

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

IN RE: IN THE MATTER OF THE APPLICATION OF MIDAMERICAN ENERGY COMPANY FOR AUTHORITY TO INCREASE NATURAL GAS RATES	DOCKET NO. NG26-__
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**DIRECT TESTIMONY
OF
DEREK C. NELSON**

1 **I. WITNESS INFORMATION**

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

3 A. My name is Derek C. Nelson. My business address is 1615 Locust Street, Des
4 Moines, Iowa 50309.

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

6 A. I am employed by MidAmerican Energy Company ("MidAmerican" or
7 "Company"). My title is Director, Regulatory Policy and Rates.

8 **Q. Please describe the responsibilities of your current position.**

9 A. I lead the Regulation department, where my team and I develop and implement
10 regulatory strategies across Illinois, Iowa, Nebraska and South Dakota. I oversee
11 all regulatory filings, including monthly rider and clause adjustment filings,
12 annual reconciliations and rate case proceedings. My responsibilities include
13 managing retail rates and tariff administration, addressing internal and external
14 inquiries related to tariffs and regulatory compliance and supporting analyses of
15 retail cost-of-service studies and rate design. I also serve as the primary liaison
16 between the Regulation department and other key departments in MidAmerican,
17 including Accounting, Finance, Economic Development and Customer
18 Operations.

19 **Q. Please describe your educational background and business experience.**

20 A. In 2012, I graduated with a Bachelor of Science degree in Business Management
21 from Brigham Young University in Provo, Utah. In 2022, I graduated with a
22 Master of Business Administration degree from the University of Iowa in Iowa
23 City, Iowa. I have been an employee of MidAmerican or other Berkshire

1 Hathaway Energy subsidiaries from 2012 to 2013 and since 2015. Prior to my
2 current position of Director, Regulatory Policy and Rates, I held multiple
3 positions across the finance and accounting functions of MidAmerican, BHE
4 U.S. Transmission and CalEnergy. I've held my current position since
5 April 2024.

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

8 A. No. I have not previously provided testimony before the South Dakota Public
9 Utilities Commission. I have provided written testimony in multiple dockets
10 before the Illinois Commerce Commission and the Iowa Utilities Commission.

11 **II. PURPOSE OF DIRECT TESTIMONY**

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

13 A. The purpose of my testimony is to describe and support MidAmerican's rate
14 design, the proposal of a sales reconciliation mechanism, weather normalization
15 methodology, rate case expenses, and proposed tariff changes. My testimony is
16 organized into the following sections:

- 17 • MidAmerican's base rate design;
- 18 • MidAmerican's proposed sales reconciliation mechanism, Clause SRM –
19 Sales Reconciliation Mechanism ("Clause SRM");
- 20 • MidAmerican's weather normalization methodology for test year revenues
21 and sales;
- 22 • MidAmerican's proposal for recovery of rate case expenses; and
- 23 • MidAmerican's proposed tariff sheets

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

2 A. Yes, I am sponsoring Exhibits DCN 1.1 A through B and Exhibits DCN 1.2 A
3 through C.

4 III. BASE RATE DESIGN

5 **Q. What rate classes have been previously approved for the use of the**
6 **Company's Delivery Services?**

7 A. MidAmerican presently has the following rate classes for use of the Company's
8 Delivery Services:

- 9 • **Rate SV – Small Volume Service (“Rate SV”):** A declining, two-step rate
- 10 available to any South Dakota Customer whose Average Daily Usage is less
- 11 than 500 Therms per day.
- 12 • **Rate MV – Medium Volume Service (“Rate MV”):** A single-step rate
- 13 available to any South Dakota Customer whose Average Daily Usage is less
- 14 than 2,000 Therms per day.
- 15 • **Rate LV – Large Volume Service:** A single-step rate available to any Non-
- 16 Residential South Dakota Customer whose Average Daily Usage is greater
- 17 than 2,000 Therms per day, provided that prior to commencement of service,
- 18 the Customer shall enter into a written contract with the Company in
- 19 accordance with this rate specifying an initial Maximum Daily Requirement
- 20 (MDR) and Maximum Hourly Quantity (MHQ).
- 21 • **Rate NF – Farm Tap Service for Northern Natural Gas Easement**
- 22 **Holders (“Rate NF”):** An exclusive, single-step rate schedule for Customers
- 23 that received services from NorthWestern Energy prior to January 1, 2018.

1 and have transitioned from NorthWestern Energy to MidAmerican Farm Tap
2 Service. Service under this rate is also limited to customers that have granted
3 easements to Northern Natural Gas Company (NNG).

- 4 • **Rate SVI – Small Volume Interruptible Gas Service (“Rate SVI”):** A
5 single-step rate available to any Non-residential South Dakota Customer to
6 be supplied on an interruptible basis whose Average Daily Usage is less than
7 2,000 therms per day. Customers on Rate SVI must have an alternate fuel
8 capability or be willing to discontinue gas service during periods of
9 curtailment.

- 10 • **Rate LVI – Large Volume Interruptible Gas Service (“Rate LVI”):** A
11 single-step rate available to any Non-residential South Dakota Customer to
12 be supplied on an interruptible basis whose Average Daily Usage is greater
13 than or equal to 2,000 therms per day. Customers on Rate LVI must have an
14 alternate fuel capability or be willing to discontinue gas service during
15 periods of curtailment.

- 16 • **Rate SSS – Small Seasonal Gas Service (“Rate SSS”):** A single-step rate
17 available under contract to eligible Non-residential Customers using the
18 Company’s gas service for minimal winter use. To be eligible for Rate SSS,
19 the Customer’s winter use during the months of December through February
20 must be less than five percent (5%) of the total annual consumption and the
21 total annual consumption must be less than 200,000 therms.

