TO: COMMISSIONERS AND ADVISORS

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

SUBJECT: GE 12-002 STAFF RECOMMENDATION

DATE: MARCH 6, 2012

STAFF MEMORANDUM

OVERVIEW

Starting 2009, MidAmerican Energy Company (MEC) offered energy efficiency programs to both electric and natural gas customers in their service territory. In this filing, MEC requests approval of its 2011 report and reconciliation, its 2012 plan update, and the corresponding tariff changes. The following is a brief summary of the filing along with Staff's recommendation.

RESULTS

Results from the 2011 calendar showed two major trends, (1) a slowly recovering economy on the natural gas side, and (2) flood impacts on the electric side. The natural gas programs saw lower than expected participation and benefits and they had an overall Total Resource Cost (TRC) ratio of 1.07. The electric programs missed projections in participation and spending by large amounts. Given, however, the small number of electric customers served and the added impacts of this summer's flood, Staff is not concerned. Staff is concerned, however, with the low TRC ratio of 0.77 for the electric programs. Individual program benefit-cost results will vary above and below the overall numbers, which means there are programs that are not currently cost effective.

In last year's results, Staff had the same concern but thought it was premature to end programs. Staff recommended approval with the understanding that MEC would make changes to bring the cost effectiveness of the program up. Later that year, MEC met with Staff and presented a number of ideas to accomplish that. Staff was in agreement with those proposed changes. But, due to the flooding and MEC's effort to bring their plans together across all jurisdictions MEC does not intend to implement those changes until after making a filing with the Commission this summer. Although Staff is more optimistic we will ultimately see the changes, Staff's concern with the current results continues. Again, however, it is too early to discontinue any program.

2012 PLAN UPDATE

For 2012, MEC plans to decrease the budget 11% for natural gas programs, closely mirroring the results they saw in 2011. On the electric side, MEC anticipates large increases in participation, which translates to a large electric budget increase of 58%, largely due to flooding impacts.

RECONCILIATION & TARIFF CHANGES

The proposed changes to the current energy efficiency recovery factors are significant as shown in the following table.

	CURRENT	**PROPOSED**
Gas Residential	$0.00615/therm	$0.01798/therm
Gas Non Residential	$0.00006/therm	$0.00385/therm
Electric Residential	$0.00020/kWh	$0.00430/kWh
Electric Non Residential	$0.00008/kWh	$0.00022/kWh

The large increases are mostly a result of artificially low rates to begin with. Because MEC over-recovered in the 2009/2010 reporting period, the rates dropped to almost zero last year. However, the electric budget had a sizable increase for 2012, which is also reflected in those rates, particularly for residential electric customers. In addition to truing up 2011 costs and adding the 2012 budgets to the rate, MEC requests an incentive in lieu of lost margins. The requested incentive was previously approved by the Commission using the fixed percentage incentive, where the percentage is based on MEC's last approved return.

STAFF RECOMMENDATION

Based on concerted efforts and communication between Staff and MEC, Staff recommends approval of MEC's 2011 Report and Reconciliation. Staff also recommends approval of MEC's 2012 Energy Efficiency Plan and tariff changes, effective April 2, 2012 with the understanding MEC will continue to work with Staff to refine programs.