

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF NEBRASKA

IN THE MATTER OF THE APPLICATION OF )  
SOURCEGAS DISTRIBUTION LLC, GOLDEN, )  
COLORADO, SEEKING AN ORDER AUTHORIZING IT ) DOCKET NO. NG-0078  
TO PUT INTO EFFECT A SYSTEM SAFETY AND )  
INTEGRITY RIDER TARIFF AND A SYSTEM SAFETY )  
AND INTEGRITY RIDER CHARGE )

**PREFILED REBUTTAL TESTIMONY AND EXHIBITS OF**  
**JERRAD S. HAMMER**

<b><u>SECTION</u></b>	<b><u>PAGE</u></b>
I. INTRODUCTION AND OVERVIEW OF REBUTTAL TESTIMONY .....	1
II. EXECUTIVE SUMMARY .....	3
III. REBUTTAL OF DIRECT TESTIMONY OF MS. DONNA H. MULLINAX .....	6
A. JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS .....	7
B. COMMISSION APPROVAL OF THE PROPOSED SSIR TARIFF AND SSIR CHARGES .....	25
C. MODIFICATIONS TO THE COMPANY'S PROPOSED SSIR TARIFF .....	39
IV. REBUTTAL OF DIRECT TESTIMONY OF MR. WILLIAM W. DUNKEL .....	44



4 **Q. IS SOURCEGAS DISTRIBUTION SUBMITTING PREFILED REBUTTAL**  
5 **TESTIMONY OF ANY OTHER WITNESS?**

6 A. Yes. The Company is presenting the prefiled Rebuttal Testimony of Jason R.  
7 Pickett, SourceGas’s Senior Director – Operations for SourceGas Distribution in  
8 Nebraska. In his Rebuttal Testimony, Mr. Pickett addresses from an operational  
9 perspective the status of the Company’s 2014 SSIR Projects in response to Ms.  
10 Mullinax’s Direct Testimony on that point.

11 Mr. Charles A. Bayles, the other SourceGas Distribution witness who prefiled  
12 Direct Testimony in this proceeding, is not providing Rebuttal Testimony in this  
13 proceeding because the Public Advocate’s Direct Testimony takes no issue with any  
14 of the topics addressed by Mr. Bayles in his Direct Testimony. In his Direct  
15 Testimony, Mr. Bayles provided an overview of the Company’s natural gas pipeline  
16 system in Nebraska, described the federal regulatory environment that causes the  
17 need for the proposed SSIR Tariff, described the Projects that are to be covered  
18 under the proposed SSIR Tariff, and itemized SourceGas Distribution’s projected  
19 2014 capital costs and operating expenses of those Projects.

20 By not taking issue with the topics addressed in Mr. Bayles’s Direct  
21 Testimony, the Public Advocate does not take issue with any of the Projects that the  
22 Company is proposing to address through the SSIR Tariff or the amount of the costs  
23 of those Projects that the Company is proposing to recover through the initial SSIR  
24 Charges.

25 **Q. HOW IS YOUR REBUTTAL TESTIMONY PRESENTED?**

26 A. After this Introduction and Overview of Rebuttal Testimony section, my Rebuttal  
27 Testimony is divided into the following three sections.

1 Section II – Executive Summary

2 Section III – Rebuttal of Direct Testimony of Ms. Donna H. Mullinax

3 Section IV – Rebuttal of Direct Testimony of Mr. William W. Dunkel

4 **II. EXECUTIVE SUMMARY**

5 **Q. TO SET THE STAGE BEFORE YOU BEGIN YOUR TESTIMONY, PLEASE**  
6 **EXPLAIN WHY THE COMPANY HAS FILED THIS APPLICATION SEEKING**  
7 **APPROVAL OF A SYSTEM SAFETY AND INTEGRITY RIDER, OR SSIR.**

