

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

MidAmerican Energy Company :
 :
Petition for Approval of Tariffs :
Implementing Rider to Recover : **15-0564**
Procurement Costs pursuant to :
Section 16-111.5(l). :

ORDER

By the Commission:

I. PROCEDURAL HISTORY

MidAmerican Energy Company (“MidAmerican”) filed a Verified Petition for Approval of Tariffs Implementing Rider PE – Purchased Electricity (“Rider PE”), to Recover Procurement Costs (“Petition”) along with associated testimony and proposed tariff sheets pursuant to Section 16-111.5(l) of the Public Utilities Act (“Act”) on October 15, 2015. MidAmerican serves less than 100,000 electric customers in Illinois and is considered a small multi-jurisdictional electric utility under Section 16-111.5(a) of the Act. Pursuant to Section 16-111.5(a), a small multi-jurisdictional electric utility “may elect to procure power and energy for all or a portion of its eligible Illinois retail customers” using the Illinois Power Agency (“IPA”) process set forth in the Act and the Illinois Power Agency Act (“IPA Act”). 220 ILCS 5/16-111.5(a) and 20 ILCS 3855/1-75.

On April 9, 2015, MidAmerican formally notified the IPA of MidAmerican’s intent to have the IPA procure power and energy for a portion of MidAmerican’s Illinois eligible retail customer load. MidAmerican’s election requested the IPA to procure a portion of MidAmerican’s eligible Illinois retail customer load that represents the “net” or “differential” between MidAmerican’s total eligible retail customer load in Illinois and the amount of power and energy provided by MidAmerican owned generation allocated to Illinois customers. 220 ILCS 16-111.5(a) and (b). MidAmerican provided the IPA with its load forecast on July 1, 2015, and then supplemented its submission on July 15, 2015, by providing additional information related to MidAmerican’s renewable portfolio and energy efficiency program information.

The IPA filed a petition for Approval of the 2016 Procurement Plan (“Procurement Petition”) pursuant to Section 16-111.5(d) of the Act on September 29, 2015. 220 ILCS 5/16-111.5(d). The IPA’s Procurement Petition was docketed as Docket No. 15-0541. The IPA attached to its Procurement Petition its 2016 Procurement Plan which included MidAmerican’s load forecast with supplemental documents (Attachment D) as well as the

load forecasts and supplemental documents for Commonwealth Edison Company and Ameren Illinois for the period beginning June 2016 through May 2021 (“2016 Procurement Plan”). The IPA requested the Illinois Commerce Commission (“Commission”) approve the 2016 Procurement Plan, which for the first time included the procurement of energy and capacity for a portion of MidAmerican’s Illinois jurisdictional load. The Commission approved the IPA’s Procurement Petition and 2016 Procurement Plan with modifications on December 16, 2015.

Pursuant to Section 16-111.5 of the Act, that section does not apply to a small multi-jurisdictional utility like MidAmerican until such time as the small multi-jurisdictional utility requests the IPA to prepare a procurement plan for its eligible retail customers. Since MidAmerican made that request on April 9, 2015 and since the Commission-approved 2016 Procurement Plan includes the procurement of power and energy for a portion of MidAmerican’s eligible Illinois retail customers, Section 16-111.5 of the Act now applies to MidAmerican. Section 16-111.5(l) of the Act provides in part, “[a]n electric utility shall recover its costs of procuring power and energy under this Section. The utility shall file with the initial procurement plan its proposed tariffs through which its costs of procuring power that are incurred pursuant to a Commission-approved procurement plan and those other costs identified in this subsection (l), will be recovered.” 220 ILCS 16-111.5(l). Based on the requirements of the statute, MidAmerican proposed Rider PE, which includes a formula rate and defines how, from what customers, and in what proportions the costs of procurement and related transmission and ancillary transmission services costs are recovered.

Pursuant to proper legal notice, prehearing conferences were held in this matter before a duly authorized Administrative Law Judge (“ALJ”) of the Commission at its offices in Chicago, Illinois on November 17, 2015, and December 8, 2015.

On November 19, 2015, MidAmerican filed its certificate of publication evidencing notice of this filing made in accordance with 83 Ill. Adm. Code Section 255 and on December 4, 2015, MidAmerican filed the Supplemental Direct Testimony of Naomi G. Czachura and a Revised Schedule A.

The Commission Staff (“Staff”) filed direct testimony on January 20, 2016.

Thereafter, an evidentiary hearing was held on January 27, 2016. Appearances were entered by MidAmerican and by Staff. MidAmerican entered the pre-filed direct and supplemental direct testimony of Naomi G. Czachura with supporting affidavits. Staff entered the pre-filed direct testimony and supporting affidavits of Cheri Harden, a Rate Analyst in the Rates Department of the Financial Analysis Division, and Richard W. Bridal II, Accountant in the Accounting Department of the Financial Analysis Division Commission. At the conclusion of the hearing on January 27, 2016, the record was marked “Heard and Taken.” On February 3, 2016, MidAmerican filed a proposed draft order.

