

**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
KARRIE A. LEZA**

I. WITNESS INFORMATION

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

3 A. My name is Karrie A. Leza. My business address for MidAmerican Energy
4 Company (“MidAmerican” or “Company”) is 3500 104th Street, Urbandale, Iowa
5 50322.

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

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

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

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

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

15 A. I graduated from the University of Iowa in 2005 with a Bachelor of Arts in
16 Political Science. In 2023, I earned a Master of Business Administration from the
17 University of Iowa. I joined MidAmerican in 2007 as an administrative assistant
18 and have since advanced through roles of increasing responsibility and
19 leadership, including Distribution Design Technician, Scheduling and Planning
20 Coordinator, Supervisor of Service Operations, Director of Gas Regional
21 Operations, General Manager of Gas Operations, and Vice President of Safety,
22 Training, and Development. In January 2026, I took on the role of Vice President
23 of Gas Delivery.

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

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

5 **II. PURPOSE OF DIRECT TESTIMONY**

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

7 A. The purpose of my testimony is to support MidAmerican's request to align the
8 Company's South Dakota natural gas rates with the current cost of service. My
9 testimony summarizes MidAmerican's requested revenue increase; explains the
10 principal drivers of the need for rate relief, including declining usage per
11 customer and increased costs to maintain, protect, and modernize the gas system;
12 addresses customer affordability and bill impacts; and introduces the other
13 witnesses supporting MidAmerican's filing.

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

15 A. No.

16 **III. SUMMARY OF MIDAMERICAN'S REQUEST**

17 **Q. Please summarize MidAmerican's request in this rate proceeding.**

18 A. MidAmerican's filing is based on a 2025 test year with a pro forma adjustment
19 for known and measurable projects that will occur in the 24 months from the end
20 of the test year and additional income statement adjustments. MidAmerican is
21 requesting a revenue increase of \$8.9 million and a return on equity of 10.5
22 percent. As Witness Blake M. Groen details, the revenue increase is based on a
23 forecasted South Dakota jurisdictional gas revenue requirement for final rates of

1 \$48.4 million, which results in a forecasted revenue deficiency under current
2 rates of \$8.9 million and implies an increase of 22.6 percent compared to test
3 year pro forma revenues. Including the cost of gas, the overall increase reflected
4 in customer bills is approximately 9.3 percent.

5 **Q. Is MidAmerican proposing any tariff changes in this proceeding?**

6 A. Yes, MidAmerican is proposing several tariff changes, as Witness Derek C.
7 Nelson describes in more detail in his direct testimony. One important change is
8 the addition of a new Clause SRM (Sales Reconciliation Mechanism).

9 **Q. Is MidAmerican proposing any other tariff changes?**

10 A. Yes, in addition to Clause SRM, MidAmerican is proposing:

- 11 • Tariff updates that would move certain small-volume rates from a two-step
12 distribution charge to a single-step distribution charge, which would help
13 ensure that customers with lower usage are not paying a disproportionate
14 share of distribution costs attributable to higher-usage customers, and would
15 make the rate design more consistent, transparent, and cost-reflective;
- 16 • The elimination of Clause EECR – Energy Efficiency Cost Recovery
17 Mechanism, which aligns with the end of MidAmerican’s energy efficiency
18 programs in 2019; and
- 19 • The addition of a definition of “Peak Daily Usage” and specification that a
20 reassignment of rate will be based on Peak Daily Usage.

21 Witness Nelson provides further details of these and other minor proposed tariff
22 changes in his direct testimony.

1 **Q. Did MidAmerican make any other requests in this proceeding?**

2 A. MidAmerican is also requesting recovery of the McCook Lake regulatory asset
3 and the under-recovered balance of Rider EECR, which are described in the Pro
4 Forma and Regulatory Asset Requests section of my testimony and in the
5 testimony of Witness Mark A. Hoogwerf and Witness Nelson.

6 **IV. DRIVERS FOR THE RATE INCREASE REQUEST**

7 **Q. Have base revenues kept pace with the MidAmerican's corresponding cost**
8 **of service?**

9 A. No, as the revenue deficiency I described above indicates, base revenues are
10 falling short of MidAmerican's cost of service.

11 **Q. What are the principal factors contributing to the revenue deficiency?**

12 A. There are two principal contributing factors. First, even as MidAmerican has
13 employed reasonable and effective cost control measures and strategies, the cost
14 of providing natural gas service has continued to increase since our last rate case,
15 which was based on a 2021 historical test year. This has primarily been driven by
16 costs required to maintain, protect, or modernize the existing system, including
17 gas system capital investments; operational costs related to safety and regulatory
18 compliance obligations; government-mandated relocations; rising labor and
19 equipment costs; and IT modernization projects. Many of these costs are fixed
20 and do not vary meaningfully with customer usage.

21 Second, system growth has necessitated improvements and extensions to
22 serve new natural gas customers. In addition, gas usage per residential account
23 has declined, which reduces revenues under the existing rate structure—when

1 usage per customer declines in a rate structure that is substantially volumetric,
2 revenue declines even though many of the underlying costs to serve customers
3 do not. As a result, a gap between revenues produced by current rates and the cost
4 of providing service has opened and is widening since MidAmerican's last rate
5 case.

6 **Q. Has MidAmerican exerted cost control measures before seeking rate relief?**

7 A. Yes. We continue to manage costs through disciplined project planning,
8 prioritization, competitive procurement, operational efficiencies, use of internal
9 resources where feasible, and ongoing review of capital and operating spending.
10 Where discretion exists, projects are prioritized based on factors such as safety,
11 compliance, reliability, system condition, customer impact, and cost.

