

NG 98-010

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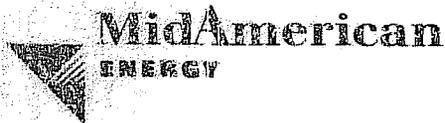
DOCKET NO. \_\_\_\_\_

In the Matter of \_\_\_\_\_

IN THE MATTER OF THE FILING BY  
MIDAMERICAN ENERGY COMPANY  
FOR APPROVAL OF CONTINUATION  
OF THE IGSPP FOR AN ADDITIONAL  
THREE-YEAR PERIOD, OR UNTIL  
SUCH TIME AS ITS PURCHASED GAS  
ADJUSTMENT MAY BE ELIMINATED,  
WHICHEVER COMES FIRST

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
10/30 98	Filed and Docketed;
11/5 98	Amended Filings;
2/23 99	Direct Testimony of Frank A. Bennett;
2/23 99	Direct Testimony of Karl A. Madermott;
6/15 99	Order for and Notice of Hearing;
6/17 99	Testimony of David G. Jacobson;
6/30 99	Notice of Appearance of Gregory Porter;
7/2 99	Order Cancelling Hearing and Rescheduling Procedural Schedule;
7/7 99	Order to Admit Nonresident Attorney as David G. Jacobson's Counsel;
8/11 99	Joint Motion for Approval of Settlement Agreement;
8/11 99	Settlement, Stipulations;
8/26 99	Final Decision and Order;
8/26 99	Docket Closed.



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NOV 04 1998

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

FAX Received OCT 30 1998

 MidAmerican Energy  
 401 Capitol Mall  
 P.O. Box 778  
 Pierre, SD 57501  
 605.773.2222  
 773.222.2222

 Susan M. Stewart  
 Managing Director

October 30, 1998

Telefax and Regular Mail Delivery

Mr. William Bullard  
 Executive Secretary  
 South Dakota Public Utilities Commission  
 500 East Capitol  
 Pierre, SD 57501

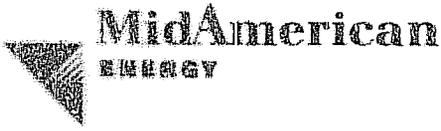
Dear Mr. Bullard:

In its "Final Decision and Order" issued on November 8, 1995 in Midwest Gas<sup>1</sup> (predecessor to MidAmerican Energy Company) most recent rate proceeding, Docket No. NG95-006, the South Dakota Public Utilities Commission ("Commission"), approved a three-year Incentive Gas Supply Procurement Program which began on November 1, 1995 for a three-year experimental period. MidAmerican today requests the Commission to continue the program for the later of an additional three-year period, or until such time as its purchased gas adjustment may be eliminated, whichever comes first.

As described in the Commission's Findings of Fact 6 and 12, the IGSPP develops a market-based benchmark for the delivered costs of gas, which becomes the reference price. If purchased gas costs incurred during the year are less than the reference price, one half of the first 3% of savings over the reference price are retained by the utility, with any savings in excess of 3% going entirely to the customers. If gas costs exceed the tolerance band<sup>1</sup>, MidAmerican would absorb one half of the next 3% above the tolerance band. Any costs exceeding 3% above the tolerance band would go entirely to customers. The effect of the IGSPP is to allow customers and shareholders to share in the benefits that can be obtained when the utility endeavors to purchase low-priced supplies of natural gas.

MidAmerican's request regarding the IGSPP made herein is different from the request acted upon by the Commission at its Agenda Meeting held on October 27, 1998. MidAmerican's earlier request was not to extend the program, but just to allow IGSPP-related savings accrued during the third year of the operation of the IGSPP to be returned to customers as purchased gas adjustment bill credits and debits during the upcoming year.

<sup>1</sup> The tolerance band changes each of the three years. For the first year of the program, the tolerance band is the reference price to 3.5% above the reference price. For year two of the program, the tolerance band is the reference price to 3.0% above the reference price. For year three of the program, the tolerance band is 0.5% below the reference price to 2.5% above the reference price.



Mr. William Bullard  
October 30, 1998  
Page 2

The IGSP has returned gas cost savings benefits to South Dakota customers. For the first annual period that the IGSP was implemented, savings passed along to customers exceeded \$800,000. For the second annual implementation period, the savings passed along to customers were in excess of \$1.3 million.

MidAmerican's request is to continue the IGSP as structured with the tolerance bands applicable in the third year of the period for an additional three-year period. MidAmerican anticipates the possibility that during this three-year period small volume customers will be enabled to cost-effectively transport gas, which could result in elimination of the purchased gas adjustment clause. In fact, MidAmerican is on this date filing in Iowa a plan to enable small volume gas transportation. The plan anticipates that customers will aggregate their daily usage nominations. In that plan, MidAmerican proposes to eliminate the PGA in Iowa in May 2000. MidAmerican is in the process of determining whether to extend the same type of transportation service to South Dakota.

MidAmerican believes that the IGSP is an ideal transition device to a competitive gas supply environment. The IGSP has proven to share the risks associated with competitive procurement of gas supply between customers and shareholders. The commission approved it as an experiment in the 1995 rate case, it has been successful and should be continued until gas is supplied to all customer on a fully competitive basis.

Accordingly, MidAmerican Energy Company respectfully requests the Commission to extend the Incentive Gas Supply Procurement Program in the manner proposed herein.

A handwritten signature in black ink, appearing to be "Z. M. SA", written in a cursive style.

South Dakota Public Utilities Commission

**WEEKLY FILINGS**

For the Period of October 30, 1998 through November 5, 1998

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this filing.

Phone: 605-773-3705. Fax: 605-773-3809.

**NATURAL GAS**

**NG98-010** In the Matter of the Application of MidAmerican Energy for continuation of its Incentive Gas Supply Procurement Program

Application of MidAmerican Energy to continue its Incentive Gas Supply Procurement Program for an additional three-year period or until such time as its purchased gas adjustment may be eliminated, whichever comes later. MidAmerican states that under a plan it has filed in Iowa, it will enable small volume gas transportation and has proposed to eliminate its PGA in May of 2000. MidAmerican is in the process of determining whether to extend the same type of transportation service to South Dakota.

Staff Attorney: Karen Cremer  
Staff Analyst: Dave Jacobson  
Date Filed: 10/30/98  
Intervention Deadline: 11/19/98

**TELECOMMUNICATIONS**

**TC98-195** In the Matter of the Application of Network Billing Systems, L.L.C. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.

Application of Network Billing Systems, L.L.C. for a certificate of authority to provide intrastate telecommunications services in the state of South Dakota. Network Billing Systems is proposing to offer outbound interexchange telecommunications services. The Applicant does not propose to offer alternative operator services. Intrastate service is an add-on service available only if the customer subscribes to the company's interstate offerings.

Staff Attorney: Camron Hoseck  
Staff Analyst: Harlan Best  
Date Filed: 11/02/98  
Intervention Deadline: 11/20/98

**TC98-196** In the Matter of the Complaint filed by Don Jiracek on behalf of GSA, Inc., Rapid City, South Dakota, against McLeod USA, Regarding Inadequate Service

Complaint by Don Jiracek vs. McLeod USA. The Complainant claims that a delay of installation of telephone service caused loss of income. The Complainant is seeking \$33,000 in damages for lost business.

Staff Attorney: Camron Hoseck  
Consumer Affairs: Leni Healy  
Date Filed: 11/02/98  
Intervention Deadline: NA

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**MidAmerican**  
ENERGY

MidAmerican Energy  
500 East Capital Avenue  
Pierre, South Dakota  
57501-1000

February 22, 1999

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FEB 23 1999

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

SENT VIA FEDERAL EXPRESS

Mr. William Bullard, Jr.  
Executive Secretary  
South Dakota Public Utilities  
Commission  
500 East Capital Avenue  
Pierre, South Dakota 57501

RE: MidAmerican Energy Company ("MidAmerican") Docket No. NG 98-010

Dear Mr. Bullard:

MidAmerican hereby files the prepared Direct Testimony of Mark A. Hewett and Karl A. McDermott in the referenced docket. This Direct Testimony is filed in response to Data Request No. 1. The enclosed Testimony supports MidAmerican's request to continue the Incentive Gas Supply Procurement Plan approved by the Commission in Docket No. NG 95-006.

MidAmerican files the original and thirteen (13) copies of each witnesses Testimony. Please note, for the convenience of the Commission, MidAmerican has enclosed for filing two versions of witness McDermott's Testimony: "Public Testimony-Redacted" and "Confidential." Both versions are exactly the same except in the "Public Testimony-Redacted" version, MidAmerican has redacted the confidential information. MidAmerican requests confidential treatment of the material that has been redacted from the "Public Testimony-Redacted" version.

**REQUEST FOR CONFIDENTIAL TREATMENT**

Pursuant to Rule 20:10:01:41 et seq., MidAmerican Energy Company respectfully requests confidential treatment of the enclosed "Confidential" testimony of Karl A. McDermott that is marked confidential.

Mr. William Bullard, Jr.  
February 22, 1999  
Page 2

MidAmerican requests that this testimony be accorded confidential treatment for three years, or such time as the Commission may deem reasonable.

The confidential materials constitute a trade secret, which, if released, would result in material damage to MidAmerican's competitive position, or give advantage to competitors and serve no public purpose. Such information is considered commercially sensitive. MidAmerican maintains the information is confidential and constitutes a trade secret.

The confidential information contains information which if released to the general public would give an unfair advantage to existing and potential customers. National Parks and Conservation Association v. Morton, 498 F2d 765, 768 (U.S.C.A. 1974).

MidAmerican requests that the Commission file stamp one copy of each witness's testimony and return to MidAmerican in the self-addressed envelope enclosed in the overnight delivery. Should you have any questions regarding this filing or any matter related thereto, please do not hesitate to contact me.

Sincerely,



J. Gregory Porter  
Senior Attorney  
281-2641

JGP:th  
Enclosures

cc: Camron Hoseck

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FEB 23 1999

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

BEFORE THE  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN RE: )  
 ) DOCKET NO. NG 99- \_\_\_\_\_  
MIDAMERICAN ENERGY COMPANY )  
 )

DIRECT TESTIMONY  
OF  
MARK A. HEWETT

- 1 Q. Please state your name and business address for the record.
- 2 A. Mark A. Hewett, 601 Locust Street, Suite 500, Des Moines, Iowa, 50303-0657.
- 3 Q. By whom are you employed and in what position?
- 4 A. I am employed by MidAmerican Energy Company ("Company" or
- 5 "MidAmerican") as Gas Supply & Trading Vice President. MidAmerican is
- 6 the successor in interest to Midwest Gas, a division of Midwest Power Systems
- 7 Inc., Midwest Gas received approval from the South Dakota Public Utilities
- 8 Commission for the Incentive Gas Supply Procurement Plan that is the subject
- 9 of this testimony. Accordingly, reference herein to MidAmerican shall include
- 10 its predecessor companies.
- 11 Q. Please describe your educational background.
- 12 A. In 1987, I graduated from Iowa Central Community College in Fort Dodge,
- 13 Iowa, with an Associate of Arts degree in Business. In 1989, I earned a
- 14 Bachelor of Science degree in Management Science from Buena Vista College
- 15 located in Storm Lake, Iowa.

1 Q. Please describe your business employment experience.

2 A. I have been employed by MidAmerican or its predecessor, Iowa-Illinois Gas  
3 and Electric Company, since October 1987. From October 1987 until  
4 November 1990, I held various customer service related positions. In  
5 November 1990, I was appointed Gas Supply Analyst for Iowa-Illinois. In  
6 April 1992, I was promoted to Administrative Supervisor in the Gas Supply  
7 Department and in August 1994, I was appointed Superintendent, Gas Supply  
8 Department. In July 1995, coincident with the merger of Iowa-Illinois with  
9 Midwest Resources, Inc. into MidAmerican, I was assigned to the position of  
10 Manager, Gas Supply Planning. I held that position until November 1997, at  
11 which time I accepted the position of Manager, Corporate Development. In  
12 September 1998, I returned to the Gas Supply Department and accepted my  
13 current position of Gas Supply & Trading Vice President.

14 Q. Have you previously provided testimony before regulatory authorities?

15 A. Although I have not previously provided testimony before the South Dakota  
16 Public Utilities Commission ("Commission"), I have provided testimony in  
17 proceedings before the Iowa Utilities Board and the Illinois Commerce  
18 Commission.

19  
20 Purpose of Testimony

21 Q. What is the purpose of your prepared direct testimony?

22 A. The purpose of this prepared direct testimony is to provide information  
23 supporting MidAmerican's October 30, 1998 Request for Continuation of the

1 three-year Incentive Gas Supply Procurement Plan ("IGSPP"), approved by the  
2 Commission in Midwest Gas' most recent rate proceeding, Docket No. NG-95-  
3 006 ("Final Decision and Order" issued on November 8, 1995). By providing  
4 such testimony, it is my objective to respond to the Commission's data request  
5 regarding the IGSPP and to demonstrate to the Commission that the IGSPP is  
6 appropriate for the Commission, MidAmerican and most importantly,  
7 MidAmerican's customers. MidAmerican requests that the Commission  
8 extend the term of the IGSPP for three years from November 1, 1998.

9 **Q. How is your testimony structured?**

10 A. My testimony will be structured in three primary sections. First, I will provide  
11 a brief history of the formation and approval of the IGSPP by the Commission.  
12 Second, I will present the results of this successful experiment and demonstrate  
13 that it is reasonable for the Commission to grant continuation. Finally, I will  
14 address specific timing issues relative to MidAmerican's request for  
15 continuation.

16 **Q. Does MidAmerican present other prepared direct testimony in this  
17 proceeding?**

18 A. Yes, my testimony is offered in connection with that of Dr. Karl McDermott.  
19 Dr. McDermott provides an objective assessment of the appropriateness and  
20 effectiveness of the IGSPP approved by the Commission over three years ago.  
21 Dr. McDermott sets forth a common sense framework which he uses to judge  
22 the performance of the IGSPP. Applying this framework, Dr. McDermott

1 concludes the IGSP has produced the desired results for MidAmerican  
2 customers and should be continued.

### 3 History of IGSP

4 **Q. Please describe the origins of the IGSP.**

5 A. On May 1, 1995, Midwest Gas, a Division of Midwest Power Systems, Inc.  
6 filed an Application to create a gas cost incentive mechanism in Docket No.  
7 NG-95-006. MidAmerican's request was made in conjunction with an  
8 application for approval to increase rates for natural gas service. Although a  
9 settlement was reached between MidAmerican and staff regarding the general  
10 rate increase, a consensus was not developed on whether the gas cost incentive  
11 should be approved. Accordingly, MidAmerican and Commission staff filed  
12 testimony on the issue and the parties briefed the legal issues prior to the  
13 hearing held on October 5, 1995.

14 **Q. When did the Commission approve the IGSP?**

15 A. The IGSP was approved by the Commission at its regularly scheduled meeting  
16 on October 17, 1995. The Commission voted to approve the IGSP as revised  
17 and adopted by the Iowa Utilities Board for a three-year experimental period  
18 effective November 1, 1995. See, Midwest Gas, a Division of Midwest Power  
19 Systems, Inc., Final Decision and Order, Docket No. RPU-94-3 (IUB, May 19,  
20 1995) and Midwest Gas, a Division of Midwest Power Systems, Inc., Order  
21 Granting Rehearing in Part and Denying Rehearing in Part, Docket No. RPU-  
22 94-3 (IUB, June 30, 1995).

1 Q. Did the Commission's Order require periodic reports on the IGSP?

2 A. Yes. MidAmerican was required to file the benchmark price, (i.e., the reference  
3 price) on a monthly basis as part of the PGA. Additionally, MidAmerican was  
4 ordered to file on a semi-annual basis a comparison of actual costs compared to  
5 the reference costs. Based on this comparison, a portion of the total savings or  
6 excess cost would be divided by sales and added to the purchase gas adjustment  
7 formula for the next six-month period comparable in seasonality. Finally, the  
8 Commission required MidAmerican to file schedules setting forth the results of  
9 the IGSP semi-annually in accordance with all statutory notice requirements,  
10 rate and tariff revisions.

11 Q. Please generally describe MidAmerican's IGSP as approved by the  
12 Commission.

13 A. The MidAmerican IGSP develops a market-based benchmark for the delivered  
14 cost of gas. If actual costs are above a tolerance band, which in the third year  
15 was 2.5% above the reference price and 0.5% below, the Company and its  
16 customers share the above market costs on a 50/50 basis. Similarly, if the  
17 actual costs are below the tolerance band, MidAmerican shares the savings with  
18 its customers on a 50/50 basis. Thus, there is a symmetrical sharing of savings  
19 and above market cost around a normal operating range or "tolerance band."  
20 The tolerance band is necessary in order to account for premiums that the  
21 company must pay in order to secure high quality firm contracts with flexible  
22 delivery limits, to account for charges from the pipeline during extreme  
23 conditions to ensure supply security and reliability, and to account for

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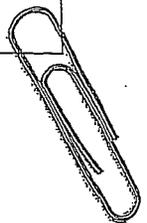
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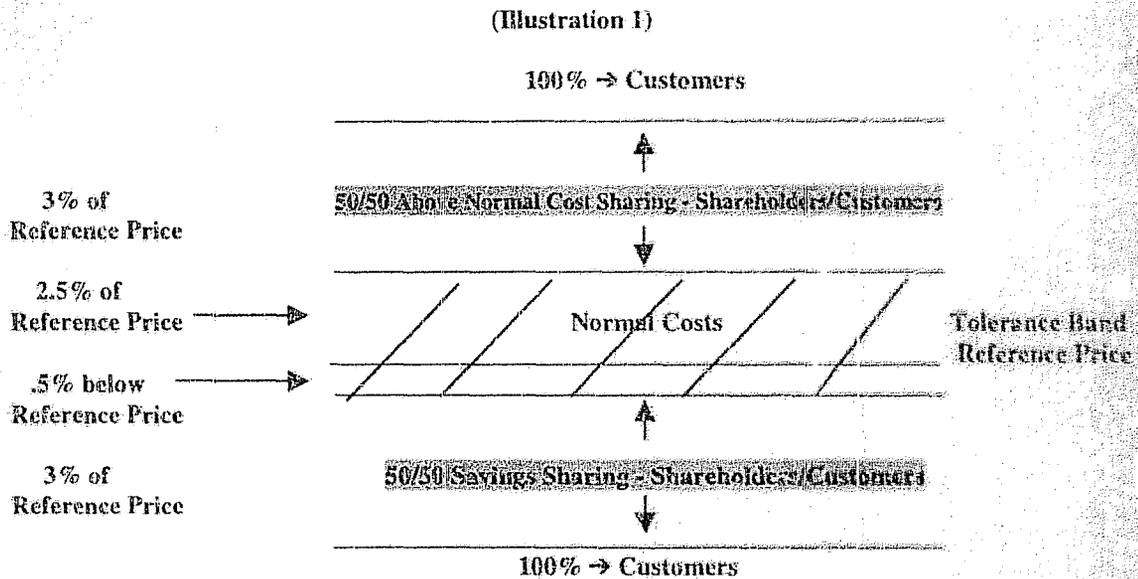
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1 imperfections in the index prices. I have illustrated the basic structure of the  
 2 IGSP as approved by the Commission below:



23 Q. When did the IGSP take effect?

24 A. The IGSP commenced pursuant to Commission Order on November 1, 1995.

25 Q. Looking back over the last three (3) years, does anything regarding the  
 26 IGSP surprise you?

27 A. Yes. The impact of the IGSP on our gas procurement group has been more  
 28 significant than I expected. Although I believed the IGSP would have a  
 29 favorable impact on customer gas cost, I did not foresee the dramatic change in  
 30 culture that has resulted from incentive regulation. We are not the same group we  
 31 were three years ago.

32 Q. How has the inclusion of a gas cost incentive affected your group's  
 33 performance?

34 A. Without a doubt, the most substantial change has been in culture. Although it is  
 35 impossible to conclusively say any one individual change has produced a

1 particular result. I can, without reservation, say that we do a much better job today  
2 buying, selling and managing natural gas and transportation than we did three  
3 years ago. Although improvement over time may be expected, I believe the degree  
4 of improvement is significantly greater within MidAmerican as a result of the  
5 incentives inherent in the IGSP. In essence, the Board's approval of the IGSP  
6 has raised the standard against which MidAmerican's gas supply employees  
7 measure themselves.

8 **Q. Does your previous answer imply that gas costs would have been at**  
9 **imprudent levels without the IGSP?**

10 A. No. Prudence is not an absolute level, but rather a range of results or actions.  
11 MidAmerican, prior to the implementation of the IGSP, was doing a prudent job  
12 of managing customer gas costs. However, since the Commission approved the  
13 IGSP, and MidAmerican augmented the incentive plan with an incentive  
14 compensation plan for gas supply department employees, those employees are  
15 more driven to aggressively pursue opportunities to reduce gas costs to the lower  
16 end of the prudence range. MidAmerican's philosophy is that to accomplish  
17 corporate IGSP goals it is vital to have a compensation mechanism wherein if  
18 MidAmerican lowers gas costs relative to the reference price, employees within  
19 the gas supply group could directly benefit. Consequently, Employees are aware  
20 of the IGSP and strive to beat the reference price as well as the pricing levels of  
21 other LDCs.

1 Q. Why do you believe the IGSP has caused employees to be more focused on  
2 gas costs?

3 A. I have witnessed it first hand. Employees used to be concerned about procuring  
4 gas on a prudent basis. Now, employees are relentlessly driven to beat the IGSP  
5 benchmark and competitor's costs. Employees know MidAmerican customers and  
6 shareholders, as well as the employee, personally will benefit by producing  
7 savings for customers.

8 Q. What evidence do you have for your belief that MidAmerican is buying,  
9 selling and managing natural gas and transportation better today?

