FILED WITH
Executive Secretary
December 15, 2014
IOWA UTILITIES BOARD

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE:	)
	)
MONTANA MIKE'S STEAKHOUSE;	)
BUENA VISTA COUNTY COURTHOUSE;	) **DOCKET NO. FCU-2014-0015**
BUENA VISTA COUNTY LAW	) **(C-2014-0123,**
ENFORCEMENT CENTER; AVOCA	) **C-2014-0126,**
SUPER FOODS; R&L FOODS;	) **C-2014-0127,**
LOFFREDO FRESH PRODUCE;	) **C-2014-0128,**
MULHOLLAND GROCERY; SCOTT'S	) **C-2014-0129,**
FOODS, STORAGE & DESIGN; CAPITAL	) **C-2014-0130,**
CITY FRUIT; and ARTI, LLC,	) **C-2014-0131,**
Complainants,	) **C-2014-0132,**
vs.	) **C-2014-0141,**
MIDAMERICAN ENERGY COMPANY,	) **C-2014-0142,**
Respondent.	) **C-2014-0145)**
	)

DIRECT TESTIMONY
OF
CHARLES B. REA

Q. Please state your name and business address.

A. My name is Charles B. Rea. My business address is MidAmerican Energy Company ("MidAmerican"), 106 East Second Street, Davenport, Iowa 52801.

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

A. I am employed by MidAmerican as Manager, Regulatory Strategic Analysis.

Q. Please describe your education and business experience.

A. I received a B.A. in Computer Science from the University of Illinois at Springfield in 1986 and a M.A. in Statistics and Operations Research from Southern Illinois University at Edwardsville in 1990. I have been employed by

10 MidAmerican and its predecessor companies since 1990 and have worked in
11 electric system planning, forecasting, load research, marketing, rates, and
12 energy efficiency.

13 **Q. Have you testified before Iowa Utilities Board ("Board") or other**
14 **regulatory bodies previously?**

15 A. Yes. I have testified in several dockets in Iowa, Illinois, and South Dakota on
16 various topics including electric and gas cost of service, electric and gas retail
17 rate design, retail access, uniformity of delivery service tariffs, and energy
18 efficiency. I provided testimony in Iowa on cost of service and rate design in
19 the recent rate proceeding in Docket RPU-2013-0004. I provided cost of
20 service and rate design testimony in Illinois in Docket 14-0066 and in South
21 Dakota in Dockets EL 14-072 and NG 14-005. I also provided testimony in
22 Illinois Docket Nos. 13-0423 and 13-0424 (Consol.) where I sponsored
23 budgets, savings targets, and economic benefit analyses for MidAmerican's
24 proposed 2014-2018 energy efficiency plans in Illinois, South Dakota Docket
25 No. GE12-005 where I sponsored MidAmerican's 2013-2017 energy efficiency
26 plan for South Dakota that was approved by the South Dakota Public Utilities
27 Commission on November 20, 2012, and Iowa Docket No. EEP-2012-0002
28 where I sponsored the budgets, savings targets, and economic benefit analyses
29 for MidAmerican's proposed 2014-2018 energy efficiency plans in Iowa.

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

31 A. The purpose of my testimony is to describe the rate design issues that
32 MidAmerican believes are central to the complaints in this proceeding, to

33 describe how usage and billing data for the complainants in this proceeding
34 were analyzed under MidAmerican's mitigation plan in RPU-2013-0004, and to
35 describe how the usage and billing data for the complainants relate to the rate
36 caps ordered by the Board in RPU-2013-0004.

37 **Q. Are you sponsoring any schedules in the filing?**

38 A. Yes. I am sponsoring three schedules in the filing:

39 - Schedule A – MidAmerican Mitigation Plan
40 - Confidential Schedule B – Complainant Monthly Billing Analysis –
41 Mitigation Analysis
42 - Confidential Schedule C – Complainant Annual Billing Analysis –
43 Mitigation Analysis

44 **Q. What rate design changes were made in Docket RPU-2013-0004 that you**
45 **believe are the primary sources of concern in this proceeding?**

46 A. There are two rate design changes that MidAmerican made to rates in RPU-
47 2013-0004 that are central to the complaints in this case. While these changes
48 do not apply equally in every case or are even the actual causes of the increases,
49 MidAmerican believes these are the rate design changes that have led to the
50 complaints in this case.