12 Those efforts, which are ongoing, have helped limit this request. But they
13 do not eliminate the need to recover costs that are necessary to provide safe,
14 reliable, secure, and compliant natural gas service. In many instances, these costs
15 are driven by external requirements, system conditions, public infrastructure
16 projects, cybersecurity and technology needs, or customer service obligations
17 that cannot be avoided and are non-discretionary.

18 **A. Customer Count and Usage Trends**

19 **Q. Please describe MidAmerican's business and MidAmerican's South Dakota**
20 **natural gas service area.**

21 A. MidAmerican is an investor-owned public utility headquartered in Des Moines,
22 Iowa, that provides electric service to customers in Iowa, Illinois and South
23 Dakota and distributes and transmits natural gas to customers across Iowa, South

1 Dakota, Illinois and Nebraska. Systemwide, we serve more than 822,000 natural
 2 gas customers as of July 2026, including more than 115,000 South Dakota natural
 3 gas customers through approximately 1,721 miles of gas mains and 1,482 miles
 4 of gas service lines. In South Dakota alone, MidAmerican provides natural gas
 5 service to 73 communities and county areas, including 34 farm tap areas.

6 **Q. Has the number of customers in South Dakota changed in recent years?**

7 A. Yes, South Dakota is experiencing positive economic growth, necessitating
 8 system improvements and extensions necessary to serve new natural gas
 9 customers. In particular, the number of residential and commercial customers in
 10 MidAmerican's South Dakota natural gas service area has grown during the past
 11 five years, while the number of industrial customers has declined. This trend is
 12 expected to continue into the future. Table 1 below illustrates this growth.

13 ***Table 1 – Change in South Dakota Gas Customers and Volumes¹***

	Average Monthly Customers			Volumes (million therms)		
	Test Year 2021	Test Year 2025	% Change	Test Year 2021	Test Year 2025	% Change
Residential ²	93,374	102,172	9%	60.7	65.4	8%
Commercial	10,280	11,281	10%	40.3	44.7	11%
Industrial	51	43	(16%)	1.2	1.1	(13%)
Total Supply Service	103,705	113,496	9%	102.2	111.2	9%
Transportation Service	528	581	10%	50.8	52.6	4%
Total	104,234	114,078	9%	153.0	163.8	7%

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¹ Table shows Test Year 2021 billing determinants used in MidAmerican's 2022 natural gas rate case (Docket NG22-005) and Test Year 2025 billing determinants used in this rate case (Docket NG26-___). Note that Residential and Commercial volumes are weather-normalized.

1 **Q. Why haven't revenues kept pace with the cost of providing service to**
2 **customers despite continued economic growth?**

3 A. Although customer counts have increased, the incremental revenues from
4 customer growth have not fully offset the costs required to serve new customers.

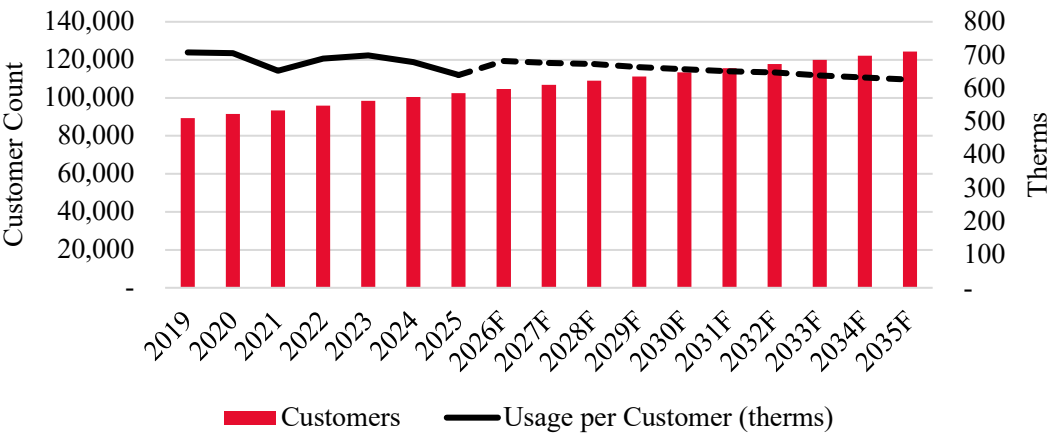
5 **Q. How does the increase in customer count affect MidAmerican's revenue**
6 **requirement?**

7 A. South Dakota's growth means that MidAmerican needs to invest in more
8 infrastructure. Although the growth in customers has resulted in increased
9 volumes, and therefore more revenues, those revenues are not sufficient to cover
10 increased costs. In addition, usage per customer has declined in the residential
11 sector, as shown in Figure 1 below, offsetting revenue gains from new customers.
12 That trend is expected to continue into the future for both residential and
13 commercial customers, as shown in Figures 1 and 2. While usage per customer
14 in the industrial sector has remained relatively stable, as shown in Figure 3, the
15 total number of industrial customers has declined, generating lower fixed
16 monthly revenues in that sector.³

³ The residential and commercial usage per customer trends in Figures 1 and 2 are weather-normalized. Industrial usage per customer, shown in Figure 3, is not weather-normalized because industrial usage is much less weather-sensitive.