- 22 • **Rate LSS – Large Seasonal Gas Service (“Rate SSS”):** A single-step rate
23 available under contract to eligible Non-residential Customers using the

1 Company's gas service for minimal winter use. To be eligible for Rate LSS,
2 the Customer's winter use during the months of December through February
3 must be less than five percent (5%) of the total annual consumption and the
4 total annual consumption must be equal to or greater than 200,000 Therms.

- 5 • **Rate CPS/CPT – Competitive Pricing Sales or Transportation Service:** A
6 negotiated rate pursuant to a contract agreement between the Customer and
7 Company applicable on an optional non-discriminatory basis considering the
8 distance from competing natural gas service, volume of gas purchased and
9 transported, length of contract term and other related costs and factors which
10 affect both the Company and the Customer.

- 11 • **Rate PRG – Producers of Renewable Gas Transportation Service (“Rate**
12 **PRG”):** A negotiated rate available to Producers of Renewable Gas that
13 deliver Renewable Gas into the Company's natural gas system for use and
14 consumption by the Company's gas Transportation Customer(s). The
15 Producer must contract with a Transportation Customer or third-party Agent
16 to purchase and transport such produced gas on the Company's Distribution
17 System

- 18 • **Rate MMT – Monthly Metered Transportation Service (“Rate MMT”):**
19 A declining, two-step or single-step rate available to non-residential small or
20 medium volume Customers who purchase natural gas from an eligible third
21 party, Pool Operator or Agent, whose usage does not exceed 2,000 therms per
22 day and who executed all necessary forms. The declining two-step rate is

1 classified as Rate STM – Small Transport (“Rate STM”) and the single-step
2 rate is classified as Rate MTM – Medium Transport (“Rate MTM”).

3 **Q. Are you proposing any additions or deletions to this list of available rate**
4 **classes?**

5 A. No. This list of available rate classes is a comprehensive list that currently covers
6 the needs of the customers served by MidAmerican, and I do not propose any
7 additions to or deletions from this list of available rate classes.

8 **Q. Are you proposing any changes to any of these rate classes?**

9 A. Yes. The conditions that support a declining two-step distribution charge for Rate
10 SV and Rate STM do not currently apply, and I believe a modification is
11 appropriate in this rate proceeding. I propose an adjustment to Rate SV and Rate
12 STM from a declining two-step distribution charge to a single-step distribution
13 charge. Because the declining two-step distribution charge currently promotes
14 revenue stabilization, the removal of the declining two-step distribution charge
15 should only be done in concert with the addition of the sales reconciliation
16 mechanism described later in my testimony.

17 **Q. How does the declining two-step distribution charge currently work?**

18 A. The declining two-step distribution charge assigns one rate for the first 250
19 therms (step 1) and a different, lower rate for all therms over the 250 therm
20 threshold (step 2). Specific to rates calculated in MidAmerican’s last rate case,
21 68,830,758 therms were assigned as step 1 with a rate of \$0.21951/therm and
22 8,624,933 therms were assigned as step 2 with a rate of \$0.16457/therm. This
23 structure resulted in total test year revenues for Rate SV and Rate STM of

1 \$16,528,445. If no steps were used in the calculation of rates, the single-step rate
2 would have been calculated as the \$16,528,445 divided by total therms of
3 77,455,691, which is equal to \$0.21339/therm. Thus, the declining two-step
4 distribution charge results in step 2 therms being discounted at the expense of
5 step 1 therms.

6 **Q. Under what conditions is a declining two-step distribution charge**
7 **appropriate?**

8 A. Declining two-step distribution charges can appropriately reward high load
9 factors and can help reduce average unit costs by promoting additional usage of
10 the existing system, if the gas system has excess capacity.

11 **Q. How is the use of a declining two-step distribution charge to reward high**
12 **load factors appropriate?**

13 A. A high load factor equates to a larger number of therms over the year for which
14 the cost to serve the customer, mostly attributed to the infrastructure needed to
15 meet the customer's peak load, can be spread. A declining two-step distribution
16 charge accounts for this by applying a lower rate to those additional therms over
17 which the cost to serve can be reasonably stated to be at or near \$0 when
18 compared to a different customer with the same peak load but a lower load factor.

19 **Q. Is the current declining two-step distribution charge actually rewarding**
20 **customers with high load factors?**

21 A. No. The current declining two-step distribution charge is not rewarding high load
22 factors; it is rewarding high usage. I analyzed 2025 usage across Rate SV
23 customers to determine if there was a significant difference in load factors. A

1 difference in load factors would suggest that the declining two-step distribution
2 charge is appropriate to account for customers with higher-than-average load
3 factors whose cost to serve is recovered over a higher number of therms than the
4 average customer whose cost to serve is similar but has a lower number of therms
5 over which the cost is recovered. I analyzed average customer usage by two
6 groups: those who would benefit from a declining two-step rate in this rate case
7 (using 2025 sales amounts) and those who would not. The results show that those
8 who would benefit from a declining two-step rate had significantly higher
9 average usage on a month-to-month basis, but the load shape of those customers
10 is almost identical to those who would not benefit from the declining two-step
11 rate. In other words, the load factors do not differ between the two sets of
12 customers.

13 Figure 1 shows the load shape of these two groups of Rate SV customers,
14 shown as a monthly usage index of the applicable therms for that month divided
15 by the therms of the peak month, which is January for both groups. Table 1 shows
16 the monthly usage and calculated usage index for each of these two groups of
17 Rate SV customers. As seen, the load shape and overall load factor of these two
18 groups are very closely aligned with one another.

