

From: PUC

Sent: Wednesday, January 21, 2015 4:34 PM

To: [REDACTED]

Subject: MIDAMERICAN RATE CASE, EL14-072

Mr. Montgomery:

This is in response to your Jan. 19, 2015 message regarding MidAmerican Energy's filed electric rate increase request docket, EL14-072, currently being processed by the commission: <http://www.puc.sd.gov/Dockets/Electric/2014/el14-072.aspx> Commission staff are in the process reviewing the filings in this docket and requesting additional information from the utility regarding its application.

MidAmerican Energy filed its request for an electric rate increase on Aug. 4, 2014. As allowed by law, the utility can charge interim rates beginning six months following the filing of the case if it is not yet completed by the commission. Interim rates are subject to refund with interest, depending on the final decision by the commission.

The following excerpt and link from MidAmerican's application references the proposed increases:

MidAmerican's electric rates were last increased in 1995 and presently are the lowest of any rate-regulated electric utility in the nation. The rate and tariff changes proposed in the Notice of Change in Rates would result in an annual increase in base electric revenues of \$1.6 million, an approximate increase of 13.8% of test year pro forma revenue. In addition, MidAmerican proposes to implement a Transmission Cost Recovery clause and to make changes to its Energy Cost Adjustment clause.

<http://www.puc.sd.gov/commission/dockets/electric/2014/el14-072/volume1/ltr080414.pdf>

This excerpt and link references the utility's residential customers' increases:

NOTICE OF PROPOSED RESIDENTIAL ELECTRIC BASE RATE INCREASE

On Aug. 4, 2014, MidAmerican Energy Company asked the South Dakota Public Utilities Commission (SDPUC) for approval to increase electric base rates by \$1.6 million, or approximately 13.8 percent, with a proposed effective date of Sept. 3, 2014. The SDPUC may establish a different effective date. South Dakota customers have experienced 19 years of rate stability, as this is the first electric base rate increase MidAmerican Energy has requested since 1995. The proposed increase reflects the current costs of providing safe and reliable electric service to our customers' homes and businesses as the day-to-day costs associated with delivering this service continue to rise. Electricity prices across the U.S. have increased primarily due to both increasing electricity use by customers and environmental regulations. Nonetheless, MidAmerican Energy's overall average South Dakota retail electric base rates rank as the lowest in the nation among rate-regulated utilities. And we are committed to remaining a low-cost electricity provider, controlling expense and helping customers save money by using electricity efficiently. Although the exact dollar amount will vary depending on a customer's electric usage levels, if approved, the approximate average monthly increase for a residential customer would be as follows:

Average Monthly Bill \$76.34

Average Increase \$9.65*

Average Monthly Bill on Proposed New Rate \$85.99

Percent Change 12.6%

<http://www.puc.sd.gov/commission/dockets/electric/2014/e114-072/residentialelectric.pdf>

The reason the interim rate on the **base rate** portions of your bill increased more than the utility's estimated 12.6% average residential increase is explained on page three of the following document which was supplied with MidAmerican's interim rate schedules: <http://puc.sd.gov/commission/dockets/electric/2014/e114-072/notice.pdf>
The interim rate increase percentage was applied to current base rates but was not applied to the energy cost adjustment clause or the energy efficiency cost recovery clause.

You point to the last four years' earnings of MidAmerican Energy Holdings Company (now Berkshire Hathaway Energy Company). The laws governing regulated utilities include what is known as ring-fencing. This separates the accounting and revenue of the regulated entity from the other owned entities within a larger corporate ownership structure. It essentially prevents an investor-owned utility of being stripped of its profits by shareholders. The purpose is to retain sufficient funds to operate the utility and reinvest in the system in order to provide safe, reliable service to the utility's customers.

As a regulated utility, MidAmerican's rates are set by the commission based on an authorized Rate Of Return. Authorized does not mean guaranteed. The utility is not guaranteed to earn that ROR. The rates are set based on a ROR established by utility debt and equity market rates determined by present market conditions. This rate is typically set based in part on current debt and equity return values, but the process also results in the utility not being able to earn the higher ROR that unregulated businesses can charge. In the past several years, the South Dakota PUC's approved ROR has been the lowest in the nation for the electric sector.

The commission is required by law to allow rates based on a reasonable ROR for the regulated utility sector. This is required by the statutes passed by the South Dakota Legislature, and has been upheld by multiple decisions of the South Dakota Supreme Court and the United States Supreme Court. The Supreme Court has ruled that it is unconstitutional according to the takings clause of the Constitution for the commission to set rates based on debt and equity values that are not within the current range of market rates for utility debt and equity securities.

We do not yet have an answer regarding a percentage increase or decrease in base electric rates or other billing categories at this point for this rate case. We encourage you to follow along as the case is processed and new information is posted to the docket. The staff working on the case continue to seek additional information as part of its investigation. We will follow up once information relative to your questions has been received and reviewed. The commission is processing three other investor-owned electric and one natural gas utility rate increase requests in addition to this and several other dockets. Each docket is in a different stage of investigation at this point.

Meanwhile, this document may be helpful in understanding the processing of electric rate cases:

<http://www.puc.sd.gov/commission/Publication/electricratecasehandout.pdf>

Thank you for sharing your message and billing information.

South Dakota Public Utilities Commission Staff

www.puc.sd.gov