

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

<p>Illinois Commerce Commission On its Own Motion</p> <p>vs.</p> <p>MidAmerican Energy Company</p> <p>Reconciliation of revenues collected under Rider EECR with actual costs associated with energy efficiency</p>	<p>Docket No. 10-0682</p>
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DIRECT TESTIMONY
OF
FREDRICK A. LEUTHAUSER

1 **Q. Please state your name and business address for the record.**

2 A. My name is Fredrick A. Leuthauser. My business address is 106 East Second Street,
3 Davenport, Iowa 52801.

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

5 A. I am employed as Manager, Energy Efficiency, for MidAmerican Energy Company
6 (MidAmerican or Company).

7 **Q. What is your educational and employment experience?**

8 A. I am a graduate of the University of Iowa, where I received a Bachelor of Arts Degree in
9 Political Science in 1975 and a Master of Business Administration Degree with an
10 emphasis in Finance in 1977.

11 I have been employed by MidAmerican or one of its predecessor companies for
12 nearly thirty years. In that time, I have held positions relating to energy efficiency for
13 seventeen years, marketing for six years, peak load and energy forecasting for three

14 years, energy supply for one year, financial modeling for one year and management
15 information systems for two years.

16 I am a member of the Association of Energy Services Professionals, the Iowa
17 Association for Energy Efficiency, and the American Marketing Association. I am a past
18 member of the E Source DSM Executive Council and the Demand Response
19 Coordination Committee. I also serve on the board of directors for the Consortium for
20 Energy Efficiency. I am a past member of the Executive Committee and Treasurer for
21 CEE. Also, I am a past member of the boards of directors of the Midwest Energy
22 Efficiency Alliance and the Iowa Center on Sustainable Communities. I served as a
23 member of the Leadership Group of the National Action Plan for Energy Efficiency
24 (NAPEE) and the Advisory Group for the Monitoring and Evaluation subcommittee of
25 NAPEE. Finally, I am a past member of the board of directors of the Peak Load
26 Management Alliance, where I served as Treasurer and a member of the Executive
27 Committee.

28 I have made presentations on energy efficiency before a number of audiences
29 throughout Iowa, Illinois, and the United States and I have co-authored a number of
30 papers that have been presented at the summer studies hosted by the American Council
31 for an Energy-Efficient Economy.

32 **Q. What is the purpose of your testimony?**

33 A. The purpose of my testimony is to provide an overview of MidAmerican's Energy
34 Efficiency Plan (EEP or Plan) for Illinois, which was approved by the Illinois Commerce
35 Commission (Commission) on May 21, 2008. I also explain the energy efficiency
36 measures MidAmerican implemented for the 2008 Plan Year, which began June 1, 2008.

37 Additionally, I demonstrate that the costs associated with the EEP, specifically the costs
38 for 2008, are reasonable and prudent.

39 **Q. How is your testimony organized?**

40 A. I have organized my testimony in the following sections: summary of MidAmerican's
41 2008-2012 Illinois Energy Efficiency Plan and programs, overview of the major energy
42 efficiency measures implemented in 2008 and an explanation of the reasonableness and
43 prudence of the programs costs for 2008.

44 **Q. Are you presenting any Exhibits to your direct testimony?**

45 A. Yes, I am including the following exhibits:

46 MidAmerican Exhibit 3.1 - 2008 Annual Report filed May 18, 2009 and supporting
47 verification

48 MidAmerican Exhibit 3.2 – 2008 Reconciliation Report Filed March 18, 2009

49 MidAmerican Exhibit 3.3 - 2008 Audit Report

50 **Summary of MidAmerican's 2008-2012 Illinois Energy Efficiency Plan and Programs**

51 **Q. Please provide an overview of the current Plan.**

52 A. On June 1, 2008, MidAmerican began offering energy efficiency programs (EE
53 Programs) in its Illinois service territory pursuant to the Commission's Order on May 21,
54 2008, in Docket Nos. 08-0107 and 08-0108 (Consolidated). The initial Program Year for
55 the EE Plan was June 1, 2008 through December 31, 2008. The EE Programs covered
56 in the 2008 reconciliation year are the EE Programs approved by the Commission in
57 Docket Nos. 08-0107 and 08-0108 (Consolidated). For an overview of the programs
58 offered, please see the attached Exhibit 3.1, MidAmerican Energy Company's 2008
59 Annual Report filed May 18, 2009.

60 **Q. Please summarize the conclusions of your testimony.**

61 A. The costs associated with MidAmerican's Illinois energy efficiency programs for the
62 program year 2008 are consistent with the EE Plan filed with the Commission and are
63 reasonable and prudent. As explained in further detail below, MidAmerican acted
64 reasonably and prudently in implementing the Commission-approved plan and incurring
65 the related costs described in its 2008 Reconciliation Report and 2008 Annual Report.
66 *See* Exhibits 3.2 and 3.1 respectively.