II. RIDER PE

Pursuant to Section 16-111.5(l), MidAmerican filed proposed tariff, Rider PE, to recover costs of procuring the incremental portion of its Illinois jurisdictional load not produced by MidAmerican-owned generation. MidAmerican also filed testimony explaining how Rider PE is designed to recover the procurement, capacity and energy costs and a Revised Schedule A, to clarify the basic functions of the proposed tariff. The base rate amounts in Revised Schedule A are expected to remain constant until the next electric rate case proceeding before the Commission. (MEC Exhibit NGC 2.0, 2-3.)

MidAmerican explained Rider PE includes a formula rate designed to pass through both the costs incurred in procuring a supply of electric power and energy for the applicable customer classes with no mark-up or return on the price paid for that supply, plus any just and reasonable incremental costs incurred in arranging and providing for the supply of electric power and energy.

MidAmerican explained the costs of its generation were reviewed by the Commission in Docket No. 14-0066 and a prudent amount of these costs were included in the development of the energy supply component of MidAmerican's current base rates. MidAmerican's Schedule B illustrates how all the reasonable costs of generation identified in Docket No. 14-0066 will be recovered once Rider PE is implemented. *Id.*

MidAmerican plans to implement Rider PE based on the Commission's approval of the first procurement event for MidAmerican. MidAmerican expects that the first factors will go into effect in June 2016, setting the recovery year for the first implementation of Rider PE as June 2016 through May 2017. *Id.* at 6. MidAmerican explained it will file with the Commission an annual reconciliation of costs and recoveries under Rider PE after all Midcontinent Independent System Operator ("MISO") settlements have concluded for the recovery year. *Id.*

III. STAFF POSITION

Staff presented the direct testimony of Cheri Harden, a Rates Analyst in the Rates Department of the Financial Analysis Division, and Richard W. Bridal II, Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission.

Ms. Harden recommended that the Commission accept the Company's Rider PE proposal to recover reasonable costs incurred to implement a procurement plan. Staff testified the purpose of the Company's Rider PE proposal is to recover all the reasonable incremental costs incurred by MidAmerican to implement the procurement plan. (ICC Staff Ex. 1.0, 2.) Staff, however, noted that because some electric supply costs are already included in MidAmerican's base rates, the amounts to be recovered through Rider PE must be reduced by the portion of the electric supply costs that are already recovered in base rates. *Id.* at 3.

Ms. Harden testified her analysis verifies that the amounts to be recovered through the proposed Rider PE are reduced for the portion of the electric supply costs that are

already recovered in base rates. In order to accomplish this, Staff confirmed that the generation costs included in base rates in MidAmerican's last electric rate case are removed from the base rate component in the Rider PE formula proposed in this docket. *Id.* Staff also verified this by comparing the cost of service study in MidAmerican's compliance filing from Docket 14-0066 to MidAmerican's Schedule B filed in this docket to validate that the electric supply costs match. Staff also confirmed that the supply groups proposed for Rider PE correspond to the base rate customer classes and that the allocation factors used in Rider PE also match those used in the Company's last electric rate case. *Id.* at 3-4. Based on this review, Staff recommended MidAmerican file the tariffs proposed in MidAmerican's Revised Schedule A.

Mr. Bridal also testified he reviewed and analyzed MidAmerican's Petition to implement Rider PE and the underlying data supporting the Petition. Staff agreed that the costs requested to be recovered through Rider PE, as described by MidAmerican, meet the criteria set forth in Section 16-111.5(l) of the Act. (ICC Staff Ex. 2.0, 4.) As such, Staff determined that the Purchased Energy Charges are appropriate for recovery through the proposed Rider PE.

Staff also agreed that Rider PE provides for the recovery of purchased power costs outside of base rates, including costs associated with the procurement by the IPA of additional electricity resources for MidAmerican's Illinois customers. *Id.* at 5. Staff found MidAmerican's proposal will help ensure there is no duplicate recovery of purchased electricity costs between base rates and Purchased Energy Charges.

Staff further explained that MidAmerican's proposed Rider PE proposal includes a monthly adjustment factor, Factor PEA, that will be calculated for each month after the final settlement of MISO costs for that month has occurred. *Id.* Staff noted Factor PEA will be calculated on a per KWh basis as the difference between the accrued costs for that month that are eligible for recovery through Rider PE and the accrued recoveries of those costs from customers taking supply service from MidAmerican during that month, plus a balancing factor (with interest) plus any required adjustments. Staff found these provisions are consistent with those required by the Act and agreed with MidAmerican's proposed Factor PEA proposal. *Id.* at 6.