Figure 1 – Rate SV Load Shapes

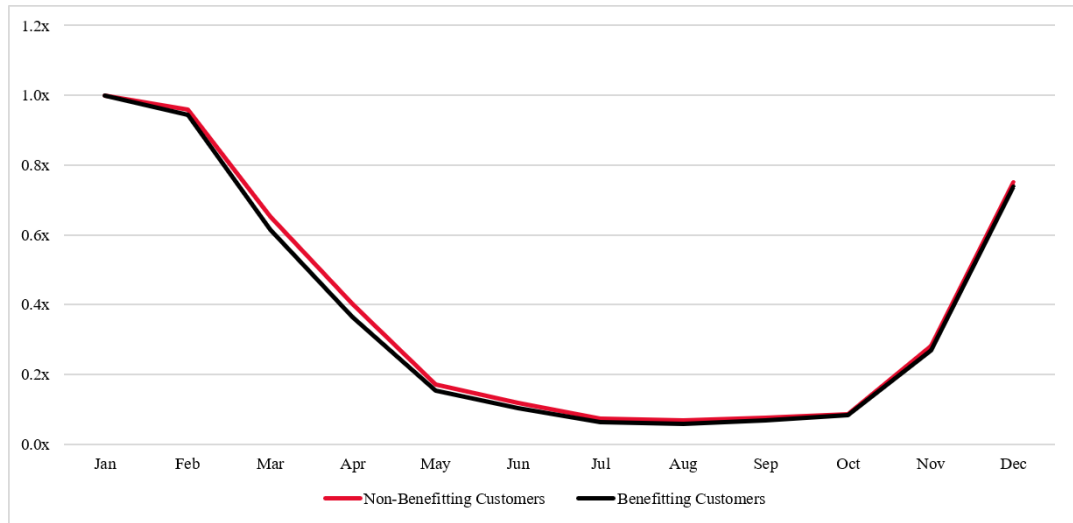


Table 1 – Rate SV Average Usage

	Benefitting Customers Usage Therms	Non-Benefitting Customers Usage Therms	Benefitting Customers Usage Index	Non-Benefitting Customers Usage Index
Jan	683	133	1.00x	1.00x
Feb	644	127	0.94x	0.96x
Mar	420	87	0.61x	0.65x
Apr	249	53	0.36x	0.40x
May	104	23	0.15x	0.17x
Jun	71	16	0.10x	0.12x
Jul	43	10	0.06x	0.07x
Aug	40	9	0.06x	0.07x
Sep	47	10	0.07x	0.08x
Oct	57	11	0.08x	0.09x
Nov	184	37	0.27x	0.28x
Dec	504	100	0.74x	0.75x

Q. Does the declining two-step distribution charge help reduce average unit costs by promoting additional usage?

A. No. As mentioned in my previous answer, a declining two-step distribution charge can help reduce average unit costs by promoting additional usage when there is excess capacity on the system. This is achieved by increasing the number

1 of terms over which costs are spread while the costs remain the same, due to
2 there being excess capacity to serve the additional usage. As stated in the
3 testimony of Witness Karrie A. Leza, the usage per customer has declined for
4 residential customers, and that trend is expected to continue for both residential
5 and commercial customers. MidAmerican is making capital investments to serve
6 growth in customer counts and localized system needs, but that growth has not
7 offset the cost to serve or the impact of declining average usage per customer.
8 Accordingly, MidAmerican should not maintain a declining-block rate design on
9 the premise that doing so encourages additional usage.

10 **Q. Based on your analysis, is the declining two-step distribution charge**
11 **appropriate for Rate SV?**

12 A. No. The conditions that would support a declining two-step rate, specifically,
13 higher load factors for high-usage customers or evidence that the declining two-
14 step rate is promoting additional usage to reduce the average unit costs, are not
15 present. Therefore, the current design results in materially different prices for
16 customers whose usage patterns impose similar demands on the system and
17 therefore weakens the relationship between rates and cost causation.

18 **Q. How would moving from a declining two-step rate to a single rate affect Rate**
19 **SV customers?**

20 A. Moving from a declining two-step rate to a single rate would have several effects
21 for customers. First, it results in pricing more reflective of the cost to serve. As
22 shown in Figure 1, the customers benefitting from the declining two-step
23 distribution charge impose no different load factor, and therefore cost to serve

1 per unit of usage, than those customers not benefiting from the declining two-
2 step distribution charge. Consequently, both sets of customers are not currently
3 being charged their true cost to serve, and removing the declining two-step rate
4 will remedy the difference between the current pricing and actual cost to serve.

5 Second, removing the declining two-step rate will help ensure that high-
6 use customers are not subsidized at the expense of low-use customers. Customers
7 with similar usage characteristics and cost responsibility are treated more
8 consistently under the proposed single-step rate design.

9 Third, the change improves affordability for lower-use customers,
10 including low-income customers. Based on 2025 data, 99 percent of customers
11 that qualify for the Low-Income Home Energy Assistance Program (“LIHEAP”)
12 would benefit from the single rate (using 2025 usage and proposed rates),
13 indicating that the proposed modification improves affordability for the Rate SV
14 customers most sensitive to bill impacts.

15 **Q. How do the impacts of this change vary across Rate SV customers?**

16 A. Many customers, particularly lower-use Rate SV customers, will benefit from the
17 proposed single rate design. However, some higher-usage Rate SV customers
18 who previously benefited from the declining block rate may experience an
19 increase because of the move to a more cost-reflective rate structure.

20 **Q. Does the declining two-step rate provide any benefit that would be lost with**
21 **this change?**

22 A. Yes. The declining two-step rate structure provides revenue stability by
23 recovering a higher percentage of fixed costs through the first usage block. Under

1 this structure, variations in customer usage due to weather or other factors have
2 a smaller impact on total revenue than under a single-step rate structure.

3 **Q. How can revenue stability be maintained under a single-step rate structure?**

4 A. Revenue stability can be maintained under a single-step rate structure with a sales
5 reconciliation mechanism. This mechanism stabilizes revenue by adjusting for
6 variations in customer usage resulting from weather or other factors beyond
7 MidAmerican's control.

8 Under the current declining two-step structure, revenue stability is
9 achieved indirectly by recovering a larger portion of fixed costs through the
10 initial block of usage, reducing the portion of revenue exposed to usage
11 variability. In contrast, a sales reconciliation mechanism maintains revenue
12 stability more directly by aligning actual revenues with the Company's
13 authorized revenue requirement.

