BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF SOUTH DAKOTA

IN RE:	)	
MIDAMERICAN ENERGY COMPANY	)	**DOCKET NO. NG22-____**
	)	
	)	

DIRECT TESTIMONY
OF
BLAKE M. GROEN

Q. Please state your name and business address.

A. My name is Blake M. Groen. My business address for MidAmerican Energy Company ("MidAmerican" or "Company") is 4299 Northwest Urbandale Drive, Urbandale, Iowa 50322.

Q. By whom are you employed and in what capacity?

A. I am employed by MidAmerican as Senior Director, Accounting.

Q. What are your responsibilities as Senior Director, Accounting?

A. As Senior Director, Accounting, I am responsible for the preparation of management, shareholder, U.S. Securities and Exchange Commission, and state/federal regulatory financial reports and financial planning and budgeting for MidAmerican and MidAmerican Funding, LLC.

Q. Please describe your education and business experience.

A. I am a 2007 graduate of Creighton University where I received a Bachelor of Science in Business Administration degree with majors in accounting and finance. I worked in various capacities for Ernst and Young LLP until 2013, at which time I joined Berkshire Hathaway Energy, a holding company that owns a diversified portfolio of locally-managed businesses principally engaged in the energy industry. Berkshire Hathaway Energy is the indirect parent of MidAmerican and MidAmerican Funding, LLC. I have worked in a number of finance and supervisory roles including Manager of Accounting Projects, Manager of Accounting Policy and Special Projects, and Manager of External Financial Reporting for Berkshire Hathaway Energy. I also have held the roles of Director of Financial and Corporate Planning and Director of Financial

Planning and Reporting for NVE Holdings, LLC, an affiliated energy holding company headquartered in Nevada. I joined MidAmerican in my present position in 2022.

Q. Have you testified previously before the South Dakota Public Utilities Commission?

A. No, I have not testified before the South Dakota Public Utilities Commission.

PURPOSE OF DIRECT TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to:

- Propose the South Dakota jurisdictional gas revenue requirement;
- Present the South Dakota jurisdictional gas test year operating income;
- Propose pro forma adjustments to operating income to be included in the revenue requirement; and
- Propose the capital structure and weighted average cost of capital.

Q. In addition to your testimony, are you sponsoring any exhibits in the filing?

A. Yes, I am sponsoring Exhibit BMG 1.1, comprised of numerous schedules that are discussed in more detail below. The exhibit is arranged to present the following:

- Schedules 1 and 2, which summarize revenue requirement and operating income, respectively;
- Schedule 3, which summarizes pro forma adjustments;
- Schedules 4 through 17, which detail these adjustments and are further supported by accompanying workpapers; and

- Schedules 25 through 27, which support the capital structure.
- Schedules numbered 18 through 24 are not used, as these are placeholders in the template for adjustments not proposed.

REVENUE REQUIREMENT

Q. Please describe the revenue requirement presented in Exhibit BMG 1.1, Schedule 1.

A. Exhibit BMG 1.1, Schedule 1 summarizes the South Dakota jurisdictional gas revenue requirement. It reflects a revenue deficiency of $7,037,000, or 6.4% of test year billed revenue including cost of gas. The cost of capital amount shown on line 2 is summarized on Exhibit BMG 1.1, Schedule 25 and is discussed later in my testimony. The adjusted test year operating income amount shown on line 4 is summarized on Exhibit BMG 1.1, Schedule 2 and is discussed in more detail in the next section.

Q. Have MidAmerican's 2021 books and records been audited by independent auditors?

A. Yes, Deloitte and Touche annually audits MidAmerican's financial statements, including those for 2021.

OPERATING INCOME

Q. Please describe the adjusted operating income presented in Exhibit BMG 1.1, Schedule 2.

A. Exhibit BMG 1.1, Schedule 2 summarizes the test period and pro forma South Dakota jurisdictional gas operating income. Column (b) of this Schedule presents actual South Dakota jurisdictional gas amounts, as reflected in MidAmerican's books and records, for the year ended December 31, 2021. Column (c) presents pro forma adjustments to test year actual amounts as summarized on Exhibit BMG 1.1, Schedule 3. Column (d) presents test year operating income with pro forma adjustments. Column (e) presents the proposed revenue increase supported by this filing. Column (f) presents the revenue requirement with all adjustments, as supported by this filing.

PRO FORMA ADJUSTMENTS

Q. Please describe the pro forma adjustments to operating income proposed in Exhibit BMG 1.1, Schedule 3.

A. Exhibit BMG 1.1, Schedule 3 summarizes 14 pro forma adjustments to test period South Dakota jurisdictional gas operating income. Individual adjustments, with references to supporting workpapers, are presented in Schedules 4 through 17. The supporting workpapers are also included in Exhibit BMG 1.1.

