

MEMORANDUM

TO: Commissioners and Advisors

FROM: Dave Jacobson



RE: NG06-001 MidAmerican Energy Request to Base Interruptible Gas Costs on a Daily Market Price Index

Date: 2/27/06

Overview

All natural gas sales customers pay two basic PGA costs, the cost of the commodity itself and the cost of delivery via interstate pipelines. Generally, the difference between interruptible customers and firm customers is the reduction or elimination of interstate pipeline demand charges for interruptible service.

MidAmerican gas supply for all sales customers, firm and interruptible, comes from general system supply (system gas) which is generally comprised of base load gas purchases, storage gas, daily gas purchases plus interstate pipeline transportation service ranging from seasonal firm service to daily no notice service. The proposed changes in this docket do not affect how MidAmerican purchases its gas supply, only how they recover costs from customers.

Commodity Costs - System vs. Daily Index

Currently MidAmerican interruptible customers pay a commodity cost based on estimated monthly system costs. With this proposal, interruptible customers will have the opportunity to achieve greater savings by having more chances to buy at lower costs and avoid higher costs. While the interruptible customer is primarily concerned with beating the cost of his alternative fuel, the Commission should be concerned about any given class of customers paying appropriate rates for the costs that class creates.

With this proposal, interruptible customers will pay an index price which is either more, less or possibly equal to the monthly average commodity cost paid by other ratepayers. MidAmerican has proposed that this difference will be passed on to the system cost paid by the other ratepayers. In other words, if the daily index price paid by interruptible customers is lower than the average monthly system cost paid by other customers, firm customers will make up the difference so that only total actual costs are recovered. Likewise if the price paid by interruptible daily index cost customers is greater than the average monthly system price, system cost customers will benefit as these additional revenues go towards recovery of total actual costs. Although this treatment wasn't mentioned

in the filing MidAmerican has stated this was their intent and the tariffs have been revised to reflect this.

MidAmerican proposes to choose an index at the start of each month and post it on its bulletin board. The index expected to be used the vast majority of the time, the Chicago Citygate index, is listed and available to interruptible customers on WWW.theice.com. There are 16 indices listed under mid-continent classification.

MidAmerican has stated that the index chosen will be the one that best represents the market as a whole at the beginning of the month.

MidAmerican states in the application that over the long term, they do not expect the daily market price indices (index cost) will vary greatly from the market price included in the calculation of the monthly system cost. This of course is dependent on gas price volatility going forward. The extent to which recovery revenues will flow to or from interruptible customers under a daily index price also depends on how vigilant interruptible customers are at fuel switching when prices rise and also on the cost of their alternative fuel which will dictate when switching occurs. With the information available to us at this time, it is very difficult to estimate what will result if the proposal is approved. If approved, the Commission may well want to have the results of implementation reported so as to evaluate these rates in the future. Attached is a graph provided by MidAmerican of the actual interruptible PGA in effect during 2004 and 2005 and an index price during that time.

Demand Recovery From Interruptible Customers

Firm customers pay demand (capacity) charges to assure delivery at all times. Because MidAmerican interruptible customers at times benefit from capacity paid for by firm customers, interruptible customers currently pay pipeline transportation costs including a demand charge component based on a monthly average value of capacity release. This treatment was approved in Docket NG04-003 and has been in effect since 11/29/2004. MidAmerican has informed Staff that the use of monthly average capacity release no longer reflects the value of capacity utilized by interruptible customers. The primary (Chicago Citygate) Index, to be used by MidAmerican represents "as delivered" prices which include transportation charges to the city gate. Transportation charges assessed by the pipeline with "as delivered" service are an average of the rates charged on a given day which include demand recovery. MidAmerican has explained that the resulting interstate pipeline demand recovery will reflect actual market values. In those cases where the index is not "as delivered", the company has proposed using maximum interruptible transportation rates. Again there may be a difference between this recovery and the actual costs incurred by MidAmerican.

Other

The current monthly PGA rate for interruptible customers is adjusted by the results of the Incentive Gas Supply Procurement Program (IGSPP). If approved, the IGSPP adjustment would not be applied to interruptible customers but the volumes purchase for them and the price paid for their supply would still be included in the IGSPP. MidAmerican has stated that because there is no separate identifiable supply purchased for interruptible customers, it would be difficult to determine prices paid for their supply. However, one could also argue that the index price paid by interruptible customers is a reasonable proxy for the cost of their gas. MidAmerican calculates that 2005 interruptible volumes are only 2.5% of total system volumes.

