

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

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

**DIRECT TESTIMONY
OF
NICK J. NATION**

1 **Q. Please state your name and business address.**

2 A. My name is Nick J. Nation. My business address for MidAmerican Energy
3 Company (“MidAmerican” or “Company”) is 3500 104th Street, Urbandale, Iowa
4 50322.

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

6 A. I am employed by MidAmerican as Vice President of Gas Delivery.

7 **Q. What are your responsibilities as Vice President of Gas Delivery?**

8 A. As Vice President of Gas Delivery, I oversee the overall planning, design,
9 construction, operation, maintenance, and control of MidAmerican’s natural gas
10 distribution and transmission systems in a regulatory-compliant manner. I also
11 oversee the transportation of natural gas to customers who purchase their natural
12 gas from third-party suppliers.

13 **Q. Please describe your education and business experience.**

14 A. I am a 2007 graduate of Iowa State University where I received a Bachelor of
15 Science degree in Electrical Engineering. In 2014, I graduated from Drake
16 University where I received a Master of Business Administration degree. I am
17 currently certified by the state of Iowa as a licensed professional engineer in the
18 field of electrical engineering. In 2006, I began as an intern with MidAmerican
19 and accepted full-time employment in 2007. Since joining MidAmerican, I have
20 held a variety of positions, including High Voltage Engineer, Electric
21 Distribution Engineer, Supervisor of Electric Distribution Engineering, Manager
22 of Electric Distribution Engineering, Director of Electric Distribution
23 Engineering and Technology, and General Manager of Electric Operations. In

1 August 2021, I was appointed to my current position as Vice President of Gas
2 Delivery for MidAmerican.

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

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

6 **PURPOSE OF DIRECT TESTIMONY**

7 **Q. What is the purpose of your direct testimony?**

8 A. The purpose of my testimony is to:

- 9 • Describe MidAmerican’s commitment to safe and reliable service to
10 customers;
- 11 • Summarize the request for an annual rate increase of \$7,037,000 and
12 support the overall reasonableness of the requested rate relief;
- 13 • Describe and support the reasonableness of projects completed since the
14 last rate case;
- 15 • Describe and support the reasonableness of certain pro forma adjustments
16 included in this rate case;
- 17 • Introduce MidAmerican’s witnesses and provide an overview of their
18 testimony.

19 **Q. In addition to your testimony, are you sponsoring any exhibits?**

20 A. Yes, I am sponsoring Exhibit NJN 1.1, which provides details on the pro forma
21 projects included in this filing.

22 **Q. Please describe the organization and operation of MidAmerican.**

1 A. MidAmerican is an investor-owned, vertically-integrated utility headquartered in
2 Des Moines, Iowa. MidAmerican is engaged in the generation, transmission, and
3 distribution of electricity and natural gas, serving customers in the states of South
4 Dakota, Iowa, Illinois, and Nebraska. MidAmerican serves over 786,000 natural
5 gas customers across its service territory, with over 104,000 natural gas
6 customers in South Dakota. Included in these customers are 165 farm tap
7 customers MidAmerican took over from NorthWestern Energy in 2018, ensuring
8 those customers did not lose natural gas service. In 2021, MidAmerican delivered
9 15.1 million MMBtu of natural gas to South Dakota customers. These customers
10 are served by 1,575 miles of gas mains and 1,387 miles of gas service lines. A
11 map of MidAmerican's service territory is shown in MidAmerican's South
12 Dakota Gas Tariff Schedule No. 2, Section 2, 2nd Revised Sheet No. 2.

13 **COMMITMENT TO CUSTOMERS**

14 **Q. Please describe the actions taken by MidAmerican to efficiently provide safe
15 and reliable natural gas service to customers.**

16 A. MidAmerican remains committed to maintaining safe and reliable natural gas
17 service for our customers. For example:

- 18 • The safety of our employees and customers continues to be the top
19 priority for MidAmerican. MidAmerican actively promotes an employee
20 safety culture. As a result, MidAmerican had zero preventable vehicle
21 accidents and recorded only one OSHA recordable incident in South
22 Dakota in 2021. In addition, MidAmerican engages with customers and
23 communities on safety. These engagements include sharing damage

1 prevention tips and natural gas safety demonstrations with local fire
2 departments and first responders. MidAmerican also utilizes multi media
3 to communicate with customers on safety-related topics such as appliance
4 venting, detecting natural gas, and snow removal from meters.