51 The first change relates to summer/winter rate differentials.
52 MidAmerican increased summer/winter rate differentials in all of its rate
53 offerings in the rate case, partly to better reflect the cost of providing service in
54 the summer season, and partly to maintain the electric heat rate structure that
55 many of our customers have relied upon in making significant energy efficiency

56 investments; particularly geothermal heat pumps. The general effect of this
57 change is to increase summer bills from previous levels and reduce winter bills
58 from previous levels.

59 The second change relates to the imposition of demand charges on small
60 general service rates. Previous to the rate case, east system customers taking
61 service under a small general service demand rate all paid demand charges on a
62 minimum of 10 kW each month. South and north system customers on small
63 general service demand rates paid energy rates on an hours use basis assuming
64 a minimum 40 kW demand, but did not actually pay a demand charge unless
65 their demand was higher than 200 kW, and then only if their monthly load
66 factor was below a minimum threshold. This meant that virtually every south
67 and north system customer on a small general service demand rate did not
68 actually pay a demand charge. In combining the rate structures across pricing
69 zones for the small general service demand rate, MidAmerican elected to use
70 the much more straightforward east system model.

71 **Q. Did the Board give guidance in Docket RPU-2013-0004 on the level of rate**
72 **increases that would require special treatment?**

73 A. Yes. In the Board's Order dated March 17, 2014 approving the Settlement
74 Agreement in Docket RPU-2013-0004, the Board had a discussion at pages 92-
75 95 describing the mitigation measures that should be taken to avoid undue rate
76 impacts to customers. In summary, the Board required that MidAmerican file a
77 plan to mitigate the rate increases in any one year for any individual customer
78 over the ten year equalization period using two parameters, a dollar increase

79 and a percentage increase. For residential customers, no individual customer
80 was to see an annual increase in any year greater than 15% and greater than
81 $200. For nonresidential customers, the caps were set at 15% and $1,500.

82 **Q. Did MidAmerican file a plan in Docket RPU-2013-0004 to identify the**
83 **customers it expected to fall outside the rate caps set by the Board and to**
84 **mitigate those rate increases?**

85 A. Yes. MidAmerican filed a mitigation plan to address how the Board's rate caps
86 would be implemented. MidAmerican filed that plan with its final rate
87 compliance filing dated March 27, 2014. I have included that mitigation plan
88 as Schedule A.

89 **Q. Please summarize the important points from MidAmerican's rate**
90 **mitigation plan.**

91 A. The rate mitigation plan was a two-step process. The first step was to
92 determine the most economical rate for nonresidential customers that had the
93 ability to choose between multiple rates. The second step was to analyze full
94 bill impacts for all customers once the most economical rate was determined.

95 The process used for determining the most economical rate for
96 nonresidential customers is as follows:

97 • A separate analysis was conducted for each customer with a complete
98 billing history during the test year.

99 • For each customer:

100 ○ A determination was made as to the total annual amount that
101 customer would pay under 2014 rates using test year sales data for

Rate GE, GD, and LS/SS, including rate equalization and phase-in clauses, and forecasted EAC and TCA amounts.

  - Each customer was assigned to the rate class that provided the lowest annual bill for that customer consistent with the above analysis.
  - Total billing determinants for all customers moving to a rate other than the rate they were originally mapped to were tracked.