Currently MidAmerican also applies the results of its hedging program to interruptible customers. Under the proposed changes, interruptible customers would no longer be subject to an adjustment for hedging results.

MidAmerican has provided the website www.theice.com address to all interruptible customers that shows the index price at specific index locations at 1:30 p.m. each day. That price will then be representative of the price for the customer the next day starting at 9:00 a.m. It is a requirement for all interruptible customers to have telemetering installed so MidAmerican is able to remotely read the daily gas usage of these customers.

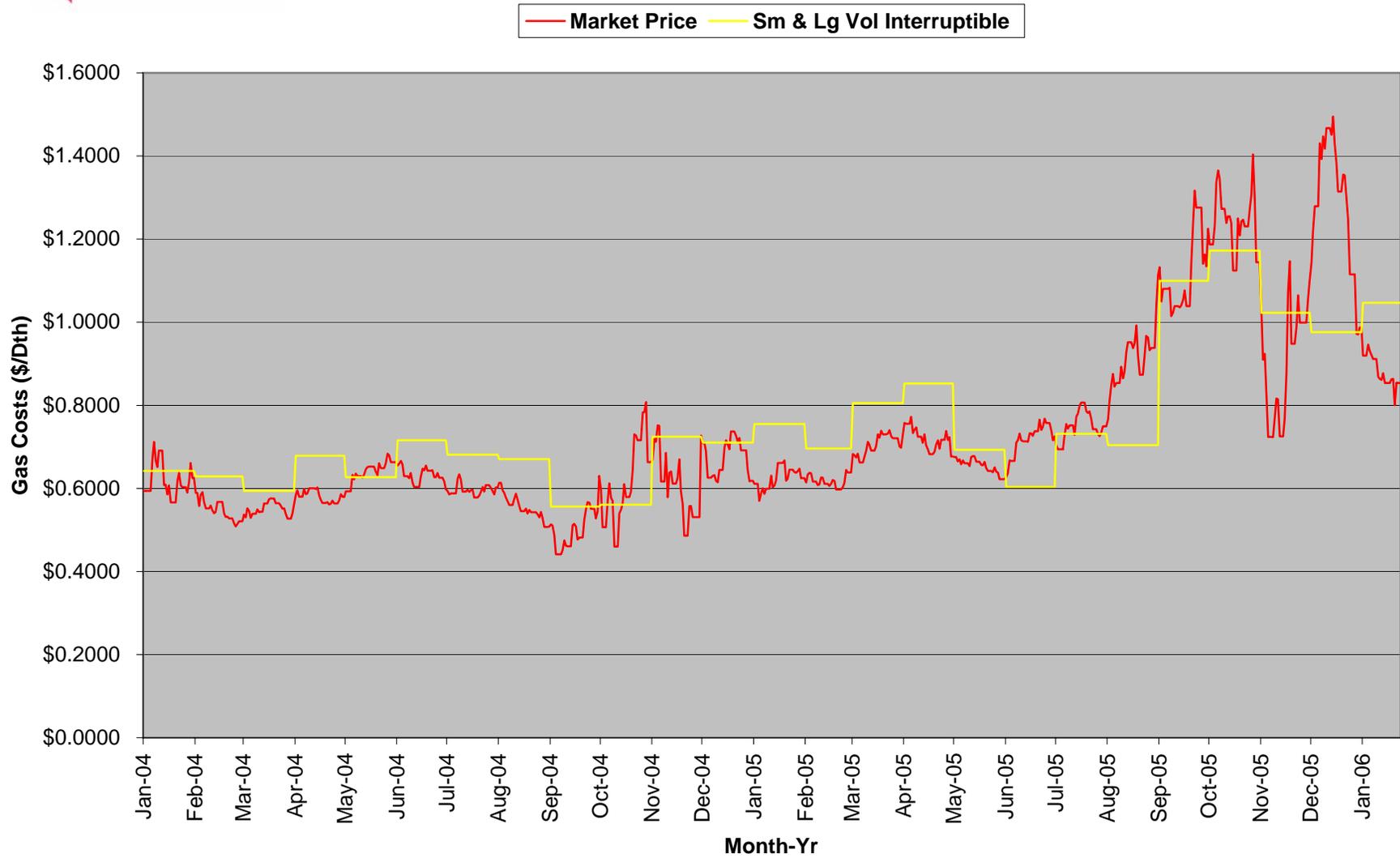
MidAmerican has informed the 29 interruptible customers it serves of this filing by letter and successfully followed up with 27 of those customers with personal telephone contact. MidAmerican has stated that none of the 29 customers contacted has objected to the changes proposed. Attached is a confidential list of those customers and their responses upon being contacted.