10 A. I have two primary reasons for my belief; one subjective and one objective. First,  
11 from a subjective perspective, I can confidently say that MidAmerican is doing a  
12 better job today because I have been a part of MidAmerican's gas supply group (or  
13 one of its predecessors) in one capacity or another since 1990. Based upon this  
14 experience, I know the IGSP has produced positive changes. MidAmerican is  
15 not focused on proving prudent behavior, but rather aggressive behavior in  
16 managing risks and reducing costs. Although this may appear to be a subtle  
17 difference, the change in performance has been significant.

18 Q. What is the second reason?

19 A. The second reason is more objective. Lower gas costs. As set forth in Exhibit  
20 \_\_\_\_\_ (MAH-1), MidAmerican, during the three (3)-year IGSP has consistently  
21 produced the lowest gas costs in South Dakota. Similarly, in Iowa, the other  
22 jurisdiction in which the IGSP is in effect, MidAmerican had the lowest gas cost

1 of five utilities in 1997 and 1998 and the second lowest of five utilities in the first  
2 year of the IGSP, 1996. See Exhibit \_\_\_\_\_ (MAH-2).

3 Q. To your knowledge, do any of the other LDC's represented in this  
4 comparison have gas cost incentive programs in place?

5 A. No.

6 Q. Are the skills of employees in MidAmerican's gas supply group the same as  
7 the other utilities or the same as they were three years ago?

8 A. No, MidAmerican has been successful in "retooling" its gas supply department.  
9 MidAmerican has searched the marketplace for innovative individuals with  
10 varying skills and competitive experience within and outside the natural gas  
11 industry. For example, since the IGSP was approved by the Commission,  
12 MidAmerican has hired a person with over 17 years of professional experience  
13 with MidAmerican's largest interstate pipeline supplier, Enron Transportation &  
14 Storage (i.e., Northern Natural Gas Company), hired a trader from MidCon Gas  
15 Services, a pipeline account manager from Natural Gas Pipeline Company of  
16 America, the second largest interstate pipeline system serving MidAmerican's  
17 distribution system, and a capacity trader from one of MidAmerican's largest  
18 competitors. Most recently, I hired a financial derivatives trader with over 10  
19 years of interest rate and currency trading experience to lead MidAmerican's  
20 effort to more aggressively and efficiently manage gas price risk.

21 It is not easy to attract top tier people from competitive businesses to a  
22 Midwestern gas utility. However, MidAmerican has been able to demonstrate that  
23 the culture of its supply group is different than the traditional utility. This

1 difference is largely the result of incentives such as the IGSP. The IGSP, which  
2 in essence replicates the forces of an unregulated industry, has helped  
3 MidAmerican attract employees that have flourished in and are used to  
4 participating in a competitive marketplace. This "new blood" is helping improve  
5 the way MidAmerican does business and ultimately reduces costs paid by our  
6 customers toward the lower end of the prudence range.

7 **Q. How has the introduction of incentives affected culture?**

8 A. It is amazing what people can do when motivated properly. Employees within my  
9 gas supply and trading group work harder, longer and are more sophisticated and  
10 relentless in pursuing savings than they were three years ago. Employees within  
11 the group realize that if MidAmerican customers realize lower gas costs (i.e.,  
12 savings) they, through the associated incentive compensation plan, will also  
13 benefit. Employees are more committed to their individual responsibility and  
14 more committed to team objectives. I strongly believe this commitment allows  
15 employees to perform at a much higher level. Again, this does not mean that  
16 employees prior to the IGSP had not been doing their job, but simply means that  
17 given the proper incentive MidAmerican can attract, retain and motivate  
18 employees who are more likely to perform at a higher level.

### 19 Customers Have Benefited

20 **Q. Please describe the results of the IGSP during the initial three year period.**

21 A. MidAmerican's customers have appropriately benefited more than anyone else.  
22 During the time the IGSP has been in place (through the six month period ending  
23 April 1998). MidAmerican's South Dakota sales customers have realized gas cost

1 savings relative to the established market price, of \$2.9 million. Although critics  
2 of the IGSPF will undoubtedly point out that MidAmerican's shareholders have  
3 benefited, such benefit (\$1.29 million over the same period) is greatly outweighed  
4 by the benefit accruing to South Dakota customers as set forth in Exhibit \_\_\_\_\_  
5 (MAH-3). MidAmerican strongly believes these results clearly demonstrate the  
6 IGSPF, as approved by the Commission, has been a win-win program for all  
7 involved.

8 **Q. Why is it reasonable for the Commission to continue a program that**  
9 **produced \$1.29 million dollars for MidAmerican's shareholders?**

10 A. Because MidAmerican shareholders will not benefit unless MidAmerican's  
11 customers benefit to an even greater extent. This is an appropriate alignment of  
12 interests. If MidAmerican's shareholders benefit, by definition (i.e. plan design),  
13 MidAmerican's customers have benefited by an equal or, most likely, a greater  
14 amount. The fact that MidAmerican benefited during the experimental period  
15 should be viewed as evidence of the program's success and not used as a reason  
16 why the program should not be continued. After all, the purpose of an incentive  
17 program is to recognize outstanding performance. The IGSPF simply provides  
18 MidAmerican a tool to lower gas costs and an opportunity to share in the success  
19 of its efforts.

20 **Q. Do you believe MidAmerican could hold gas costs at the existing level without**  
21 **a continuation of the IGSPF?**

22 A. No, I am concerned that taking a step away from meaningful incentive regulation  
23 and the competitive mindset produced by the combination of the IGSPF and

1 incentive compensation would erode the benefits of the competitive culture  
2 created over the last three years. I simply do not believe I will recognize the same  
3 results from my department without an environment of meaningful incentives.

4 **Q. Do you believe MidAmerican has the potential for reducing costs further if  
5 the IGSP is continued?**

6 **A.** Yes. In a volatile, complex market, it is difficult to imagine ever capturing all of  
7 the potential savings. This, of course, is why I believe the change in culture  
8 described in both my testimony and Dr. McDermott's is so important. Prior to the  
9 IGSP, MidAmerican did the best job it could at recognizing and capturing  
10 opportunities. Now, through the change in culture produced by appropriate  
11 incentives, and the introduction and cultivation of new talent, MidAmerican is  
12 more prepared to not only create savings opportunities, but also to maximize the  
13 opportunities that are produced. In other words, the IGSP has produced a  
14 "winning" culture that, if maintained, will yield substantial dividends to our  
15 customers.

16 **Continuation Effective November 1, 1998**

17 **Q. When does MidAmerican request the continuation to be effective?**

18 **A.** MidAmerican respectfully requests the Commission grant the authority to  
19 continue the IGSP effective November 1, 1998. The last day of the initial three  
20 year period was October 31, 1998. Accordingly, if the Commission orders an  
21 effective date of November 1, 1998 and does so prior to May 1, 1999,  
22 MidAmerican would be able to continue with the established reporting mechanism  
23 approved by the Commission in Docket No 95-006.

1 Q. What is the significance of May 1, 1999?

2 A. May 1, 1999 is the first day of the next semiannual comparison period. Although  
3 the last day of the initial IGSP was October 31, 1998, MidAmerican collects data  
4 for the period November 1, 1998 through April 31, 1999. This information  
5 reflects the savings realized for the same seasonal period and can be compared to  
6 data for the period extending from November 1, 1997 through April 31, 1998. In  
7 other words, there is an appropriate six month time lag between the comparison  
8 period and the collection period. MidAmerican requests continuation effective  
9 May 1, 1999 in order for the IGSP to continue on without an interruption in the  
10 six month comparison and collection cycle.

11 Q. Does this conclude your prepared direct testimony?

12 A. Yes.

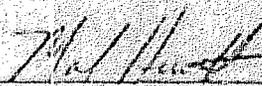
BEFORE THE  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN RE: )  
          ) DOCKET NO. \_\_\_\_\_  
MIDAMERICAN ENERGY COMPANY )  
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AFFIDAVIT OF  
MARK A. HEWETT

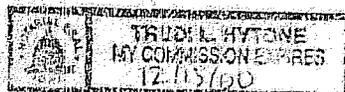
STATE OF IOWA            )  
                              )        ss.  
COUNTY OF POLK        )

I, Mark A. Hewett, being first duly sworn on oath, depose and state that I am the same Mark A. Hewett identified in the following Direct Testimony; that I have caused the following Direct Testimony, including any Exhibits, to be prepared and am familiar with the contents thereof; and that the following Direct Testimony, including any Exhibits, are true and correct to the best of my knowledge and belief as of the date of this Affidavit.

  
\_\_\_\_\_  
Mark A. Hewett

Subscribed and sworn to before me,  
a Notary Public in and for said County  
and State, this 17<sup>th</sup> day of February,  
1999.

  
\_\_\_\_\_  
Notary Public

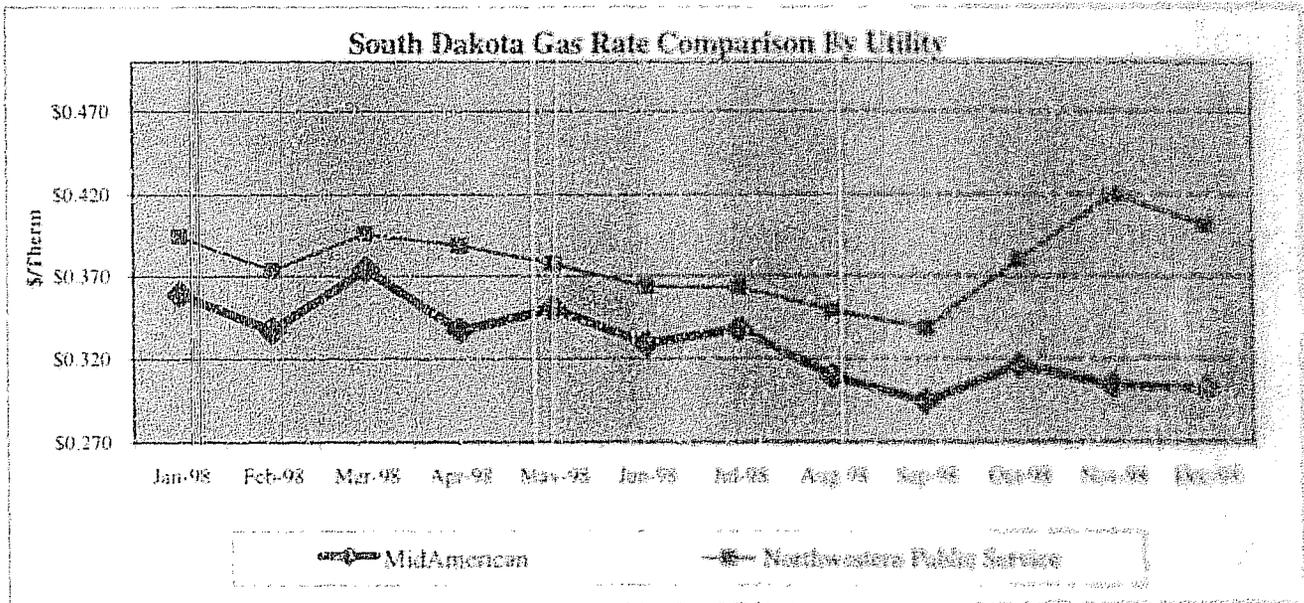


**MidAmerican Energy Company  
 South Dakota Firm Gas Rate Comparison  
 Average Residential Customer's Gas Costs**

**1998**

**Gas Cost Comparison By Utility**

Usage (in Therms)		MidAmerican	Northwestern
Jan-98	214	\$ 76.83	\$ 84.33
Feb-98	179	\$ 60.32	\$ 66.87
Mar-98	165	\$ 61.71	\$ 65.35
Apr-98	109	\$ 35.73	\$ 42.57
May-98	58	\$ 20.30	\$ 21.89
Jun-98	34	\$ 11.19	\$ 12.56
Jul-98	24	\$ 8.11	\$ 8.72
Aug-98	21	\$ 6.49	\$ 7.33
Sep-98	25	\$ 7.35	\$ 8.47
Oct-98	39	\$ 12.32	\$ 14.82
Nov-98	80	\$ 24.32	\$ 33.59
Dec-98	154	\$ 46.51	\$ 61.79
<b>Totals</b>	<b>1,102</b>	<b>\$ 372.18</b>	<b>\$ 427.93</b>
% Higher than MidAmerican			15%

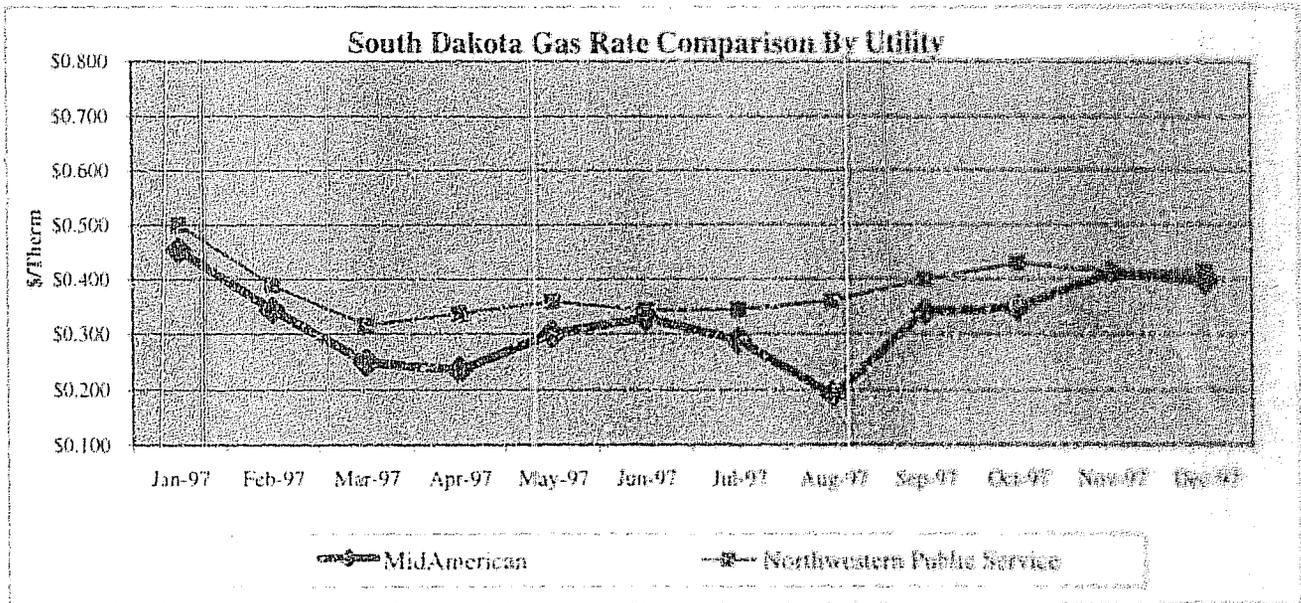


**MidAmerican Energy Company**  
**South Dakota Firm Gas Rate Comparison**  
**Average Residential Customer's Gas Costs**

**1997**

**Gas Cost Comparison By Utility**

Usage		MidAmerican	Northwestern
(In Therms)			
Jan-97	214	\$ 97.16	\$ 107.31
Feb-97	179	\$ 61.40	\$ 69.58
Mar-97	165	\$ 41.09	\$ 51.97
Apr-97	109	\$ 25.67	\$ 36.68
May-97	58	\$ 17.40	\$ 20.77
Jun-97	34	\$ 11.15	\$ 11.63
Jul-97	24	\$ 6.91	\$ 8.23
Aug-97	21	\$ 4.01	\$ 7.54
Sep-97	25	\$ 8.50	\$ 9.96
Oct-97	39	\$ 13.53	\$ 16.72
Nov-97	80	\$ 32.80	\$ 33.12
Dec-97	154	\$ 60.83	\$ 63.60
<b>Totals</b>	<b>1,102</b>	<b>\$ 380.45</b>	<b>\$ 437.11</b>
<b>% Higher than MidAmerican</b>			<b>15%</b>

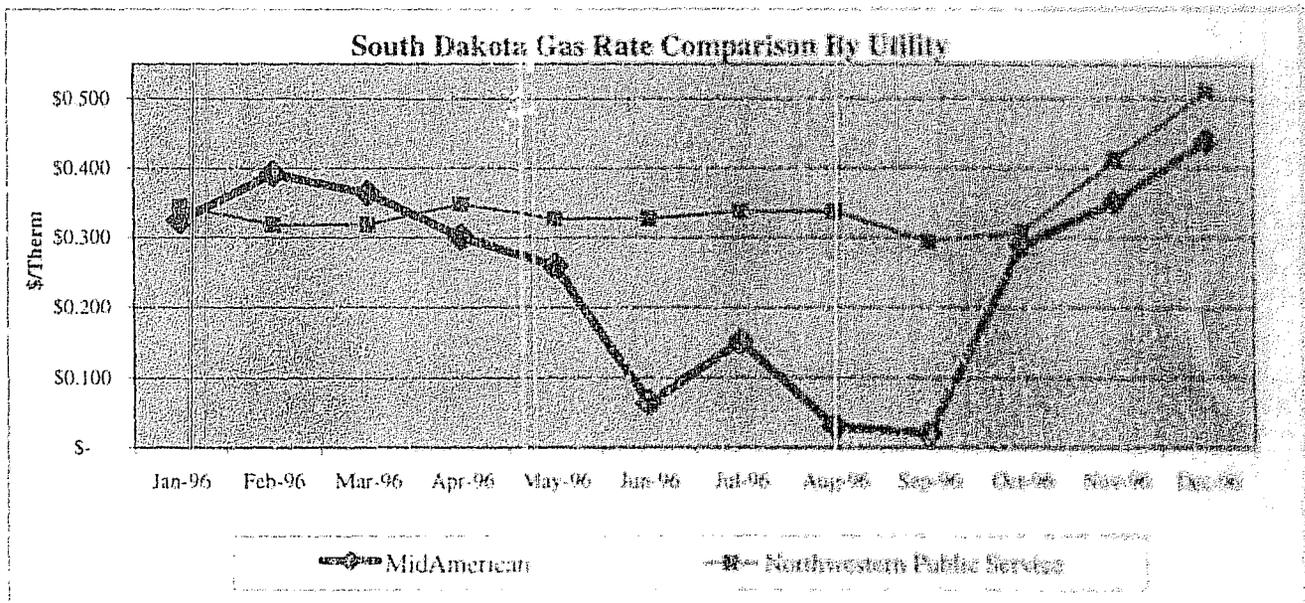


MidAmerican Energy Company  
South Dakota Firm Gas Rate Comparison  
Average Residential Customer's Gas Costs

1996

**Gas Cost Comparison By Utility**

Usage (In Therms)		MidAmerican	Northwestern
Jan-96	214	\$ 69.44	\$ 73.93
Feb-96	179	\$ 70.17	\$ 57.05
Mar-96	165	\$ 60.06	\$ 52.59
Apr-96	109	\$ 32.81	\$ 37.95
May-96	58	\$ 15.02	\$ 18.95
Jun-96	34	\$ 2.16	\$ 11.11
Jul-96	24	\$ 3.65	\$ 8.10
Aug-96	21	\$ 0.63	\$ 7.08
Sep-96	25	\$ 0.50	\$ 7.36
Oct-96	39	\$ 11.23	\$ 12.00
Nov-96	80	\$ 28.08	\$ 32.89
Dec-96	154	\$ 67.61	\$ 78.30
<b>Totals</b>	<b>1,102</b>	<b>\$ 361.38</b>	<b>\$ 397.39</b>
% Higher than MidAmerican			10%