67 **Overview of 2008 Final Year-End Plan Results**

68 **Q. Please summarize the 2008 Energy Savings for MidAmerican's 2008 Illinois energy**
69 **efficiency programs.**

70 A. The total 2008 savings exceeded the goal set on the natural gas side, but did not meet the
71 goals on the electric side. *See* Exhibit 3.1, page 3, Table 1. When individual program
72 results are analyzed, the reasons behind the success or failure become clear. For example,
73 MidAmerican was able to offer energy audits beginning on June 1 and completed 1,435
74 on-site home energy audits by the end of the year, exceeding the program participation
75 goal by 292 percent. The HomeCheck audit is an introductory program and is often a
76 customer's first experience with MidAmerican's EE programs. It represents an entry
77 point to broader participation. The overwhelming response to this program offering is a
78 positive sign of program acceptance. Participation and spending were higher than
79 expected. Additionally, customer participation in small commercial energy audits also
80 exceeded plan goals. On the other hand, while participation in the Nonresidential
81 Equipment Program surpassed goals for participation; it fell short on electric energy and
82 demand impacts. There were no industrial projects in the program, only commercial.
83 While the participant count was strong, the savings per participant was small. As with the

84 residential audit program, the higher-than-projected participation shows a pent up
85 demand and customer acceptance of these programs.

86 However, other programs require foundational work and longer lead times to
87 achieve consistent results. For example, MidAmerican did not achieve projected
88 participation levels or savings goals in its Commercial New Construction Program,
89 Nonresidential Custom Program or the Residential New Construction Program.
90 Relationships need to be built with trade allies and the building trades. Lower than
91 expected participation may be attributable to the timing of the new programs, June 1, well
92 into construction season. The program descriptions include information on
93 MidAmerican's efforts and progress in building these relationships and educating this
94 population.

95 The economic downturn also may have been a factor in program results. The
96 economy weakened significantly in the second half of 2008, coincident with the roll-out
97 of MidAmerican's programs. A weakened economy presents a special challenge in
98 implementing programs because of the uncertainty it engenders. The programs were
99 designed and the expected savings were projected premised on a healthy economy.
100 However, if people are not replacing equipment or building new homes because they are
101 uncertain of their job or business future, achieving targets in programs developed to
102 encourage more efficient purchases will be challenging. Businesses and industry may be
103 hesitant to upgrade equipment and structures if they do not know if they will be there in
104 the future or are struggling with day-to-day expenses.

105 Natural gas prices were also significantly lower than the highs experienced over
106 the past five years. Many decisions to seek an audit, install insulation or buy a new
107 furnace have historically been driven by increasing natural gas prices. On the other hand,

108 the success of the audit program may demonstrate that people are eager to find out what
109 needs to be done to capture energy savings in this challenging economy. MidAmerican
110 will continue to monitor participation and savings to determine if the programs and the
111 approach continue to be effective.

112 Not all news regarding program participation, however, was negative. Federal tax
113 credits likely provided strong incentive to customers to participate in energy audits and,
114 equally important, paying for the cost of additional insulation and other energy efficiency
115 upgrades allowing them to better manage their energy use and utility bills.

116 **Explanation of the Reasonableness and Prudence of MidAmerican's 2008 Energy**
117 **Efficiency Programs Costs**

118 **Q. Were the costs incurred for MidAmerican's 2008 energy efficiency program**
119 **reasonable and prudent?**

120 A. Yes.

121 **Q. Please summarize the actual expenditures for the 2008 Plan Year.**

122 A. MidAmerican incurred \$1,723,878.30 in incremental costs for the 2008 Plan Year. Of
123 those total incremental costs, \$894,593.17 was spent on electric programs and \$829,285.13
124 was spent on gas programs. The cost breakdown by program and fuel are provided in
125 Exhibits 1.0 and 2.0. MidAmerican witness Megan Early sponsors these exhibits and
126 provides more detail about how the incremental costs are broken down by fuel type and
127 program.

128 **Q. Please explain the steps MidAmerican took to ensure its energy efficiency program**
129 **was reasonable and prudent.**

130 A. As indicated in the initial EE Plan filing, fees; charges; billings; costs and expenses
131 associated with equipment, devices, or services, including contracted services and/or

132 consultative services, are based on competitive bidding processes and procedures
133 developed and consistently administered by MidAmerican's procurement and supply chain
134 department.

135 MidAmerican's procurement and supply chain processes and procedures include a
136 requirement to re-bid contracts at regular intervals (i.e., usually about every three years) to
137 ensure that fees and charges related to the EE programs and costs and expenses related to
138 equipment and services for the EE programs are competitively priced and, therefore, cost
139 effective for Illinois customers.