Q. Please describe the interest synchronization adjustment on Exhibit BMG 1.1, Schedule 4.

A. This adjustment decreases income tax expense and is required to match or "synchronize" the long-term interest deduction for purposes of the test year utility operating income tax calculation with the interest expense included in the revenue requirement. MidAmerican records in its books estimates for the interest synchronization adjustment throughout the year, and this pro forma adjustment merely updates those estimates for the rate base and cost of debt values supported in this case.

Q. Please describe the payroll adjustment on Exhibit BMG 1.1, Schedule 5.

A. This adjustment increases test year labor expense for known and measurable pay increases. The adjustment includes the annualization of pay increases that were effective during 2021 for employees represented by three union locals and the annualized 2022 pay increases for all employees, including the 2022 increases for those three locals and the January 1, 2022 increases for salaried employees. The adjustment also includes increases for benefit costs that are directly impacted by base pay increases, including payroll taxes and Company 401(k) match.

Q. Please describe the adjustment for weather normalization on Exhibit BMG 1.1, Schedule 6.

A. This adjustment increases test year operating revenue for the impact of unseasonable weather during the test year. Witness Amanda A. Hosch supports this adjustment.

Q. Please describe the retirement plan cost adjustment on Exhibit BMG 1.1, Schedule 7.

A. This adjustment increases cost of service for changes in expense for post-employment benefits. The adjustment is based on the difference between a 2020 to 2022 three-year average of such expenses and amounts included in the test year for these plans, consistent with the treatment in past rate cases. Amounts recorded for these plan expenses result from actuarial calculations pursuant to the requirements of Accounting Standards Codification Topic ("ASC") 715.

Q. Please explain why the retirement plan cost adjustment is based on a three-year average of plan costs.

A. Expense amounts for these plans are subject to significant volatility, due in part to changes from year to year in the actuarial assumptions required by the ASC 715 calculations performed by the plans' actuaries, and in part to changes in the value of plan assets. Interest rate movements normally experienced in the markets, the significant drop in investment values during early 2020 and subsequent recovery, and the 2021 pension plan settlement are evidence of the volatility that impacts the ASC 715 calculations. Lower interest rates generally have the effect of increasing plan liabilities, and higher interest rates generally have the effect of decreasing plan liabilities. Similarly, lower plan asset values increase plan costs. Use of a three-year average recognizes this volatility and adjusts benefit plan costs to a more reasonable "normalized" level.

Q. Please describe the adjustment for depreciation on rate base adjustments summarized on Exhibit BMG 1.1, Schedule 8.

A. This adjustment, supported by Witness Aimee S. Rooney, increases depreciation expense for the depreciation associated with (1) the rate base adjustments; and (2) changes in depreciation rates resulting from a depreciation study of MidAmerican gas plant as of December 31, 2020, conducted by Gannett Fleming Valuation and Rate Consultants, LLC, further supported by Witness John J. Spanos.

Q. Please discuss the test year sales growth adjustment summarized on Schedule 9.

A. This adjustment estimates increased revenue that would result from sales reflective of period-ending residential and commercial customer counts compared to average customer counts for those classes. Additionally, this adjustment results in increased depreciation expense for distribution plant used to serve these new customers that is not specifically included in the adjustment for major project additions. Witness Rooney supports the depreciation portion of this adjustment. A similar adjustment has not been proposed for industrial or transportation customers because of the lack of homogeneity in usage patterns among customers within these classes.

Q. Please describe the meter reading labor adjustment summarized on Exhibit BMG 1.1, Schedule 10.

A. This adjustment corrects an error in time reporting by MidAmerican South Dakota employees engaged in certain meter reading activities. In late 2020, MidAmerican made a technical change in the code block values required by its accounting system when directing costs to a particular segment of its business. Although no changes were made to cost allocation philosophy, system changes were made to require a different format of values in the "bill center" portion of MidAmerican's code block. The bill center of the code block determines, for example, whether a cost is directed to electric distribution, gas distribution, electric generation, etc. Unfortunately, the accounting code block changes were made in error for certain work management system tasks used by a MidAmerican Sioux Falls employee group, and nearly all costs charged by the group to activity 902002 (FERC account 902, meter reading expenses) for turn on/turn off meter read activity during 2021 were charged to South Dakota electric operations, not South Dakota gas operations. In addition to direct labor costs, labor loadings for benefits, payroll taxes, and vehicle usage costs derived from how time is accounted for were also accounted for in error. This adjustment corrects the error and increases operating expense accordingly. The error was detected as support for this case was being assembled, and significant variances were noted in South Dakota gas amounts charged to activity 902002 from that observed in prior years.

Q. Please describe the rate case expense adjustment summarized on Exhibit BMG 1.1, Schedule 11.

A. This adjustment normalizes the estimated incremental, out-of-pocket costs of preparing and litigating this case by amortizing such costs over five years. Witness Hosch supports the estimated costs used in this adjustment.

Q. Please describe the late payment charge adjustment summarized on Exhibit BMG 1.1, Schedule 12.

A. This adjustment eliminates late payment revenue recorded during the test year. This rate treatment is in lieu of using actual payment collection days in MidAmerican's working capital calculation, where a 20-day period is used instead. This adjustment is consistent with the ratemaking treatment of this item in a number of MidAmerican's previous rate proceedings before the Commission.