8 A. Sections 66-1865 and 66-1866 of the Act authorize jurisdictional utilities to recover  
9 infrastructure system replacement, or ISR, costs. The Company has secured relief  
10 from the Commission under those sections of the Act, most recently in Docket No.  
11 NG-0072.1. The Commission's Order in Docket No. NG-0072.1 reflects the first  
12 prong of the Company's creative solution to address its revenue deficiency and  
13 cover its increased costs without the expense of a full blown rate case. The  
14 proposal in this docket for a SSIR -- the second prong of the Company's approach --  
15 addresses the inherent problem of regulatory lag. It allows the timely recovery of  
16 costs for Projects that improve the safety and integrity of the pipeline system. It  
17 allows such costs to be recovered gradually over time, which benefits ratepayers,  
18 and, importantly, puts in place a mechanism that will allow proper cost recovery  
19 without the necessity of an expensive, time consuming rate case. The third prong of  
20 the Company's approach is being addressed in Docket No. NG-0079.

21 **Q. PLEASE SUMMARIZE THE AREAS YOU COVER IN YOUR REBUTTAL**  
22 **TESTIMONY.**

23 A. First, I will address Ms. Mullinax's misplaced critique of the Company's Jurisdictional  
24 revenue deficiency analysis. The Company submitted the Jurisdictional revenue  
25 deficiency analysis to demonstrate why it is important that each prong of the  
26 Company's proposed solution be approved. The analysis shows that SourceGas

1 Distribution has a Jurisdictional revenue deficiency, compared with its current  
2 revenue requirement, and the Commission's approval of the Application will not  
3 cause the Company to exceed its authorized rate of return. This is not a general  
4 rate case, and the Company did not intend it to be transformed into one by Ms.  
5 Mullinax's review of the Company's Jurisdictional revenue deficiency analysis.

6 Second, I will address the status of the 2014 SSIR Projects and explain why  
7 it is important for the Commission to consider when Projects have reached in-  
8 service or technically complete ("TECO") status when comparing the Company's  
9 original filing in this docket with its seven months of actual and five months of  
10 forecasted information. Essentially, when a capital project reaches TECO status, it  
11 means that the project is complete and the asset is ready for its intended use.

12 Third, I will address various inaccuracies in Ms. Mullinax's testimony  
13 regarding the information provided by the Company, its evaluation of load growth,  
14 and its operating expense adjustments. For instance, Ms. Mullinax wrongly asserts  
15 that the Company has forecasted a significant increase in wages, benefits and  
16 payroll taxes. Contrary to her assertions, the labor cost increase is only 6.46%, a  
17 far cry from the 122% increase asserted by Ms. Mullinax.

18 **Q. WILL YOUR REBUTTAL TESTIMONY ALSO ADDRESS THE COMPANY'S**  
19 **REQUEST FOR THE COMMISSION'S APPROVAL OF THE PROPOSED SSIR**  
20 **TARIFF AND CHARGES?**

21 A. Yes. There are four very important differences between the proposed SSIR Tariff  
22 and the ISR approved in Docket No. NG-0072.1. Those differences are the timing  
23 of the Company's recovery of costs, the ability of the Company to timely recover all  
24 eligible costs, the type of costs eligible for recovery, and the timing of the regulatory  
25 process. All parties should utilize available measures to allow timely recovery of  
26 costs for government-mandated system safety and integrity costs. I also testify that

1 the reconciliation process in the proposed SSIR Tariff is symmetrical, and therefore  
2 concerns over the true up process expressed by Ms. Mullinax are not accurate. If,  
3 for example, SSIR revenues collected from customers are less than a projected  
4 cost, then customers will be holding funds that otherwise will go to the Company,  
5 until the reconciliation process is complete.

6 **Q. WILL YOU ADDRESS MS. MULLINAX'S CONCLUSION AS TO WHETHER THE**  
7 **COMMISSION SHOULD APPROVE THE COMPANY'S APPLICATION TO**  
8 **IMPLEMENT THE PROPOSED SSIR TARIFF?**

9 A. Yes I will. The Company is acting prudently to address in a timely way its aging  
10 infrastructure. It is proposing a mechanism that better aligns all regulatory  
11 stakeholders' interests to assure the continued safety and integrity of the pipeline  
12 system. The Company is trying to achieve a balance between its need for prompt  
13 cost recovery with a regulatory process that allows the Public Advocate and the  
14 Commission greater transparency into these types of projects.