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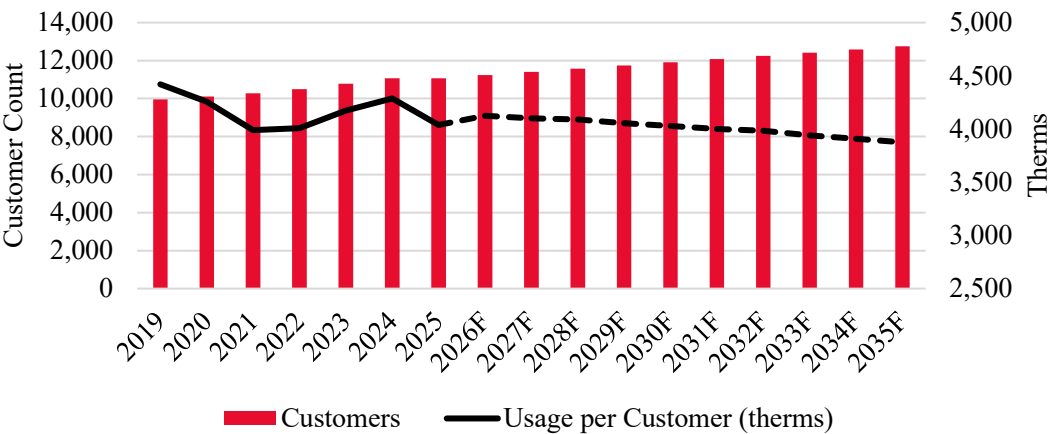
Figure 1 –Residential Customer Count and Usage per Customer



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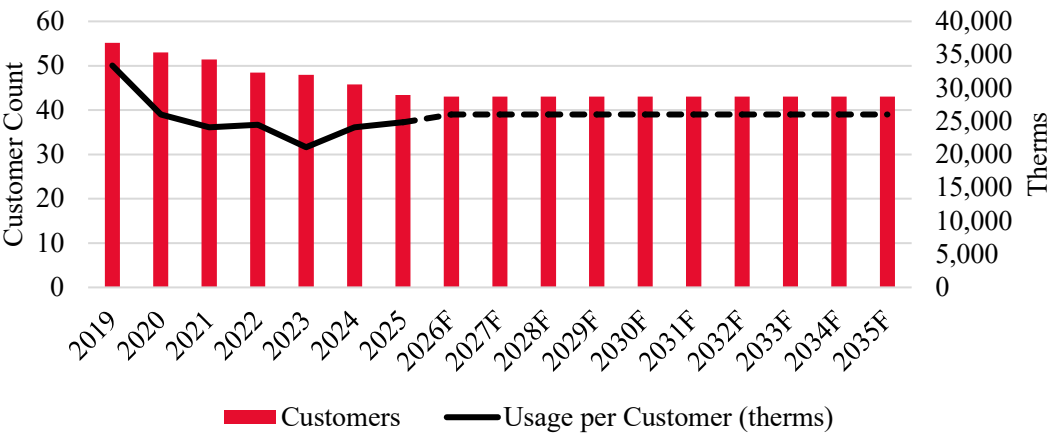
Figure 2 –Commercial Customer Count and Usage per Customer



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Figure 3 –Industrial Customer Count and Usage per Customer



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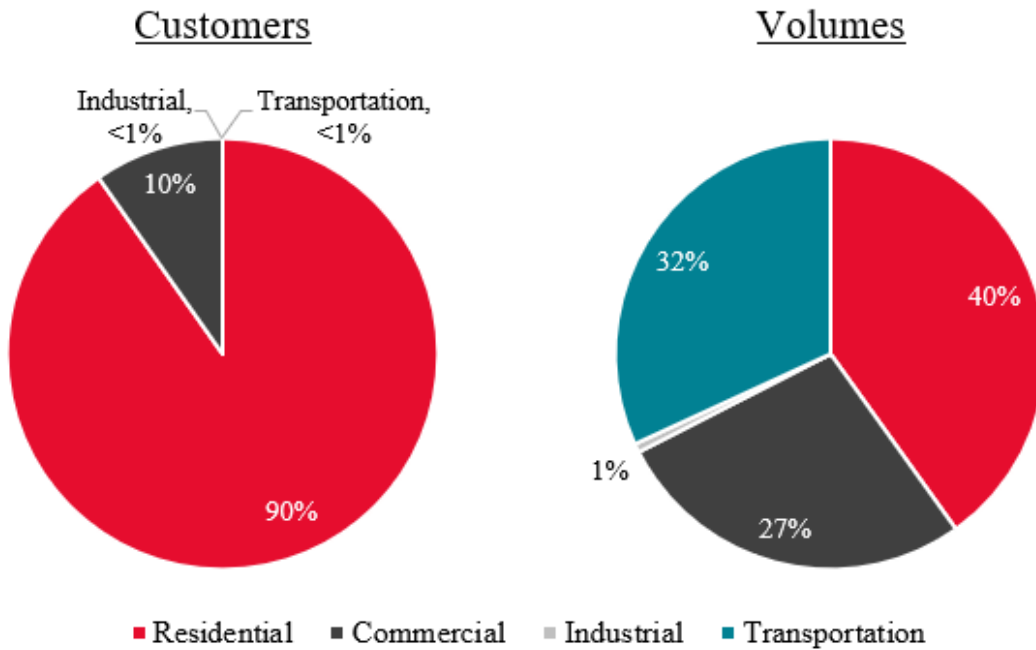
1 **Q. In addition to declining usage per customer, are there other characteristics**
2 **of MidAmerican's South Dakota gas system that contribute to the gap**
3 **between revenues and cost recovery?**

4 A. Yes, as shown in Figure 4 below, MidAmerican's South Dakota customer base is
5 predominantly residential and small commercial, with a limited number of large
6 industrial and transport customers. Although transport customers account for a
7 significant share of throughput, they represent a small portion of total accounts.
8 As a result, much of the system's fixed costs must be recovered from residential
9 and commercial customers with relatively modest and, on average, declining
10 usage levels.