14 This approach maintains cost-reflective pricing while replacing an
15 indirect and embedded form of revenue stabilization with a more transparent,
16 explicitly calculated mechanism that is reviewed regularly with the Commission.
17 In the next section of my testimony, I describe the proposed sales reconciliation
18 mechanism and the additional benefits it provides to both customers and the
19 Company. The proposed mechanism is an important component of the transition
20 to a single-step rate for Rate SV.

1 **IV. SALES RECONCILIATION MECHANISM**

2 **Q. Please describe MidAmerican's proposed Clause SRM – Sales**
3 **Reconciliation Mechanism.**

4 A. The proposed Clause SRM is a volume-balancing-adjustment rate design
5 mechanism that symmetrically decouples revenue from volumes, preventing both
6 over and under-recovery of the costs litigated in this proceeding. Decoupling
7 revenue from volumes removes sales forecasts, and the inevitable inaccuracies
8 that accompany them, from the collection of costs, improving outcomes for both
9 MidAmerican and MidAmerican's customers.

10 **Q. How does Clause SRM improve outcomes for MidAmerican's customers?**

11 A. The proposed Clause SRM improves the stability, fairness and transparency of
12 rates between rate cases.

13 **Q. How does the proposed Clause SRM improve rate stability for customers?**

14 A. Clause SRM addresses annual deviations between actual and assumed sales per
15 customer incrementally and in a timely manner. Without a reconciliation
16 mechanism, variations in usage driven by weather or other factors can result in
17 the need for more significant rate adjustments in subsequent proceedings. By
18 addressing these differences incrementally, the proposed approach reduces the
19 likelihood of abrupt or disruptive changes in customer bills.

20 **Q. Explain how Clause SRM improves rate stability for customers in the**
21 **instance of increasing usage?**

22 A. Increases in customers' natural gas consumption, which can be driven by weather
23 and other factors, impacts customers through additional commodity purchases

1 and higher therms for which distribution charges are assessed. While commodity
2 purchases are flow-through costs and cannot be mitigated, the higher therms for
3 which distribution charges are assessed can and will be mitigated through the
4 sales reconciliation mechanism.

5 **Q. Explain how Clause SRM improves rate stability for customers in the**
6 **instance of decreasing usage?**

7 A. Decreases in usage impact the Company's ability to recover the costs needed to
8 operate the natural gas system safely and reliably and can result in the need for
9 more significant rate adjustments in subsequent proceedings. By addressing these
10 differences incrementally, the proposed approach reduces the likelihood of abrupt
11 or disruptive changes in customer bills.

12 **Q. How does the proposed Clause SRM improve fairness for customers?**

13 A. Clause SRM ensures that customers are neither overcharged nor undercharged
14 due to factors outside their control, particularly variations in weather and usage
15 patterns. When actual usage is higher than assumed in base rates, customers
16 receive credits that return excess revenues. When usage is lower, the mechanism
17 allows for measured adjustments over time rather than sudden and larger
18 increases in a future rate case.

19 **Q. How does the proposed Clause SRM improve transparency of rates?**

20 A. Clause SRM provides insight into usage patterns, particularly for those rates
21 which are most affected by variations in weather and addresses the effects of
22 these patterns through incremental adjustments made between rate cases.

1 As I will discuss later in my testimony, I propose annual true-ups and
2 quarterly reporting to provide customers and the Commission with regular
3 visibility into how actual usage compares to assumptions used in setting rates and
4 how those differences affect charges or credits.

5 **Q. How does Clause SRM improve outcomes for MidAmerican?**

6 A. The proposed sales reconciliation mechanism provides more predictable
7 recovery of fixed costs between rate cases. By addressing variations in weather
8 and other usage patterns, the proposed approach reduces the likelihood of abrupt
9 or disruptive changes in MidAmerican's revenue.

10 **Q. Why should customers accept a mechanism that guarantees company profits**
11 **when their own household budgets are not guaranteed?**

12 A. Clause SRM does not guarantee profits, it provides for a better match of revenue
13 on a year-by-year basis to the revenue requirement established in this proceeding.
14 Doing so guarantees that customers pay only the amount regulators have
15 determined is necessary to operate the system safely and reliably, no more and
16 no less. If usage is higher than anticipated in this rate case and the company over-
17 collects, customers get money back; if usage is lower than anticipated in this rate
18 case the Company under-collects, only the approved shortfall is recovered.

19 **Q. What other benefits does the proposed Clause SRM provide to customers**
20 **and MidAmerican?**

21 A. Clause SRM reduces reliance on forecasts used in rate proceedings, which are
22 inevitably incorrect on at least a year-by-year basis. Clause SRM contains a
23 symmetrical and transparent formula for collecting the approved distribution

1 revenue requirements. The mechanism also supports the transition to more cost-
2 reflective rate design. As described earlier in my testimony, I propose to remove
3 the declining block rate structure, which currently embeds a form of indirect
4 revenue stabilization. The proposed Clause SRM replaces that implicit feature
5 with a more transparent and balanced approach that operates symmetrically for
6 both customers and the Company. For this and all other reasons I mentioned
7 earlier in my testimony, the proposed Clause SRM is not simply a revenue
8 adjustment tool that benefits MidAmerican, but a rate design improvement that
9 promotes fairness and predictability for customers.

10 **Q. Do you propose any customer protections to accompany the implementation**
11 **of Clause SRM?**

12 A. Because rate mechanisms like Clause SRM are not common in South Dakota, I
13 do propose to include customer protections for Clause SRM.