140 MidAmerican also regularly monitors and examines its expenses for wages,
141 salaries and benefits of all employees, including those engaged in energy efficiency
142 activities. Additionally, MidAmerican followed its internal accounting procedures and
143 ensured that "incremental costs [will] not include any expenses for wages, salaries and
144 benefits of Company employees, employed either before or after the effective date of
145 Section 8-408 of the Act, that are otherwise recovered under other approved tariffs." (See
146 Exhibit 3.2, page 4.) MidAmerican also removed a \$250 promotional expense from its
147 program costs, since the promotional expense was related to an event just outside of
148 MidAmerican's Illinois service territory.

149 Additionally, MidAmerican did not recover costs embedded in its 2008 base rates
150 through the Energy Efficiency Cost Recovery Rider (EECR) factor for the 2008 Plan year.
151 These costs included 2007 costs incurred for pre-existing Illinois energy efficiency
152 programs, MidAmerican's on-line energy audit program (Aclara), and MidAmerican's
153 current Rider No. 4 Curtailment Service. The costs embedded in MidAmerican's 2008 base
154 rates were memorialized in electric Rider No. 2, Sheet No. 17.40 and gas Rider No. 10,
155 Sheet No. 19.40. Consequently, all costs recovered through the EECR factor were

156 incremental costs incurred in association with the Energy Efficiency programs and were
157 reasonable and prudent.

158 **Q. Did MidAmerican conduct an internal audit of its program spending as required by**
159 **the Energy Efficiency Cost Recovery Rider?**

160 A. Yes, consistent with the Rider EECR, MidAmerican's Internal Audit Department
161 performed an internal audit. *See* Exhibit 3.3. MidAmerican's Internal Audit Department
162 performed the following procedures:

- 163 • Determined how program costs are captured and reported.
- 164 • Determined that amounts recovered through Rider No. 2 (electric) and Rider No. 10
165 (gas) are not recovered through other approved tariffs.
- 166 • Determined whether rates are being properly billed to customers and total recoveries
167 are accurately reported.
- 168 • Determined whether any program revenues are properly stated.
- 169 • Determined whether costs and recoveries are being properly reflected in the calculation
170 of the billing rates and reconciliation.

171 As outlined in MidAmerican Exhibit 3.3, the audit found that MidAmerican is in
172 compliance with the provisions of the Commission approved Energy Efficiency Plan Filing
173 in Docket No. 08-0107/8-0108 (Consol.).

174 **Q. Please explain the reasonableness and prudence of MidAmerican's 2008 natural gas**
175 **program costs.**

176 A. The natural gas therm and peak therm savings goals for 2008 were exceeded by
177 approximately 20 percent and one percent, respectively, while total spending for the 2008
178 natural gas programs exceeded the 2008 budget by approximately four percent.

179 While program spending for the natural gas residential energy audit program exceeded
180 the 2008 program budget by approximately 68 percent, natural gas therm savings exceeded
181 the budgeted program therm savings by more than 80 percent. As noted in the 2008 Annual
182 Report, MidAmerican was able to offer energy audits beginning on June 1 and completed
183 1,435 on-site home energy audits by the end of the year, exceeding the program participation
184 goal by 292 percent. The general customer interest for the home audit and pent-up demand did
185 not require the usual two to three year growth period assumed in the budget estimates. *See*
186 Exhibit 3.2 at 5. Due to the overwhelming response to its residential energy audit program
187 and the substantially greater than budgeted therm savings achieved in its 2008 natural gas
188 EEP, MidAmerican considers its implementation of the 2008 natural gas programs to be
189 very successful for the first year of the five-year (2008-2012) plan. *See also* Exhibit 3.1.

190 **Q. Please explain the reasonableness and prudence of MidAmerican's 2008 electric**
191 **program costs.**

192 A. Although the 2008 goals for electric energy savings and spending were not met,
193 MidAmerican's incremental costs were reasonable and prudent. As noted in the 2008
194 Annual Report, the longer lead time to start-up some of the programs and starting the
195 programs mid-year limited opportunities for customers to enroll in the programs and also
196 complete energy efficiency projects by year-end 2008. *See* Exhibit 3.1. Longer lead
197 times and the mid-year start-up of the programs were factors contributing to lower
198 electric program participation, program spending and energy savings. Additionally, it is
199 also likely the economic downturn had an adverse affect on performance of the electric
200 programs in 2008.

201 However, while there were many challenges starting MidAmerican's Illinois
202 energy efficiency programs mid-year, as described here and in the 2008 annual report to

203 the Commission, there were not only successes associated with the first year of the
204 programs but also many leading indicators, i.e., customer participation in the gas and
205 electric energy audit programs, that the programs would (and have) continued to grow
206 and deliver the promise of energy savings to MidAmerican's Illinois customers.

207 MidAmerican considers the "foundational work" carried out during 2008
208 regarding its electric energy efficiency programs to be very successful for the first year of
209 the five-year (2008-2012) plan which will lead to significant electric energy savings in
210 2009 and beyond.

211 **Q. Does this conclude your testimony?**

212 A. Yes.