Staff further noted MidAmerican also proposed to exclude costs that are included in base rates from the calculation of Factor PEA. (ICC Staff Ex. 2.0, 6, *see also* MEC Ex. NGC 2.0, 2-3; MEC Revised Schedule A, 8-10.) Staff found that MidAmerican's proposal will help ensure there is no duplicate recovery of purchased electricity costs between base rates and Factor PEA. On this basis, Staff agreed with excluding costs that were already in base rates from the calculation of Factor PEA. (ICC Staff Ex. 2.0, 6.)

Staff testified that MidAmerican's Rider PE provided for an annual reconciliation proposal and also provided for an annual internal audit report. Staff indicated both of these provisions are consistent with the Act. Staff noted MidAmerican's Rider PE specifically provides for an annual internal audit which shall determine whether 1) accounting controls are effectively preventing the double recovery of costs through Rider

PE and through other means, 2) Rider PE is being properly applied to customer's bills, 3) recoveries from Rider PE are correctly stated and recorded in appropriate accounts, and 4) costs recovered through Rider PE are reasonable. *Id.*

Staff noted MidAmerican's proposed Rider PE also requires that a summary audit report be provided to the Manager of Accounting of the Commission Staff within 60 calendar days after the end of the reconciliation period, and that the report must be verified by a MidAmerican officer. *Id.* at 6. Staff found the proposed internal audit and reporting to Commission Staff is also consistent with internal audit requirements included in purchased electricity cost recovery tariffs for other electric utilities and are consistent with internal audit requirements contained in other cost recovery riders approved by the Commission. Thus, Staff agreed that MidAmerican's proposal to include in Rider PE an annual reconciliation, an annual internal audit requirement, and a provision for a summary audit report to the Commission Staff with the exception of one procedural matter. *Id.* at 6-7. Staff proposed that the summary audit report that MidAmerican volunteers to provide be required to be sent instead to AccountingMgr@icc.illinois.gov within 60 calendar days after the end of the reconciliation period.

IV. COMMISSION ANALYSIS AND CONCLUSION

Section 16-111.5 (l) provides in part:

An electric utility shall recover its costs incurred under this Section, including, but not limited to, the costs of procuring power and energy demand-response resources under this Section. The utility shall file with the initial procurement plan its proposed tariffs through which its costs of procuring power that are incurred pursuant to a Commission-approved procurement plan and those other costs identified in this subsection (l), will be recovered. The tariffs shall include a formula rate or charged designed to pass through both the costs incurred by the utility in procuring a supply of electric power and energy for the applicable customer classes with no mark-up or return on the price paid by the utility for that supply, plus any just and reasonable costs that the utility incurs in arranging and providing for the supply of electric power and energy.

220 ILCS 16-111.5(l). In its Petition, MidAmerican seeks "approval of tariffs implementing a new competitive procurement process and recovering procurement costs."

Staff agreed that MidAmerican's proposed Rider PE recovers appropriate costs for recovery through Rider PE. Rider PE includes provisions to help ensure there is no double-recovery of costs between base rates and Rider PE, provides for an annual reconciliation as required by the Act, and provides an annual internal audit which will provide additional assurance to the Commission that Rider PE is operating properly and

in accordance with the Act. For these reasons, the Commission finds that Rider PE is consistent with Section 16-111.5(l) of the Act and shall be approved.

V. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) MidAmerican Energy Company is an Iowa corporation engaged in the generation, transmission, distribution and sale of electricity to the public in Illinois and as such is a public utility within the meaning of the Public Utilities Act;
- (2) the Commission has jurisdiction over the parties and over the subject matter herein;
- (3) the facts recited and conclusions stated in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact and/or conclusions of law;
- (4) the new tariff sheets for Rider PE authorized to be filed by this Order should reflect an effective date no less than 30 days after the date of this Order;
- (5) MidAmerican Energy Company should be subject to the annual reconciliation proceedings, including notice and hearing, related to its power purchases as described and approved in the prefatory portion of this Order; and
- (6) the new tariff sheets authorized by this Order should be filed within ten (10) business days, with the tariff sheets to be corrected within that time period if necessary.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the proposed Procurement tariff Sheets filed with its Petition by MidAmerican Energy Company on October 15, 2015, and as revised in Revised Schedule A on December 2, 2015, are approved for filing consistent with this Order and MidAmerican Energy Company is authorized and directed to file new tariff sheets in accordance with the Findings of this Order.

IT IS FURTHER ORDERED that MidAmerican Energy Company shall be subject to an annual reconciliation proceeding related to its power purchases as described and approved in the prefatory portion and in the findings of this Order and in the tariffs approved for filing by this Order.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code Section 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 24th day of February, 2016.

(SIGNED) BRIEN SHEAHAN

Chairman