14 **Q. What customer protections do you propose accompany the implementation**
15 **of Clause SRM?**

16 A. The proposed customer protections are intended to ensure that Clause SRM
17 operates as a limited reconciliation mechanism rather than an open-ended
18 adjustment clause. I propose that:

- 19 • The annually adjusted Clause SRM charge, but not credit, be capped at 10%
20 of the distribution charge per therm for each rate subject to Clause SRM;
- 21 • Clause SRM be implemented on a pilot basis until the time of MidAmerican's
22 next rate case;

- 1 • MidAmerican provide quarterly status updates for Clause SRM that disclose
- 2 the current balance of the regulatory asset for Clause SRM; and
- 3 • The tariff for Clause SRM provide that the rate may be set to \$0.00000 for
- 4 the remainder of the recovery period if MidAmerican determines doing so
- 5 prevents ending the recovery period with an over-recovery.

6 **Q. What is the basis for the 10% cap to the Clause SRM charge?**

7 A. The distribution charge accounts for 15% to 29% of the proposed average

8 residential or commercial monthly bill calculated for rates SV and MV.

9 Therefore, an increase equivalent to 10% of the distribution charge would

10 represent a 1.5% to 2.9% increase in the average monthly bill. When considering

11 what cap to propose for Clause SRM, I considered a maximum total bill increase

12 of 1.5% to 2.9% to be reasonable.

13 **Q. What is the dollar equivalent of that 10% cap for the average residential**

14 **customer?**

15 A. The average monthly usage of a residential customer is 51 therms. Applying that

16 51 therms to the proposed distribution charge of \$0.23281 for Rate SV and

17 multiplying by the 10% cap, the dollar equivalent of the 10% cap is \$1.19 per

18 month for the average residential customer.

19 **Q. Do you propose a similar cap for Clause SRM credits?**

20 A. I do not. When considering caps, I believe it's important to weigh customer

21 protections while allowing the mechanism to function as intended. The 10% cap

22 on charges is low enough to protect customers while still allowing the mechanism

1 to function as intended, but capping refunds provides no protection for
2 customers. Therefore, I do not believe a cap on refunds is appropriate.

3 **Q. How does implementing Clause SRM on a pilot basis protect customers?**

4 A. Implementing Clause SRM on a pilot basis protects customers by allowing the
5 Commission to evaluate the mechanism under actual operating conditions before
6 determining whether it should become a permanent part of MidAmerican's rate
7 structure. As a result, customers receive the benefits of a limited trial while
8 preserving the Commission's ability to reassess the mechanism based on actual
9 experience.

10 **Q. What protection does the quarterly status update provide to customers?**

11 A. The quarterly status updates provide a regular cadence to report on the
12 effectiveness of Clause SRM and how it is performing throughout the year
13 compared to the assumptions used in calculating Clause SRM. Importantly, these
14 updates provide insight into the difference between terms on which Clause SRM
15 is applied and terms used in the calculation of Clause SRM and if that difference
16 will result in an adverse position of Clause SRM by the end of the recovery
17 period. To this point, I also propose tariff language allowing MidAmerican to
18 propose to set Clause SRM to \$0.00000 for the remainder of a recovery period if
19 MidAmerican determines doing so prevents ending the recovery period with an
20 over-recovery.

21 **Q. What is the purpose of the tariff language to allow MidAmerican to set**
22 **Clause SRM to \$0.00000 for the remainder of the recovery period if**

1 **MidAmerican determines doing so prevents ending the recovery period with**
2 **an over-recovery?**

3 A. The purpose of this tariff language is to decrease the likelihood that Clause SRM
4 leads to significant rate volatility from year to year for our customers. The
5 likelihood of rate volatility is already mitigated by capping Clause SRM at 10%
6 of the distribution charge, and this additional safeguard further reduces the
7 potential for rate volatility.

8 **Q. How would this tariff provision further reduce the potential for rate**
9 **volatility?**

10 A. This tariff provision avoids collecting a charge for too long when updated
11 information shows that continued collection would likely require a larger
12 customer credit the following year. Stepping from a charge to \$0 to a lower
13 customer credit provides a smoother transition than continuing to assess a charge
14 only to have to return those charges through an even larger credit in the following
15 year.

16 **Q. Which rates do you propose Clause SRM to be applicable to?**

17 A. I propose the Clause be applicable to Rate SV, Rate STM, Rate MV and Rate
18 MTM.

19 **Q. What was the basis for determining which rate classes Clause SRM should**
20 **apply to?**

21 A. The rates for which Clause SRM will apply are those same rates to which a
22 weather normalization pro forma adjustment is included in this rate case, as
23 further described in Exhibit DCN 1.2, Schedule B. Because weather can be a big

1 driver of variances between forecast and actual usage, is beyond both customers’
2 and MidAmerican’s control, shows volatility from year to year, and can impact
3 customers’ total bills and MidAmerican’s net operating income to a substantial
4 degree, these rates that are most impacted by weather are appropriate for
5 inclusion of the proposed Clause SRM.

6 **Q. Besides weather sensitivity, are there other considerations on which rates**
7 **Clause SRM should apply to?**

8 A. The proposed elimination of the declining two-step distribution charge is also an
9 important consideration in determining which rates Clause SRM should apply to.
10 Including Rate SV and Rate STM helps to stabilize their revenues, which will
11 become less stable with the removal of the lower distribution rate for usage over
12 250 therms. Because customers are not subject to a minimum load to qualify for
13 Rate MV and Rate MTM, it’s also important to include these rates to avoid
14 customer migration between rates only to avoid Clause SRM charges or take
15 advantage of Clause SRM credits.

16 **Q. Do you propose any grouping of these rates for the calculation and**
17 **application of Clause SRM?**

18 A. Yes. Because the Distribution Charge per therm is the same for Rate SV and Rate
19 STM, and the Distribution Charge per therm is the same for Rate MV and Rate
20 MTM, I propose they be grouped in the customer classes shown in Table 2.