- 5 • In 2021, MidAmerican responded to 99.30% of all gas leaks in under 60
6 minutes with an average response time of 22.76 minutes.
- 7 • MidAmerican maintains a distribution integrity management program to
8 identify the highest risk distribution facilities on MidAmerican's system.
9 These facilities are targeted for replacement or additional leak surveys,
10 aerial patrols, and bridge crossing inspections, which reduces the overall
11 safety risk.
- 12 • In 2021, MidAmerican received 49,517 locate ticket requests, which
13 represents a 35.23% increase from 2015. This trend is expected to
14 continue as more infrastructure such as electric, telecommunications, etc.
15 are moved underground. MidAmerican continues to be actively engaged
16 in its damage prevention efforts to mitigate the risks created by this
17 increased activity. These efforts include working with contractors,
18 providing safe excavation practice presentations to excavators,
19 conducting site visits and pre-job briefings on large excavation projects,
20 and promoting safe digging messages to the public.
- 21 • MidAmerican initiated a project to replace automated meter reading
22 ("AMR") devices on customer gas meters that allows the meter to be read
23 remotely from a vehicle. The AMR devices were originally placed into

1 service over a decade ago, and they are nearing the end of their lifespan.
2 Replacing the AMR devices now will help prevent billing interruptions
3 and extend the lifespan as new AMR technology has a longer lifespan
4 than the original devices. As of April 27, 2022, 77,799 of 105,613 new
5 AMR devices have been replaced in South Dakota with the remaining
6 anticipated to be completed over the next year.

- 7 • MidAmerican is advancing cyber security and physical safety measures
8 per the Transportation Security Administration Pipeline Security
9 Directive guidelines to meet the ever-changing threat environment to
10 critical pipeline facilities. Improved measures include hardening of cyber
11 assets and planned implementation of outreach programs with
12 neighboring businesses and residences in 2022.
- 13 • In 2018, MidAmerican ensured continuity of service for 165 farm tap
14 customers that would have otherwise lost natural gas service.
15 MidAmerican continues to provide meter reading, odorization,
16 emergency, and administrative services for these customers.

17 SUMMARY OF REQUEST

18 **Q. What rate relief does MidAmerican request in this filing?**

19 A. In this filing, MidAmerican requests an increase in the annual revenue
20 requirement of \$7,037,000, or 6.4% of test year billed revenue including cost of
21 gas.¹ The increase is necessary in order for MidAmerican's natural gas
22 distribution rates to reflect the current costs of providing natural gas distribution

¹ Witness Blake M. Groen's Exhibit BMG 1.1, Schedule 1.

1 service to its customers, including an appropriate return on common equity.
2 MidAmerican has successfully managed its operations and maintenance expense
3 since its last gas rate case; however, since the Company's last general rate case,
4 total plant has increased by \$108.1 million to \$255.1 million at the end of 2021.
5 MidAmerican's necessary investments have continued to increase rate base,
6 depreciation expense, and property tax expense. Details on the increase in rate
7 base and depreciation expense are included in the testimonies of Witness Aimee
8 S. Rooney and Witness John J. Spanos.

9 **Q. Describe why revenues have not kept pace with corresponding costs.**

10 A. The disparity between revenues and cost of service is primarily driven by capital
11 investments necessary to serve rapidly growing areas in South Dakota, integrity
12 management improvements, and government-mandated relocation projects
13 associated with municipal infrastructure projects. Despite economic growth,
14 which has required MidAmerican to complete system improvements and
15 extensions necessary to serve 16,144 new residential, commercial, and industrial
16 natural gas customers since the last rate case, revenues have not kept pace with
17 the cost of providing service to customers. The following factors have
18 contributed to this disparity:

- 19 • The construction costs associated with necessary capital improvements
20 have increased since the last general rate case. For example, two-inch
21 plastic pipe is the most commonly installed main on MidAmerican's
22 system. The material cost of two-inch plastic pipe has increased by over

1 50%, while the installation cost using contractor labor has increased
2 126% since the last rate case.

- 3 • MidAmerican has invested in system reliability improvements, integrity
4 management improvements, and government-mandated relocation
5 projects necessary to serve this growth in a safe and reliable manner.
6 These projects contribute to the disparity between revenues and cost of
7 service as they do not generate corresponding revenue. Examples of these
8 improvements are noted below in the projects section.

9 This economic growth is expected to continue into the future. MidAmerican is
10 projecting continued customer growth at 1.86% annually through 2032. The
11 increased cost to serve customers is also expected to continue into the future.
12 According to an April 2022 Information Handling Services Markit forecast for
13 the Sioux Falls Metropolitan Statistical Area will experience above trend
14 inflation through 2024. Inflation rates have increased steadily over the past year
15 rising from 1.37 percent in January 2021 to 8.5 percent in March 2022. The
16 impact inflation has on returns along with anticipated future inflation rates is
17 described in Witness Ann E. Bulkley’s testimony.

