DIRECT TESTIMONY

OF

RICHARD J. ZURASKI

Economist
Policy Division
Illinois Commerce Commission

MidAmerican Energy Company

Proposed General Rate Increase for Electric Service

Docket No. 14-0066

April 9, 2014

Contents

I. Witness Identification 1
II. Purpose and Summary of Testimony 2
III. Rider TS 4
IV. Supply Procurement 5

I. Witness Identification

Q. State your name and business address.

A. My name is Richard J. Zuraski. My business address is: Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois 62701.

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

A. I am employed by the Illinois Commerce Commission ("Commission") as an Economist in the Policy Division of the Public Utilities Bureau.

Q. What are your responsibilities within the Policy Division?

A. I provide testimony in Commission proceedings on behalf of the Staff of the Commission ("Staff"). I provide economic analyses and advise the Commission on issues and legislation involving the natural gas and electric utility industries. I review tariff filings and make recommendations to the Commission concerning those filings. I review compliance filings and various reports from utilities and alternative electric suppliers. I manage contracts with consultants hired by the Commission. I sometimes act as an assistant to Commissioners or to Administrative Law Judges.

Q. State your educational background.

A. I graduated from the University of Maryland with a Bachelor of Arts degree in Economics. I obtained a Masters of Arts degree in Economics from Washington University in St. Louis. I completed other work toward a doctorate in

economics from Washington University, but did not complete all requirements for that degree.

Q. Describe your professional experience.

A. Since 1990, I have been an Economist focusing on energy and regulatory issues for the Commission. I have held this position within the Commission's Policy Division (since 2012), Energy Division (from 1997-2012), and Office of Policy and Planning (from 1987 to 1997). While employed by the Commission, I have testified in numerous docketed proceedings before the Commission. Prior to coming to the Commission in November 1987, I was a graduate student at Washington University, where I also taught various undergraduate courses in economics.

Q. Do you refer to any exhibits that accompany your testimony?

A. No.

II. <u>Purpose and Summary of Testimony</u>

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to two witnesses for MidAmerican Energy Company ("MEC," "MidAmerican," or "the Company"):

(1) Dehn A. Stevens on the subject of MEC's proposed Rider TS – Transmission Service; and

(2) Naomi G. Czachura on the subject of future supply procurement for MidAmerican's bundled service customers and the determination in this proceeding of a non-fuel per-MW cost of generation.

Q. Would you please summarize your testimony?

A. I have no concerns with MEC's proposed Rider TS.

With respect to future supply procurement for MidAmerican's bundled service customers, MEC's plans seem to be in a development stage. Although Ms. Czachura expresses MEC's desire to develop "a generation cost allocation and pricing proposal that will be workable and fair to customers in both Illinois and Iowa[,] MidAmerican is not requesting approval of that proposal in this case. … MidAmerican is requesting, however, that the Commission determine a non-fuel per-MW cost of generation in this proceeding that could be used to implement MidAmerican's proposal if the Commission finds it to be an acceptable part of MidAmerican's future procurement plans." (MidAmerican Exhibit NGC 1.0, 13.) My only concern about this request is that it presumes that the Commission, in some future proceeding, will ultimately approve a compatible generation cost allocation and pricing mechanism. However, as long as it is clear that the Commission, in this proceeding, is not making any determination about the nature of any generation cost allocation and pricing mechanism that may be considered in some future proceeding, then I do not oppose MEC's request that the Commission determine a non-fuel per-MW cost of generation in this proceeding.

III. Rider TS

Q. What is proposed Rider TS?

A. Rider TS is a mechanism for recovering MEC's transmission-related costs from those retail customers that receive power and energy from MEC rather than from alternative retail electric suppliers ("ARES"). However, Rider TS replicates the transmission rates that the Midcontinent Independent System Operator, Inc. ("MISO") would apply to ARES serving load in the MEC service area. Given the current FERC-approved MISO rate schedules, the costs that would be recovered from Rider TS include: (A) imputed charges under MISO Tariff Schedules 1 and 9, and (B) an allocation of actual charges assessed under Schedules 10, 10-FERC, 26 and 26-A, using, according to Mr. Stevens, the "Non-Specific Plant / Traditional Average and Excess Allocator."