11 MidAmerican's mix of urban and rural service areas also contributes to
12 this issue. In lower-density rural areas and smaller gas systems, MidAmerican
13 must install, operate, monitor, and maintain infrastructure to serve customers who
14 are spread farther apart or located on systems with relatively low load. Those
15 obligations exist regardless of customer usage, but the cost is spread over fewer
16 customers or fewer units of usage.

17 Taken together, these characteristics reinforce the same point:
18 MidAmerican's gas system requires substantial fixed investment and ongoing
19 operating support, while current rates rely significantly on usage-based recovery.
20 When usage declines, revenues decline, but the underlying obligation to operate,
21 maintain and support the system does not.

Figure 4 – South Dakota Gas Customers and Volumes by Customer Class



Q. What is the key point that should be taken from these customer count and usage trends?

A. The key point is that customer growth has not offset the investments needed to support that growth. This problem is compounded by a downward trend in usage per customer. Because a substantial portion of MidAmerican's gas distribution costs are fixed or do not vary meaningfully with usage, lower usage under a largely volumetric rate structure reduces cost recovery even though the underlying cost of serving customers remains the same.

1 **Q. Earlier, you mentioned Clause SRM, the Sales Reconciliation Mechanism. Is**
2 **Clause SRM intended to mitigate the impacts of usage variation across**
3 **volumetric charges?**

4 A. Yes, as I discussed earlier, Clause SRM would address one important limitation
5 of a rate design that recovers a substantial portion of fixed distribution costs
6 through usage-based charges. Many of the costs required to operate, maintain and
7 support MidAmerican's gas system do not vary meaningfully with the number of
8 therms customers use. At the same time, customer usage can vary from the levels
9 used to set base rates for reasons outside the control of customers and the
10 Company, including weather-related changes in heating demand.

11 Clause SRM would reconcile actual sales per customer with the sales
12 levels used to set base rates for customers in the following rate classes: Rate SV,
13 Rate STM, Rate MV and Rate MTM. If actual usage per customer is lower than
14 the level assumed in base rates, the mechanism would allow a measured
15 adjustment to recover the resulting shortfall. If actual usage per customer is
16 higher than the level assumed in base rates, the mechanism would operate in the
17 other direction and return the excess revenues to customers through a credit.

18 **Q. Does Clause SRM directly address or mitigate declining usage per**
19 **customer?**

20 A. No, Clause SRM does not directly solve the broader trend of declining usage per
21 customer. That issue still must be addressed through appropriate base rates and
22 rate design in this proceeding. But Clause SRM does help mitigate one important
23 consequence of volumetric rate design by reducing the effect of weather-related

1 and other usage fluctuations between rate cases. It also replaces an indirect form
2 of revenue stabilization embedded in the current declining-block rate structure
3 with a more transparent, limited and regularly reviewed mechanism.

4 **Q. What are the benefits to customers of the proposed sales reconciliation**
5 **mechanism?**

6 A. The proposed Clause SRM provides several direct benefits to customers by
7 improving the stability, fairness and transparency of rates between rate cases. A
8 sales reconciliation mechanism can help maintain revenue stability by adjusting
9 for variations in customer usage resulting from weather or other factors beyond
10 the control of customers or MidAmerican and therefore mitigates the loss of
11 revenue stability from the transition to a single-step rate. It supports the move
12 toward more cost-reflective rates and gives customers and the Commission better
13 visibility into how actual sales compare with the assumptions used to set base
14 rates. Witness Nelson discusses this proposal in more detail.

15 **B. Cost of Service Drivers**

16 **Q. Can you summarize the principal revenue requirement drivers reflected in**
17 **MidAmerican's request?**

18 A. Yes. Table 2 below provides a high-level summary of the principal drivers of
19 MidAmerican's revenue requirement deficiency. The table is intended to provide
20 an overview of the relative contribution of various categories of drivers before I
21 discuss various categories in more detail.

1

Table 2 –Revenue Requirement Drivers

	Amount (000's)	% of Revenue Deficiency
Test Year 2025 Pro Forma Revenue	\$ 39,480.7	
<u>Change in Return on Rate Base</u>		
Distribution Plant	\$ 2,939.6	33%
Intangible Plant	662.7	7%
Other Rate Base	(567.8)	(6%)
Increased Cost of Equity	1,543.0	17%
Increased Cost of Debt	511.9	6%
Total Change in Return on Rate Base	\$ 5,089.5	57%
<u>Change in Operating Expenses, Depreciation & Taxes</u>		
Depreciation and Amortization Expense	2,823.9	32%
General and Administrative Expense	2,480.1	28%
Other Expenses	1,071.9	12%
Tax on Requested Revenue Increase	611.7	7%
Increased Taxes (Before Requested Revenue Increase)	321.6	4%
Amortization of Regulatory Assets	189.8	2%
Other	(24.9)	(0%)
Increase in Retail Rate Revenues	(3,654.8)	(41%)
Total Change in Operating Expenses, Depreciation & Taxes	\$ 3,819.3	43%
Revenue Deficiency	\$ 8,908.7	
Proposed Revenue Requirement	\$ 48,389.4	

2 **Q. What is the key point shown by Table 2?**

3 A. The key point is that revenue deficiency is not driven by a single isolated item.
4 Rather, it reflects the combined effect of significant capital investment in the
5 natural gas system and increases in the costs required to operate, maintain and
6 serve customers. These include projects required to maintain compliance with
7 regulatory requirements; pipeline integrity projects; government-mandated
8 relocations; and investments in our IT systems. Increased wages and benefits,
9 contract labor and materials costs have also contributed to the revenue deficiency.

1 **Q. How would you describe the primary categories of cost drivers reflected in**
2 **this filing?**

3 A. The key categories of cost drivers are gas system capital investments; operational
4 costs related to safety and regulatory compliance obligations; government-
5 mandated relocations; rising labor and equipment costs; and IT modernization
6 projects.