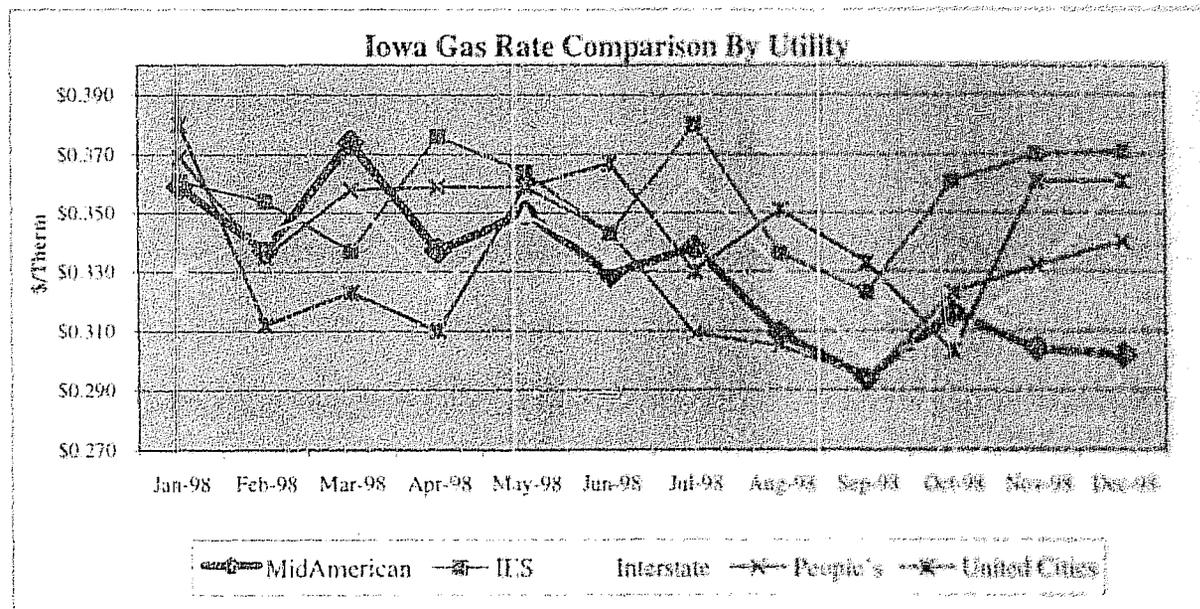


**MidAmerican Energy Company  
Iowa Firm Gas Rate Comparison  
Average Residential Customer's Gas Costs**

**1998**

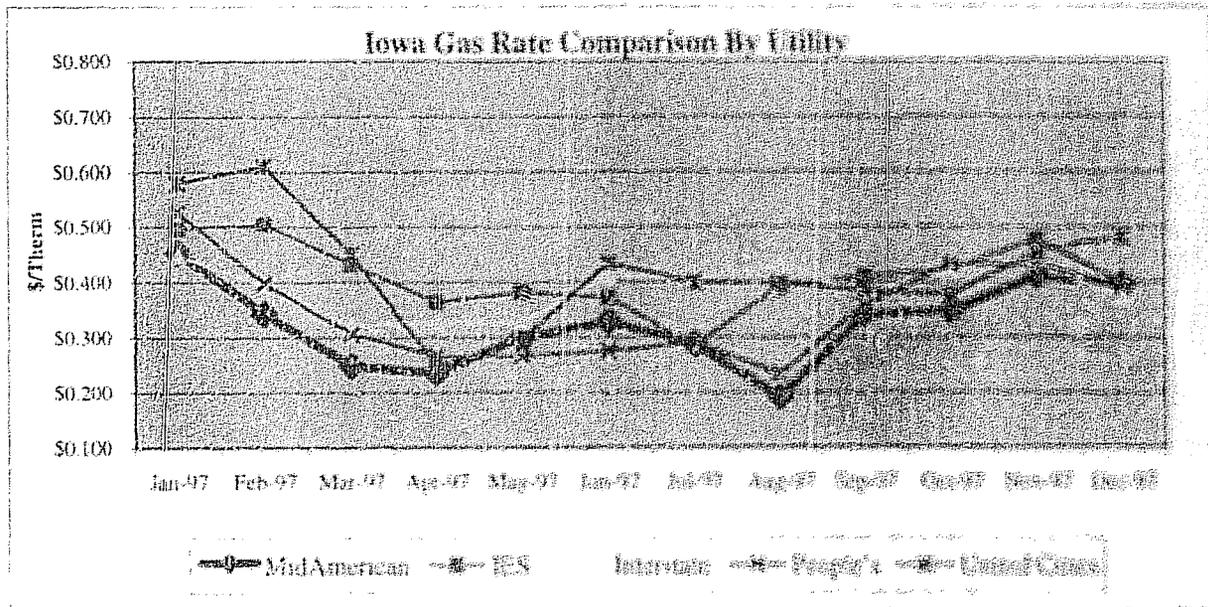
**Gas Cost Comparison By Utility**

Usage (In Therms)		MidAmerican	IES	Interstate	People's	United Cities
Jan-98	214	\$ 76.83	\$ 77.25	\$ 70.78	\$ 78.97	\$ 81.32
Feb-98	179	\$ 60.32	\$ 63.37	\$ 61.40	\$ 59.97	\$ 55.85
Mar-98	165	\$ 61.71	\$ 55.61	\$ 58.48	\$ 59.07	\$ 53.50
Apr-98	109	\$ 36.73	\$ 40.98	\$ 35.42	\$ 39.13	\$ 33.79
May-98	58	\$ 20.30	\$ 21.11	\$ 20.28	\$ 20.82	\$ 20.02
Jun-98	34	\$ 11.19	\$ 11.66	\$ 11.35	\$ 11.66	\$ 12.48
Jul-98	24	\$ 8.11	\$ 9.12	\$ 8.67	\$ 7.42	\$ 7.92
Aug-98	21	\$ 6.49	\$ 7.06	\$ 6.94	\$ 6.41	\$ 7.57
Sep-98	25	\$ 7.35	\$ 8.08	\$ 7.51	\$ 7.35	\$ 8.93
Oct-98	39	\$ 12.32	\$ 14.08	\$ 12.05	\$ 12.60	\$ 11.82
Nov-98	80	\$ 24.32	\$ 29.60	\$ 26.24	\$ 26.56	\$ 29.88
Dec-98	154	\$ 46.51	\$ 57.13	\$ 55.75	\$ 52.36	\$ 55.59
<b>Totals</b>	<b>1,102</b>	<b>\$ 372.18</b>	<b>\$ 395.05</b>	<b>\$ 374.87</b>	<b>\$ 382.30</b>	<b>\$ 377.46</b>
<b>% Higher than MidAmerican</b>			<b>6%</b>	<b>1%</b>	<b>3%</b>	<b>1%</b>



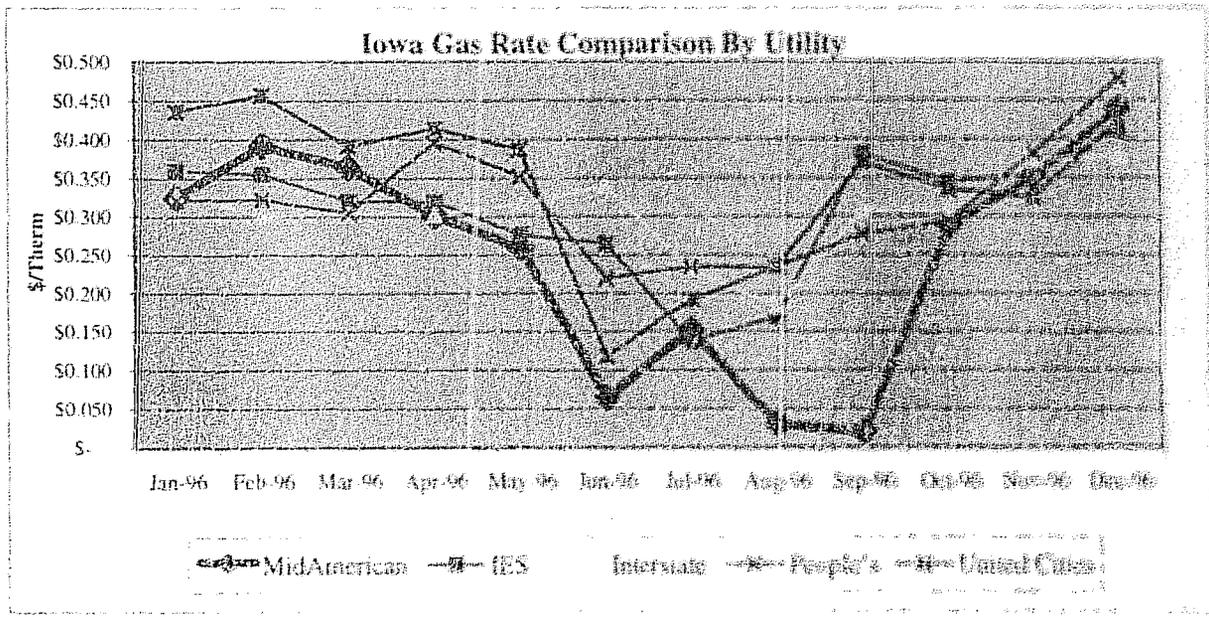
**MidAmerican Energy Company  
Iowa Firm Gas Rate Comparison  
Average Residential Customer's Gas Costs**

		1997				
		Gas Cost Comparison By Utility				
	Usage (In Therms)	MidAmerican	IES	Interstate	People's	United Cities
Jan-97	214	\$ 97.16	\$ 106.58	\$ 95.01	\$ 112.78	\$ 124.12
Feb-97	179	\$ 61.40	\$ 90.40	\$ 70.53	\$ 71.24	\$ 100.37
Mar-97	165	\$ 41.09	\$ 71.24	\$ 62.97	\$ 63.06	\$ 74.86
Apr-97	109	\$ 25.67	\$ 39.69	\$ 35.62	\$ 29.10	\$ 37.05
May-97	58	\$ 17.40	\$ 22.10	\$ 19.99	\$ 19.49	\$ 17.83
Jun-97	34	\$ 11.15	\$ 12.65	\$ 14.01	\$ 9.26	\$ 14.72
Jul-97	24	\$ 6.91	\$ 8.84	\$ 8.72	\$ 7.96	\$ 9.66
Aug-97	21	\$ 4.01	\$ 8.23	\$ 8.55	\$ 4.91	\$ 6.44
Sep-97	25	\$ 6.50	\$ 10.23	\$ 9.43	\$ 8.99	\$ 9.66
Oct-97	39	\$ 13.53	\$ 16.50	\$ 16.26	\$ 16.81	\$ 14.66
Nov-97	80	\$ 32.90	\$ 38.10	\$ 34.94	\$ 34.45	\$ 35.40
Dec-97	154	\$ 60.89	\$ 61.29	\$ 57.82	\$ 66.91	\$ 74.07
<b>Totals</b>	<b>1,102</b>	<b>\$ 380.45</b>	<b>\$ 483.70</b>	<b>\$ 424.56</b>	<b>\$ 420.66</b>	<b>\$ 519.61</b>
<b>% Higher than MidAmerican</b>			<b>27%</b>	<b>12%</b>	<b>11%</b>	<b>37%</b>



**MidAmerican Energy Company  
 Iowa Firm Gas Rate Comparison  
 Average Residential Customer's Gas Costs**

		1996				
		Gas Cost Comparison By Utility				
	Usage (In Therms)	MidAmerican	IES	Interstate	People's	United Cities
Jan-96	214	\$ 69.44	\$ 76.83	\$ 70.51	\$ 69.60	\$ 93.90
Feb-96	179	\$ 70.17	\$ 63.55	\$ 53.82	\$ 57.64	\$ 81.80
Mar-96	165	\$ 60.06	\$ 52.80	\$ 50.25	\$ 50.16	\$ 64.52
Apr-96	109	\$ 32.81	\$ 34.77	\$ 33.02	\$ 40.16	\$ 45.13
May-96	58	\$ 15.02	\$ 16.07	\$ 18.38	\$ 20.42	\$ 22.45
Jun-96	34	\$ 2.18	\$ 9.01	\$ 11.54	\$ 7.45	\$ 4.01
Jul-96	24	\$ 3.65	\$ 3.29	\$ 5.54	\$ 5.62	\$ 4.58
Aug-96	21	\$ 0.63	\$ 3.55	\$ 3.84	\$ 4.91	\$ 4.91
Sep-96	25	\$ 0.50	\$ 9.53	\$ 7.72	\$ 6.93	\$ 9.25
Oct-96	39	\$ 11.23	\$ 13.42	\$ 12.08	\$ 11.47	\$ 13.10
Nov-96	80	\$ 28.08	\$ 28.32	\$ 29.84	\$ 35.48	\$ 28.00
Dec-96	154	\$ 67.61	\$ 63.45	\$ 58.23	\$ 73.61	\$ 65.00
<b>Totals</b>	<b>1,102</b>	<b>\$ 361.38</b>	<b>\$ 374.59</b>	<b>\$ 354.77</b>	<b>\$ 390.54</b>	<b>\$ 404.35</b>
<b>% Higher than MidAmerican</b>			<b>4%</b>	<b>-2%</b>	<b>5%</b>	<b>20%</b>



# CONTINUATION

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MidAmerican Energy Company  
 IGSPP - South Dakota  
 Summary of Savings

	Nov95 - Apr96	May96 - Oct96	Nov96 - Apr97	May97 - Oct97	Nov97 - Apr98	Total Savings
Reference Price	\$ 19,947,739	\$ 11,689,680	\$ 23,500,609	\$ 13,712,610	\$ 17,447,669	
Actual Costs	\$ 19,010,921	\$ 11,256,933	\$ 22,332,725	\$ 12,876,219	\$ 16,609,716	
Savings	\$ 936,818	\$ 432,746	\$ 1,167,884	\$ 836,391	\$ 837,953	\$ 4,211,792
% Below Reference	5%	4%	5%	6%	5%	
3% of Reference Price	\$ 598,432	\$ 350,690	\$ 705,018	\$ 411,378	\$ 523,430	\$ 2,588,949
Customer Savings	\$ 299,216	\$ 175,345	\$ 352,509	\$ 205,689	\$ 261,715	\$ 1,294,475
Shareholder Savings	\$ 299,216	\$ 175,345	\$ 352,509	\$ 205,689	\$ 261,715	\$ 1,294,475
Total Customer Savings	\$ 637,602	\$ 257,401	\$ 815,375	\$ 639,702	\$ 576,238	\$ 2,917,318

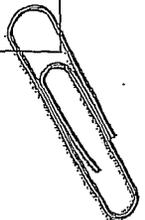
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BEFORE THE  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN RE: )  
 )  
MIDAMERICAN ENERGY COMPANY )

DOCKET NO. \_\_\_\_\_

RECEIVED

SOUTH DAKOTA  
PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY  
OF  
KARL A. McDERMOTT

BACKGROUND

1 Q. Please state your name, position, and business address.

2 A. My name is Karl A. McDermott. I am a regulatory and economics consultant affiliated  
3 with Burgess Consulting. My address is 2611 South Homerlake Road, Homer, Illinois,  
4 61849.

5 Q. Could you please describe your background and qualifications?

6 A. Yes. I have been working in the field of regulatory economics and policy for over twenty  
7 years. I have held positions at the National Regulatory Research Institute, Argonne  
8 National Laboratories, on the staff of the Illinois Commerce Commission, as advisor to  
9 the select joint committee on regulatory reform in the Illinois General Assembly, as  
10 President of the Center for Regulatory Studies and for the last six years I held the position  
11 of Commissioner on the Illinois Commerce Commission. I hold a B.A., M.A., and Ph.D.  
12 in Economics and I have also taught regulatory economics at the Illinois State University.  
13 I have attached my curriculum vitae for additional information Exhibit \_\_\_\_ (KAM-1)

1 Q. During this time have you participated in the development or review of any  
2 regulatory incentive programs?

3 A. Yes. I first became interested in the application of incentive regulations in 1979. When I  
4 joined the staff of the Illinois Commerce Commission I was part of the staff completing a  
5 Department of Energy research grant to investigate incentive mechanisms. As a result of  
6 this work, I produced testimony regarding the application of incentive mechanisms to  
7 control the construction costs of Illinois Power's Clinton Nuclear Power plant. Since that  
8 time, I have authored a number of reports, presentations and papers on the application of  
9 incentive regulations. As a Commissioner at the Illinois Commerce Commission I had  
10 the opportunity to review a number of incentive programs ranging from gas storage  
11 capacity projects to the price cap regulation adopted for Illinois Bell Telephone  
12 (Ameritech). In addition, I have lectured and advised the regulators in a number of East  
13 European states on the applicability and design of incentive regulations for use in the  
14 electric and natural gas industries.

15 PURPOSE

16 Q. What is the purpose of your testimony?

17 A. I have been retained by MidAmerican Energy Company ("MidAmerican") to review and  
18 provide an objective assessment of the effectiveness of the Incentive Gas Supply  
19 Procurement Program (IGSPP) in generating cost savings for customers.

20 Q. Can you summarize your findings for us briefly?

21 A. I have examined the changes in the management of gas supply and gas systems operation  
22 at MidAmerican in order to identify the effects of the implementation of the IGSPP. I  
23 have identified a number of changes in both group and individual behavior that I believe

1 account for the success of the IGSP. These changes in behavior are indicative of a  
2 cultural change that is induced by the introduction of company and individual incentives.  
3 It is apparent to me that the IGSP has had the precise effect on cost reduction behavior  
4 that the Commission contemplated when it approved the IGSP in 1995. Based on my  
5 findings, I recommend the Commission continue the IGSP.

6 Q. How is your testimony organized?

7 A. My testimony is divided into four sections. First, I review the nature of incentive  
8 mechanisms as policy instruments designed to alter behavior. Second, I examine the  
9 types of indicators that can be used to measure whether behavior has changed. Third, I  
10 provide the results of my evaluation. Finally, I conclude my testimony with a summary  
11 of my findings.

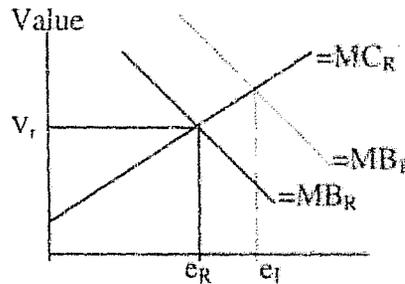
### 12 13 THE NATURE OF THE INCENTIVES

14 Q. Are there any preliminary matters that are necessary to conduct an evaluation of  
15 the IGSP?

16 A. Yes. Before conducting an evaluation it is essential that we clearly understand the nature  
17 of incentive mechanisms and how they affect decisions. An incentive is designed to  
18 change the level of effort directed toward the completion of a task. In most cases it  
19 involves an attempt to harness the private profit motive in order to benefit the public  
20 interest. The profit motive can be influenced through a reward and/or penalty for  
21 achieving or not achieving a specific objective. Figure 1 depicts this situation in a

1 supply and demand diagram.

2  
3 **Figure 1.**



13  $e = \text{effort}$        $C = \text{cost}$        $B = \text{benefits}$

14  
15  
16  
17 **Q. Please explain Figure 1.**

18 **A.** In short, Figure 1 shows that the amount of effort expended is dependent upon the  
19 potential marginal benefits. Under traditional regulation, the rules and policies of a  
20 regulatory commission create a particular marginal cost of effort ( $MC_R$ ) and marginal  
21 benefit ( $MB_R$ ) of performing the regulated activities. A regulated utility can maximize  
22 the value of the effort expended by expending a level of effort ( $e_R$ ) that equates the  
23 marginal benefits to the marginal cost. Thus, even traditional regulation is a form of  
24 incentive regulation, since the rules, policies and accounting treatments determine the  
25 marginal costs and benefits associated with the utility's efforts.

26 Of course, the level of effort under traditional regulation,  $e_R$ , can be influenced by  
27 regulators. Incentive regulation, in its many forms, is a recognition of this fact. By  
28 adopting new policies and rules, the regulator may increase the benefits of a particular  
29 activity. If the marginal costs of effort stay the same, then the goal of the incentive is to  
30 increase the level of effort expended to  $e_I$  in order to capture the incremental marginal  
31 benefits of  $MB_I$ . If the incentive is designed appropriately, the additional effort produced

1 by the incentive will produce cost savings that will in turn reduce customers' bills and  
2 increase the company's profits.

3 **Q. Don't utilities have an obligation to be efficient without additional incentives?**

4 A. Yes. However, efficiency is a relative concept. Each of us will behave efficiently  
5 consistent with the incentives that are embodied within the institutional framework that  
6 we are operating within. Referring to Figure 1, once again, the level of effort  $e_R$  put  
7 forward by a regulated firm is the most efficient level of effort, given the marginal costs  
8 and marginal benefits to expending effort, produced by the regulatory framework.  
9 Generally it would not be reasonable to expect that the firm would put forth the level of  
10 effort at  $e_I$ , absent some change in the incentives.

11 Under incentive regulation we change the benefits and costs of putting forth effort  
12 in order to induce changes in behavior. When incentive regulations are adopted the net  
13 benefits to customers and the utility are being maximized by a level of effort  $e_I$ . But the  
14 real point here is that the levels of effort  $e_R$  and  $e_I$  are not really comparable. The  
15 activities and efforts expended under regulation are driven by a separate set of incentives  
16 that are no longer applicable when incentive regulation is adopted and visa versa. If  
17 incentive regulation is remanded, it would not be reasonable to expect to see a regulated  
18 firm take the same risks and incur the same costs, nor produce the same benefits.

19 **Q. Can you give some examples of incentive mechanisms?**

20 A. Since any mechanism designed to influence behavior is an incentive mechanism,  
21 examples abound. Any rate design or pricing strategy is a mechanism designed to affect  
22 consumer behavior. Even traditional rate base rate of return regulation is a form of  
23 incentive regulation. It is a form of price cap regulation that provides, through regulatory

1 lag, an incentive to cut costs. Incentives are not the exception, rather they constitute the  
2 rule.

3 The competitive market place is another example of a vibrant incentive  
4 mechanism. In a competitive market, increased profit is the marginal benefit sought by  
5 increased effort. A rational person will only increase its effort to the extent that the  
6 potential benefit will exceed the additional effort.

7 **Q. Given that incentives are designed to modify behavior, at what level does this**  
8 **behavioral change occur within an organization?**

9 **A.** Both at the individual and group levels. Behavior change at the group level can be  
10 thought of broadly as a "cultural" change in the corporate environment.

11 **Q. Please briefly explain the behavioral changes that result from corporate and**  
12 **individual incentives.**

13 **A.** When a corporation adopts an explicit incentive mechanism, it typically will result in a  
14 systemic behavior change. The focus changes from "don't do anything impudent" to  
15 "how can we maximize customer savings." This is especially true when the individual  
16 has higher compensation linked to corporate goals. New ideas will be explored, new  
17 activities will be pursued and corporate resources will be allocated and managed in ways  
18 consistent with maximizing the marginal benefits of the incentive.

19 Introduction of incentives similarly affects individual behavior. When an  
20 individual knows he/she can make a difference, and be rewarded for it, the individual is  
21 more likely to expend incremental effort. Absent specific incentives, an individual will  
22 tend to concentrate his/her efforts on activities that produce the greatest individual  
23 marginal benefits (e.g., recognition), which may not necessarily work directly towards

1 the profitability of the organization. Therefore, it is critical for the employer to create  
2 specific targets for the individual that align the employees individual targets with those of  
3 the organization.

4 **Q. Does this imply that incentives may lead to decisions involving unnecessary risks?**

5 **A.** No. A well designed incentive that adopts a symmetric treatment of risk and reward  
6 places a significant penalty on unnecessary risk. In the case of gas cost incentives,  
7 having to absorb the costs above the benchmark/reference prices for gas would strike not  
8 only at the bottom line of the company, but also would reduce the possibility of  
9 incremental individual compensation. What an incentive does is induce the adoption of a  
10 prudent risk management strategy. Reasonable risks can be taken if they are properly  
11 managed. In order to fully understand, it is critical to recognize that "reasonable"  
12 behavior is not an absolute, but rather a continuum of potential actions.