21 ***Table 2: Clause SRM Class Designations***

Class	Rates
Small Volume	SVS, SVT, STM
Medium Volume	MVS, MVT, MTM

1 **Q. How will MidAmerican determine the amount to be recovered or credited**
2 **through Clause SRM?**

3 A. MidAmerican's annual revenue will be adjusted at the end of each year to match
4 the amount of base rate revenue per customer, for the rates for which Clause SRM
5 is applicable, determined in this rate proceeding. The offsetting entry to this
6 revenue adjustment will be an addition to a regulatory asset for Clause SRM. The
7 amount to be added is reflective of the amount of costs reflected in the calculation
8 of base rates that were underpaid (positive addition) or overpaid (negative
9 addition) by customers over the calendar year. See Exhibit DCN 1.2, Schedule A
10 for the calculation of the amount to be added to a regulatory asset for Clause
11 SRM.

12 **Q. Does this adjustment to revenue adjust MidAmerican's revenue**
13 **requirement set in this proceeding?**

14 A. No. Clause SRM does not adjust MidAmerican's revenue requirement set by the
15 Commission in ratemaking proceedings. Clause SRM aligns revenues with the
16 amounts approved by the Commission, seeking that customers neither overpay
17 nor underpay due to differences between forecasted and actual usage. The
18 mechanism operates symmetrically, returning excess revenues to customers in
19 higher-usage periods and allowing for gradual adjustments when usage is lower
20 than expected.

21 **Q. How will Clause SRM be calculated?**

22 A. Clause SRM for each customer class will be the previous year's calculated
23 percent below or above sales volume per customer utilized to calculate rates

1 multiplied by the tariffed Distribution Charge per therm plus or minus an annual
2 adjustment factor for the over- or under-collection of the previous year's Clause
3 SRM factor. As I previously mentioned, this will be capped at 10%. See Original
4 Sheet No. 74.31 of Section 3 of the proposed tariffs for the equation to be used
5 when calculating Clause SRM. The proposed tariffs are included in Exhibit DCN
6 1.1, Schedule A.

7 **Q. How often will Clause SRM factors be adjusted?**

8 A. Clause SRM factors will be reconciled every year, and a new factor will be
9 calculated annually. Clause SRM can also be adjusted to \$0.00000 in the course
10 of a year, as previously described in my testimony.

11 **Q. Can you provide an example of the calculation of Clause SRM using
12 placeholder values?**

13 A. Yes. See Exhibit DCN 1.2, Schedule A.

14 **Q. Does the proposed Clause SRM alter cost allocation or rate design approved
15 in ratemaking proceedings?**

16 A. No. Clause SRM operates solely as a sales reconciliation mechanism after the
17 Commission-approved cost allocation and rate design have been implemented.
18 Each class designation reconciles only the sales associated with that class's
19 Commission-approved distribution charges. Clause SRM does not reallocate
20 costs among classes or modify the rate structures established in base rates.

1 **Q. What timeline do you propose for implementing Clause SRM and the**
2 **proposed first annual reconciliation?**

3 A. I propose Clause SRM be implemented with the first billing cycle of April 2028,
4 contingent on Commission approval of the Company's annual reconciliation and
5 calculated factor. The first annual reconciliation for Clause SRM will be filed in
6 February 2028, comparing actual sales volumes per customer in 2027 to the
7 annual forecasted sales volumes per customer used in establishing base rates.

8 **V. WEATHER NORMALIZATION**

9 **Q. Does MidAmerican include a Weather Normalization Pro Forma**
10 **Adjustment for the test year?**

11 A. Yes, MidAmerican calculated pro forma adjustments for the following rate
12 codes: Rate SVS (residential and commercial), Rate MVS (commercial only),
13 Rate STM, Rate MTM, Rate SVT and Rate MVT. See Exhibit DCN 1.2,
14 Schedule B for an explanation of the weather normalization methodology and
15 Exhibit DCN 1.2, Schedule C for a summary of the pro forma adjustments
16 utilized by MidAmerican for the test year. The pro forma adjustment includes
17 both a usage component, in therms, and a revenue component.

18 **VI. RECOVERY OF RATE CASE EXPENSE**

19 **Q. Please describe MidAmerican's proposed rate case expense recovery.**

20 A. MidAmerican's proposed rate case expense adjustment increases test year
21 operating expenses for the estimated cost associated with litigating this rate case.
22 Witness Blake M. Groen includes a pro forma adjustment for rate case expense
23 that amortizes such costs over a three-year period. MidAmerican proposes a

1 shorter amortization period than in Docket No. NG22-005 to more closely match
2 anticipated future filing cadences. I include supporting information for estimated
3 rate case expenses in Exhibit DCN 1.1, Schedule B.

4 **VII. PROPOSED TARIFF SHEETS**

5 **Q. Please summarize the tariff changes proposed in this filing.**

6 **A.** I propose to:

- 7 (1) Update the rates based on an updated class cost-of-service study
8 incorporating the proposed revenue requirement.
- 9 (2) Add a definition for “Peak Daily Usage” in the “Gas Service Policies,”
10 specify in the “Customer Service Policies” that a “Reassignment of Rate”
11 is based on “Peak Daily Usage” instead of “Average Daily Usage,” and
12 update and “Available” and “Reassignment of Rate” sections of various rate
13 tariff sheets to reflect “Peak Daily Usage” rather than “Average Daily
14 Usage”.
- 15 (3) Eliminate the provision on several of the rate tariff sheets that limits the
16 application of the transportation and interval meter charges to only
17 customers whose telemetry equipment was installed or replaced on or after
18 July 1, 2015.
- 19 (4) Make revisions to the terms of MidAmerican’s existing tariffs for:
 - 20 • Rate SV
 - 21 • Rate PRG
 - 22 • Rate MMT
 - 23 • Rider T – Transportation of Customer-Owned Gas (“Rider T”)