Q. Why would any of the costs recovered through Rider TS need to be "imputed"?

A. Mr. Stevens testifies that MISO does not bill MEC for Schedule 1 and 9 charges, which reflect MEC's own costs and, in the case of Schedule 9, the costs of a few other smaller transmission asset owners ("TAOs") within MISO's MEC pricing zone. These are costs reflected in the FERC-jurisdictional transmission service revenue requirements of MEC and these other TAOs. In essence, MEC and these other TAOs let MISO use their assets to provide transmission service. MISO bills other parties (such as ARES) for this service.. However, it does not charge and therefore does not remit back any revenues to MEC and these other

TAOs for their own use of the transmission system. Instead, there is an imputation of such charges that, when combined with the actual revenues that are received from MISO, equates to their respective revenue requirements.

Q. Will Rider TS allow MEC to systematically over-recover its actual transmission costs, incurred to serve Illinois load?

A. As long as MEC excludes all transmission-related costs from its ICC-jurisdictional revenue requirements (as Mr. Stevens claims MEC has done in this proceeding), as long as FERC only approves reasonable transmission service revenue requirements, as long as the Rider is used to recover only the imputed and actual costs described in Mr. Stevens' testimony, and as long as it is reasonable to use the "Non-Specific Plant / Traditional Average and Excess Allocator" to allocate to Illinois a portion of MEC's incursion of MISO transmission charges, then I believe that the Rider will not systematically over-recovery the actual transmission costs that are incurred to serve Illinois load.

Q. Do you have any opinion on using the "Non-Specific Plant / Traditional Average and Excess Allocator" to allocate to Illinois a portion of MEC's incursion of MISO transmission charges?

A. No. I would defer that issue to Staff's rate design witness, Alicia Allen, but it is my understanding that she does not take issue with this application of the allocator.

IV. <u>Supply Procurement</u>

Q. Ms. Czachura expresses MEC's desire to develop "a generation cost

allocation and pricing proposal that will be workable and fair to customers in both Illinois and Iowa." Would you support such a development?

A. "Workable and fair" are reasonable goals. However, I would have to see and analyze an explicit proposal, in its entirety, before I would opine on whether the proposal can be expected to meet those goals.

Q. Ms. Czachura testifies that "MidAmerican is not requesting approval of that proposal in this case. … MidAmerican is requesting, however, that the Commission determine a non-fuel per-MW cost of generation in this proceeding that could be used to implement MidAmerican's proposal if the Commission finds it to be an acceptable part of MidAmerican's future procurement plans." (MidAmerican Exhibit NGC 1.0, 13.) Does this seem reasonable?

A. As long as it is clear that the Commission, in this proceeding, is not making any determination about the nature of any generation cost allocation and pricing mechanism that may be considered in some future proceeding, then I do not oppose MEC's request that the Commission determine a non-fuel per-MW cost of generation in this proceeding.

Q. Ms. Czachura testifies that "This cost would be determined by dividing the non-fuel generation costs ultimately approved for use in MidAmerican's functional cost-of-service study used to set rates in this proceeding by the 539.8 MW assigned to Illinois in the test year. The resulting cost, $117,412 per MW based on MidAmerican's filed values, would remain at the same

level until MidAmerican's next rate case." Is this reasonable?

A. I would defer to the Staff's rate design witness, Alicia Allen, on the reasonableness of the derivation of the specific value of $117,412; it is my understanding that she does not take issue with this derivation. However, Ms. Czachura's statement that this value "would remain at the same level until MidAmerican's next rate case" suggests that MEC is asking the Commission to make a determination about the nature of the generation cost allocation and pricing mechanism that MEC may propose in the future. To this extent, I would recommend that the Commission reject the notion that any specific value (such as $117,412) will necessarily "remain at the same level until MidAmerican's next rate case" or that it will be relevant to any future proceeding concerning a generation cost allocation and pricing mechanism.

Q. Ms. Czachura testifies that "As market purchases replace the capacity 'transferred,' the percentage of Existing Generation allocated to Illinois would be reduced until it reaches the standard 10.86% A&E allocation level of the Existing Generation assets that remain in service." Is this reasonable?

A. Ms. Czachura's statement seems like it may be a component of the generation cost allocation and pricing mechanism that she says MEC is not proposing in this proceeding. I think that proposal should be analyzed in its entirety rather than on a piecemeal basis. Thus, I recommend that the Commission make clear that it is not making any determination in this proceeding that, if and when "market purchases replace the capacity 'transferred,' the percentage of Existing

Generation allocated to Illinois would be reduced until it reaches the standard 10.86% A&E allocation level of the Existing Generation assets that remain in service."

Q. Do you have anything else to add to your testimony?

A. No.