The process used for then determining which customers fell outside the Board's mitigation cap is as follows:

- A separate analysis was conducted for each eligible customer, where the definition of eligibility was all customers of record on December 31, 2013 that had a full twelve-month standard billing history in 2013 and did not switch rates during the year.
- For each eligible customer:
  - A determination was made as to the total annual amount that customers would pay under 2014 through 2023 rates, including rate equalization and phase-in clauses, and forecasted Energy Adjustment Clause (EAC) and Transmission Cost Adjustment (TCA) amounts.
  - A determination was made as to the total annual amount that customer would have paid under interim rates.
  - The calculation of the total annual amount paid under 2014 through 2023 rates and interim rates was based on total monthly billed usage for each of 12 months in the 2013 calendar year.

125 o If the annualized bill under 2014 rates (or any subsequent years' rates)
126 was greater than the annualized bill under the previous year's rates by
127 an amount greater than the Board-defined cap, that customer became
128 eligible for mitigation.

129 **Q. Were all of the complainants in this proceeding included in the mitigation**
130 **plan analysis you've described above?**

131 A. Yes, with the exception of one complainant that did not have a full twelve-
132 month standard billing history for 2013. After receipt of the informal complaint
133 for this complainant in July, MidAmerican evaluated their actual 2013 billing
134 history to determine what caused it to fall out of the mitigation analysis and
135 made the necessary adjustments in order to analyze that customer's bills to
136 determine if the customer would qualify for mitigation.

137 **Q. What were the results of the mitigation plan analysis for the complainants**
138 **in this proceeding?**

139 A. The results of the mitigation analysis for 2014 for each complainant is provided
140 in Confidential Schedule B. The results show that based on the rate cap criteria
141 outlined by the Board, none of the complainants qualified for a mitigation
142 discount in 2014.

143 **Q. Were the single month increases seen by the complainants in this**
144 **proceeding consistent with what MidAmerican expected when it conducted**
145 **its mitigation analysis?**

146 A. Yes. The increases seen by the complainants are consistent with those seen in
147 the mitigation analysis once differences in usage from 2013 to 2014 are

148 accounted for, and the difference in the 2014 partial year EAC (on which actual
149 bills were calculated) from the annualized EAC for 2014 (on which the
150 mitigation analysis was conducted) is accounted for.

151 **Q. Has MidAmerican fully complied with the mitigation plan approved by the**
152 **Board when the company implemented its new rate design?**

153 A. Yes. It is clear from the mitigation analysis that while customers have seen
154 higher summer bills than they did a year ago, customers are also currently
155 seeing winter bills that are consistent with or even lower than winter bills they
156 have seen in the past. The Board required rate increase limits in RPU-2013-
157 0004 in terms of annualized bills and correctly stated that any analysis to
158 determine which customers would need mitigation needed to be made on a
159 consistent and standardized usage basis. The mitigation analysis shows that all
160 of the complainants fit under the Board's rate increase caps.

161 **Q. What monthly or annual increases can these customers expect to see**
162 **through the remainder of the phase-in period?**

163 A. In the short term, customers can expect to see winter bills consistent with bills
164 they currently are seeing, and bills will increase again in the summer of 2015
165 because of the change to summer rates. Over the long term, changes in annual
166 bills independent of changes in usage will depend largely on changes in the
167 EAC and TCA trackers, and known changes in the phase-in and rate
168 equalization clauses. The annualized increases beyond 2014 for the
169 complainants in this proceeding as calculated in the Company's mitigation
170 analysis are provided in Confidential Schedule C.

171 **Q. Does this conclude your prepared direct testimony?**

172 A. Yes, it does.

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AFFIDAVIT OF
CHARLES B. REA

STATE OF IOWA)
) ss:
COUNTY OF SCOTT)

I, Charles B. Rea, being first duly sworn, depose and state that the statements contained in the foregoing prepared direct testimony are true and correct to the best of my knowledge, information and belief, and that such prepared direct testimony constitutes my sworn statement in this proceeding.

/s/ Charles B. Rea

Charles B. Rea

Subscribed and sworn to before me this 11th day of December 2014.

/s/ Debbie Sanders

Notary Public in and for the State of Iowa
Commission No. 771043
My Commission expires January 1, 2015