<u>\$ 0.00018</u>
Total	<u>\$ 804,000</u>			<u>\$ 33,000</u>		

MidAmerican Energy Company
South Dakota Gas
Contemporaneous Costs
Example of Gas ECR Factor and Reconciliation
2009
Assumed May 1 - December 31, 2009 Program Year

Effective May 1, 2009

	<u>Gas</u>		
	ECR Factor Numerator	Estimated Sales (Therms)	ECR Factor
Residential	\$ 660,000	/ 24,396,605	= \$ 0.02705
Non-residential	<u>144,000</u>	/ 18,284,243	= \$ 0.00788
Total	<u>\$ 804,000</u>		

Attachment E1-3(G1)

**MidAmerican Energy Company
South Dakota Gas
Contemporaneous Costs
Example of Gas ECR Factor and Reconciliation
2010 Calendar Year**

Effective January 1, 2010

		<u>Gas</u>	
		<u>ECR Factor Numerator</u>	<u>Estimated Sales (Therms)</u>
Residential	/	\$ 740,000	54,043,827 = \$ 0.01369
Non-residential	/	201,000	39,035,578 = \$ 0.00515
Total		<u>\$ 941,000</u>	

Reconciliation Effective April 1, 2010

Line No.	Item	Incentive Recoveries ⁽¹⁾	Prior Year Over(Under) Recoveries ⁽²⁾	ECR Reconciliation Numerator	2010 Projected Sales ⁽³⁾	Reconciliation Factor	ECR Factor	Total ECR
	(a)	(b)	(c)	(d) (b)-(c)	(e)	(f) (d)/(e)	(g)	(h) (f)+(g)
1	Residential	\$ 22,051	\$ 8,624	\$ 13,427	29,624,336	\$ 0.00045	\$ 0.01369	\$ 0.01415
2	Non-residential	4,749	3,156	1,593	21,719,760	\$ 0.00007	\$ 0.00515	\$ 0.00522
3	Total	<u>\$ 26,800</u>	<u>\$ 11,780</u>	<u>\$ 15,020</u>				

⁽¹⁾ Values are for illustrative purposes only

⁽²⁾ Includes carrying charges from 2009, values are for illustrative purposes only

⁽³⁾ Reconciliation amount to be recovered April 1 through December 31, 2010.

Attachment E1-3(G2)

**MidAmerican Energy Company
South Dakota Gas
Contemporaneous Costs
Example of Gas ECR Factor and Reconciliation
2011 Calendar Year**

Effective January 1, 2011

Gas	
	ECR Factor Numerator Estimated Sales (Therms) ECR Factor
Residential	\$ 855,000 / 54,043,827 = \$ 0.01582
Non-residential	<u>258,000 / 39,035,578 = \$ 0.00661</u>
Total	<u>\$ 1,113,000</u>

Reconciliation Effective April 1, 2011

Line No.	Item	Incentive Recoveries⁽¹⁾	Prior Year Over(Under) Recoveries⁽²⁾	ECR Reconciliation Numerator	2011 Projected Sales⁽³⁾	Reconciliation Factor	ECR Factor	Total ECR
	(a)	(b)	(c)	(d) (b)-(c)	(e)	(f) (d)/(e)	(g)	(h) (f)+(g)
1	Residential	\$ 28,215	\$ (10,750)	\$ 38,965	29,624,336	\$ 0.00132	\$ 0.01582	\$ 0.01714
2	Non-residential	<u>8,514</u>	<u>(2,150)</u>	<u>10,664</u>	21,719,760	\$ 0.00049	\$ 0.00661	\$ 0.00710
3	Total	<u>\$ 36,729</u>	<u>\$ (12,900)</u>	<u>\$ 49,629</u>				

⁽¹⁾ Values are for illustrative purposes only

⁽²⁾ Includes carrying charges from 2010, values are for illustrative purposes only

⁽³⁾ Reconciliation amount to be recovered April 1 through December 31, 2011.

Attachment E1-3(G3)