- 1 • Rider TDB – Daily Balancing of Customer-Owned Volumes (“Rider
2 TDB”)
- 3 (5) Add new Clause SRM
- 4 (6) Eliminate Clause EECR
- 5 (7) Make a change to the true-up provisions in Subsections “4.00 Expansion of
6 Gas Distribution System” and “5.00 Existing System Modifications” in
7 “Section 5 – Rules and Regulations”.
- 8 (8) Make minor “housekeeping” edits to a few other existing tariff sheets.
- 9 **Q. Describe the rates proposed in the Rate Schedules section of the tariff.**
- 10 A. The proposed rate schedules reflect the revised rates to collect MidAmerican’s
11 revenue requirement, which is supported by Witness Groen. The proposed rate
12 schedules conform to the updated class cost-of-service study supported by
13 Witness Stephen P. Stratton.
- 14 **Q. How will “Peak Daily Usage” be defined?**
- 15 A. Peak Daily Usage is defined as the Customer’s highest daily usage during the
16 peak billing months of December through February. If actual daily usage is not
17 available, the Peak Daily Usage will be based on the Customer’s Average Daily
18 Usage.
- 19 **Q. Why is Peak Daily Usage a better measuring point for determining rate**
20 **eligibility?**
- 21 A. Because peak load is a factor when analyzing system reliability, the true costs to
22 serve a customer, reflected in the rate under which the customer is served, is
23 based on the peak, not average, load of that customer. Just as Rate LV bases the

1 cost to serve a customer on a Maximum Daily Requirement (MDR) and
2 Maximum Hourly Requirement (MHQ), the determination for rate availability
3 should also be based on a customer's maximum daily system requirement, or
4 peak daily usage, when available. See Witness Mark A. Hoogwerf's testimony
5 for further discussion on how system reliability projects are determined.

6 **Q. Why do you propose to remove the provision that limits the application of**
7 **the transportation and interval meter charges to only customers whose**
8 **telemetry equipment was installed or replaced on or after July 1, 2015?**

9 A. By the conclusion of this rate proceeding, all telemetry equipment will have been
10 installed or replaced on or after July 1, 2015.

11 **Q. Describe the proposed changes to the terms of Rate SV.**

12 A. For the reasons discussed earlier in my testimony, I propose to change Rate SV
13 from a declining two-step distribution rate to a single-step distribution rate.

14 **Q. Describe the proposed changes to Rate PRG – Producers of Renewable Gas**
15 **Transportation Service.**

16 A. I propose the following:

17 (1) The addition of language to specify that the renewable gas injected by the
18 producer must remain on the same contiguous portion of MidAmerican's
19 pipeline. Interstate natural gas pipelines fall under the jurisdiction of the
20 Federal Energy Regulatory Commission ("FERC"). MidAmerican believes
21 this clarification in its Rate PRG tariff is necessary to ensure that
22 MidAmerican does not transport gas over an interstate pipeline and become
23 classified as an interstate natural gas pipeline to be regulated by FERC.

1 (2) A clarification that, through a contract, MidAmerican may further direct the
2 delivery, receipt and/or consumption of the gas. This clarification is
3 necessary for the same reason as the specification that the producer must
4 remain on the same contiguous portion of MidAmerican's pipeline.
5 MidAmerican must be able to ensure that the injection and transport of gas
6 falls within the bounds of its tariffs and regulatory construct.

7 (3) The addition of language to allow for the filing of Rate PRG contracts to
8 be made public, if requested by any of the contract parties and agreed to by
9 all parties to contract. MidAmerican sees value in allowing for these
10 contracts to be made public to accommodate instances where a party to the
11 contract may need to allow public review for contract approval.

12 **Q. What are the primary reasons for updating the Availability section of Rate**
13 **PRG to clarify that the Transportation Customer must be located on a**
14 **contiguous portion of the Company's Distribution System as the Producer?**

15 A. Under the Natural Gas Act ("NGA") an intrastate pipeline that is not under
16 FERC's jurisdiction can become subject to FERC jurisdiction, specifically under
17 section 311(a)(2) of the Natural Gas Policy Act ("NGPA"), if the intrastate
18 pipeline sells or transports gas to an NGA pipeline or to a local distribution
19 company that takes service from an NGA pipeline. The Company's Distribution
20 System is not under FERC's jurisdiction, and this clarification ensures that the
21 Company does not inadvertently become subject to FERC jurisdiction, including
22 NGPA section 311(a)(2), which would otherwise require the Company to file a
23 tariff with FERC for the transportation of the Producer's Renewable Gas.

1 **Q. What changes are being proposed to Rate MMT?**

2 A. Rate MMT currently includes a switching fee that can be incurred for customers
3 switching to another service under MidAmerican's Tariffs or for customers
4 changing Pool Operators. I propose to remove the portion of the switching fee
5 relating to Rate MMT customers switching to another service under
6 MidAmerican's Tariffs.

7 **Q. What is the rationale for removing the fee for Rate MMT customers**
8 **switching to another service under MidAmerican's Tariffs?**

9 A. This fee is not imposed on customers switching from any other service under
10 MidAmerican's Tariffs. Removing the fee for Rate MMT customers switching to
11 another service under MidAmerican's Tariffs is consistent with all other
12 permanent rates in MidAmerican's Tariffs and removing a fee charged directly
13 benefits MidAmerican's customers who do switch among MidAmerican's
14 services.

15 **Q. Do you propose any other changes to existing tariff terms for Rate MMT in**
16 **this proceeding?**

17 A. Yes. Under Rate MMT, customers can choose either Rate STM – Small Transport
18 or Rate MTM – Medium Transport. However, under the "Application" section,
19 it states, "This service is available to non-residential small volume Customers
20 whose usage does not exceed 2,000 Therms per day." To align the language in
21 the "Application" section with the options available under Rate MMT, and to be
22 consistent with the eligibility requirements of Rate SV, MidAmerican is
23 proposing to modify this section and add a "Reassignment of Rate" section that

1 limits the eligibility of Rate STM to non-residential customers whose usage does
2 not exceed 500 therms per day. Under MidAmerican's proposed changes, Rate
3 MTM would still be available to non-residential medium customers whose usage
4 does not exceed 2,000 therms per day. Also, for the reasons discussed earlier in
5 my testimony, I propose to change Rate STM from a declining two-step
6 distribution rate to a single-step distribution rate.