15 **Q. WILL YOU ADDRESS MS. MULLINAX'S RECOMMENDED MODIFICATIONS TO**  
16 **THE COMPANY'S PROPOSED TARIFF?**

17 A. Yes, I will address each of the proposed SSIR Tariff changes and will explain that  
18 the Company is willing to accept the Public Advocate's recommendations to  
19 incorporate an ISR-type review process, a provision to improve the reconciliation  
20 process, and a requirement that "general rate cases should be mandated at least  
21 every 60 months."

22 **Q. ARE THERE OTHER RECOMMENDATIONS FROM THE PUBLIC ADVOCATE**  
23 **THROUGH MS. MULLINAX'S TESTIMONY THAT THE COMPANY CANNOT**  
24 **ACCEPT?**

25 A. Yes. First, a \$0.50 per month cap, as proposed by the Public Advocate, would not  
26 allow the Company the proper revenue level associated with its SSIR Projects. This

1 deficiency would lead to more frequent general rate cases. The Company also is  
2 concerned that such a monthly cap could signal that some Projects are more  
3 important than others, and the Company believes that all Projects are important to  
4 assure pipeline safety and integrity. Second, the Company is addressing, but not  
5 drafting into its SSIR Tariff, the base revenue levels set forth in Section 66-1865 of  
6 the Act. The Company is taking this approach because the added requirement that  
7 a general rate case be conducted at least every sixty months, along with the existing  
8 provision that the SSIR Charges be reset in general rate cases, will safeguard  
9 against the Company generating a disproportionate amount of its revenue through  
10 the SSIR Tariff compared with its base rates.

11 **Q. WILL YOU ADDRESS ANY OTHER PREFILED DIRECT TESTIMONY**  
12 **SUBMITTED BY THE PUBLIC ADVOCATE?**

13 A. Yes, in the interest of completeness, I will address the testimony of Mr. William  
14 Dunkel. However, it is unclear how Mr. Dunkel's testimony is relevant to the  
15 proposed SSIR Tariff or SSIR Charges. Furthermore, his testimony engages in  
16 hindsight, which is prohibited in ratemaking, and he seems to attack the base rates,  
17 including depreciation rates, established by the Commission as being just and  
18 reasonable in the last rate case (Docket No. NG-0067).

19 **III. REBUTTAL OF DIRECT TESTIMONY OF MS. DONNA H. MULLINAX**

20 **Q. WHAT ARE THE CONCLUSIONS AND RECOMMENDATIONS OF MS.**  
21 **MULLINAX THAT YOU WILL ADDRESS?**

22 A. Ms. Mullinax presents the following conclusions and recommendations on page 4,  
23 lines 5-11 of her Direct Testimony:

24 1. "I believe that the Company's \$4.5 million revenue deficiency that it  
25 has used to justify the SSIR in this proceeding and a prospective

1 change in its depreciation rates [in] Docket No. NG-0079 is  
2 overstated.”

3 2. “The Commission should reject the Company’s request to replace the  
4 legislative ISR with the prospective SSIR.”

5 3. “Should the Commission authorize the SSIR, changes should be  
6 made to the SSIR.”

7 I will address each of these contentions in turn.

8 **A. JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS**

9 **Q. MS. MULLINAX TAKES ISSUE WITH THE PRESENTATION OF THE**  
10 **COMPANY’S JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS, IMPLYING**  
11 **THAT THE COMPANY PRESENTED IT TO “JUSTIFY ITS NEED” FOR THE**  
12 **SSIR. IS THIS THE CASE?**

13 A. No, it is not. In many instances, Ms. Mullinax compares the Jurisdictional revenue  
14 deficiency analysis and her review of that analysis to those that would be performed  
15 “in a general rate case.” (Mullinax Direct Testimony, page 11, lines 21-23, page 19,  
16 lines 16-19, page 20, lines 2-4 and 12-14, page 23, lines 16-22, page 25, lines 4-5,  
17 page 27, lines 2-3 and 10-15). She raises questions about return on equity,  
18 adjustments to rate base, and operating expense adjustments, all of which are  
19 outside the scope of this proceeding.