13 **Q. Are the effects of incentives, such as the IGSPF, on behavior directly and objectively  
14 observable and measurable?**

15 **A.** Not generally. The fundamental purpose of incentives is to extract the positive behavior  
16 that will increase the probability of success. In most cases we can observe only indirect  
17 measures or indicators of behavioral change. For this reason, I believe regulators should  
18 be less concerned about how much savings any specific action produces and more  
19 concerned that the systemic process leads to results that benefit consumers. The goal  
20 under incentive regulation is to produce changes in behavior that produce a net benefit for  
21 customers. To achieve the goal, our attention should be focused on the most general  
22 indicator of success—lower costs—and not the individual transactions. The best

1 measurement of success is the net impact on customers. If the net impact is lower costs,  
2 then the program is a success.

3 **Q. In your opinion, does the IGSP have the elements of an appropriately designed**  
4 **incentive mechanism?**

5 A. Yes. My examination of the IGSP augmented by the personal compensation incentive  
6 indicates that it is a well-designed, symmetric incentive structure and has induced levels  
7 of efforts to capitalize on cost-saving opportunities as well as increased efforts to avoid  
8 actions that could raise the cost of serving customers.

9 FRAMEWORK OF IGSP EVALUATION

10 **Q. How did you analyze the effects of the IGSP?**

11 A. As stated above, the most appropriate way is to analyze the success of the program as a  
12 whole by measuring the "bottom line" results. I did this by reviewing the programs  
13 performance against two objective market indicators: cost of gas relative to the market  
14 based reference price and MidAmerican's cost of gas relative to other utilities. In order  
15 to test the objective evaluation, I then considered whether there were specific individual  
16 indications of behavioral changes which support the findings regarding the programs  
17 "bottom line" performance.

18 **Q. What objective benchmarks did you use to analyze the "bottom line" results?**

19 A. I used two. Keeping in mind the fundamental purpose of the IGSP was to reduce gas  
20 costs, I compared the cost of gas procured during the IGSP to the objective market  
21 based reference price embedded in the IGSP and approved by the Commission. Second,  
22 I compared MidAmerican's gas costs relative to the other gas utilities in the states of  
23 South Dakota and Iowa. Although the reference price should be the primary measure, I

1 believe the latter comparison is also a good objective performance indicator since it  
2 reflects how similar utilities in similar markets performed.

3 **Q. How did you verify the results of the objective indicators?**

4 A. I analyzed MidAmerican's gas supply department for specific indications of behavioral  
5 changes. I realized that if the results of the IGSP were truly caused by behavioral  
6 change, as the objective indicators appear to suggest, I would be able to find instances  
7 where MidAmerican's gas supply group was either performing new tasks or approaching  
8 old tasks in new ways.

9 **Q. What functions of the gas supply department did you review?**

10 A. My review, which included face-to-face meetings with the gas supply department  
11 included, but was not limited to:

- 12 • Gas and pipeline entitlement contracting practices
- 13 • Storage utilization
- 14 • Systems operations – dispatching, storage injection/withdraw
- 15 • Risk management
- 16 • Incentive compensation
- 17 • Employment practices – hiring outside experts, etc.
- 18 • FERC Regulatory Activity

19 **Q. Did you quantify the benefits derived from changes to individual gas procurement**  
20 **functions?**

21 A. No. It is not possible to identify, isolate and quantify individual changes or actions  
22 occurring as a result of the creation of the IGSP. As I explained above, incentive  
23 programs such as the IGSP change behavior (i.e., effort) and behavior is what effects

1 performance. Behavioral changes cannot be cleanly dissected in a manner susceptible to  
2 specific quantification. Thus, my conclusion that the IGSP has been successful and  
3 should be continued is not based on how much savings each action produced but rather  
4 on my view that the IGSP has accomplished what it was supposed to.

#### 5 6 IGSP RESULTS

7 **Q. What are the results of your review?**

8 A. Based on my experience of regulating utilities and designing various incentive  
9 mechanisms through regulatory policy, it is my belief that the IGSP has changed  
10 behavior in a manner that has reduced gas costs. I have found a number of significant  
11 changes that I believe help account for the savings that the IGSP program has produced.  
12 In addition, I have found that the changes in behavior - what I would term "cultural"  
13 change - have produced benefits for customers.

14 **Q. Can you provide more details regarding your findings?**

15 A. Yes, I will in turn address both my findings regarding the two objective measurements  
16 and several significant changes that have resulted from the change in culture caused by  
17 the introduction of incentives.

18 **Q. Please provide the findings regarding the two objective measurements.**

19 A. In summary, during the first 30 months of the IGSP, MidAmerican's South Dakota sales  
20 customers have realized \$2.9 million of gas cost savings relative to the established market  
21 based reference price. During this same period, MidAmerican has achieved the lowest  
22 cost gas in South Dakota and Iowa. Specifically, as set forth in my Exhibit (RAM  
23 2), MidAmerican's gas costs through April, 1995 were \$2.9 million below the market  
24 based reference price established in Docket No. NG 95-056. It should be noted that the

1 \$2.9 million in customer savings is net of MidAmerican's share of the savings.

2 Furthermore, in regards to an objective comparison of other utilities, as set forth in

3 MidAmerican witness Mark Hewett's prepared direct testimony in this docket, Exhibit

4 \_\_\_\_\_ (MAH-1), MidAmerican during the three (3) year IGSP has consistently

5 produced the lowest gas costs in South Dakota and in Iowa during the last two years, the

6 lowest gas cost of all five Iowa utilities.

7 **Q. Please identify several performance indicators that have occurred during the IGSP**  
8 **period that you believe support this objective measurement.**

9 **A.** During my review of MidAmerican's operations, I have identified at least five  
10 fundamental areas where the company's behavior has changed. These are:

- 11 • Storage optimization
- 12 • Index price management
- 13 • Contract negotiation and operations
- 14 • Incentive compensation and personnel selection, and
- 15 • Cultural change.

16 I believe the significant change reflected by these specific areas is consistent with the  
17 conclusions of the objective measurements.

18 **Q. Please describe the storage optimization program.**

19 **A.** In the past, storage was often used primarily as a method of achieving peak reliability.  
20 Storage would be leased and an injection schedule developed to ensure that the supply  
21 was available for peak needs.

22 [THIS PORTION OF KARL A. MCDERMOTT'S TESTIMONY IS FILED

23 CONFIDENTIALLY]

CONFIDENTIAL

# [2]

**KARL A. McDERMOTT**

2611 S. Homer Lake Road  
Homer, IL 61849  
Telephone: 217-896-2567

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**Educational Background**

Ph.D. 1990, Economics, University of Illinois  
M.A. 1978, Public Utility Economics, University of Wyoming  
B.A. 1976, Economics, Indiana University of Pennsylvania

**Dissertation Topic: The Monetary Theory of Production of John  
Maynard Keynes**

**Professional Experience**

5/98-present Consultant

Work for various clients in the electric and telephone industry including the Edison Electric Institute, Georgia Power Co., Bell Atlantic, and L. E. Burgess Consultants.

4/92-5/98 Commissioner, Illinois Commerce Commission

**Domestic**

Serves as Chairman of both the Telecommunications Policy Committee and Electricity and Resource Planning Policy Committee of the Illinois Commission. Serves on the National Association of Regulatory Utility Commissioners (NARUC) Energy Resources and Environment Committee as the Chairman of its Environmental subcommittee. Made over one hundred presentations and speeches on Telecommunications, Electricity, and Natural Gas industry topics. Served on the President's Global Climate Change Task Force, the Federal Energy Regulatory Commission's Pipeline Competition Task Force, and as a member of the Harvard Electric Policy Group.

**International**

In addition to regular Commission duties, served as part of the United States Energy Association and USAID educational effort in Eastern Europe. Lectured in Argentina, the Czech Republic, Latvia, Poland, Romania, Russia and Slovakia. Participated in two joint IISEA/USAID and World Bank seminars in Vienna providing advanced regulatory training. In addition, the Illinois Commission has hosted visits with the above listed countries as well as Bulgaria.

Lithuania, and Estonia.

12/85-present  
12/85-3/92

*Chairman of the Board, Center for Regulatory Studies, Inc.*  
*President, Center for Regulatory Studies, Inc.*

One of three cofounders of the Center. Involved in fundraising, organization, and program development. Focused on the development of statewide energy planning options for the State of Illinois, the introduction of competition into the natural gas market, environmental issues in Illinois, and competition in the Illinois telecommunications market. Conducted research on the use of competitive bidding and avoided-cost pricing mechanisms to acquire electricity supplies, the role of demand-side management in electricity supply planning, and the use of incentive mechanisms and the role of incentive regulation in our current regulatory environment.

1/88-3/92

*Research Scientist, Argonne National Laboratory*

Served as an economic advisor to the office of Fossil Energy at DOE. Investigated possible ways to promote development of innovative emission control technologies in the electric utility industry as part of the Presidential Task Force on Regulatory Relief directed by Vice President Bush. Involved in writing a chapter in the State of Science and Technology Report No. 25 of the National Acid Precipitation Assessment Program (NAPAP) concerning the use of tradable emission permits to control acid rain. Performed work on incentive mechanisms to promote clean coal technology and the trading of greenhouse gas emissions.

Performed research on the nature of individual's risk perception regarding nuclear waste deposits on behalf of the office of Radioactive Civilian Waste Management at the Department of Energy.

10/88-10/90

*President Elect and President, Illinois Economic Association*

Organized the 1989 Illinois Economic Association annual meeting and presided over the meetings.

4/89-present

*Instructor, NARUC Introductory Regulatory Training Program*

Instructed new public utility commission employees from various state commissions on the basic economic issues confronting regulators

1/86-3/92

*Lecturer in Economics, Department of Economics, Illinois State*

University

Taught both graduate and undergraduate public utility courses, Money and Banking, as well as introductory courses.

9/84-6/91

*Instructor in Economics, Parkland Community College, Champaign, Illinois*

Taught both Principles of Economics I and II, with a typical course load of two sections of 35-40 students per class.

9/84-6/86

*Teaching Assistant, University of Illinois, Champaign, Illinois*

Taught both Principles of Economics and Introduction to Econometrics. In the spring semester of 1985, was the supervisory assistant in charge of coordinating the Economics 101 assistance for Professor Fred Gotthiel.

6/82-12/88

Graduate School, University of Illinois, Champaign, Illinois

Completed all coursework towards Ph.D. and defended dissertation on 6/12/88. Fields of specialization were: Monetary Theory and Policy, Macroeconomic Theory, and the History of Economic Thought.

11/83-7/85

*Consultant, Select Joint Subcommittee on Regulatory Reform, Illinois Legislature*

Investigated the effects of the AT&T divestiture and FCC decisions upon Illinois Telephone Utilities and assisted in identifying issues that require legislative action. Presentation of issue reports to the Telecommunications subcommittee and served on the local exchange subgroup in developing recommendations for a new Illinois Public Utilities Act.

8/83-1/84

*Consultant, Governor's Sunset Task Force on Utility Regulatory Reform, Illinois Department of Energy and Natural Resources*

Delivered both written and oral reports on the issues of power plant certification, monitoring of construction costs, and allocation of power plant cancellation costs.

1/80-6/82

*Economic Analyst III, Policy Analysis and Research Division, Illinois Commerce Commission*

Conducted research investigating the development and use of incentive mechanisms in utility regulation. Prepared and presented testimony on the use of incentive mechanisms in power plant construction.

Conducted research and assisted in developing testimony on the cost of service for electric generation to meet PURPA requirements.

Assisted in the development of proposals for PURPA innovative rates projects on productivity and time-of-use pricing; cost-benefit analysis. Assisted in the managing of consultants conducting the TOD cost-benefit study. Prepared and presented testimony on the time-of-day pricing standards to meet the PURPA requirements.

Prepared and presented testimony regarding the use of q-ratios in determining rates-of-return for Illinois Bell Telephone Company and testimony regarding appropriate cost and pricing methodology and philosophy for Illinois Bell Telephone Company.

Assisted in the investigation of capacity expansion, lifetime rates, efficiency measurement, and impact of deregulation in electric generation, water rate design; and investigated the impact of investment tax credit changes on utilities.

8/78-12/79

*Senior Research Associate*, National regulatory Research Institute,  
Ohio State University

Conducted research in the areas of telecommunication licensed contract fees and cost of service, the effects of budget billing plans on utilities and consumers, and methods of monitoring fuel adjustment clauses.

Assisted in research regarding marginal and average cost pricing, time-of-use pricing, power plant productivity, and the examination of cost and price differences of Ohio municipal gas rates.

Assisted in the management of consultant subcontractors as well as supervising the presentation of cost and load research seminars.

9/79-12/79

*Lecturer in Economics*, Department of Economics, Ohio State University

Taught Macro Economic Principles to a class of approximately 100 students.

12/77-5/78

*Cost Analyst*, Action Computing, Laramie, Wyoming

Developed cost data for competitive pricing of bids for the provision of computer services provided by Action computing.

8/76-12/77

*Graduate Research Assistant*, University of Wyoming, Laramie, Wyoming

Assisted professors in conducting research and teaching of Principles of Economics, while completing a masters degree in Economics with specialization in Public Utility Economics and Industrial Organization Theory.

#### Awards

1986

Alpha Lambda Delta Outstanding Teacher of Freshman Award at the University of Illinois

1983

Thrift Prize at the University of Illinois for the paper entitled "The Allocation of Savings: An Investigation of Portfolio Composition of Chicago Households"

#### Professional Society Activities

Alpha Lambda Delta Honorary Society

American Economic Association  
Association for Social Economics  
Canadian Economics Association  
Econometric Society  
Transportation Public Utilities Group of American Economic Association  
Illinois Economic Association  
History of Economics Society  
Royal Economic Society

### Additional Education

Michigan State Public Utility Course; Michigan State University

Seminar on Austrian Economics at Marquette University, Milwaukee, Wisconsin, conducted by the Institute of Humane Studies, Menlo Park, California

State of Illinois; Certificates in SPSS and advanced SPSS Computer Software Classes and TSO Operations

Illinois Bell Telephone Seminars on Separations and Settlements, Embedded Direct Analysis (EDA), Costs and Demand Analysis, and Engineering Characteristics of Telecommunication System

### Publications

McDermott, K.A. "Is There a Rational Path to Implementing Competition?" *The Electricity Journal*, Vol 9:1 Jan-Feb 1996.

McDermott, K.A. "Changing Regulatory Incentives." G. Enholm and J. Robert Malko Eds., *Reinventing Electric Utility Regulation*. Public Utility Reports, Inc. Vienna, VA 1995.

McDermott, K.A. "The Evolution of the "Investment Systems." *Keynes' Theory of Employment and Money Revisited*. *Review of Social Economy*, Volume 51:1, Spring, 1993.

McDermott, K.A. - Discussant. "The Urban Ozone Abatement Problem." *Cost Effective Control of Urban Smog*. R. Kosobud, W. Testa, and D. Hanson Eds. Federal Reserve Bank of Chicago. November 1993.

McDermott, K.A. et. al. "Strategic Use of Incentive Mechanisms as a Regulatory Policy Tool." *The Electricity Journal*. Vol 5, No. 10 December 1992.

McDermott, K.A. "Electric Utilities: Control Cost Reducing Methods", Chapter 7 in David South ed. "Technologies and Other Measures for Controlling Emissions: Performance, Costs and Applicability." National Acid Precipitation Assessment Program, State-of-Science/Technology Report 25, January 1990.

McDermott, K.A. and Christopher Marme. "The Quantity Theory of Money of J.M. Keynes: From the Indian Currency to the General Theory." D. Walker Ed. *Perspectives on the History of Economics Thought*. Edward Edgar Publishing Co. Brookfield, VT (1989).

McDermott, K.A., and M.S. Gerber. *Computer Assisted Regulatory Analysis and Its Potential Application to the Colorado Public Utilities Commission*. The Natural

Regulatory Research Institute (1979).

McDermott, K.A., A.G. Buckalew, and D.Z. Czamanski. *Towards and Analysis of Telephone License Contracts and Measured Rates*. The National Regulatory Research Institute (1979).

McDermott, K.A., J-M Goldman, and C. Odie. *Budget Billing Plans for Electric and Gas Utilities: An Analysis and Some Recommendations for Changes*. The National Regulatory Institute (1979).

#### **Publications: Conference Papers**

McDermott, K.A. and Cindi Schieber. *The Use of Nontraditional Universal Service Programs in a Competitive Local Exchange Market*. Presented at the National Association of Regulatory Commissioners Biennial Conference (1996).

McDermott, K.A., D.W. South, and K.A. Bailey. *Incentive Mechanisms as a Strategic Option for Acid Rain Compliance*. Presented to the Future of Incentive Regulation in the Electric Utility Industry (November 1991).

McDermott, K.A., D.W. South, and K.A. Bailey. *Role of Emission Allowances in Utility Compliance Decisions*. Presented at the Eighth Annual International Pittsburgh Coal Conference (October 1991).

McDermott, K.A., K.A. Bailey, and D.W. South. *Clean Coal Technology and Emissions Trading: Is There a Future for High Sulfur Coal Under the Clean Air Act Amendments of 1990?* P.R. Dugan, D.R. Quigley, Y.A. Attia (eds.), Processing and Utilization of High Sulfur Coals IV, proceedings of the Fourth International Conference on Processing and Utilization of High Sulfur Coals, Idaho Fall, ID., sponsored by the U.S. Department of Energy, et al., Elsevier Science Publishing Co. Inc., New York, NY.

McDermott, K.A. and D.W. South. *Incentive Mechanisms as a Strategic Option in the Design of Regulatory Policies*. Presented at National Association of Regulatory Utility Commissioners, Committee on Electricity, Subcommittee on Strategic Issues, San Francisco (July 1991).

McDermott, K.A. and D.W. South. *Achieving Efficiency Through Emissions Trading: Paradoxes, Misconceptions and Market Performance*. Presented at National Association of Regulatory Utility Commissioners, Committee on Electricity, Subcommittee on Environment and Efficiency, San Francisco (July 1991).

McDermott, K.A. and D.W. South. *To Mitigate or Not To Mitigate: Regulatory Treatment of Emissions Trading Decisions and Its Effect on Marketplace Incentives*. Presented at 84th Annual Meeting and Exhibition, Air and Waste

Management Association, Vancouver, British Columbia (June 1991).

South, D.W. and K.A. McDermott. *Regulatory Incentives: A Means to Accelerate Clean Coal Technology Adoption for Acid Rain Compliance*. Presented at Compliance and Emissions Trading Strategies: Facing Acid Rain Tradeoffs, Center for Regulatory Studies, Chicago, IL (June 1991).

McDermott, K.A. and D.W. South. *Implementing Emissions Trading: Regulatory and Compliance Planning Issues*. Presented at the Workshop on Implementing the Electric Utility Provisions of the Clean Air Act Amendments of 1990: Midwestern State Public Utility Commission Issues, National Regulatory Research Institute, Chicago, IL (May 1991).

McDermott, K.A. and D.W. South. *Clean Coal Technology and Acid Rain Compliance: An Examination of Alternative Incentive Proposals*. Presented at the American Power Conference, Chicago, IL (April 1991).

McDermott, K.A. and D.W. South. *Emissions Trading: Implications for Regulatory Policy*. Presented at the 20th Annual Meeting of the Illinois Economic Association, Chicago, IL (October 1990).

McDermott, K.A., and D.W. South. *The Future of Clean Coal Technology: An Evaluation of the Proposed CCT Incentives in S. 1530*. Presented at the 20th Annual Meeting of the Illinois Economic Association, Chicago, IL (October 1990).

McDermott, K.A., and D.W. South. *The Future of Clean Coal Technology: An Evaluation of the Proposed Incentives in S. 1630*. Presented at the Seventh Annual International Pittsburgh Coal Conference, Pittsburgh, Penn. (September 1990).

McDermott, K.A. and D.W. South. *The Future of Clean Coal Technology: An Evaluation of the Proposed Incentives in S. 1630*. Presented at the Seventh NARUC Biennial Regulatory Information Conference, Columbus, Ohio (September 1990).

McDermott, K.A. and D.W. South. *Emissions Trading: Implications for Regulatory Policy*. Presented at the Seventh NARUC Biennial Regulatory Information Conference, Columbus, Ohio (September 1990).

McDermott, K.A. *Alternatives to Rate of Return Regulation in the Telephone Industry: A Survey of the New Incentive Mechanism Proposals*. Illinois Economic Association (October, 1988).

McDermott, K.A. *Market Structures in the Local Communication Market: Fact and Fiction*. Presented at the Intra-MSA Telecommunication Conference (September, 1988).

McDermott, K.A., and Christopher Marne. *The Quantity Theory of Money of J.M. Keynes: From the Tract to the General Theory*. Proc. of the 14th Annual Meeting of the History of Economics Society (June, 1987).

McDermott, K.A. *Competitive Pricing and the Local Telephone Service Market: Some Problems of Balancing Equity and Efficiency*. Illinois Economic Association (October, 1986).

McDermott, K.A., M.J. Morey, and K. Costello. *The Impact of Self-Selective Tariffs in Telecommunications Markets: The Design of an Experiment*. Proc. of the Fifth NARUC Biennial Regulatory Conference (September 1986).

McDermott, K.A., *An incentive Plan to Control Power Plant Construction Costs*. Third NARUC Biennial Information Conference (September 1981).

McDermott, K.A., and K. Costello. *The Measurement of Efficiency and the Application of Incentives to Regulated Industries*. Proc. of the second NARUC Biennial Regulatory Information Conference (September 1980).

**Publications: Reports**

McDermott, K.A. *Avoided Cost Pricing: Theoretical Issues and Problems in Estimation*. Prepared for the Illinois Department of Energy and Natural Resources, June 1990.

McDermott, K.A. *Least-Cost Planning in the Natural Gas Industry: An Overview of the Issues*. Prepared for the Illinois Department of Energy and Natural Resources (December 1989).