Summary

Although there is question whether the application of index rates will result in a significant shift of recoveries between interruptible and other customers as discussed above, there have been reasonable assurances by MidAmerican that such recoveries will be equitable to all classes. Staff would recommend approval with the condition that MidAmerican provide an analysis on a biannual basis comparing the recoveries pursuant to this index pricing methodology with recoveries that would result from the currently effective methodology. The report submitted should also compare the utilization of natural gas service under index pricing to that historically experienced.



MidAmerican Energy SD Int vs. Market Price





MIDAMERICAN ENERGY COMPANY
 P.O. Box 778
 Sioux City, Iowa 51102

SOUTH DAKOTA GAS SALES TARIFF
 SD P.U.C. Section No. III
~~8th~~ ~~Seventh~~ Revised Sheet No. 14
 Cancels ~~7th~~ ~~Sixth~~ Revised Sheet No. 14

DESIGNATION: Small Volume Interruptible (SVI)
CLASS OF SERVICE: Commercial and Industrial

1. Application

Available in all service areas in South Dakota.

Applicable to all natural gas service required by commercial and industrial customers to be supplied on an interruptible basis, having peak day requirements of less than 2,000 therms. The Company's service rules and regulations shall apply.

2. Monthly Rate

	SVI
Service Charge per Meter:	\$ 60.00
Non-Gas Commodity Charge per therm:	\$.07201

3. Gas Cost Component

Gas Cost Component – (C + E)

C – Commodity The gas cost component price is based on the daily gas commodity index prices, as described below, plus applicable interstate pipeline charges and fuel (retention) resulting in a delivered price. The daily delivered price will be multiplied by the daily metered usage. All usage from the daily metered readings within each billing period will be priced according to this method and billed to the customer monthly.

The source for the daily gas commodity costs is the Gas Daily index (publication). The Company will establish the pricing index points and transportation used at the start of the gas month. The Company may change these index point(s) at its discretion via a notice on the Company's electronic bulletin board. In the event market conditions result in MidAmerican incurring additional costs to secure supply for the Customer, MidAmerican reserves the right to pass these additional costs on to the Customer.

If any applicable index price is not published in Gas Daily for the applicable "Flow Date(s)," then the applicable index price will be used for the most recently published "Flow Date(s)" preceding the "Flow Date(s)" on which the applicable index price was not published.

E – Reconciliation factor is applicable for the billing period of March 1, 2006 through August 31, 2006, to either refund or collect the over/(under) reconciliation balances from September 1, 2005 through February 28, 2006. On and after September 1, 2006, the reconciliation factor will not be applicable.

Over or under cost recoveries incurred as a result of applying daily delivered prices described above to interruptible volumes will be credited or charged to the system gas price through the Cost of Purchased Gas Adjustment Clause 1, (Sheet No. 1).

43. Clauses

Above rate subject to: ~~Cost of Purchased Gas Adjustment Clause 3, (Sheet No. 3).~~
 Tax Adjustment Clause (Sheet No. 6).
 Btu Adjustment Clause (Sheet No. 7).

54. Bill Payment Provision

The rate is net. A late payment charge of 1.5% per month shall be added to the past due amount if the bill is not paid by the due date.

65. Minimum Charge

The term of this agreement is one year or as agreed. The minimum charge is the service charge plus the commodity charge for all therms used.

N

N

N

N

N

N

N

N

N

N

N

N

N

N

N

N

N

N

N

N

T/D

T

T



Date Filed: ~~June 1, 2004~~ **January 30, 2006**

Effective Date: ~~November 29, 2004~~ **March 1, 2006**

Issued by: ~~James J. Howard~~ **Naomi G. Czachura**
Vice President