MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: BRIAN ROUNDS, ROSS PEDERSEN, RYAN SOYE AND KARA SEMMLER

SUBJECT: GE11-001 STAFF RECOMMENDATION

DATE: 03/25/2011

In 2009, MidAmerican Energy Company (MEC) began offering energy efficiency programs to both electric and gas customers in their territory. In this docket, MEC requests the Commission reconcile its 2010 results and incentive, approve its plan for 2011, and update its tariffs accordingly. Although staff intends to further work with MEC in considering some program changes, we recommend approval of the proposed tariff changes.

The 2010 Annual Report provided by MEC illustrates the large effect of the recent economic downturn on the company's original estimates. Decreased gas prices and economic activity resulted in lower than expected participation. Decreased participation meant that both costs and saved units were lower than anticipated. Specifically, non-residential participation (which is typically the most beneficial to the system) was low.

The effect of decreased participation on the electric side was prevalent. Although the program reduced peak capacity by 143 kW and saved 399,831 kWh (approximately 0.2% of total retail sales) of energy, this was more than 50% less savings than was originally estimated. On the gas side the effect was less drastic. The program saved about 236,829 therms and 2,907 peak therms which was only about 12% less than expected. Also of note, the reduced participation affected cost. For example, only 72% of the electric budget and 83% of the gas budget were spent in 2010.

With administrative costs fixed, decreased participation resulted in low benefit-cost numbers. Although the societal test came in above 1, the Total Resource Cost (TRC[1]) and Ratepayer Impact Measure (RIM[2]) tests were at 0.88 and 0.66 respectively. Ideally, the TRC and RIM should be above 1, but we especially want to see the TRC above 1. Although this causes concern, changes to the 2011 would be premature.

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[1] The TRC test is considered by staff to be the best overall benefit-cost test, representing a combination of the effects of the program on both participants and non-participants. A TRC of 1 or greater indicates a net drop in the total cost of energy.

[2] The RIM test has also been referred to as the "non-participant test" because of its emphasis on non-participants in the program. A RIM test of 1 or greater indicates a true decrease in rates. Although a useful tool in determining a program's cost effectiveness, staff does not rely completely on this test.

With spending below anticipated levels, MEC recovered more in the rider than required. Thus, the riders for both gas and electric customers will be reduced to almost zero to recover estimated expenditures for the rest of 2011.

As a result of their 2010 experience, MEC proposed several changes to their 2011 plan. The budget for gas and electric programs both slightly increase to $1,172,284 (an increase of 5.3%) and $118,165 (an increase of 36%), respectively. At the same time, savings estimates for gas decrease to 246,280 therms (a decrease of 6%), and savings estimates for electric decrease to 674,149 (a decrease of 20%) kWh. Increasing costs and decreasing savings have obvious negative impacts to the program's cost effectiveness. Again, staff is concerned but believes changes to the program would be premature.

Although staff is not ready to suggest changes to MEC's programs, low benefit-cost results for 2010 and the prospect of low results for 2011 causes concern. We intend to work with the company through the remainder of 2011 to ensure investment in energy efficiency programs continues to be a prudent use of ratepayer dollars. In the event it appears the program deviates from its desired objectives, changes can be proposed for the 2012 calendar year.

Staff recommends approval of MEC's 2010 Report and Reconciliation. We also recommend approval of MEC's 2011 Energy Efficiency Plan and tariff changes, effective April 4th, 2011. This recommendation is made with the assumption MEC will continue to work with staff to refine its plan for 2012 if benefit-cost results continue to be lower than expected.