7 **Q. Will implementing a 500 therm per day cap on Rate STM impact any**
8 **existing customers?**

9 A. No. MidAmerican does not currently have any customers on Rate STM whose
10 daily usage exceeds 500 therms.

11 **Q. Are there any other changes to being proposed for Rate MMT?**

12 A. Yes. Regarding the balancing provisions for Rate MMT, I propose to remove the
13 references to specific city gates and instead tie the balancing charges to the
14 greater of \$3.00 per therm or the three times the greater of end-user's applicable
15 interstate pipeline "Midpoint" Index Prices.

16 **Q. Why is it appropriate to make these changes to the balancing provisions?**

17 A. Making this change will allow for greater flexibility to tie to the current market
18 environment for a fair and reasonable amount. As currently stated in
19 MidAmerican's tariff, the revenues resulting from these charges are credited to
20 the monthly Cost of Purchased Gas Adjustment clause.

21 **Q. What changes do you propose to Rider T?**

22 A. I propose the following changes to Rider T:

23 (1) Changes to the definitions

1 (2) Additional information to the provisions regarding “Retention”

2 (3) Minor change to the language regarding “Nominations”

3 **Q. Describe the proposed changes to the definitions.**

4 A. I propose to correct the definition of “Group Customer.” As currently defined,
5 Group Customer incorrectly references “Rider TDBO – Transportation Optional
6 Balancing Services” instead of the intended “Rider TGB – Transportation Group
7 Balancing Services.” I also propose to remove the 12-month written notice
8 requirement from the definition of “Receipt Point.”

9 **Q. What changes do you propose to the provisions regarding Retention?**

10 A. I propose adding more detail to this section to advise that customer-owned gas
11 delivered will be reduced by a retention percentage and that the retention
12 percentage will be based on the Company-wide gas system and adjusted annually.

13 **Q. What changes do you propose to the provisions regarding Nominations?**

14 A. Under the section pertaining to “Critical Day and/or OFO,” I propose to change
15 the phrase “curtailment or interruption conditions” to “critical conditions.” This
16 change provides clarity by tying information which is to be provided by the
17 Company to those five conditions listed under the definition of “Critical Day”
18 rather than using a phrase of “curtailment or interruption conditions” that is not
19 easily tied to any definitions within MidAmerican’s tariff.

20 **Q. What changes do you propose to Rider TDB?**

21 A. For the same reasons as discussed for Rate MMT, regarding the balancing
22 provisions for Rider TDB, I propose to remove the references to specific city
23 gates and instead tie the balancing charges to the greater of \$3.00 per therm or

1 the three times the greater of end-user's applicable interstate pipeline "Midpoint"
2 Index Prices.

3 **Q. Do you propose to add any riders or clauses in this filing?**

4 A. Yes. As discussed earlier in my testimony, MidAmerican is proposing to add
5 Clause SRM to account for variances in weather.

6 **Q. Do you propose to eliminate any riders or clauses in this filing?**

7 A. Yes. MidAmerican is proposing to eliminate Clause EECR. On October 30, 2019,
8 in Docket No. GE19-002, the Commission agreed with MidAmerican that energy
9 efficiency programs were no longer cost effective and should not be offered after
10 2019. Since January 2021, the factors have been set to zero. Because energy
11 efficiency programs are no longer offered, Clause EECR, is no longer needed.

12 **Q. Is there an over or under recovery amount associated with Clause EECR**
13 **that needs to be addressed in order to eliminate Clause EECR?**

14 A. Yes. As further described in the testimony of Witness Groen, MidAmerican is
15 proposing to amortize the remaining under-recovery associated with Clause
16 EECR.

17 **Q. Do you propose to add or eliminate any other riders or clauses in this filing?**

18 A. No.

19 **Q. Are non-rate revenue charges being changed in the proposed tariff sheets?**

20 A. No, the Company is not proposing to change non-rate revenue charges, such as
21 returned check charges or reconnection after disconnection charges, with the
22 implementation of the proposed tariff sheets.

1 **Q. What changes do you propose to the true-up provisions in Subsections 4.00**
2 **Expansion of Gas Distribution System and 5.00 Existing System**
3 **Modifications in Section 5 – Rules and Regulations?**

4 A. I propose to change the trigger for the reconciliation from \$100,000 to \$500,000.
5 Actual costs for projects under \$500,000 can vary widely based on factors outside
6 of just the scope of the work. This variability decreases dramatically with very
7 large projects as they are typically addressed by consistent contract resources,
8 reducing the number of non-scope factors which affect the project costs. This
9 change assures that similarly situated customers are treated equally.

10 **Q. Are there any other tariff changes proposed in the filing?**

11 A. Yes. I propose minor “housekeeping” edits on a few additional tariff sheets.
12 These edits include:

- 13 • Updating the Table of Contents to remove Clause EECR and include the
14 proposed new Clause SRM
- 15 • Updating the list of “Adjustment Clauses and Riders” on various rate sheets,
16 as applicable, to include the proposed new Clause SRM and remove Clause
17 EECR
- 18 • Correcting minor typographical errors and formatting issues and capitalizing
19 defined terms for consistency throughout the tariff
- 20 • Updating the Standard Bill Form to reflect the proposed rates

21 **Q. Do the tariffs proposed reflect the revised rates requested in this case?**

22 A. Yes. The proposed tariffs include the revised rates to implement the revenue
23 requirement and rate design described in the direct testimony of Witness Groen

and Witness Stratton in this case. The proof of revenue for proposed rates demonstrates that the proposed rates, when applied to adjusted test year billing determinants, will recover the revenue requirement.

Q. Where can MidAmerican's proposed tariff sheets be found?

A. These tariff sheets, in both final form and with strike-outs, are included as Exhibit DCN 1.1, Schedule A.

VIII. CONCLUSION

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.