McDermott, K.A. *Equity issues in a Least-Cost Planning Environment*. Prepared for the Illinois Department of Energy and Natural Resources (October 1989).

McDermott, K.A. *An Analysis of Prudence Evaluation Within A Least-cost Planning Framework: The Case of Natural Gas Planning*. Prepared for the Illinois Department of Energy and Natural Resources (October 1989).

McDermott, K.A. *Consumer Choice Under Risk and Uncertainty: The Role of Risk Perceptions as a Causal Factor in Consumer Decisionmaking*. Prepared for the Energy and Environmental Systems Division, Argonne National Laboratory for US DOE Office of Civilian Radioactive Waste Management (April 1989).

McDermott, K.A. *The Effects of Alternative Definitions of the Obligation to Serve on the Least-Cost Plans of Local Gas Distribution Companies*. A Report for the Northern-Illinois Alliance to Support Least-Cost Utility Planning (February 1989).

McDermott, K.A., J.L. Carlson, M.J. Moray, R.C. Hemphill, and W. Mikucki. *A Complete and Economic Study on Proposed ICS Regulation R33-2: Hazardous Waste Prohibitions*. Prepared for The Illinois Department of Energy and Natural Resources.

McDermott, K.A. *The Role of Prices and the Pricing System Within the Regulatory Process*. Prepared for the Illinois Department of Energy and Natural Resources (October, 1986).

McDermott, K.A. *An Evaluation of the Minimization of Total Regional Requirements as an objective in State-Wide Utility Planning Process*. For the Illinois Department of Energy and Natural Resources (November 1985).

McDermott, K.A. *The Economic Incentives Provided by Section 9-216 (Excess Capacity Rule) of Proposed Illinois Public Utility Act*. A Memorandum to the Joint committee (June 1985).

McDermott, K.A. *An Analysis of the issue of Cross-Subsidization in the Local Telephone Market*. Prepared for the Joint Committee on Public Utility Regulation

(May 1985).

McDermott, K.A. *A Survey of State Regulatory Actions and Legislative Developments Resulting from the Divestiture of AT&T*. Prepared for the Joint Committee on Public Utility Regulations, Illinois State Legislature (March 1985).

McDermott, K.A. *A Memorandum to the Telecommunications Policy Working Group on the Concepts of Competing, Competition and Market Structure* (September 1984).

McDermott, K.A. *The Evolution of Competition in the Telephone Industry and the Critical Issues Facing the Illinois Legislature on the Deregulation of Telephone Service*. Prepared for the Select Joint Subcommittee on Regulatory Reform (July 1984).

McDermott, K.A. *The Review of Existing Power Plant Certificates, Monitoring of Power Plant Costs and the Allocation of Power Plant Cancellation Costs*. Presented to the Sunset Task Force on Utility Regulatory Reform (January 1984).

McDermott, K.A. *Utility Efficiency Report Subtask IX - Final report in Incentive Mechanisms*. Prepared for the Illinois Commerce Commission (May 1981).

McDermott, K.A. *Utility Efficiency Report Subtask IV - Evaluation and Choice of Incentive Mechanisms*. Illinois Commerce Commission for the U.S. Department of Energy (July 1980).

McDermott, K.A. *Utility Efficiency Report Subtask II - Review of Existing Incentive Mechanisms*. Illinois Commerce Commission for the U.S. Department of Energy (March 1980).

McDermott, K.A. and K. Kelly. *Estimating Fuel Prices, a Memorandum to the Virginia State Corporation Commission*. National Regulatory Research Institute (1979).

McDermott, K.A. *Summary of Regulatory Commission Activities on Power Plant Productivity*. The National Regulatory Research Institute draft report for the U.S. Department of Energy (1979).

#### Unpublished Papers

McDermott, K.A. *The Realbanks' Reaction Function During the Hyperinflation: An Alternative Test of the Causes of the Hyperinflation*. (December 1987)

McDermott, K.A. *How Real Was The German Hyperinflation: A Reexamination of the Demand for Money Employing a Fully Specified Demand Function*. (October 1987)

McDermott, K.A. *Bubbles During the Hyperinflation: An Empirical Test of the Interaction of the Double Bubble in Exchange Markets and Prices in Germany.* (September 1987)

McDermott, K.A. *Evaluating the Causes of the Hyperinflation: A Reexamination of Monetary Policy and Theoretical Debates Concerning the Factors Affecting the German Money Supply from 1919 to 1923.* (August 1987)

McDermott, K.A. *Decentralization vs. Coordination: An Examination of the Options for Deregulating the Electric Supply Industry.* (June 1985)

McDermott, K.A. *Applied Fairness Theory: The Case of Allocating Canceled power Plant Costs.* (October 1983)

McDermott, K.A. *In the Rational Expectations Equilibrium Business Cycle Theory a Neo-Austrian Theory?* (October 1983)

McDermott, K.A. *An Examination of the Policy Alternatives for a Small Open Economy Experiencing a Trade Boom: The Case of Sterilization, Credit Rationing and Profit Taxation.* (August 1983)

McDermott, K.A. *The Transmission of Monetary Shocks to Real Variables in the Business Cycle.* (July 1983)

McDermott, K.A. *The Economics of Revolutions: A Club Theoretic Approach and a Case Study of England, 1542-1649.* (Summer 1983)

McDermott, K.A. *Interest Rates, Market Efficiency and Expectations: The Effectiveness of Monetary Policy.* (April 1983)

McDermott, K.A. *Towards Developing a Framework for Evaluating Incentive Mechanisms, Performance Measures and Institutional Choice in Deregulation.* (August 1981)

McDermott, K.A. *A Critique of the Averch-Johnson Bias and a Test of Some Alternative Hypotheses.* Master Thesis submitted to the Graduate School of the University of Wyoming. (July 1978)

McDermott, K.A. *An Overview of the Theories of Regulation and Pricing Policies for Regulated Industries.* The National Regulatory Institute (1978)

## Presentations

McDermott, K.A. *A Conflict of Paradigms: The Future Role of State Regulation of the Natural Gas Industry.* Presented to the Midwest Gas Association (November

6, 1991).

McDermott, K.A. *Exit and Entry: Who Will Bear the Risk in a Competitive Natural Gas Industry.* Presented at the conference "At the Crossroads: Restructuring the Natural Gas Industry," held by The Center for Regulatory Studies (October, 1991).

McDermott, K.A. "To Serve Man" - *The Golden Rule or a Visit to the Twilight Zone: How to Reconcile the Obligation to Serve with Competitive Market Forces.* Presented to the Gas Policy Committee of the Illinois Commerce Commission (April 16, 1991).

McDermott, K.A. and D.W. South. *Regulatory Treatment of Emissions Trading Decisions and Their Effect on Marketplace Incentives.* Presented at the Notice of Inquiry Public Hearing, Illinois Commerce Commission (March 1991).

McDermott, K.A. *The National Energy Strategy: Impacts on the Farm Sector.* Presented to the Illinois Farm Bureau Leadership Conference (February 1991).

McDermott, K.A. and D.W. South. *Emissions Trading in the CAAA of 1990: Regulatory, Compliance Planning and Implementation Issues.* Presented to the Illinois Commerce Commission (January 1991).

McDermott, K.A. *Obligations to Serve and Competition in the Natural Gas Industry.* Luncheon presentation at the conference "Assessing the Competitiveness of the Natural Gas Industry," held by The Center for Regulatory Studies (October 1990).

McDermott, K.A. *Pricing in an Age of Opportunism: The Cost of Being a Provider of Last Resort.* Presented at the conference "Natural Gas Supply Planning: The Implications for Planning Pricing and Competition," held by The Center for Regulatory Studies (March 1990).

McDermott, K.A. *Public Utility Issues: Long and Short-Term Impacts.* Presented to The Illinois Farm Bureau Leadership Conference (February 1990).

McDermott, K.A. *Uncertainty in the Least-Cost Planning Process: The Case of Natural Gas.* Presented at the conference "Issues in Least Cost Planning in the Natural Gas Industry," held by The Center for Regulatory Studies (December 21, 1989).

McDermott, K.A. and M.J. Morey. *How Real was the German Hyperinflation: An Examination of the Factors Determining the German Money Supply, Demand and Prices Between 1920 and 1923.* Presented to the Economic History Workshop at the University of Illinois (December 1988).

*Since joining the Commission, Commissioner McDermott has given over one hundred presentations on a variety of topics in the telecommunications, electricity and natural gas industries.*

## Testimony

Testimony to Illinois General Assembly joint committee on electricity deregulation Summer 1997.

Illinois Public Utilities Committee Telecommunications Subcommittee, Alternative Methods of Telecommunications Regulation, March 27, 1991.

Illinois Commerce Commission Docket No. 80-0167 on the use of incentive mechanisms at Clinton power plant construction site.

Illinois Commerce Commission Docket No. 80-0544 on the use of the variable return to CWIP incentive model in the Illinois Power rate case.

Illinois Commerce Commission Docket No. 80-0167 rebuttal testimony to Dr. Pappas on the use of incentive mechanisms at the Clinton Power Plant site.

Illinois Commerce Commission Docket No. 80-0367 on the treatment of the time of use pricing standards of the Public Utility Regulatory Policy Act (PURPA) for Iowa Illinois Gas and Electric Company.

Illinois Commerce Commission Docket No. 81-0478 on the use of g-ratios determining the appropriate rate of return for Illinois Bell Telephone Company.

Illinois Commerce Commission Docket No. 81-0478 on the appropriate cost of service method for pricing telecommunication service under the transition to competition.

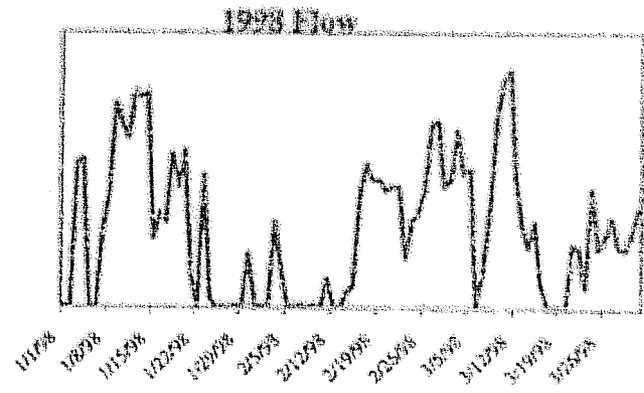
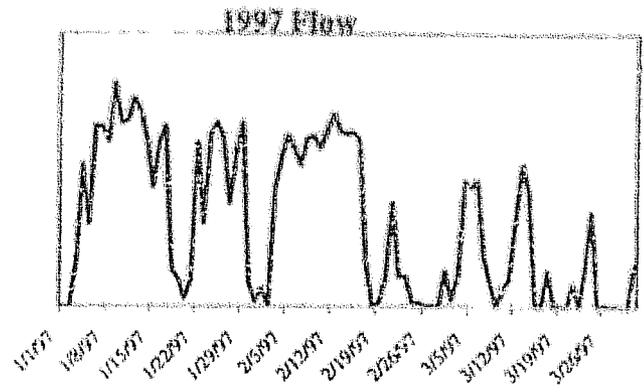
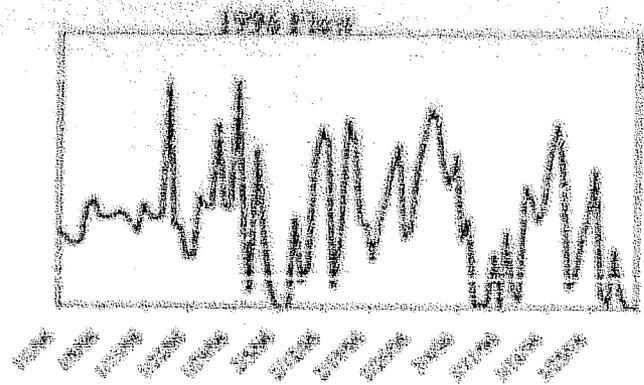
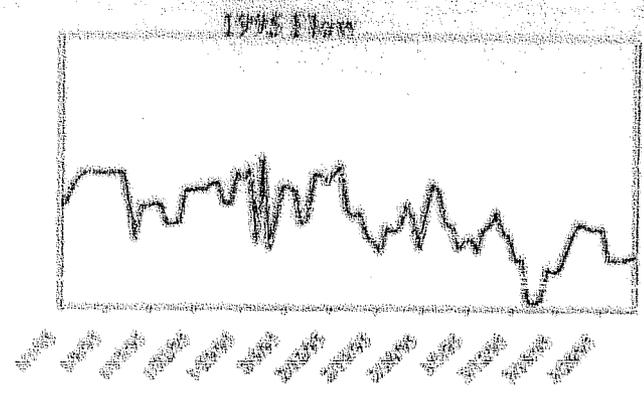
# CONTINUATION

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ABC Insurance Agency Company  
 ABC - Group Savings  
 Summary of Savings

	Nov95 - Apr96	May96 - Dec96	Jan97 - Apr97	May97 - Dec97	Jan98 - Apr98	Total Savings
Reference Price	\$ 19,947,739	\$ 14,829,630	\$ 21,500,000	\$ 13,712,610	\$ 17,667,500	
Account Costs	\$ 19,010,921	\$ 11,226,913	\$ 22,332,723	\$ 12,876,210	\$ 16,609,716	
Savings	\$ 936,818	\$ 3,602,717	\$ 9,167,277	\$ 836,400	\$ 1,057,784	\$ 4,211,792
① Below Reference	5%	4%	5%	6%	5%	
1% of Reference Price	\$ 998,412	\$ 350,690	\$ 706,010	\$ 411,372	\$ 521,630	\$ 1,988,114
Customer Savings	\$ 299,216	\$ 173,343	\$ 252,600	\$ 203,630	\$ 204,713	\$ 1,033,502
Shareholder Savings	\$ 299,216	\$ 173,343	\$ 252,600	\$ 203,630	\$ 204,713	\$ 1,033,502
Total Customer Savings	\$ 637,632	\$ 257,401	\$ 813,373	\$ 630,792	\$ 576,213	\$ 2,917,411



Note: For confidentiality reasons, MidAmerican has excluded the scale illustrating volumes on the charts above.

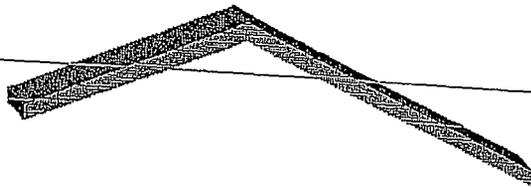
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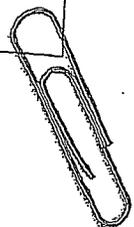
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**KARL A. McDERMOTT**

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Homer, IL 61849  
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---

**Educational Background**

- Ph.D. 1990, Economics, University of Illinois
- M.A. 1978, Public Utility Economics, University of Wyoming
- B.A. 1976, Economics, Indiana University of Pennsylvania

**Dissertation Topic:** The Monetary Theory of Production of John Maynard Keynes

**Professional Experience**

5/98-present **Consultant**

Work for various clients in the electric, and telephone industry including the Edison Electric Institute, Georgia Power Co., Bell Atlantic, and L. E. Burgess Consultants.

4/92-5/98

*Commissioner, Illinois Commerce Commission*

**Domestic**

Serves as Chairman of both the Telecommunications Policy Committee and Electricity and Resource Planning Policy Committee of the Illinois Commission. Serves on the National Association of Regulatory Utility Commissioners ("NARUC") Energy Resources and Environment Committee as the Chairman of its Environmental subcommittee. Made over one-hundred presentations and speeches on Telecommunications, Electricity, and Natural Gas industry topics. Served on the President's Global Climate Change Task Force, the Federal Energy Regulatory Commission's Pipeline Competition Task Force, and as a member of the Harvard Electric Policy Group.

**International**

In addition to regular Commission duties, served as part of the United States Energy Association and USAID educational effort in Eastern Europe. Lectured in Argentina, the Czech Republic, Latvia, Poland, Romania, Russia and Slovakia. Participated in two joint USEA/USAID and World Bank seminars in Vienna providing advanced regulatory training. In addition, the Illinois Commission has hosted visits with the above listed countries as well as Bulgaria.

Lithuania, and Estonia.

12/85-present  
12/85-3/92

*Chairman of the Board, Center for Regulatory Studies, Inc.*  
*President, Center for Regulatory Studies, Inc.*

One of three cofounders of the Center. Involved in fundraising, organization, and program development. Focused on the development of statewide energy planning options for the State of Illinois, the introduction of competition into the natural gas market, environmental issues in Illinois, and competition in the Illinois telecommunications market. Conducted research on the use of competitive bidding and avoided-cost pricing mechanisms to acquire electricity supplies, the role of demand-side management in electricity supply planning, and the use of incentive mechanisms and the role of incentive regulation in our current regulatory environment.

1/88-3/92

*Research Scientist, Argonne National Laboratory*

Served as an economic advisor to the office of Fossil Energy at DOE. Investigated possible ways to promote development of innovative emission control technologies in the electric utility industry as part of the Presidential Task Force on Regulatory Relief directed by Vice President Bush. Involved in writing a chapter in the State of Science and Technology Report No. 25 of the National Acid Precipitation Assessment Program (NAPAP) concerning the use of tradable emission permits to control acid rain. Performed work on incentive mechanisms to promote clean coal technology and the trading of greenhouse gas emissions.

Performed research on the nature of individual's risk perception regarding nuclear waste deposits on behalf of the office of Radioactive Civilian Waste Management at the Department of Energy.

10/88-10/90

*President Elect and President, Illinois Economic Association*

Organized the 1989 Illinois Economic Association annual meeting and presided over the meetings.

4/89-present

*Instructor, NARUC Introductory Regulatory Training Program*

Instructed new public utility commission employees from various state commissions on the basic economic issues confronting regulators.

1/86-3/92

*Lecturer in Economics, Department of Economics, Illinois State*

University

Taught both graduate and undergraduate public utility courses, Money and Banking, as well as introductory courses.

9/84-6/91

*Instructor in Economics*, Parkland Community College, Champaign, Illinois

Taught both Principles of Economics I and II, with a typical course load of two sections of 35-40 students per class.

9/84-6/86

*Teaching Assistant*, University of Illinois, Champaign, Illinois

Taught both Principles of Economics and Introduction to Econometrics. In the spring semester of 1985, was the supervisory assistant in charge of coordinating the Economics 101 assistance for Professor Fred Gotthiel.

- 6/82-12/88 Graduate School, University of Illinois, Champaign, Illinois
- Completed all coursework towards Ph.D. and defended dissertation on 6/12/88. Fields of specialization were: Monetary Theory and Policy, Macroeconomic Theory, and the History of Economic Thought.
- 11/83-7/85 *Consultant*, Select Joint Subcommittee on Regulatory Reform, Illinois Legislature
- Investigated the effects of the AT&T divestiture and FCC decisions upon Illinois Telephone Utilities and assisted in identifying issues that require legislative action. Presentation of issue reports to the Telecommunications subcommittee and served on the local exchange subgroup in developing recommendations for a new Illinois Public Utilities Act.
- 8/83-1/84 *Consultant*, Governor's Sunset Task Force on Utility Regulatory Reform, Illinois Department of Energy and Natural Resources
- Delivered both written and oral reports on the issues of power plant certification, monitoring of construction costs, and allocation of power plant cancellation costs.
- 1/80-6/82 *Economic Analyst III*, Policy Analysis and Research Division, Illinois Commerce Commission
- Conducted research investigating the development and use of incentive mechanisms in utility regulation. Prepared and presented testimony on the use of incentive mechanisms in power plant construction.
- Conducted research and assisted in developing testimony on the cost of service for electric generation to meet PURPA requirements.
- Assisted in the development of proposals for PURPA innovative rates projects on productivity and time-of-use pricing; cost-benefit analysis. Assisted in the managing of consultants conducting the TOD cost-benefit study. Prepared and presented testimony on the time-of-day pricing standards to meet the PURPA requirements.
- Prepared and presented testimony regarding the use of q-ratios in determining rates-of-return for Illinois Bell Telephone Company and testimony regarding appropriate cost and pricing methodology and philosophy for Illinois Bell Telephone Company.

Assisted in the investigation of capacity expansion, lifeline rates, efficiency measurement, and impact of deregulation in electric generation, water rate design; and investigated the impact of investment tax credit changes on utilities.

8/78-12/79

*Senior Research Associate*, National regulatory Research Institute,  
Ohio State University

Conducted research in the areas of telecommunication licensee contract fees and cost of service, the effects of budget billing plans on utilities and consumers, and methods of monitoring fuel adjustment clauses.

Assisted in research regarding marginal and average cost pricing, time-of-use pricing, power plant productivity, and the examination of cost and price differences of Ohio municipal gas rates.

Assisted in the management of consultant subcontractors as well as supervising the presentation of cost and load research seminars.

9/79-12/79

*Lecturer in Economics*, Department of Economics, Ohio State University

Taught Macro Economic Principles to a class of approximately 100 students.

12/77-5/78

*Cost Analyst*, Action Computing, Laramie, Wyoming

Developed cost data for competitive pricing of bids for the provision of computer services provided by Action computing.

8/76-12/77

*Graduate Research Assistant*, University of Wyoming, Laramie, Wyoming

Assisted professors in conducting research and teaching of Principles of Economics, while completing a masters degree in Economics with specialization in Public Utility Economics and Industrial Organization Theory.

#### Awards

1986

Alpha Lambda Delta Outstanding Teacher of Freshman Award at the University of Illinois

1983

Thrift Prize at the University of Illinois for the paper entitled "The Allocation of Savings: An Investigation of Portfolio Composition of Chicago Households"

#### Professional Society Activities

Alpha Lambda Delta Honorary Society

American Economic Association  
Association for Social Economics  
Canadian Economics Association  
Econometric Society  
Transportation Public Utilities Group of American Economic Association  
Illinois Economic Association  
History of Economics Society  
Royal Economic Society

## Additional Education

Michigan State Public Utility Course; Michigan State University

Seminar on Austrian Economics at Marquette University, Milwaukee, Wisconsin, conducted by the Institute of Humane Studies, Menlo Park, California

State of Illinois; Certificates in SPSS and advanced SPSS Computer Software Classes and TSO Operations

Illinois Bell Telephone Seminars on Separations and Settlements, Embedded Direct Analysis (EDA), Costs and Demand Analysis, and Engineering Characteristics of Telecommunication System

## Publications

McDermott, K.A. "Is There a Rational Path to Implementing Competition?" *The Electricity Journal*, Vol 9:1 Jan-Feb 1996.