20 The Company did not present its Jurisdictional revenue deficiency analysis  
21 to “justify its need” for the SSIR. The policy reasons for the Company’s proposed  
22 SSIR Tariff are provided on pages 9-20 of my Direct Testimony and in the Direct  
23 Testimony of Mr. Charles A. Bayles. The merits of the Company’s SSIR Application  
24 in this docket stand on their own regardless of the results of the Company’s  
25 Jurisdictional revenue deficiency analysis. Even so, it is important that the

1 Commission bear in mind that the results of the Company's analysis demonstrate  
2 that:

3 (i) "[u]nder its existing rates, SourceGas Distribution experiences a  
4 jurisdictional revenue deficiency compared with its current  
5 revenue requirement" (Hammer Direct Testimony, page 5, lines  
6 11-12; see also the Company's Response, Supplemental  
7 Response and Second Supplemental Response to Staff Data  
8 Request No. 1-1, collectively provided as Exhibit JSH-3 to my  
9 Rebuttal Testimony);

10 (ii) "the Commission's approval of this Application and the  
11 Company's applications in Docket Nos. NG-0072.1 and NG-  
12 0079 would not cause the Company to exceed its authorized  
13 rate of return" (Hammer Direct Testimony, page 7, lines 20-22);  
14 and

15 (iii) "the Commission's approval of the three applications will  
16 reduce the Company's revenue deficiency to a level that will  
17 allow the Company to avoid its planned general rate case at  
18 this time" (Hammer Direct Testimony, page 7, lines 23-25).

19 Nothing in Ms. Mullinax's "high level review" of the Company's Jurisdictional  
20 revenue deficiency analysis (Mullinax Direct Testimony, page 11, lines 16-18)  
21 negates any of these three fundamental findings.

22 **Q. WOULD YOU EXPLAIN THE COMPANY'S REASONS FOR PRESENTING THE**  
23 **JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS?**

24 A. Prior to filing its Application in this proceeding, the Company had a series of  
25 discussions with the Public Advocate, the Public Advocate's consultants and

1 Commission Staff. Over the course of those discussions, the participants talked  
2 about the importance of the Company demonstrating that it is earning less than its  
3 authorized return, that the Commission's approval of the Company's applications in  
4 Docket Nos. NG-0072.1, NG-0078 and NG-0079 would not cause the Company to  
5 earn more than its authorized return, and that the Commission's approval of the  
6 three applications would allow the Company to avoid its planned general rate case  
7 at this time.

8 The Company believes that it therefore was essential to present evidence  
9 demonstrating the revenue deficiency. The Public Advocate, the Public Advocate's  
10 consultants and Commission Staff were aware that the Company planned to file the  
11 Jurisdictional revenue deficiency analysis, and that analysis demonstrates the key  
12 points that I just mentioned. The Company took away from their discussions that  
13 the filing of such a Jurisdictional revenue deficiency analysis, and the results of that  
14 analysis, would be critical to the Commission's consideration of the Company's  
15 Application in this proceeding and its application in Docket No. NG-0079.

16 **Q. DO YOU AGREE WITH MS. MULLINAX'S RELIANCE ON A PROVISION IN**  
17 **SECTION 66-1866 OF THE ACT TO SUPPORT HER POSITION CONCERNING**  
18 **THE COMPANY'S JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS?**

19 A. No. Sections 66-1865 and 66-1866 of the Act govern ISR cost recovery charge  
20 applications such as those filed by the Company and approved by the Commission  
21 in Docket Nos. NG-0072 and NG-0072.1. Ms. Mullinax incorrectly states on page 8,  
22 lines 11-12 of her Direct Testimony that Section 66-1866 of the Act "requires that no  
23 other revenue requirement or ratemaking issue shall be examined in consideration  
24 of the ISR application." Actually, the applicable sentence of Section 66-1866(3)(b)  
25 of the Act reads: "No other revenue requirement or ratemaking issue shall be  
26 examined in consideration of the application or associated proposed rate schedules

1 filed pursuant to the act *unless the consideration of such affects the determination of*  
2 *the validity of the proposed infrastructure system replacement cost recovery charge*  
3 *rate schedules.”* (Emphasis added).