7 **Q. You mentioned gas system capital investments as a driver for the revenue**
8 **deficiency. Please describe the nature of these projects and how**
9 **MidAmerican selects which projects to undertake.**

10 A. MidAmerican invests in capital improvements to provide natural gas service
11 safely and reliably. These investments include compliance and integrity
12 management projects, system reliability improvements, replacement of higher-
13 risk facilities, low-pressure system work, pressure support, looping and resiliency
14 projects, and other investments needed to maintain the existing system.

15 These investments are necessary to reduce risk, meet regulatory
16 requirements, and maintain service continuity, particularly during peak demand
17 or abnormal operating conditions. Unlike gas system capital investments
18 associated with load growth, these investments often do not generate new
19 revenues that directly offset their cost. Witness Hoogwerf provides engineering
20 and operational support for these capital investments, including how projects are
21 identified, prioritized, and completed in a cost-effective manner.

1 **Q. How does MidAmerican ensure capital projects are completed in a cost-**
2 **effective manner?**

3 A. We evaluate capital projects by considering operational need, safety and
4 compliance requirements, timing constraints, and potential rate impacts. For
5 discretionary projects, we prioritize projects based on risk and system condition
6 and schedule work to balance our system needs with rate impacts. Where projects
7 are required to meet customer, governmental or regulatory requirements, we take
8 measures to manage those costs. Whenever possible, MidAmerican uses internal
9 labor to minimize reliance on external contractors. When contractor resources are
10 required, MidAmerican procures materials and services through competitive
11 bidding, taking into consideration compliance with Company specifications and
12 cost.

13 **Q. How do government-mandated relocations affect MidAmerican's cost of**
14 **service?**

15 A. Government-mandated relocations are another important capital cost driver.
16 MidAmerican's facilities are often located in public rights-of-way. When a public
17 entity undertakes a road, bridge, sewer, water, storm sewer or similar
18 infrastructure project, MidAmerican may be required to relocate existing gas
19 facilities to accommodate that public project. Relocation projects are not within
20 MidAmerican's control. The scope and timing are generally driven by the public
21 authority, and MidAmerican must complete the relocation work to maintain safe
22 service and comply with franchise, right-of-way and regulatory obligations at its
23 own cost. Because this work moves existing facilities rather than adding

1 customers or increasing usage, it adds cost without producing corresponding new
2 base-rate revenues. Witness Hoogwerf addresses these relocation projects in
3 more detail in his direct testimony.

4 **Q. Please discuss safety, compliance, damage prevention and reliability**
5 **obligations. How do those obligations affect operating costs?**

6 A. Operating a natural gas system requires continuous inspection, monitoring,
7 maintenance, emergency response, field work, employee training, locate activity
8 and compliance support. MidAmerican must comply with pipeline safety
9 requirements, integrity management operations, control room management
10 requirements, public awareness obligations and damage-prevention
11 requirements. The Company must also respond to leaks and other field conditions
12 promptly and maintain the people, systems, vendors and processes necessary to
13 do that work safely.

14 **Q. Please provide additional information about locating activity. How does that**
15 **fit within MidAmerican's damage-prevention efforts?**

16 A. Locating activity is an essential part of damage prevention and safe gas system
17 operations. If underground facilities are not located timely and accurately, public
18 and private construction projects may be delayed and become more costly, or
19 excavation may proceed without accurate information about the location of gas
20 facilities. That increases the risk of facility strikes, damage to underground
21 facilities, gas releases, and, in the most serious cases, explosions that can
22 endanger people and property. For those reasons, it is critical for MidAmerican
23 to maintain the resources and processes necessary to identify underground

1 facilities accurately and timely before excavation occurs, at a scale that matches
2 demand. To improve responsiveness and support safe excavation practices,
3 MidAmerican retained a second locate vendor to be available in South Dakota if
4 needed and adopted a requirement that 99 percent of compliant locate requests
5 be completed on time. MidAmerican is now experiencing the cost of those
6 necessary locate investments. Those costs are driven by the need to protect
7 customers, excavators, the public and the gas system, and to respond to locate
8 requests with the level of timeliness and reliability expected of a safe utility
9 operation.

10 **Q. How do labor and workforce costs affect the cost of service?**

11 A. Labor is a significant and necessary component of the cost of operating and
12 maintaining the gas system. MidAmerican needs trained, skilled and qualified
13 employees and contractors to perform construction, maintenance, emergency
14 response, locating, customer service, compliance, engineering and operational
15 support functions.

16 Wage and benefit costs have increased since the last rate case, including
17 under MidAmerican's current collective bargaining agreement with the United
18 Steel Workers Local 738 which runs from October 1, 2022, to
19 September 30, 2027, and covers close to 50 frontline gas workers. This agreement
20 provides for annual wage increases of 3.5% in 2023, 2.5% in 2024, 2.5% in 2025,
21 and 2.5% in 2026. These costs are all part of the overall cost of providing safe,
22 reliable and responsive service across our South Dakota gas system.

1 **Q. Have other costs also increased?**

2 A. Yes. Although MidAmerican manages costs through competitive procurement
3 and efficient use of internal labor and qualified contractors, the cost of
4 constructing and replacing natural gas infrastructure has increased over time due
5 to inflationary pressures on labor and materials and evolving compliance
6 requirements. These trends increase the cost of completing routine system
7 investments compared to prior periods. Witness Hoogwerf will expand on this in
8 his testimony.