Q. Please describe the adjustment for long-term incentive partnership plan costs on Exhibit BMG 1.1, Schedule 13.

A. This adjustment decreases test year operating expenses for costs accrued for the MidAmerican Energy Company Long-Term Incentive Partnership Plan. This plan, administered by Berkshire Hathaway Energy, provides incentive payments to selected participants based, in large part, on financial performance factors. MidAmerican is not seeking recovery for these costs at this time because the award for such pay is predominantly driven by achieving net income targets and is consistent with past treatment of such costs in South Dakota.

Q. Please describe the adjustment for tax expense on Exhibit BMG 1.1, Schedule 14.

A. This adjustment revises property and income tax expense. First, it decreases property tax expense for entries made during 2021 to true up 2020 expense following the payment of amounts to taxing authorities. Because these adjustments pertain to 2020 and not 2021, they are not appropriate to include in the test year for this case. Second, this adjustment increases income tax expense to remove inadvertent allocations of state income tax credits made during 2021.

Q. Please describe the adjustment for purchase gas adjustment costs and revenue summarized on Exhibit BMG 1.1, Schedule 15.

A. This adjustment removes from the revenue requirement all purchased gas expense and offsetting revenue amounts flowing through the purchased gas adjustment clause. These costs are recovered via a rider rather than the base rates proposed in this rate filing.

Q. Please describe the adjustment for economic development expenditures on Exhibit BMG 1.1, Schedule 16.

A. This adjustment removes a portion of South Dakota economic development expenses included in test year cost of service. Docket NG21-003 approved the recovery of one half of the $100,000 of economic development expenses estimated for 2021. Although a comparable request and approval for 2022 economic development spending has not yet occurred, this adjustment contemplates a similar forecast as 2021 and other past years, reducing test year actual expense to reflect recovery of one half of the estimated $100,000 of economic development costs for 2022.

Q. Please describe the adjustment for revenue reclass on Exhibit BMG 1.1, Schedule 17.

A. This adjustment does not affect total test year operating revenues but reclassifies certain revenues from gas service revenues to other operating revenues. Specifically, revenues associated with monthly metered transportation switching fees, scheduling fees, and weekend service rider reported in activity 489021 are not associated with identifiable recurring billing determinants.

CAPITAL STRUCTURE AND COST OF CAPITAL

Q. Please discuss MidAmerican's cost of capital, as summarized on Exhibit BMG 1.1, Schedule 25.

A. The weighted average cost of capital summarized on Exhibit BMG 1.1, Schedule 25 presents MidAmerican's pro forma average costs for long-term debt and common equity for the twelve months ending December 31, 2021. The weighted average cost of capital is 7.604%.

Q. Why was the twelve months ending December 31, 2021 used to measure the cost of capital?

A. Calendar year 2021 data was used to measure the capital structure and weighted average cost of capital to align with rate base that is also based on a 12-point average and utility operating income that is based on calendar 2021 data. This approach results in a reasonable measurement of MidAmerican's capital structure and is consistent with past South Dakota gas rate cases.

Q. Were any adjustments to actual values made?

A. Generally, adjustments to actual values were not made. However, consistent with past South Dakota gas rate cases, gains and losses on past early redemptions of debt that were not deferred for book purposes and associated amortizations are included in the cost of long-term debt calculation.

Q. Please discuss the determination of the cost of MidAmerican's long-term debt component on Exhibit BMG 1.1, Schedule 26.

A. The sum of the interest costs and amortization of long-term debt discount, issuance expense, and loss on reacquired debt less the amortization of gains on reacquired debt was divided by the 12-point average outstanding balance. The 12-point outstanding balance was determined by calculating the average actual balances from January 2021 through December 2021 for the following components:

- Each issue of long-term debt;
- Unamortized long-term debt premium;
- Unamortized gain on reacquired long-term debt;
- Unamortized debt discount;
- Unamortized issuance expense; and,
- Unamortized loss on reacquired long-term debt.

Long-term debt includes imputed debt for obligations pursuant to electric transmission facilities services agreements for which payment schedules extend for many years, discounted at the underlying rate of return approved by the Midcontinent Independent System Operator for such agreements. These agreements are accounted for and treated for cost of debt purposes similar to zero-coupon debt.

Q. Please discuss the cost of MidAmerican's common equity capitalization on Exhibit BMG 1.1, Schedule 27.

A. The 12-point outstanding balance was determined by calculating the sum of the average actual balances from January 2021 through December 2021 for each component of MidAmerican's common equity, which includes:

- Common stock issued;
- Premium on capital stock;
- Miscellaneous paid-in capital;
- Capital stock expense;
- Retained earnings;
- Adjustment for unamortized balances; and,
- Treasury shares.

Q. Please discuss the determination of MidAmerican's cost of common equity.

A. MidAmerican's cost of common equity is 10.75%. Witness Ann E. Bulkley supports this amount.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.