4 My understanding is that this sentence addresses the scope of the Public  
5 Advocate’s “examination” of a jurisdictional utility’s ISR application to ensure that  
6 this “examination” does not inappropriately expand the scope of the utility’s ISR  
7 application to “other revenue requirement or ratemaking issue[s].” The exception  
8 provided in Section 66-1866(3)(b) of the Act is that the Public Advocate’s  
9 examination may include another revenue requirement or ratemaking issue if such  
10 issue “affects the determination of the validity” of the ISR cost recovery charge rate  
11 schedules. Furthermore, even if Section 66-1866 of the Act were applicable to the  
12 Application in this proceeding, my Direct Testimony and Rebuttal Testimony  
13 demonstrate how the Jurisdictional revenue deficiency analysis “affects the  
14 determination” of the Commission to grant the Company’s SSIR Application in this  
15 proceeding.

16 **Q. DO YOU AGREE WITH MS. MULLINAX THAT THE COMPANY’S**  
17 **APPLICATIONS IN THIS PROCEEDING AND IN DOCKET NOS. NG-0072.1 AND**  
18 **NG-0079 ARE “STOPGAP MEASURES” TO “JUSTIFY EXPEDITED RECOVERY**  
19 **OF COSTS” (MULLINAX DIRECT TESTIMONY, PAGE 8, LINES 14-17)?**

20 A. No. As I stated in my Direct Testimony on page 6, lines 17-24, the Company’s  
21 Applications in this proceeding and in Docket Nos. NG-0072.1 and NG-0079 are  
22 three essential components of the creative solution that, if approved, would enable  
23 the Company to avoid the need for the general rate case that it planned to file on or  
24 about April 1, 2014. Given inflationary pressures on the Company’s cost of service  
25 since April 1, 2014, and the Company’s increasing Jurisdictional revenue deficiency  
26 shown in its Supplemental and Second Supplemental Responses to Staff Data

1 Request No. 1-1 (Exhibit JSH-3), the Company expects that its revenue requirement  
2 in a general rate case filed now would be greater than its revenue requirement in a  
3 general rate case filed on or about April 1, 2014.

4 **Q. WILL CUSTOMERS BENEFIT IF SOURCEGAS DISTRIBUTION DOES NOT**  
5 **HAVE TO FILE THAT GENERAL RATE CASE AT THIS TIME?**

6 A. Yes. General rate cases are costly, resource intensive and time consuming  
7 endeavors. In the Company's last general rate case (Docket No. NG-0067), the  
8 Commission approved the Company's total rate case expense of \$800,450,  
9 amortized over three years at \$266,817 per year. The Commission in that general  
10 rate case also authorized the Company to collect from its customers through the  
11 State Regulatory Assessment Charge approximately \$560,000 of expense for the  
12 charges of the Public Advocate and his consultants and the Commission's  
13 consultants.

14 If the Commission approves these three essential components, the  
15 Company would not need to collect from customers its expense for prosecuting  
16 another general rate case at this time. Furthermore, if the Commission grants the  
17 requested relief in these three dockets, the charges of the Public Advocate and his  
18 consultants and the Commission's consultants for Docket Nos. NG-0072.1, NG-  
19 0078 and NG-0079 should be drastically less than the approximately \$560,000 of  
20 expense collected from customers through the State Regulatory Assessment  
21 Charge in the Company's last general rate case. In fact, as of the filing date of this  
22 Rebuttal Testimony, the Commission has assessed a total of \$86,350.76 for the  
23 Company to collect through the State Regulatory Assessment Charge for all three  
24 proceedings combined: \$26,366.74 in Docket No. NG-0072.1, \$35,164.45 in  
25 Docket No. NG-0078 and \$24,819.57 in Docket No. NG-0079.

1 Q. DO YOU HAVE ANY COMMENTS ON MS. MULLINAX’S COMPARISONS OF  
2 THE JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS AND HER REVIEW  
3 OF THAT ANALYSIS TO THOSE THAT WOULD BE PERFORMED “IN A  
4 GENERAL RATE CASE”?