9 **Q. You mentioned IT modernization among the primary categories of cost**
10 **drivers. What is IT modernization and how is that affecting MidAmerican's**
11 **cost of service?**

12 A. IT modernization and security investments contribute to the cost of service
13 because modern utility service depends on reliable and secure technology
14 systems. MidAmerican uses these systems to support billing, customer service,
15 work and asset management, field execution, finance, supply chain,
16 cybersecurity and other core functions. Many legacy systems are aging, less
17 flexible, more difficult to secure, and less able to support current customer,
18 regulatory and operational needs.

19 MidAmerican has addressed these issues through a coordinated IT
20 modernization strategy designed to improve reliability, security, integration, and
21 long-term cost control. That strategy includes use of shared systems across
22 Berkshire Hathaway Energy utilities where appropriate, common vendor
23 platforms, cloud-based or software-as-a-service solutions where feasible, limited

1 customization, and objective allocation methods so MidAmerican customers pay
2 only their appropriate share. Witness Drew D. Smith provides detailed support
3 for the IT modernization strategy, system selection, customer benefits,
4 cybersecurity benefits and cost allocation.

5 **Q. Was a cost-benefit analysis of MidAmerican's IT modernization effort**
6 **performed?**

7 A. Yes. MidAmerican retained West Monroe, a business and technology consulting
8 firm headquartered in Chicago with a dedicated energy and utilities practice, to
9 perform a cost-benefit analysis of our IT modernization investments. At a high
10 level, West Monroe concluded that the investments are reasonable and prudent
11 when evaluated in relation to their costs and benefits, including both quantified
12 benefits and qualitative benefits that are important to customers but are not
13 always easily monetized. Their analysis shows that the modernization effort is
14 expected to provide customer value by avoiding costs associated with
15 maintaining and upgrading legacy systems, improving cybersecurity and
16 operational resilience, supporting more efficient business processes, and enabling
17 better customer service and future system capabilities. Witness Stephen J. Cipolla
18 sponsors and explains the West Monroe cost-benefit analysis in more detail in his
19 direct testimony and exhibits.

20 **Q. How do all of the investments you described benefit customers?**

21 A. These investments benefit customers by supporting safe, reliable, secure and
22 responsive natural gas service. Gas system investments help reduce risk, maintain
23 pressure and service continuity, improve resiliency, and comply with safety

1 requirements. Damage prevention and compliance activities help protect
2 customers, employees, contractors and communities. IT modernization supports
3 more reliable billing and customer systems, better field coordination, improved
4 cybersecurity, and more efficient utility operations.

5 These benefits do not always correlate to increased usage or immediate
6 offsetting revenues, but they are necessary and fundamental to providing good
7 utility service. Customers depend on MidAmerican to operate a safe and reliable
8 gas system every day, and the costs reflected in this case are tied to that
9 obligation.

10 **Q. Where should the Commission look for more detailed support for these cost**
11 **drivers?**

12 A. My testimony is intended to introduce the major cost drivers and explain how
13 they fit within MidAmerican's overall need for rate relief. Witness Hoogwerf
14 provides detailed engineering and operational support for MidAmerican's gas
15 capital investments, including compliance, integrity management, reliability,
16 government relocation and related system projects. Witness Smith provides
17 support for MidAmerican's IT modernization investments, including system
18 selection, cybersecurity, customer benefits, shared-services cost control and cost
19 allocation. Later in my testimony I introduce all the MidAmerican witnesses
20 supporting our case and address the accounting, revenue requirement, cost-of
21 service, financial and regulatory and other aspects of our filing.

1 **Q. What is the key point regarding MidAmerican’s increased cost of service?**

2 A. The key point is that MidAmerican’s cost of providing natural gas service has
3 increased despite reasonable cost-management efforts. These costs are being
4 incurred to maintain the existing system, comply with safety and regulatory
5 obligations, complete externally driven relocation work, support a qualified
6 workforce, modernize aging systems, protect physical and cyber infrastructure,
7 and provide reliable customer service. Because many of these costs are fixed or
8 do not vary meaningfully with usage, they contribute to the gap between revenues
9 produced under current rates and the cost of providing service.

10 **V. PRO FORMA AND REGULATORY ASSET REQUESTS**

11 **A. Pro Forma Adjustments**

12 **Q. Are you proposing to include pro forma adjustments in this filing?**

13 A. Yes, pro forma adjustments are included as part of this request. They represent
14 four different categories of projects:

- 15 (1) System Reliability
- 16 (2) Integrity Management
- 17 (3) Government Relocation
- 18 (4) IT Modernization

19 These pro forma adjustments are supported in Witness Hoogwerf’s testimony
20 and Witness Aimee S. Rooney’s Exhibit ASR 1.1 Schedules 4 through 7.
21 MidAmerican has also included income statement pro forma adjustments,
22 supported in the testimony of Witness Groen.

1 **Q. Please discuss why MidAmerican believes that the pro forma adjustments**
2 **are reasonable.**

3 A. The pro forma adjustments are reasonable because the adjustments: (1) are
4 changes in facilities, operations or costs which are known with reasonable
5 certainty and measurable with reasonable accuracy; (2) are known at the time of
6 filing; (3) will become effective within 24 months of the last month of the test
7 period; and (4) show expected changes in revenue for the same period.

8 **Q. Why is MidAmerican utilizing 24 months of pro forma adjustments?**

9 A. MidAmerican is utilizing the full 24 months of pro forma adjustment allowed
10 under ARSD § 20:10:13:44 to minimize delay in recovery of significant known
11 and measurable ongoing investments that are necessary to provide safe and
12 reliable service to South Dakota customers. MidAmerican's current pro forma
13 adjustments for 2026 and 2027 include approximately \$18.1 million in capital
14 investments for the period. By utilizing the full 24 months of pro forma
15 adjustment, MidAmerican will be able to extend the time to the next rate case
16 and provide longer rate stability for customers. Witness Rooney provides
17 additional information about MidAmerican's pro forma adjustments in her
18 testimony.