McDermott, K.A. "Changing Regulatory Incentives." G. Enholm and J. Robert Maliko Eds., *Reinventing Electric Utility Regulation*. Public Utility Reports, Inc. Vienna, VA 1995.

McDermott, K.A. "The Evolution of the "Investment Systems;" Keynes' Theory of Employment and Money Revisited." *Review of Social Economy*, Volume 5:1, Spring, 1993.

McDermott, K.A. - Discussant. "The Urban Ozone Abatement Problem." *Cost Effective Control of Urban Smog*. R. Kosobud, W. Tosta, and D. Hansen Eds. Federal Reserve Bank of Chicago. November 1993.

McDermott, K.A. et. al. "Strategic Use of Incentive Mechanisms as a Regulatory Policy Tool." *The Electricity Journal*. Vol 5, No. 10 December 1992.

McDermott, K.A. "Electric Utilities: Control Cost Reducing Methods", Chapter 7 in David South ed. "Technologies and Other Measures for Controlling Emissions: Performance, Costs and Applicability." National Acid Precipitation Assessment Program, State-of-Science/Technology Report 25, January 1990.

McDermott, K.A. and Christopher Marme. "The Quantity Theory of Money of J.M. Keynes: From the Indian Currency to the General Theory." D. Walker Ed. *Perspectives on the History of Economics Thought*. Edward Elgar Publishing Co. Brookfield, VT (1989).

McDermott, K.A., and M.S. Gerber. *Computer Assisted Regulatory Analysis and Its Potential Application to the Colorado Public Utilities Commission*. The Natural

Regulatory Research Institute (1979).

McDermott, K.A., A.G. Buckalew, and D.Z. Czamanski. *Towards and Analysis of Telephone License Contracts and Measured Rates*. The National Regulatory Research Institute (1979).

McDermott, K.A., J-M Goldman, and C. Odle. *Budget Billing Plans for Electric and Gas Utilities: An Analysis and Some Recommendations for Change*. The National Regulatory Institute (1979).

#### **Publications: Conference Papers**

McDermott, K.A. and Cindy Schieber. *The Use of Nontraditional Universal Service Programs in a Competitive Local Exchange Market*. Presented at the National Association of Regulatory Commissioners Biennial Conference (1996).

McDermott, K.A., D.W. South, and K.A. Bailey. *Incentive Mechanisms as a Strategic Option for Acid Rain Compliance*. Presented to the Future of Incentive Regulation in the Electric Utility Industry (November 1991).

McDermott, K.A., D.W. South, and K.A. Bailey. *Role of Emission Allowances in Utility Compliance Decisions*. Presented at the Eighth Annual International Pittsburgh Coal Conference (October 1991).

McDermott, K.A., K.A. Bailey, and D.W. South. *Clean Coal Technology and Emissions Trading: Is There a Future for High Sulfur Coal Under the Clean Air Act Amendments of 1990?* P.R. Dugan, D.R. Quigley, Y.A. Attia (eds.), *Processing and Utilization of High Sulfur Coals IV*, proceedings of the Fourth International Conference on Processing and Utilization of High Sulfur Coals, Idaho Falls, ID, sponsored by the U.S. Department of Energy, et al., Elsevier Science Publishing Co. Inc., New York, NY.

McDermott, K.A. and D.W. South. *Incentive Mechanisms as a Strategic Option in the Design of Regulatory Policies*. Presented at National Association of Regulatory Utility Commissioners, Committee on Electricity, Subcommittee on Strategic Issues, San Francisco (July 1991).

McDermott, K.A. and D.W. South. *Achieving Efficiency Through Emissions Trading: Paradoxes, Misconceptions and Market Performance*. Presented at National Association of Regulatory Utility Commissioners, Committee on Electricity, Subcommittee on Environment and Efficiency, San Francisco (July 1991).

McDermott, K.A. and D.W. South. *To Mitigate or Not To Mitigate: Regulatory Treatment of Emissions Trading Decisions and Its Effect on Marketplace Incentives*. Presented at 84th Annual Meeting and Exhibition, Air and Waste

Management Association, Vancouver, British Columbia (June 1991).

South, D.W. and K.A. McDermott. *Regulatory Incentives: A Means to Accelerate Clean Coal Technology Adoption for Acid Rain Compliance*. Presented at Compliance and Emissions Trading Strategies: Facing Acid Rain Tradeoffs, Center for Regulatory Studies, Chicago, IL (June 1991).

McDermott, K.A. and D.W. South. *Implementing Emissions Trading: Regulatory and Compliance Planning Issues*. Presented at the Workshop on Implementing the Electric Utility Provisions of the Clean Air Act Amendments of 1990: Midwestern State Public Utility Commission Issues, National Regulatory Research Institute, Chicago, IL (May 1991).

McDermott, K.A. and D.W. South. *Clean Coal Technology and Acid Rain Compliance: An Examination of Alternative Incentive Proposals*. Presented at the American Power Conference, Chicago, IL (April 1991).

McDermott, K.A. and D.W. South. *Emissions Trading: Implications for Regulatory Policy*. Presented at the 20th Annual Meeting of the Illinois Economic Association, Chicago, IL (October 1990).

McDermott, K.A., and D.W. South. *The Future of Clean Coal Technology: An Evaluation of the Proposed CCT Incentives in S. 1630*. Presented at the 20th Annual Meeting of the Illinois Economic Association, Chicago, IL (October 1990).

McDermott, K.A., and D.W. South. *The Future of Clean Coal Technology: An Evaluation of the Proposed Incentives in S. 1630*. Presented at the Seventh Annual International Pittsburgh Coal Conference, Pittsburgh, Penn. (September 1990).

McDermott, K.A. and D.W. South. *The Future of Clean Coal Technology: An Evaluation of the Proposed Incentives in S. 1630*. Presented at the Seventh NARUC Biennial Regulatory Information Conference, Columbus, Ohio (September 1990).

McDermott, K.A. and D.W. South. *Emissions Trading: Implications for Regulatory Policy*. Presented at the Seventh NARUC Biennial Regulatory Information Conference, Columbus, Ohio (September 1990).

McDermott, K.A. *Alternatives to Rate of Return Regulation in the Telephone Industry: A Survey of the New Incentive Mechanism Proposals*. Illinois Economic Association (October, 1988)

McDermott, K.A. *Market Structures in the Local Communication Market: Fact and Fiction*. Presented at the Intra-MSA Telecommunication Conference (September, 1988).

McDermott, K.A., and Christopher Marns. *The Quantity Theory of Money of J.M. Keynes: From the Tract to the General Theory*. Proc. of the 14th Annual Meeting of the History of Economics Society (June, 1987).

McDermott, K.A. *Competitive Pricing and the Local Telephones Service Market: Some Problems of Balancing Equity and Efficiency*. Illinois Economic Association (October, 1986).

McDermott, K.A., M.J. Morey, and K. Costello. *The Impact of Self-Selective Tariffs in Telecommunications Markets: The Design of an Experiment*. Proc. of the Fifth NARUC Biennial Regulatory Conference (September 1990).

McDermott, K.A., *An Incentive Plan to Control Power Plant Construction Costs*. Third NARUC Biennial Information Conference (September 1981).

McDermott, K.A., and K. Costello. *The Measurement of Efficiency and the Application of Incentives to Regulated Industries*. Proc. of the second NARUC Biennial Regulatory Information Conference (September 1980).

**Publications: Reports**

McDermott, K.A. *Avoided Cost Pricing: Theoretical Issues and Problems in Estimation*. Prepared for the Illinois Department of Energy and Natural Resources, June 1990.

McDermott, K.A. *Least-Cost Planning in the Natural Gas Industry: An Overview of the Issues*. Prepared for the Illinois Department of Energy and Natural Resources (December 1989).

McDermott, K.A. *Equity Issues in a Least-Cost Planning Environment*. Prepared for the Illinois Department of Energy and Natural Resources (October 1989).

McDermott, K.A. *An Analysis of Prudence Evaluation Within A Least-cost Planning Framework: The Case of Natural Gas Planning*. Prepared for the Illinois Department of Energy and Natural Resources (October 1989).

McDermott, K.A. *Consumer Choice Under Risk and Uncertainty: The Role of Risk Perceptions as a Causal Factor in Consumer Decisionmaking*. Prepared for the Energy and Environmental Systems Division, Argonne National Laboratory for US DOE Office of Civilian Radioactive Waste Management (April 1989).

McDermott, K.A. *The Effects of Alternative Definitions of the Obligation to Serve on the Least-Cost Plans of Local Gas Distribution Companies*. A Report for the Northern-Illinois Alliance to Support Least-Cost Utility Planning (February 1989).

McDermott, K.A., J.L. Carlson, M.J. Moroy, R.C. Hemphill, and W. Mikucki. *A Complete and Economic Study on Proposed IPCB Regulation R59-2: Hazardous Waste Prohibitions*. Prepared for The Illinois Department of Energy and Natural Resources.

McDermott, K.A. *The Role of Prices and the Pricing System Within the Regulatory Process*. Prepared for the Illinois Department of Energy and Natural Resources (October, 1985).

McDermott, K.A. *An Evaluation of the Minimization of Total Regional Requirements as an objective in State-Wide Utility Planning Process*. For the Illinois Department of Energy and Natural Resources (November 1985).

McDermott, K.A. *The Economic Incentives Provided by Section 9-215 (Excess Capacity Rule) of Proposed Illinois Public Utility Act*. A Memorandum to the joint committee (June 1985).

McDermott, K.A. *An Analysis of the Issue of Cross-Subsidization in the Local Telephone Market*. Prepared for the Joint Committee on Public Utility Regulation.

(May 1985).

McDermott, K.A. *A Survey of State Regulatory Actions and Legislative Developments Resulting from the Divestiture of AT&T*. Prepared for the Joint Committee on Public Utility Regulations, Illinois State Legislature (March 1985).

McDermott, K.A. *A Memorandum to the Telecommunications Policy Working Group on the Concepts of Competing, Competition and Market Structure* (September 1984).

McDermott, K.A. *The Evolution of Competition in the Telephone Industry and the Critical Issues Facing the Illinois Legislature on the Deregulation of Telephone Service*. Prepared for the Select Joint Subcommittee on Regulatory Reform (July 1984).

McDermott, K.A. *The Review of Existing Power Plant Certificates, Monitoring of Power Plant Costs and the Allocation of Power Plant Cancellation Costs*. Presented to the Sunset Task Force on Utility Regulatory Reform (January 1984).

McDermott, K.A. *Utility Efficiency Report Subtask IX - Final report in Incentive Mechanisms*. Prepared for the Illinois Commerce Commission (May 1981).

McDermott, K.A. *Utility Efficiency Report Subtask IV - Evaluation and Choice of Incentive Mechanisms*. Illinois Commerce Commission for the U.S. Department of Energy (July 1980).

McDermott, K.A. *Utility Efficiency Report Subtask II - Review of Existing Incentive Mechanisms*. Illinois Commerce Commission for the U.S. Department of Energy (March 1980).

McDermott, K.A. and K. Kelly. *Estimating Fuel Prices, a Memorandum to the Virginia State Corporation Commission*. National Regulatory Research Institute (1979).

McDermott, K.A. *Summary of Regulatory Commission Activities on Power Plant Productivity*. The National Regulatory Research Institute draft report for the U.S. Department of Energy (1979).

### Unpublished Papers

McDermott, K.A. *The Reichbanks' Reaction Function During the Hyperinflation: An Alternative Test of the Causes of the Hyperinflation*. (December 1987)

McDermott, K.A. *How Real Was The German Hyperinflation: A Reexamination of the Demand for Money Employing a Fully Specified Demand Function*. (October 1987)

- McDermott, K.A. *Bubbles During the Hyperinflation: An Empirical Test of the Interaction of the Double Bubble in Exchange Markets and Prices in Germany.* (September 1987)
- McDermott, K.A. *Evaluating the Causes of the Hyperinflation: A Reexamination of Monetary Policy and Theoretical Debates Concerning the Factors Affecting the German Money Supply from 1919 to 1923.* (August 1987)
- McDermott, K.A. *Decentralization vs. Coordination: An Examination of the Options for Deregulating the Electric Supply Industry.* (June 1985)
- McDermott, K.A. *Applied Fairness Theory: The Case of Allocating Canceled power Plant Costs.* (October 1983)
- McDermott, K.A. *In the Rational Expectations Equilibrium Business Cycle Theory a Neo-Austrian Theory?* (October 1983)
- McDermott, K.A. *An Examination of the Policy Alternatives for a Small Open Economy Experiencing a Trade Boom: The Case of Sterilization, Credit Rationing and Profit Taxation.* (August 1983)
- McDermott, K.A. *The Transmission of Monetary Shocks to Real Variables in the Business Cycle.* (July 1983)
- McDermott, K.A. *The Economics of Revolutions: A Club Theoretic Approach and a Case Study of England, 1642-1649.* (Summer 1983)
- McDermott, K.A. *Interest Rates, Market Efficiency and Expectations: The Effectiveness of Monetary Policy.* (April 1983)
- McDermott, K.A. *Towards Developing a Framework for Evaluating Incentive Mechanisms, Performance Measures and Institutional Choice in Deregulation.* (August 1981)
- McDermott, K.A. *A Critique of the Averch-Johnson Bias and a Test of Some Alternative Hypotheses.* Master Thesis submitted to the Graduate School of the University of Wyoming. (July 1978)
- McDermott, K.A. *An Overview of the Theories of Regulation and Pricing Policies for Regulated Industries.* The National Regulatory Institute (1979).

#### **Presentations**

- McDermott, K.A. *A Conflict of Paradigms: The Future Role of State Regulation of the Natural Gas Industry.* Presented to the Midwest Gas Association (November

6, 1991).

McDermott, K.A. *Exit and Entry: Who Will Bear the Risk in a Competitive Natural Gas Industry.* Presented at the conference "At the Crossroads: Restructuring the Natural Gas Industry," held by The Center for Regulatory Studies (October, 1991).

McDermott, K.A. "To Serve Man" - *The Golden Rule or a Visit to the Twilight Zone: How to Reconcile the Obligation to Serve with Competitive Market Forces.* Presented to the Gas Policy Committee of the Illinois Commerce Commission (April 16, 1991).

McDermott, K.A. and D.W. South. *Regulatory Treatment of Emissions Trading Decisions and Their Effect on Marketplace Incentives.* Presented at the Notice of Inquiry Public Hearing, Illinois Commerce Commission (March 1991).

McDermott, K.A. *The National Energy Strategy: Impacts on the Farm Sector.* Presented to the Illinois Farm Bureau Leadership Conference (February 1991).

McDermott, K.A. and D.W. South. *Emissions Trading in the CAAA of 1990: Regulatory, Compliance Planning and Implementation Issues.* Presented to the Illinois Commerce Commission (January 1991).

McDermott, K.A. *Obligations to Serve and Competition in the Natural Gas Industry.* Luncheon presentation at the conference "Assessing the Competitiveness of the Natural Gas Industry," held by The Center for Regulatory Studies (October 1990).

McDermott, K.A. *Pricing in an Age of Opportunism: The Cost of Being a Provider of Last Resort.* Presented at the conference "Natural Gas Supply Planning: The Implications for Planning Pricing and Competition," held by The Center for Regulatory Studies (March 1990).

McDermott, K.A. *Public Utility Issues: Long and Short-Term Impacts.* Presented to The Illinois Farm Bureau Leadership Conference (February 1990).

McDermott, K.A. *Uncertainty in the Least-Cost Planning Process: The Case of Natural Gas.* Presented at the conference "Issues in Least Cost Planning in the Natural Gas Industry," held by The Center for Regulatory Studies (December 21, 1989).

McDermott, K.A. and M.J. Morey. *How Fool was the German Hyperinflation? An Examination of the Factors Determining the German Money Supply, Demand and Prices Between 1920 and 1923.* Presented to the Economic History Workshop at the University of Illinois (December 1986).

*Since joining the Commission, Commissioner McDermott has given over one-hundred presentations on a variety of topics in the telecommunications, electricity and natural gas industries.*

## Testimony

Testimony to Illinois General Assembly joint committee on electricity deregulation Summer 1997.

Illinois Public Utilities Committee Telecommunications Subcommittee, Alternative Methods of Telecommunications Regulation, March 27, 1991.

Illinois Commerce Commission Docket No. 80-0167 on the use of incentive mechanisms at Clinton power Plant construction site.

Illinois Commerce Commission Docket No. 80-0544 on the use of the variable return to CWIP incentive model in the Illinois Power rate case.

Illinois Commerce Commission Docket No. 80-0167 rebuttal testimony to Dr. Pappas on the use of incentive mechanisms at the Clinton Power Plant site.

Illinois Commerce Commission Docket No. 80-0367 on the treatment of the time of use pricing standards of the Public Utility Regulatory Policy Act (PURPA) for Iowa-Illinois Gas and Electric Company.

Illinois Commerce Commission Docket No. 81-0478 on the use of q-ratios determining the appropriate rate of return for Illinois Bell Telephone Company.

Illinois Commerce Commission Docket No. 81-0478 on the appropriate cost of service method for pricing telecommunication service under the transition to competition.

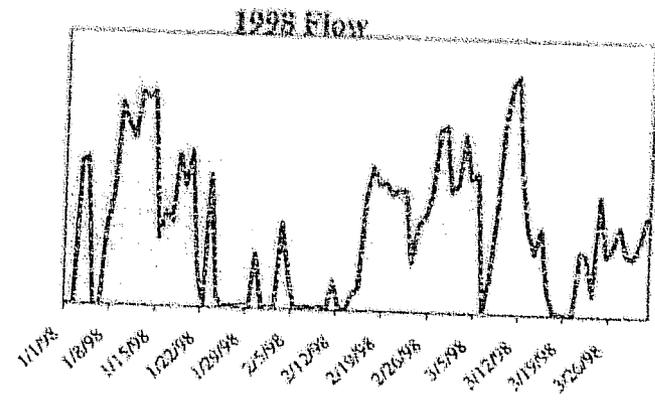
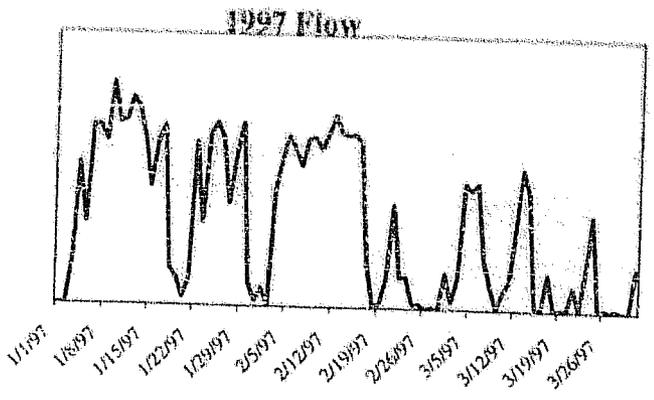
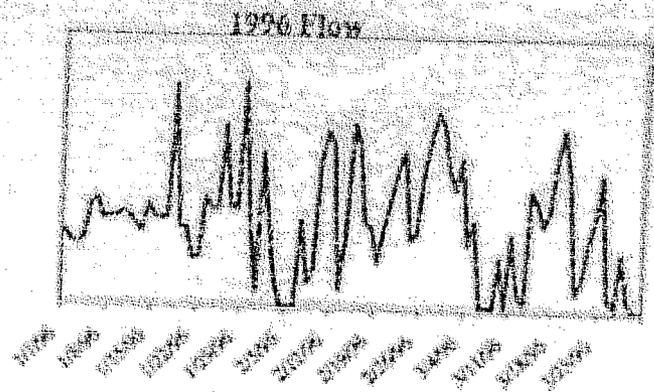
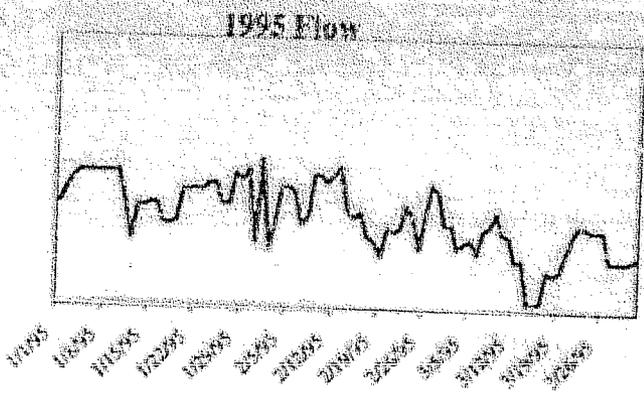
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MidAmerican Energy Company  
 IGSP - South Dakota  
 Summary of Savings

	Nov95 - Apr96	May96 - Oct96	Nov96 - Apr97	May97 - Oct97	Nov97 - Apr98	Total Savings
Reference Price	\$ 19,947,739	\$ 11,689,680	\$ 23,500,009	\$ 13,712,610	\$ 17,447,669	
Actual Costs	\$ 19,010,921	\$ 11,256,933	\$ 22,332,725	\$ 12,876,219	\$ 16,609,716	
Savings	\$ 936,818	\$ 432,746	\$ 1,167,884	\$ 836,391	\$ 837,953	\$ 4,211,792
% Below Reference	5%	4%	5%	6%	5%	
3% of Reference Price	\$ 598,432	\$ 350,690	\$ 705,018	\$ 411,378	\$ 523,430	\$ 2,588,949
Customer Savings	\$ 299,216	\$ 175,345	\$ 352,509	\$ 205,689	\$ 261,715	\$ 1,294,475
Shareholder Savings	\$ 299,216	\$ 175,345	\$ 352,509	\$ 205,689	\$ 261,715	\$ 1,294,475
Total Customer Savings	\$ 637,602	\$ 257,401	\$ 815,375	\$ 630,702	\$ 576,238	\$ 2,917,318



Note: For confidentiality reasons, MidAmerican has excluded the scale illustrating volumes on the charts above.