**MidAmerican Energy Company
South Dakota Energy Efficiency
Gas and Electric
Energy Savings, Budgets and Net Benefits**

2009 Estimated Savings, Costs and Benefits								
	Gas				Electric			
	Energy Savings (Therms)	Utility Benefits	Proposed Budget	Utility Net Benefits	Energy Savings (KWH)	Utility Benefits	Proposed Budget	Utility Net Benefits
Residential								
Equipment	54,790	\$ 532,698	\$ 360,000	\$ 172,698	1,316	\$ 1,648	\$ 5,000	\$ (3,352)
Audits	25,392	\$ 227,894	\$ 283,000	\$ (55,106)	2,323	\$ 2,436	\$ 3,000	\$ (564)
Load Management	-	\$ -	\$ -	\$ -	-	\$ -	\$ 4,000	\$ (4,000)
Low Income	803	\$ 9,017	\$ 17,000	\$ (7,983)	-	\$ -	\$ 1,000	\$ (1,000)
Total Residential:	<u>80,985</u>	<u>\$ 769,609</u>	<u>\$ 660,000</u>	<u>\$ 109,609</u>	<u>3,639</u>	<u>\$ 4,084</u>	<u>\$ 13,000</u>	<u>\$ (8,916)</u>
Nonresidential								
Equipment	14,573	\$ 140,934	\$ 39,000	\$ 101,934	210,333	\$ 139,223	\$ 15,000	\$ 124,223
Custom Programs	8,704	\$ 83,070	\$ 45,000	\$ 38,070	-	\$ -	\$ 3,000	\$ (3,000)
Small Commercial Audit	1,603	\$ 16,918	\$ 60,000	\$ (43,082)	169	\$ 94	\$ 2,000	\$ (1,906)
Total Nonresidential	<u>24,880</u>	<u>\$ 240,922</u>	<u>\$ 144,000</u>	<u>\$ 96,922</u>	<u>210,503</u>	<u>\$ 139,317</u>	<u>\$ 20,000</u>	<u>\$ 119,317</u>
Total: All Programs	<u><u>105,865</u></u>	<u><u>\$ 1,010,532</u></u>	<u><u>\$ 804,000</u></u>	<u><u>\$ 206,532</u></u>	<u><u>214,142</u></u>	<u><u>\$ 143,401</u></u>	<u><u>\$ 33,000</u></u>	<u><u>\$ 110,401</u></u>

MidAmerican Energy Company
Estimated Incentive Plan Calculation Gas

2009

Original Budget:	\$ 804,000	
Energy Savings Goal at Original Budget (Therms)	105,865	
Multiplier for every 10% of Energy Savings	12.9762%	Budget x 30% / Projected Net Benefits @ 150% of goal / 6 steps
Estimated Net Benefit at Proposed Filing	\$ 206,531.69	

Calculation of Estimated Incentives

Derived Numbers Given the Percentage of Net Benefit Awarded at Different Percentages of Energy Savings

Percent of Savings Goal	Therm Savings	Percent of Base	Estimated Net Benefits Achieved	Estimated Incentives
100% of Savings Goal	105,865.41	12.9762%	\$ 206,532	\$ 26,800
110% of Savings Goal	116,451.95	25.9524%	\$ 227,185	\$ 58,960
120% of Savings Goal	127,038.49	38.9287%	\$ 247,838	\$ 96,480
130% of Savings Goal	137,625.03	51.9049%	\$ 268,491	\$ 139,360
140% of Savings Goal	148,211.57	64.8811%	\$ 289,144	\$ 187,600
150% of Savings Goal	158,798.12	77.8573%	\$ 309,798	\$ 241,200

Incentive cap = 30% of Budget	\$ 804,000
	X 30%
	\$ 241,200

Actual Energy Savings (Therms):	105,865
Actual Expenditures	\$ 804,000
Actual Net Benefit Achieved	\$ 206,532

Calculated Incentive: **\$ 26,800**

Attachment E1-5(G)

MidAmerican Energy Company

Estimated Incentive Plan Calculation Electric

2009

Original Budget:	\$	33,000	
Energy Savings Goal at Original Budget (KWH)		214,142	
Multiplier for every 10% of Energy Savings		0.9964%	Budget x 30% / Projected Net Benefits @ 150% of goal / 6 steps
Estimated Net Benefit at Proposed Filing	\$	110,401.27	

Calculation of Estimated Incentives

Derived Numbers Given the Percentage of Net Benefit Awarded at Different Percentages of Energy Savings

Percent of Savings Goal	KWH Savings	Percent of Base	Estimated Net Benefits Achieved	Estimated Incentives
100% of Savings Goal	214,141.86	0.9964%	\$ 110,401	\$ 1,100
110% of Savings Goal	235,556.05	1.9927%	\$ 121,441	\$ 2,420
120% of Savings Goal	256,970.23	2.9891%	\$ 132,482	\$ 3,960
130% of Savings Goal	278,384.42	3.9855%	\$ 143,522	\$ 5,720
140% of Savings Goal	299,798.60	4.9818%	\$ 154,562	\$ 7,700
150% of Savings Goal	321,212.79	5.9782%	\$ 165,602	\$ 9,900

Incentive cap = 30% of Budget	\$	33,000	
	X	30%	
	\$	9,900	

Actual Energy Savings (KWH):		214,142	
Actual Expenditures	\$	33,000	
Actual Net Benefit Achieved	\$	110,401	

Calculated Incentive: \$ 1,100

Attachment E1-5(E)