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

20 A. The system reliability pro forma projects are designed to ensure MidAmerican's
21 natural gas distribution system will continue to provide reliable service to
22 customers by addressing system constraints, ensuring adequate pressures,
23 supporting general customer growth, and improving the system's operational

1 flexibility. This adjustment is for projects to be completed during 2026 and 2027.
2 The pro forma adjustment is included in Witness Rooney's Exhibit ASR 1.1,
3 Schedule 4.

4 **Q. Please describe the pro forma adjustment for integrity management**
5 **projects.**

6 A. As described above, integrity management projects are designed to improve the
7 safety of the natural gas distribution system for customers. These projects, to be
8 completed during 2026 and 2027, specifically target replacement of facilities that
9 are considered a higher risk than average, such as aging or unprotected steel main,
10 moving inside meter sets outside, improving safe working distances to above
11 ground facilities such as regulator stations, and making equipment more
12 accessible for utility personnel to operate in a safe and efficient manner. The
13 integrity management pro forma adjustment is included in Witness Rooney's
14 Exhibit ASR 1.1, Schedule 5.

15 **Q. Please describe the pro forma adjustment for government relocation**
16 **projects.**

17 A. As discussed above, MidAmerican is required to undertake government
18 relocation projects at the request of various government agencies. This
19 adjustment is for projects to be completed in 2026 and 2027. The pro forma
20 adjustment is included in Witness Rooney's Exhibit ASR 1.1, Schedule 6.

1 **Q. Please describe the pro forma adjustments for Information Technology (IT)**
2 **Modernization Projects.**

3 A. As discussed above, MidAmerican has undertaken a series of IT Modernization
4 projects to support billing, customer service, work and asset management, field
5 execution, finance, supply chain, cybersecurity and other core functions. These
6 projects are ongoing, and the pro forma adjustment relates to projects to be
7 completed during 2026 and 2027. A key project that will be implemented in that
8 time frame is replacement of MidAmerican's legacy customer service system
9 with Oracle Utilities Customer to Meter, or C2M. C2M will support core
10 customer-facing functions such as billing, account management, customer
11 communications and service order processing, and is expected to improve
12 customer service over time through better access to information, more flexible
13 customer communications, improved coordination with field work, and greater
14 ability to respond to future customer and regulatory needs. Witness Smith
15 explains the project and expected benefits in more detail. The adjustment is
16 included in Witness Rooney's Exhibit ASR 1.1, Schedule 7.

17 **B. Regulatory Assets**

18 **Q. Is MidAmerican seeking recovery of regulatory assets in this case?**

19 A. Yes. MidAmerican is seeking recovery of certain regulatory assets, including
20 costs related to the McCook Lake flooding response and an energy efficiency
21 under-earning amortization. We are requesting a three-year amortization period
22 for both regulatory assets, as discussed in the testimony of Witness Groen.

1 **Q. Please describe the McCook Lake flooding event.**

2 A. On June 23, 2024, the Big Sioux River reached a record crest of 44.84 feet,
3 causing flooding and significant damage to homes, roads, utility infrastructure
4 and MidAmerican natural gas facilities serving customers in the McCook Lake
5 and North Sioux City area and in Jefferson, South Dakota.

6 **Q. Why is MidAmerican seeking recovery of the McCook Lake regulatory**
7 **asset?**

8 A. MidAmerican incurred extraordinary costs as a result of the flood response and
9 restoration efforts. MidAmerican monitored river conditions and proactively
10 closed pipeline segments based on projected flooding. After flooding damaged
11 facilities serving the area, MidAmerican capped the line on the east side of
12 McCook Lake to stop the flow of gas to damaged facilities. On July 10, 2024,
13 MidAmerican installed a two-inch temporary gas line, followed by a permanent
14 four-inch line on August 6, 2024. The Company received permission in Docket
15 NG24-013 to establish deferred accounting treatment for \$520,211.84 of flood
16 mitigation and restoration costs associated with the June 2024 flooding event,
17 subject to prudence review in this rate case. MidAmerican is now requesting
18 recovery of the costs, which were unusual, unexpected and associated with a
19 specific catastrophic event. Witness Hoogwerf provides additional information
20 about these costs.

21 **Q. Please describe the energy efficiency regulatory asset.**

22 A. In conjunction with the elimination of Clause EECR – Energy Efficiency Cost
23 Recovery Mechanism, MidAmerican is seeking recovery of the approximately

1 \$49,000 of under-recovery associated with that clause. Witness Nelson provides
2 additional information about the elimination of Clause EECR.

3 **VI. AFFORDABILITY**

4 **Q. Did MidAmerican consider customer affordability in developing its rate**
5 **increase request?**

6 A. Yes. We recognize that any rate increase matters to customers, and affordability
7 has been a mainstay of our commitment to our customers over the last several
8 decades. Maintaining affordable rates was a critical consideration as we
9 developed, scoped and limited this request.

10 **Q. How did MidAmerican assess whether rates will remain affordable?**

11 A. MidAmerican considered the overall customer bill impact of the proposed rates,
12 how those bills compare with other South Dakota gas utilities, how current and
13 proposed bills compare with MidAmerican's historical bills, and whether rates
14 are designed so that customer classes pay a fair share of the costs incurred to
15 serve them. MidAmerican also considered the availability of customer assistance
16 programs that help customers manage their bills. Viewed through those measures,
17 MidAmerican's proposal reflects a reasonable but limited increase that supports
18 continued safe and reliable service while maintaining competitive overall bills
19 for customers.