18 **Q. Is the rate increase requested in this proceeding just and reasonable?**

19 A. Yes, the proposed rate increase is just and reasonable. It reflects MidAmerican’s
20 current costs and risk profile and ensures MidAmerican’s customers will
21 continue to receive reliable service. The associated proposed rates will provide
22 MidAmerican the opportunity to earn a fair and reasonable return of 10.75% on

1 its South Dakota natural gas operations as supported by Witness Bulkley's
2 testimony.

3 **Q. Please describe the tariff changes proposed in this proceeding.**

4 A. MidAmerican's gas tariff was restructured during the Company's last rate
5 proceeding just under eight years ago in Docket No. NG14-005, therefore, the
6 tariff changes proposed in this rate proceeding are minimal. In addition to
7 updating rate schedules, MidAmerican proposes a modification to the
8 Company's Rate PRG – Producers of Renewable Gas Transportation Service
9 tariff to improve producers' ability to contract with off-takers and proposes
10 modifications to expansion policies that will be beneficial to developers and
11 customers. Further details of the proposed tariff changes are included in the
12 testimony of Witness Amanda A. Hosch.

13 **PROJECTS**

14 **Q. Please describe the projects included in this filing.**

15 A. MidAmerican has invested in many projects necessary to provide safe and
16 reliable service to customers. The projects include the construction of natural gas
17 distribution system reliability improvements, integrity management
18 improvements, and government-mandated relocations and extensions that
19 provide benefit to South Dakotans.

20 **Q. Please describe the system reliability capital projects MidAmerican has
21 completed since the 2014 rate case.**

22 A. Since the 2014 rate case, MidAmerican has undertaken many capital projects to
23 ensure system reliability for customers by addressing system constraints,

1 ensuring adequate pressures, supporting load growth, and improving the
2 operational flexibility of the distribution system. Although the projects below
3 represent only a portion of the financial commitments MidAmerican has made
4 since its last rate case, they are representative of the type and scope of work the
5 Company has invested in to enhance the reliability, integrity, and safety of its
6 natural gas systems.

- 7 • MidAmerican invested in the reconstruction of pressure control facilities
8 and added an additional town border station that serves the Harrisburg,
9 Tea, and Sioux Falls distribution systems.
- 10 • MidAmerican completed infrastructure additions to network the
11 Harrisburg, Tea, and Sioux Falls distribution systems to address ongoing
12 growth and improve reliability to each of the communities.
- 13 • MidAmerican continues to upgrade existing natural gas distribution
14 facilities, including the redesign and replacement of numerous natural gas
15 regulator stations, odorizers, valves, and other items necessary to ensure
16 reliable operation and compliance with pipeline safety regulations.

17 **Q. Please describe the integrity management capital projects MidAmerican has**
18 **completed since the 2014 rate case.**

19 A. Since the 2014 rate case, MidAmerican has undertaken many large capital
20 projects related to gas main reconstruction to replace aging steel systems and
21 first-generation plastic materials, which the industry has determined were more
22 susceptible to failure than new materials. For example:

- 1 • In 2016, MidAmerican completed a three-year program that eliminated
2 all remaining pre-1973 Aldyl-A plastic main and replaced nearly eight
3 miles of main across 14 communities.
- 4 • In 2020 and 2021, MidAmerican continued to address bare and aging
5 steel systems as exemplified by projects completed in Alcester, Elk Point,
6 and Canton. MidAmerican plans to continue this work by replacing four
7 miles of aging steel main in 2022 and 2023.

8 **Q. Please describe the mandatory government relocation capital projects**
9 **MidAmerican has completed since the 2014 rate case.**

10 A. Since the 2014 rate case, MidAmerican has incurred capital cost expenditures to
11 realign and relocate its natural gas facilities to accommodate numerous roadway
12 and infrastructure improvements. For example:

- 13 • In 2017 and 2018, MidAmerican relocated one and a half miles of 12, ten,
14 six, and four-inch steel main that conflicted with the Veterans Parkway
15 Road project.
- 16 • In 2020, MidAmerican replaced one and a quarter miles of three-inch
17 main and associated services with four and six-inch main to accommodate
18 the Tea Highway 106 Reconstruction project.
- 19 • In 2020, MidAmerican replaced one mile of four-inch steel main with
20 eight-inch plastic main to accommodate the Sioux Falls Marion Road
21 project.