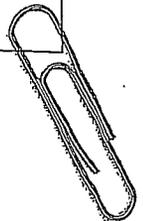
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**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE FILING BY )	ORDER FOR AND NOTICE
MIDAMERICAN ENERGY COMPANY FOR )	OF HEARING
APPROVAL OF CONTINUATION OF THE )	
IGSPP FOR AN ADDITIONAL THREE-YEAR )	NG98-010
PERIOD, OR UNTIL SUCH TIME AS ITS )	
PURCHASED GAS ADJUSTMENT MAY BE )	
ELIMINATED, WHICHEVER COMES FIRST )	

On October 30, 1998, MidAmerican Energy (MidAmerican) filed with the Public Utilities Commission (Commission) an application for approval to continue its Incentive Gas Supply Procurement Program (IGSPP). The Commission approved a three-year IGSPP beginning on November 1, 1995, on an experimental basis. MidAmerican requests that the Commission "continue the program for the later of an additional three-year period or until such time as its purchased gas adjustment may be eliminated, whichever comes first."

The Commission has jurisdiction over this matter pursuant to SDCL Chapters 1-26 and 49-34A, specifically 1-26-17.1, 49-34A-4, 49-34A-6, 49-34A-8, 49-34A-10, 49-34A-11, 49-34A-12, 49-34A-13, 49-34A-13.1, 49-34A-17, 49-34A-19, and 49-34A-21. The parties have agreed to the following procedural schedule:

<b>DATE</b>	<b>PROCEDURAL SCHEDULE</b>
June 17, 1999	Staff's Prefiled Testimony Due
June 30, 1999	MidAmerican Rebuttal Testimony Due

A hearing shall be held at 9:00 a.m., on July 7, 1999, in Room 412, State Capitol Building, 500 East Capitol, Pierre, South Dakota. All persons testifying shall be subject to cross-examination.

The issue at the hearing is whether the Commission shall grant MidAmerican's request to continue the IGSPP for the later of an additional three-year period, or until such time as its purchased gas adjustment may be eliminated, whichever comes first.

The hearing shall be an adversary proceeding conducted pursuant to SDCL Chapter 1-26. All parties have the right to be present and to be represented by an attorney. These rights and other due process rights shall be forfeited if not exercised at the hearing. If you or your representative fail to appear at the time and place set for the hearing, the Final Decision will be based solely on the testimony and evidence provided, if any, during the hearing or a Final Decision may be issued by default pursuant to SDCL

1-26-20. After the hearing the Commission will consider all evidence and testimony that was presented at the hearing. The Commission will then enter Findings of Fact, Conclusions of Law, and a Final Decision regarding this matter. As a result of this hearing, the Commission shall determine whether it shall grant Mid American's request to continue the IGSPG for the later of an additional three-year period, or until such time as its purchased gas adjustment may be eliminated, whichever comes first. The Commission's Final Decision may be appealed by the parties to the state Circuit Court and the state Supreme Court as provided by law. It is therefore

ORDERED that the procedural schedule set forth above shall be followed by all parties to these proceedings. It is further

ORDERED that the hearing shall be held at 9:00 a.m., on July 7, 1999, in Room 412, State Capitol Building, 500 East Capitol, Pierre, South Dakota.

Pursuant to the Americans with Disabilities Act, this hearing is being held in a physically accessible location. Please contact the Public Utilities Commission at 1-800-332-1782 at least 48 hours prior to the hearing if you have special needs so arrangements can be made to accommodate you.

Dated at Pierre, South Dakota, this 15<sup>th</sup> day of June, 1999.

<b>CERTIFICATE OF SERVICE</b>	
The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.	
By:	<u>Melanie Kalko</u>
Date:	<u>6/15/99</u>
(OFFICIAL SEAL)	

BY ORDER OF THE COMMISSION

James A. Burg  
JAMES A. BURG, Chairman

Pam Nelson  
PAM NELSON, Commissioner

Laska Schoenfelder  
LASKA SCHOENFELDER, Commissioner



# South Dakota Public Utilities Commission



State Capitol Building, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070

June 17, 1999

Mr. J. Gregory Porter  
Senior Attorney  
MidAmerican Energy Company  
P. O. Box 657  
Des Moines, IA 50303-0657

Re: In the Matter of the Filing by MidAmerican  
Energy Company for Continuation of its  
Incentive Gas Supply Procurement Program  
Docket NG98-010

Dear Mr. Porter:

Enclosed you will find a copy of the Testimony of David A. Jacobson in the above  
entitled matter. This is intended as service upon you by mail.

Very truly yours,

Camron Hoseck  
Staff Attorney

CH:dk  
Enc.

Capitol Office  
Telephone (605) 773-3201  
FAX (605) 773-3809

Transportation/  
Warehouse Division  
Telephone (605) 773-5280  
FAX (605) 773-3225

Consumer Hotline  
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TTY Through  
Blair, South Dakota  
1-800-877-1113

Internet Website  
[www.puc.state.sd.us/puc/](http://www.puc.state.sd.us/puc/)

Jim Burg  
Chairman  
Pat Nelson  
Vice Chairman  
Linda Schoenfelder  
Commissioner

William Bullard Jr.  
Executive Director

Hilary Best  
Martin E. Bettmann  
Sue Cichos  
Karen E. Crence  
Michele M. Farris  
Margaret Fuchsbach  
Shirley Fogun  
Loren Hammond  
Lara Healy  
Camron Hoseck  
Lisa Hull  
Dave Jacobsen  
Katie Johnson  
Bob Kinsale  
Debra Kollo  
Jeffrey P. Larsen  
Charles Lund  
Terry Moran  
Gregory A. Rislov  
Keith Senger  
Kathryn Aills Wiest

CONFIDENTIAL

# [4]

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Testimony of David A. Jacobson was served on the following by mailing the same to him by United States Post Office First Class 14c postage thereon prepaid, at the address shown below on this the 17th day of June, 1988.

J. Gregory Porter  
Senior Attorney  
MidAmerican Energy Company  
P. O. Box 657  
Des Moines, IA 50303-0657



---

Delaine Kolbo  
Legal Secretary  
South Dakota Public Utilities Commission  
600 East Capitol  
Pierre, SD 57501





MidAmerican  
ENERGY

MidAmerican Energy Company, Inc. 10000  
MidAmerican Energy Company, Inc. 10000  
MidAmerican Energy Company, Inc. 10000

MidAmerican Energy  
656 Grand Avenue  
P.O. Box 857  
Des Moines, Iowa 50309-0857

June 28, 1999

RECEIVED

JUL 01 1999

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

FAX Received JUN 28 1999

SENT VIA FACSIMILE TRANSMITTAL

Mr. William Bullard, Jr.  
Executive Secretary  
South Dakota Public Utilities  
Commission  
300 East Capital Avenue  
Pierre, South Dakota 57501

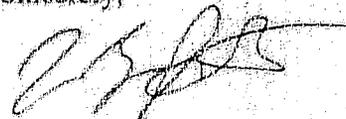
RE: Procedural Schedule in MidAmerican Docket No. NG98-010

Dear Mr. Bullard:

Pursuant to a discussion between Cameron Hoseck and Suzan M. Stewart (of MidAmerican) this date, MidAmerican and SDPUC Staff jointly request the procedural schedule established by the Commission in this proceeding be held in abeyance. The aforementioned abeyance is necessary for the parties to further pursue a potential settlement in this proceeding and for Staff to complete its analysis.

MidAmerican and Staff will notify the Commission as soon as practical after the expiration of the time in which Staff and MidAmerican reach an agreement or the settlement discussions are terminated.

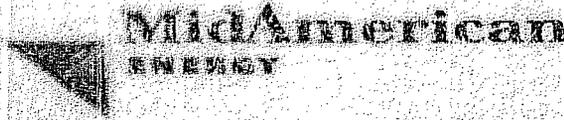
Sincerely,



J. Gregory Porter  
Senior Attorney  
281-2641

cc: [unclear]  
Enclosures

cc: Cameron Hoseck



**FACSIMILE COVER SHEET**

To:	Name/Company	Fax No.	Phone No.
(1)	Cameron Hoseck	(605) 773-3809	
(2)			
(3)			
(4)			

**From:** J. Gregory Porter  
**Company:** MidAmerican Energy Company  
**Phone:** (515)281-2641  
**Fax:** (515)281-2970  
**Address:** 666 Grand Avenue  
 P.O. Box 657  
 Des Moines, IA 50303

**Date:** 6/29/99  
**Pages including this cover page:** 2

**Comments:**

*If you experience any problems with this transmission or have any questions, please call (515)281-2650.*

**CONFIDENTIALITY NOTICE.** Unless otherwise indicated or obvious from the nature of the transmittal, the information contained in this facsimile message is attorney privileged and/or confidential information intended for the use of the individual or entity named above. If the reader of this message is not the intended recipient, or the employee or agent responsible to deliver it to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify the sender by telephone and return the original message to Traci Hyman at the above address via the U.S. Postal Service at his expense. Thank you.

**MidAmerican**  
ENERGY

MidAmerican Energy  
669 Grand Avenue  
P.O. Box 657  
Des Moines, Iowa 50303-0657

June 24, 1998

SENT VIA FACSIMILE TRANSMITTAL

Rolayne Ailre Wiest  
General Counsel  
South Dakota Public Utilities Commission  
503 West Capitol Avenue  
Pierre, SD 57501-5070

RE: In the Matter of the Filing by MidAmerican Energy Company for  
Continuation of its Incentive Gas Supply Procurement Program Docket  
NG98-010

Dear Rolayne:

In response to your letter dated June 24, 1998, no data requests were sent by  
MidAmerican in Docket No. NG98-010 nor were any responses received from staff to  
Commission Advisor, Greg Rislov.

Sincerely,



J. Gregory Porter  
Senior Attorney  
281-2641

JGP:ah

cc: Cannon Hoxack

LAW OFFICES  
MAY, ADAM, GERDES & THOMPSON LLP  
503 SOUTH PIERRE STREET  
P. O. BOX 160  
PIERRE, SOUTH DAKOTA 57501-0160

WARREN W. MAY  
OF COUNSEL  
MAY, ADAM, GERDES & THOMPSON LLP  
503 SOUTH PIERRE STREET  
PIERRE, SOUTH DAKOTA 57501-0160  
TELEPHONE 605-224-8803  
TELECOPIER 605-224-6289  
F-MAIL dag@magt.com

OF COUNSEL  
WARREN W. MAY

June 29, 1999

RECEIVED

JUN 30 1999

TELEPHONE  
605-224-8803  
TELECOPIER  
605-224-6289  
F-MAIL  
dag@magt.com

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

Mr. William Bullard, Jr.  
Executive Director  
Public Utilities Commission  
State Capitol  
500 East Capitol  
Pierre, South Dakota 57501

RE: MIDAMERICAN ENERGY COMPANY; INCENTIVE GAS SUPPLY  
PROCUREMENT PLAN  
Docket No: NG98-010  
Our file: 0209

Dear Bill:

Enclosed you will find an original Notice of Appearance which I would ask that you please file in this matter. When my secretary called the Public Utilities Commission she was told there is no service list yet, so service on no other parties was made. If this is incorrect, please let me know. Thank you.

Yours truly,

MAY, ADAM, GERDES & THOMPSON LLP

BY:   
WARREN W. MAY

Enclosure

cc/jac: J. Gregory Forter  
Susan Stewart

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA

IN RE: ) DOCKET NO: NG98-010  
)  
MIDAMERICAN ENERGY COMPANY ) NOTICE OF APPEARANCE

TO THE PARTIES IN THIS PROCEEDING AND THEIR COUNSEL:

YOU WILL PLEASE TAKE NOTICE that the undersigned appears as local counsel for MidAmerican Energy Company, together with J. Gregory Porter, a nonresident attorney admitted pro hac vice, in the above-entitled matter. Please direct copies of all filings and pleadings to the undersigned and Mr. Porter, whose address is:

J. Gregory Porter  
Senior Attorney  
MidAmerican Energy Company  
666 Grand Avenue, 28<sup>th</sup> Floor  
Des Moines, Iowa 50309  
Telephone: 515-281-2641  
Telescopier: 515-281-2970

Dated this 29 day of June, 1999.

MAY, ADAM, GERDES & THOMPSON LLP

BY:   
DAVID A. GERDES  
Attorney for MidAmerican Energy Company  
503 South Pierre Street  
P.O. Box 160  
Pierre, South Dakota 57501-0160  
Telephone: (605) 224-8803  
Telefax: (605) 224-6289

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

IN THE MATTER OF THE FILING BY )	ORDER CANCELLING
MIDAMERICAN ENERGY COMPANY FOR )	HEARING AND
APPROVAL OF CONTINUATION OF THE )	SUSPENDING
IGSPP FOR AN ADDITIONAL THREE-YEAR )	PROCEDURAL SCHEDULE
PERIOD, OR UNTIL SUCH TIME AS ITS )	
PURCHASED GAS ADJUSTMENT MAY BE )	NG98-010
ELIMINATED, WHICHEVER COMES FIRST )	

On October 30, 1998, MidAmerican Energy (MidAmerican) filed with the Public Utilities Commission (Commission) an application for approval to continue its Incentive Gas Supply Procurement Program (IGSPP). The Commission approved a three-year IGSPP beginning on November 1, 1995, on an experimental basis. MidAmerican requests that the Commission "continue the program for the later of an additional three-year period, or until such time as its purchased gas adjustment may be eliminated, whichever comes first."

On June 15, 1999, the Commission issued an Order for and Notice of Hearing that established a procedural schedule. The procedural schedule set a hearing date of July 7, 1999.

On June 23, 1999, the Commission received a letter from Gregory Porter, an attorney representing MidAmerican, that states MidAmerican and Staff jointly request the procedural schedule be held in abeyance pending potential settlement and further Staff analysis.

The Commission has jurisdiction over this matter pursuant to SDCL Chapters 1-26 and 49-34A, specifically 1-26-17.1, 49-34A-4, 49-34A-6, 49-34A-8, 49-34A-10, 49-34A-11, 49-34A-12, 49-34A-13, 49-34A-13.1, 49-34A-17, 49-34A-19, and 49-34A-21.

Based on MidAmerican's letter, the Commission shall cancel the hearing set for July 7, 1999, which was scheduled to hear the testimony of the parties, and shall suspend the procedural schedule indefinitely pending further settlement discussions and Staff analysis.

It is therefore

**ORDERED**, that the hearing scheduled for July 7, 1999, is cancelled; and it is

**FURTHER ORDERED**, that the procedural schedule shall be suspended indefinitely pending further word from the parties.

Dated at Pierre, South Dakota, this 2nd day of July, 1999.

<b>CERTIFICATE OF SERVICE</b>	
The undersigned hereby certifies that this document has been served today upon all parties of record in this matter, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.	
<i>Melvin Kalks</i>	
7/2/99	
(OFFICIAL SEAL)	

BY ORDER OF THE COMMISSION:

*James A. Burg*  
\_\_\_\_\_  
JAMES A. BURG, Chairman

*Pam Nelson*  
\_\_\_\_\_  
PAM NELSON, Commissioner

*Laska Schoenfelder*  
\_\_\_\_\_  
LASKA SCHOENFELDER, Commissioner

# South Dakota Public Utilities Commission

State Capitol Building, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070



July 2, 1999

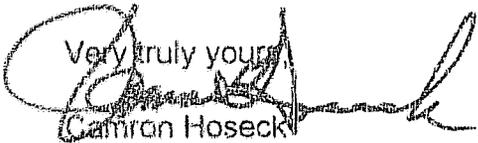
Greg Rislov  
Commission Advisor  
South Dakota Public Utilities Commission  
500 E. Capitol  
Pierre, SD 57501

Re: Docket NG98-010

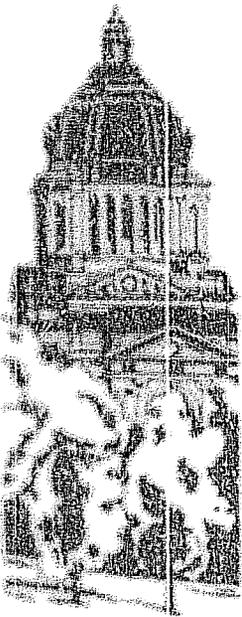
Dear Mr. Rislov:

I am in receipt of a letter dated June 24, 1999 from Rolayne Wiest wherein Commission advisory staff requests all data requests and responses to them in this case. It is my position that this request cannot be met unconditionally. The reason is that data requests, and the responses to them, are discovery between staff and the utility. They are not part of the record and do not become evidence unless they are stipulated into the record or otherwise put in the record to become part of the evidence ultimately considered by the Commission. Accordingly, they should not be considered in the decision making process by the Commission, directly or indirectly, until they are part of the record and the parties have the opportunity to object, cross examine or do whatever they deem necessary to protect their record. SDCL 1-26-19 (1) provides that the usual rules of evidence shall be followed in contested administrative cases. Basic due process rights also come into play.

I am willing to provide this information to you, however, provided there is a clear understanding somehow made part of the administrative record that the information contained in the requests and responses will not be used by the Commission or their advisors in reaching a decision unless that information is formally made part of the record. A concurrence with this letter, filed in the docket, would be all that is necessary.

Very truly yours,  
  
Camron Hoseck  
Staff Attorney

cc: Greg Porter (via fax)  
Dave Jacobson



Capitol Office  
Telephone (605) 773-3201  
FAX (605) 773-1809

Transportation/  
Warehouse Division  
Telephone (605) 773-5280  
FAX (605) 773-3225

Customer Hotline  
1-800-432-1782

TTY Through  
Relay South Dakota  
1-877-877-1111

Internet Website  
[www.puc.state.sd.us/puc/](http://www.puc.state.sd.us/puc/)

Jim Berg  
Chairman  
Pam Nelson  
Vice Chairman  
Linda Nilsenfelder  
Commissioner

William Blument Jr.  
Executive Director

Walter Egan  
Scottie C. Bergmann  
Sue E. Cohen  
Karen E. Conner  
Michelle M. Farn  
Madeline Fiebach  
Shirley Fights  
Laver Hammond  
Leon Healy  
Camron Hoseck  
Lisa Hull  
Dave Jacobson  
Kate Johnson  
Bob Knutle  
Patricia Kothe  
Jeffrey P. Loverson  
Sharon Lund  
Lerry Martin  
Gregory A. Miller  
Keith Senger  
Rebecca Ann West

LAW OFFICES  
MAY, ADAM, GERDES & THOMPSON LLP  
503 SOUTH PIERRE STREET  
P.O. BOX 160  
PIERRE, SOUTH DAKOTA 57501-0160

WARREN W. MAY 1945-1998  
DORIS M. ADAM 1945-1998  
DAVID A. GERDES  
CHARLES H. THOMPSON  
ROBERT B. ANDERSON  
BRENT A. WILSON  
TIMOTHY M. ENGEL  
MICHAEL P. SHAW  
NEIL FULTON

July 6, 1999

OF COUNSEL:  
WARREN W. MAY

TELEPHONE  
605 224-8603  
TELECOPIER  
605 224-6289

E-MAIL  
dag@magt.com

RECEIVED

JUL 07 1999

Mr. William Bullard, Jr.  
Executive Director  
Public Utilities Commission  
State Capitol  
500 East Capitol  
Pierre, South Dakota 57501

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

RE: MIDAMERICAN ENERGY COMPANY; INCENTIVE GAS SUPPLY  
PROCUREMENT PLAN  
Docket No: NG98-010  
Our file: 0209

Dear Bill:

Enclosed is a certified copy of an order admitting Greg Porter to practice pro hac vice in the above-entitled matter. Please file the enclosure.

Yours truly,

MAY, ADAM, GERDES & THOMPSON LLP

BY: 

DAG:rw

Enclosure

cc/enc: J. Gregory Porter

RECEIVED

JUL 07 1999

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

IN RE:	)	DOCKET NO: NG98-010
	)	
MIDAMERICAN ENERGY COMPANY	)	ORDER TO ADMIT NONRESIDENT
	)	ATTORNEY PRO HAC VICE

Upon the application of J. Gregory Porter to appear pro hac vice in the above-entitled administrative proceeding pursuant to SDCL § 16-18-2, it appearing that said nonresident attorney meets the qualifications of SDCL § 16-18-2 and that he is full-time employee not requiring an application to the South Dakota Department of Revenue for a sales tax license, and upon motion of David A. Gerdes, a resident attorney and a member of the Bar of this Court in good standing, and good cause appearing, it is

ORDERED AND ADJUDGED that J. Gregory Porter be, and he is hereby, authorized to appear as an attorney for MidAmerican Energy Company in the above-entitled proceeding before the South Dakota Public Utilities Commission.

Dated this 30 day of June, 1999.

BY THE COURT:

*[Handwritten Signature]*  
\_\_\_\_\_  
Circuit Court Judge

ATTEST:

*Mary L. Erickson*  
\_\_\_\_\_  
Clerk of Courts  
*by Sara McEntaffer*  
(SEAL)  
Deputy

STATE OF SOUTH DAKOTA  
CIRCUIT COURT, HUGHES CO.

FILED

JUN 30 1999

*Mary L. Erickson* CLERK  
by *[Signature]* Deputy

State of South Dakota }  
County of Hughes } ss

I hereby certify that the foregoing instrument is a true and correct copy of the original on file in my office.

Dated this day of July, 1999.