20 **Q. What is the expected impact of the proposed rate increase on a typical**
21 **customer's monthly bill?**

22 A. For a typical residential customer using an average of 51 therms per month, the
23 proposed final rates would increase the total monthly bill from \$46.54 to \$50.37,

1 an increase of \$3.83 per month. Stated differently, the typical residential bill
2 would increase by about 8.2 percent overall.

3 **Q. Does MidAmerican offer programs to help customers manage energy bills?**

4 A. In addition to maintaining competitive overall rates, MidAmerican supports
5 customers through assistance programs. Through I Care, MidAmerican's
6 customer contribution program, MidAmerican matches customer donations at a
7 rate of 25 cents per dollar. In 2025, MidAmerican contributed \$19,255, including
8 the company match, in I Care funds to South Dakota community action agencies,
9 who determine eligibility for customers in need.

10 MidAmerican also participates in the Low-Income Energy Assistance
11 Program, or LIEAP. The program provides assistance to eligible low-income
12 customers. MidAmerican processed \$1.5 million in LIEAP assistance during the
13 2024–2025 heating season and has processed \$1.5 million to date for the 2025–
14 2026 program year. These programs provide important support for customers
15 who may have difficulty paying their bills.

16 More than 35,000 South Dakota customers participate in a budget billing
17 plan, which provides a more predictable bill. Additionally, approximately 1,300
18 South Dakota customers have elected a different due date that aligns better with
19 when they receive their income. At the end of 2025, MidAmerican launched a
20 mobile application for customers to be able to access their accounts to pay their
21 bills and view their usage history.

1 **Q. Does MidAmerican offer any energy efficiency programs that contribute to**
2 **affordability?**

3 A. MidAmerican's South Dakota energy efficiency programs were discontinued in
4 2019. However, MidAmerican offers the The HomeCheck® Online energy
5 assessment, which is a free tool that analyzes the effects of a residential
6 customer's home energy use based on their lifestyle and habits. It also provides
7 information on what uses the most energy in a customer's home and personalized
8 tips to reduce energy use. Residential customers can complete the free assessment
9 any time.

10 **Q. Is MidAmerican proposing any additional measures to address**
11 **affordability?**

12 A. Yes. As I previously mentioned, MidAmerican proposes to modify the declining
13 two-step distribution charges for Rate SV and Rate STM and instead use a single-
14 step distribution charge. Moving from a declining two-step rate to a single rate
15 will help ensure that high-usage Rate SV customers are not subsidized at the
16 expense of low-usage Rate SV customers. Witness Nelson provides more detail
17 about this proposal in his testimony.

18 **VII. INTRODUCTION OF WITNESSES**

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

21 A. The following witnesses are also providing testimony on behalf of MidAmerican:
22 • Blake M. Groen is Vice President and Chief Financial Officer for
23 MidAmerican. His testimony supports the overall revenue requirement, the

1 test year operating income, related pro forma adjustments, capital structure
2 and weighted average cost of capital.

- 3 • Aimee S. Rooney is Director, Tax & Property Accounting for MidAmerican.
4 Her testimony supports plant balances, rate base adjustments and plant-
5 related pro forma adjustments. Witness Rooney also addresses certain tax-
6 related issues arising from recent private letter rulings (“PLRs”) published by
7 the Internal Revenue Service.
- 8 • Mark A. Hoogwerf is Director, Gas Engineering for MidAmerican. His
9 testimony explains MidAmerican’s historical and planned capital
10 expenditures for its South Dakota natural gas distribution business and the
11 nature and purpose of MidAmerican’s major gas infrastructure projects.
- 12 • Ann E. Bulkley is Principal of The Brattle Group, an economic,
13 environmental and management consulting firm with specialties including
14 financial economics, regulatory economics, and the gas, water, electric and
15 pipeline industries. Her testimony provides a recommendation and supports
16 MidAmerican’s requested return on equity for its natural gas distribution
17 business and provides an assessment of the reasonableness of MidAmerican’s
18 proposed capital structure to be used for ratemaking purposes.
- 19 • Derek C. Nelson is Director, Regulatory Policy and Rates for MidAmerican.
20 His testimony supports MidAmerican’s rate design, the proposal of a sales
21 reconciliation mechanism, weather normalization methodology, rate case
22 expenses and rate tariffs.

- Stephen P. Stratton is a Senior Regulatory Advisor for MidAmerican. His testimony describes and supports MidAmerican's cash working capital calculation, natural gas cost of service study, and resultant proposed natural gas rates, and certain rate design considerations and methods.
- Drew D. Smith is Vice President, IT Applications for MidAmerican. He discusses MidAmerican's IT modernization initiatives.
- Stephen J. Cipolla is employed by West Monroe as a Senior Manager in the utilities practice. His testimony presents the results of a Cost-Benefit Analysis evaluating a suite of IT investments undertaken by MidAmerican.

VIII. CONCLUSION

Q. Why should the Commission approve MidAmerican's request for a rate increase?

A. The Commission should approve MidAmerican's request because the proposed rates are necessary to reflect the current cost of providing natural gas service in South Dakota. MidAmerican has continued to invest in the system to serve customer growth, maintain safe and reliable service, comply with regulatory requirements, modernize critical systems, and respond to extraordinary events. These costs are real, necessary and tied directly to the service customers rely on every day.

The requested increase is not driven by a single issue. It reflects the combined effect of changing usage patterns, sustained growth, required capital investment, increased operating costs, regulatory assets and modernization of the systems needed to operate a safe, reliable and secure natural gas utility. Updating

1 rates now will align recovery with today's cost of service and support continued
2 reliability for South Dakota customers.

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

4 A. Yes, it does.