1 A. MidAmerican is utilizing the full 24 months of pro forma adjustment allowed
2 under ARSD § 20:10:13:44 to minimize delay in recovery of significant known
3 and measurable ongoing investments that are necessary to provide safe and
4 reliable service to South Dakota customers. MidAmerican's current projections
5 for 2022 through 2026 include approximately \$109 million in capital investments
6 for the period. In utilizing the full 24 months of pro forma adjustment,
7 MidAmerican will be able to extend the time to the next rate case and provide
8 longer rate stability for customers.

9 **Q. Please describe the pro forma adjustments for system reliability projects.**

10 A. The system reliability pro forma projects are designed to ensure MidAmerican's
11 natural gas distribution system will continue to provide reliable service to
12 customers by addressing system constraints, ensuring adequate pressures,
13 supporting general customer growth, and improving the system's operational
14 flexibility. A more detailed description of each system reliability pro forma
15 project is included in Exhibit NJN 1.1.

16 **Q. Please describe the pro forma adjustments for integrity management
17 projects.**

18 A. The integrity management pro forma projects are designed to improve the safety
19 of the natural gas distribution system for customers. These projects specifically
20 target replacement of facilities that are considered a higher risk than average,
21 such as aging or unprotected steel main, moving inside meter sets outside,
22 improving safe working distances to above ground facilities such as regulator
23 stations, and making equipment more accessible for utility personnel to operate

1 in a safe and efficient manner. A more detailed description of each integrity
2 management pro forma project is included in Exhibit NJN 1.1.

3 **Q. Please describe the pro forma adjustments for business transformation**
4 **projects.**

5 A. MidAmerican is implementing a number of new information technology systems,
6 over the next several years, which will provide a comprehensive and cohesive
7 information technology strategy referred to as the “business transformation”.
8 These new cloud-based, integrated systems will help MidAmerican keep pace
9 with the speed of technology while improving cyber security, enhancing the
10 customer/employee experience, simplifying business processes, and improving
11 data integrity. The business transformation initiative was developed in
12 collaboration with Berkshire Hathaway Energy and MidAmerican’s affiliated
13 utility platforms to identify and implement best practices and benefit from
14 economies of scale. The systems required for business transformation will be
15 implemented over a number of years as outdated systems are phased out.
16 MidAmerican’s business transformation will digitize the business to capture key
17 data, automate processes, deliver real-time analytics, provide enhanced cyber
18 security, and generate predictive insights to enable data-driven decisions. It will
19 also improve processes to integrate and simplify operations and create
20 frictionless interfaces with our customers and employees. These systems will
21 begin implementation in 2022 and 2023. A more detailed description of each
22 system is included in Exhibit NJN 1.1.

1 **INTRODUCTION OF WITNESSES**

2 **Q. Please identify the other witnesses presenting testimony in support of the**
3 **Company's filing.**

4 A. The following witnesses are also providing testimony on behalf of MidAmerican:

- 5 • Blake M. Groen is Senior Director, Accounting for MidAmerican. His
6 testimony supports the overall revenue requirement, the test year
7 operating income, related pro forma adjustments, capital structure, and
8 weighted average cost of capital.
- 9 • Aimee S. Rooney is Director, Tax & Property Accounting for
10 MidAmerican. Her testimony supports plant balances, rate base
11 adjustments, and plant-related pro forma adjustments.
- 12 • John J. Spanos is President of Gannett Fleming Valuation and Rate
13 Consultants, LLC. His testimony supports the depreciation study of
14 MidAmerican's gas distribution and general plant and the development of
15 the appropriate depreciation reserve and expense for the South Dakota
16 assets.
- 17 • Ann E. Bulkley is Principal of The Brattle Group, an economic,
18 environmental, and management consulting firm with specialties
19 including financial economics, regulatory economics, and the gas, water,
20 electric, and pipeline industries. Her testimony provides a
21 recommendation and supports MidAmerican's requested return on equity
22 for its natural gas distribution business and provides an assessment of the
23 reasonableness of MidAmerican's proposed capital structure to be used

1 for ratemaking purposes.

2 • Amanda A. Hosch is Senior Director, Regulatory Policy and Rates for
3 MidAmerican. Her testimony supports MidAmerican's proposed tariffs,
4 cash working capital calculations, rate case expense, natural gas cost of
5 service study and resultant proposed natural gas rates, and the weather
6 normalization pro forma adjustment.

7 **Q. Does this conclude your direct testimony?**

8 A. Yes, it does.