MARY L. ERICKSON, Clerk of Courts  
by *Sara McEntaffer*  
Clerk of Courts, Deputy

**MidAmerican**  
**ENERGY**

AT YOUR SERVICE™

MidAmerican Energy  
666 Grand Avenue  
P.O. Box 657  
Des Moines, Iowa 50303-0657

August 11, 1999

SENT VIA OVERNIGHT DELIVERY

Camron Heseck  
South Dakota Public Utilities  
Commission  
500 East Capital Avenue  
Pierre, South Dakota 57501-5070

RECEIVED

AUG 12 1999

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

RE: Docket No. NG98-010

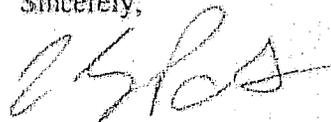
FAX Received AUG 11 1999

Dear Camron:

In accordance with our earlier telephone discussions, enclosed please find the original executed copies of the Joint Motion for Approval of Settlement Agreement and the Settlement Stipulation. Please sign where indicated and file the original with the South Dakota Public Utilities Commission. I would appreciate it if you would return a file-stamped copy to me in the enclosed envelope.

If you have any questions, please give me a call at (515) 281-2641.

Sincerely,



J. Gregory Porter  
Senior Attorney

JGP/ah  
Enclosures

cc: Jim Howard  
Mark Hewett

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE  
STATE OF SOUTH DAKOTA

IN THE MATTER  
OF THE APPLICATION OF  
MIDAMERICAN ENERGY COMPANY  
FOR AUTHORITY TO CONTINUE  
ITS INCENTIVE GAS SUPPLY  
PROCUREMENT PLAN IN  
SOUTH DAKOTA

DOCKET NO. NG98-010

**JOINT MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT**

COME NOW, MidAmerican Energy Company ("MidAmerican Energy") and the Staff of the South Dakota Public Utilities Commission ("Commission Staff"), jointly referred to as "Parties," and propose that the South Dakota Public Utilities Commission ("Commission") adopt the attached Settlement Stipulation ("Stipulation") as the settlement and resolution of all of the issues raised regarding MidAmerican's request to continue the Incentive Gas Supply Procurement Plan initially approved by the Commission in MidAmerican Docket No. NG95-006. In support of this motion, the Parties submit as follows:

1. This Motion is made pursuant to ARSD 20:10:01:19.
2. The Stipulation resolves all of the issues in Docket No. NG98-010.
3. The Stipulation represents a negotiated settlement of specific issues in this proceeding. The terms of the Settlement Stipulation agreed upon are, to the belief of the Parties, just, fair and reasonable and consistent with South Dakota law. The Parties respectfully request the Commission approve the Stipulation.

WHEREFORE, for the foregoing reasons, the undersigned parties jointly request the South Dakota Public Utilities Commission to adopt the attached Settlement Stipulation without modification for the purposes of resolving the specific issues in Docket No. NH98-010.

MidAmerican Energy Company

BY:   
\_\_\_\_\_  
J. Gregory Porter  
Senior Attorney  
666 Walnut  
Des Moines, IA 50309

South Dakota Public Utilities Commission

BY:   
\_\_\_\_\_  
Camron Hoseck  
Attorney  
State Capitol Building  
500 East Capitol Building  
Pierre, SD 57501-5070

DATED: August 11, 1999

DATED: 8/11/99

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE  
STATE OF SOUTH DAKOTA

RECEIVED

AUG 12 1999

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

IN THE MATTER  
OF THE APPLICATION OF  
MIDAMERICAN ENERGY COMPANY  
FOR AUTHORITY TO CONTINUE  
ITS INCENTIVE GAS SUPPLY  
PROCUREMENT PLAN IN  
SOUTH DAKOTA

DOCKET NO. NG98-010

FAX Received AUG 11 1999

**I. SETTLEMENT STIPULATION**

On or about October 30, 1998, MidAmerican Energy Company ("MidAmerican") filed with the South Dakota Public Utility Commission ("Commission") a Request for the Continuation of the Incentive Gas Supply Procurement Plan ("IGSPP") initially approved by the Commission in Docket No. NG95-006, *Final Decision and Order* (November 8, 1995). MidAmerican's Request for Continuation asked the Commission to grant authority to continue the IGSPP as approved by the Commission for an additional three year period commencing on November 1, 1998, and continuing through October 31, 2001.

The Commission Staff ("Commission Staff") and MidAmerican (jointly the "Parties") submitted prepared direct testimony pursuant to the Commission's procedural schedule established for this document. Thereafter, the Parties on or about June 28, 1999, requested the Commission to hold the procedural schedule in abeyance while the Parties pursued a potential settlement. As a result of settlement discussions, the Parties have been able to resolve all issues in this proceeding. The

Parties have entered into this Settlement Stipulation ("Stipulation"), which, if accepted and ordered by the Commission, reinstates the IGSPF, as modified, for a three-year period, commencing November 1, 1999.

## II. PURPOSE

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving all issues in Docket No. NG98-010. The Parties understand and agree that the proposals, positions, and adjustments made or obtained in this Stipulation, whether express or implied, are made or obtained only through the spirit of compromise. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

1. Upon execution of this Stipulation, the Parties shall immediately file this Stipulation with the Commission together with a joint motion requesting that the Commission issue an order approving this Stipulation in its entirety without condition or modification.

2. This Stipulation includes all terms of settlement and is submitted with the condition that in the event the Commission imposes any changes in or conditions to this Stipulation which are unacceptable to either party, this Stipulation shall be deemed withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose.

3. This Stipulation shall become binding upon execution by the Parties, provided however, that if this Stipulation does not become effective in accordance with Paragraph 2. above, it shall be null and void. This Stipulation is intended to relate only to the specific matters referred to herein; no party waives any claim or right which it may

otherwise have with respect to any matter not expressly provided for herein; no party shall be deemed to have approved, accepted, agreed or consented to any rate making principle underlying the provisions of this Stipulation or be prejudiced or bound thereby in any other current or future proceeding before the Commission. No party or representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission referring to this Stipulation as precedent in any other current or future rate proceeding before the Commission.

4. The Parties to this proceeding stipulate that all prefiled testimony and exhibits be made a part of the record in this proceeding. The Parties understand that if this matter had not been settled, MidAmerican would have filed rebuttal testimony responding to certain of the positions contained in the direct testimony of Commission Staff.

5. It is understood that Commission Staff enters into this Stipulation for the benefit of MidAmerican's South Dakota customers affected hereby.

### III. ELEMENTS OF THE SETTLEMENT STIPULATION

1. The Parties agree to modify the tolerance band and the proportion in which customers and MidAmerican share costs and savings resulting from gas costs falling above or below the tolerance band consistent with Illustration A, which is incorporated herein by this reference.

2. The reinstated IGSP, as modified, will commence November 1, 1999, and continue for a period of three years through October 31, 2002.

3. The Parties agree the calculation and performance of the IGSP mechanism shall be consistent with the manner in which the IGSP was calculated and performed during the initial three year term<sup>1</sup>.

4. The Parties agree that in all other respects, except those set forth above, the calculation and treatment of the IGSP shall be in accordance with the Commission's November 8, 1995, Final Decision and Order in Docket No. NG95-006.

This Stipulation is entered into this 11<sup>th</sup> day of August, 1999.

**MidAmerican Energy Company**

**South Dakota Public Utilities Commission**

BY: 

J. Gregory Porter  
Senior Attorney  
686 Walnut  
Des Moines, IA 50309

BY: \_\_\_\_\_

Camron Hoseck  
Attorney  
State Capitol Building  
500 East Capitol Building  
Pierre, SD 57501-5070

DATED: August 11, 1999

DATED: \_\_\_\_\_

<sup>1</sup> For example, during settlement discussions, the Parties clarified that the hedging activity related to winter commodity prices shall, consistent with past practices, be excluded from the calculation of the IGSP. Nonetheless, MidAmerican will continue, consistent with past practices, to include in the IGSP calculation other hedging activity including the hedges associated with MidAmerican's leased storage authorization program.

3. The Parties agree the calculation and performance of the IGSP mechanism shall be consistent with the manner in which the IGSP was calculated and performed during the initial three year term<sup>1</sup>.

4. The Parties agree that in all other respects, except those set forth above, the calculation and treatment of the IGSP shall be in accordance with the Commission's November 8, 1995, Final Decision and Order in Docket No. NG95-006.

This Stipulation is entered into this 11<sup>th</sup> day of August, 1999.

MidAmerican Energy Company

South Dakota Public Utilities Commission

BY: J. Gregory Porter  
J. Gregory Porter  
Senior Attorney  
655 Walnut  
Des Moines, IA 50309

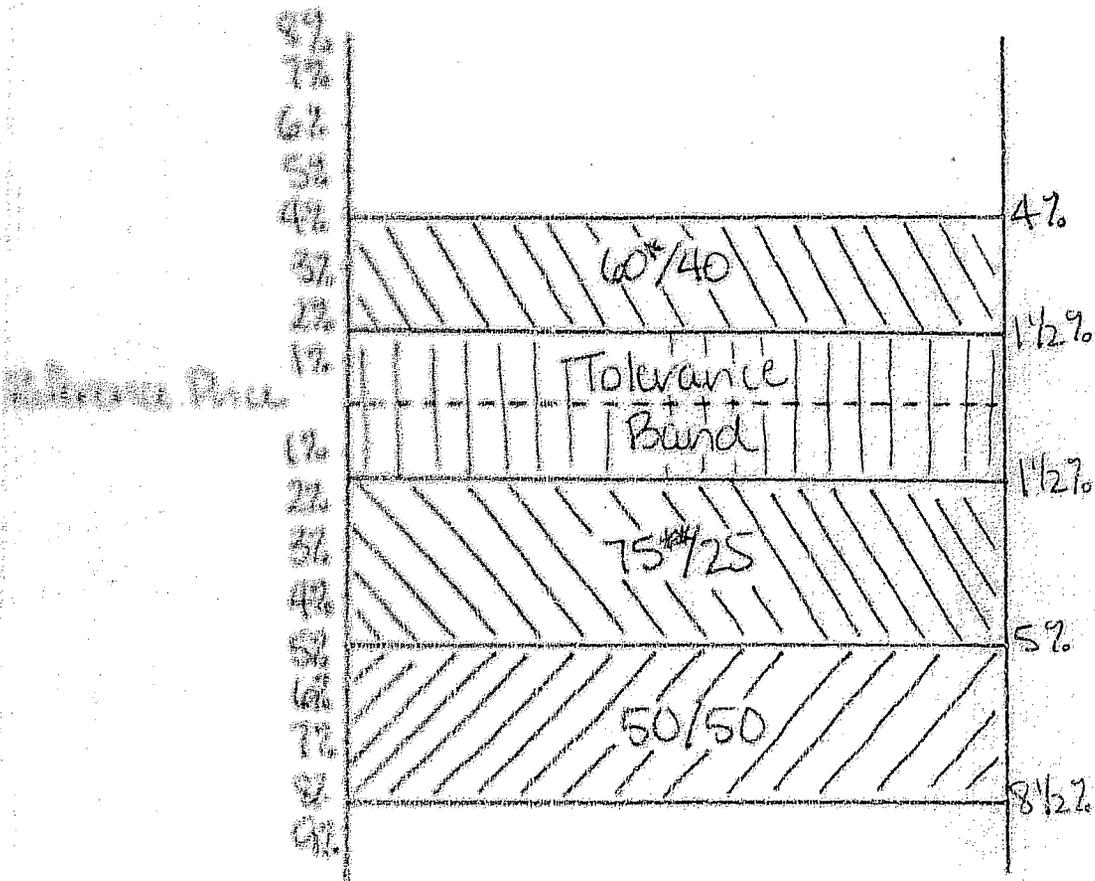
BY: Carron Hoseck  
Carron Hoseck  
Attorney  
State Capitol Building  
500 East Capitol Building  
Pierre, SD 57501-5070

DATED: August 11, 1999

DATED: 8/11/99

<sup>1</sup> For example, during settlement discussions, the Parties clarified that the hedging activity related to winter necessary purchases shall, consistent with past practices, be excluded from the calculation of the IGSP. Nonetheless, MidAmerican will continue, consistent with past practices, to include in the IGSP calculation other hedging activity including the hedging associated with MidAmerican's leased storage authorization program.

# Illustration A



\* 60% Customers  
 \*\* 75% Customers

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE  
STATE OF SOUTH DAKOTA

IN THE MATTER  
OF THE APPLICATION OF  
MIDAMERICAN ENERGY COMPANY  
FOR AUTHORITY TO CONTINUE  
ITS INCENTIVE GAS SUPPLY  
PROCUREMENT PLAN IN  
SOUTH DAKOTA

DOCKET NO. NG98-010

I. SETTLEMENT STIPULATION

On or about October 30, 1998, MidAmerican Energy Company ("MidAmerican") filed with the South Dakota Public Utility Commission ("Commission") a Request for the Continuation of the Incentive Gas Supply Procurement Plan ("IGSPP") initially approved by the Commission in Docket No. NG95-006, *Final Decision and Order* (November 8, 1995). MidAmerican's Request for Continuation asked the Commission to grant authority to continue the IGSPP as approved by the Commission for an additional three year period commencing on November 1, 1998, and continuing through October 31, 2001.

The Commission Staff ("Commission Staff") and MidAmerican (jointly the "Parties") submitted prepared direct testimony pursuant to the Commission's procedural schedule established for this document. Thereafter, the Parties on or about June 28, 1999, requested the Commission to hold the procedural schedule in abeyance while the Parties pursued a potential settlement. As a result of settlement discussions, the Parties have been able to resolve all issues in this proceeding. The

Parties have entered into this Settlement Stipulation ("Stipulation"), which, if accepted and ordered by the Commission, reinstates the IGSP, as modified, for a three-year period, commencing November 1, 1999.

## II. PURPOSE

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving all issues in Docket No. NG98-010. The Parties understand and agree that the proposals, positions, and adjustments made or obtained in this Stipulation, whether express or implied, are made or obtained only through the spirit of compromise. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

1. Upon execution of this Stipulation, the Parties shall immediately file this Stipulation with the Commission together with a joint motion requesting that the Commission issue an order approving this Stipulation in its entirety without condition or modification.

2. This Stipulation includes all terms of settlement and is submitted with the condition that in the event the Commission imposes any changes in or conditions to this Stipulation which are unacceptable to either party, this Stipulation shall be deemed withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose.

3. This Stipulation shall become binding upon execution by the Parties, provided however, that if this Stipulation does not become effective in accordance with Paragraph 2, above, it shall be null and void. This Stipulation is intended to relate only to the specific matters referred to herein; no party waives any claim or right which it may

parties have with respect to any matter not expressly provided for herein; no party shall be deemed to have approved, accepted, agreed or consented to any rate making principle underlying the provisions of this Stipulation or be prejudiced or bound thereby in any other current or future proceeding before the Commission. No party or representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission referring to this Stipulation as precedent in any other current or future rate proceeding before the Commission.

4. The Parties to this proceeding stipulate that all prefiled testimony and exhibits be made a part of the record in this proceeding. The Parties understand that if this matter had not been settled, MidAmerican would have filed rebuttal testimony responding to certain of the positions contained in the direct testimony of Commission Staff.

5. It is understood that Commission Staff enters into this Stipulation for the benefit of MidAmerican's South Dakota customers affected hereby.

### III. ELEMENTS OF THE SETTLEMENT STIPULATION

1. The Parties agree to modify the tolerance band and the proportion in which customers and MidAmerican share costs and savings resulting from gas costs falling above or below the tolerance band consistent with Illustration A, which is incorporated herein by this reference.

2. The reinstated IGSPF, as modified, will commence November 1, 1999, and continue for a period of three years through October 31, 2002.

1. The Parties agree the calculation and performance of the IGSPP shall be consistent with the manner in which the IGSPP was calculated and performed during the initial three year term<sup>1</sup>.

2. The Parties agree that in all other respects, except those set forth above, the calculation and treatment of the IGSPP shall be in accordance with the Commission's November 6, 1995, Final Decision and Order in Docket No. NG95-006.

This Stipulation is entered into this 11<sup>th</sup> day of August, 1999.

MidAmerican Energy Company

South Dakota Public Utilities Commission

  
BY: Gregory Porter  
Senior Attorney  
600 Walnut  
Des Moines, IA 50309

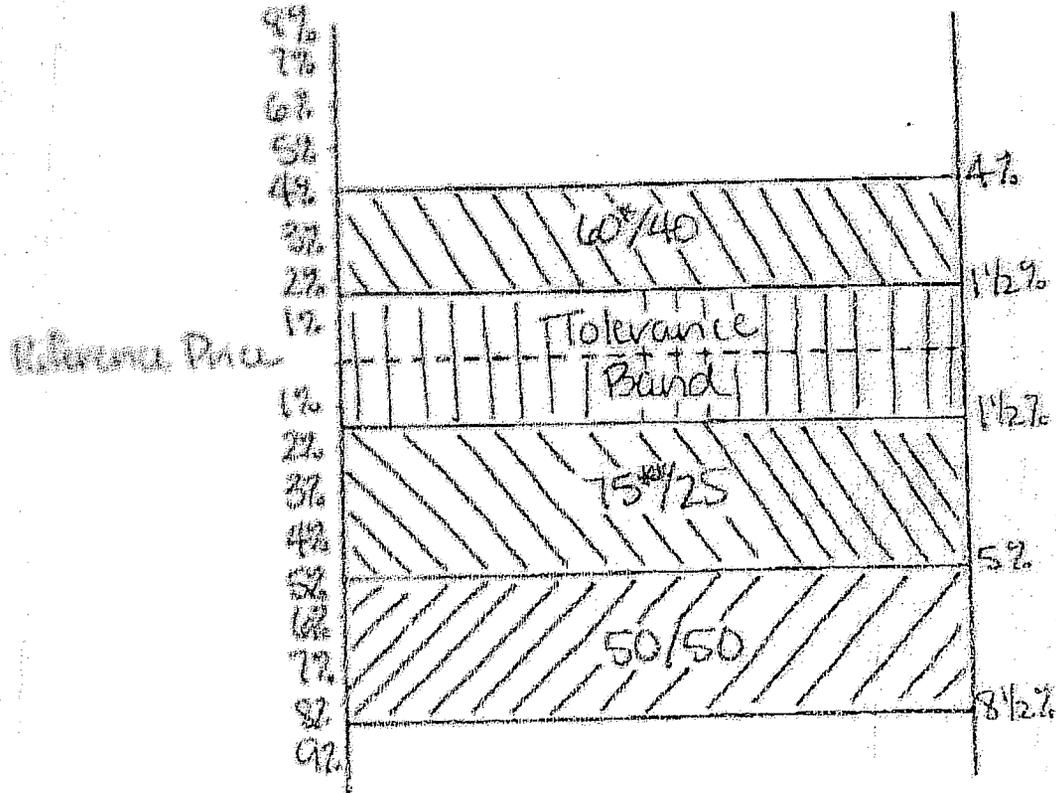
  
BY: Camron Hoseck  
Attorney  
State Capitol Building  
500 East Capitol Building  
Pierre, SD 57501-5070

DATED: August 11, 1999

DATED: 8/11/99

<sup>1</sup> For example, during settlement discussions, the Parties clarified that the hedging activity related to winter energy prices shall, consistent with past practices, be excluded from the calculation of the IGSPP. Nonetheless, MidAmerican will continue, consistent with past practices, to include in the IGSPP calculation other hedging activity including the hedging associated with MidAmerican's leased storage authorization program.

# Illustration A



\* 60% Customers  
 \*\* 75% Customers

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

IN THE MATTER OF THE FILING BY )	FINAL DECISION AND
MIDAMERICAN ENERGY COMPANY FOR )	ORDER
APPROVAL OF CONTINUATION OF THE )	
IGSPP FOR AN ADDITIONAL THREE-YEAR )	NG98-010
PERIOD, OR UNTIL SUCH TIME AS ITS )	
PURCHASED GAS ADJUSTMENT MAY BE )	
ELIMINATED, WHICHEVER COMES FIRST )	

On October 30, 1998, MidAmerican Energy (MidAmerican) filed with the Public Utilities Commission (Commission) an application for approval to continue its Incentive Gas Supply Procurement Program (IGSPP). The Commission had approved a three year IGSPP beginning on November 1, 1995, on an experimental basis. MidAmerican requested that the program be continued.

MidAmerican and Commission Staff filed prefiled testimony. On June 15, 1999, the Commission issued an Order for and Notice of Hearing that established a procedural schedule. The procedural schedule set a hearing date of July 7, 1999. On July 2, 1999, the Commission, upon application of MidAmerican's counsel and concurrence by Commission staff counsel, suspended the procedural schedule and cancelled the scheduled hearing to allow the parties further time to negotiate settlement. On August 11, 1999, MidAmerican and Commission staff filed a Joint Motion for Approval of Settlement Agreement and a Settlement Stipulation which had been reached between them.

No parties sought formal intervention.

On August 17, 1999, at its regularly scheduled meeting, the Commission voted to approve the Settlement Stipulation.

The Commission has jurisdiction over this matter pursuant to SDCL Chapter 49-34A specifically 49-34A-4, 49-34A-6, 49-34A-8, 49-34A-10, 49-34A-11, 49-34A-12, 49-34A-13, 49-34A-19, 49-34A-19.2 and 49-34A-21.

It is therefore

**ORDERED**, that the Settlement Stipulation entered into between MidAmerican and Commission Staff on August 11, 1999, and which is incorporated herein by reference, shall be approved, and it is

**FURTHER ORDERED**, that this docket shall be closed.

Dated at Pierre, South Dakota, this 26<sup>th</sup> day of August, 1999.

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

William Kalbo

8/27/99

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg  
JAMES A. BURG, Chairman

Pam Nelson  
PAM NELSON, Commissioner

Laska Schoenfelder  
LASKA SCHOENFELDER, Commissioner