5 A. Yes. This proceeding is not a general rate case and the Company did not intend it  
6 to be transformed into a general rate case through Ms. Mullinax’s review of the  
7 Company’s Jurisdictional revenue deficiency analysis. The Company has presented  
8 to the Commission a three-pronged solution to otherwise having to file a costly,  
9 resource intensive and time-consuming rate case at this time. The Company’s  
10 Jurisdictional revenue deficiency analysis is not and was not intended to be in the  
11 same form and to the same level of detail as a full-scale revenue requirement study  
12 filed in accordance with the Commission’s rules on General Rate Filings and Rate  
13 Principles (Natural Gas and Pipeline Rules and Regulations, Sections 4 and 5).

14 Ms. Mullinax’s “point” that “the Company’s revenue deficiency has not been  
15 fully vetted and a full review of the Company’s presentation of its revenue deficiency  
16 could likely yield in a different result” (Mullinax Direct Testimony, page 12, lines 11-  
17 13) raises the crucial question: Is such a “full vetting” and “full review” worth the  
18 substantial costs to be borne by ratepayers through a general rate case? A full-  
19 scale revenue requirement study typically requires the Company to engage outside  
20 experts to conduct studies on topics such as return on equity, cost allocation and  
21 rate design and to develop testimony and exhibits supporting their studies. Their  
22 costs are borne by ratepayers. A full-scale revenue requirement study typically  
23 requires the Public Advocate to hire consultants to conduct a “full review” of that  
24 study. The extra costs of such a “full review” compared with Ms. Mullinax’s “high  
25 level review” in this proceeding are borne by ratepayers.

1           The facts that the Company has demonstrated through its Jurisdictional  
2 revenue deficiency analysis are that: (i) the Company is earning less than its  
3 authorized return; (ii) the Commission's approval of the Company's applications in  
4 Docket Nos. NG-0072.1, NG-0078 and NG-0079 would not cause the Company to  
5 earn more than its authorized return; and (iii) the Commission's approval of the  
6 three applications would allow the Company to avoid its planned general rate case  
7 at this time.

8           Nevertheless, because Ms. Mullinax has raised questions on the Company's  
9 authorized return on equity percentage, rate base, revenue and operating expenses,  
10 I feel obligated to address her points.

11 **Q.   HOW DO YOU RESPOND TO MS. MULLINAX'S POINTS ON PAGES 12 AND 14**  
12 **OF HER DIRECT TESTIMONY ABOUT THE COMPANY'S AUTHORIZED**  
13 **RETURN ON EQUITY?**

14 A.   Ms. Mullinax selects an authorized return on equity for a utility in the District of  
15 Columbia and an authorized return on equity for a utility in the State of California to  
16 suggest that the Company's 9.60% authorized return on equity and revenue  
17 deficiency in Nebraska are overstated. The Company has not engaged a return on  
18 equity expert to validate the data presented by Ms. Mullinax or to analyze the  
19 comparability of the two utilities selected by Ms. Mullinax with the Company.  
20 Obviously, SourceGas Distribution is regulated by the commissions in Nebraska,  
21 Colorado (in which the Company has an authorized return on equity of 10.00%) and  
22 Wyoming (in which the Company has an authorized return on equity of 9.92%), not  
23 by the commissions in the District of Columbia or the State of California. I also  
24 know that this Commission has authorized a return on equity of 10.10% for Black  
25 Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy (Docket No. NG-  
26 0061), the Public Utilities Commission of the State of Colorado (the "Colorado

1 PUC”) recently approved an authorized return on equity of 9.72% for Atmos Energy  
2 Corporation (Proceeding No. 14AL-0300G, Decision No. R14-1027, mailed August  
3 26, 2014), and the Wyoming Public Service Commission recently approved an  
4 authorized return on equity of 9.90% for the gas operations of Cheyenne Light, Fuel  
5 and Power Company (Docket No. 30005-182-GR-13, Record No. 13752, Bench  
6 Decision at the Public Hearing held on July 31, 2014). These data points are much  
7 more relevant to SourceGas Distribution and the Company’s operations in Nebraska  
8 than are the authorized returns on equity for a utility in the District of Columbia and a  
9 utility in the State of California.

10 **Q. DO YOU AGREE WITH MS. MULLINAX’S OBSERVATION ON LINES 8-9 OF**  
11 **PAGE 13 OF HER DIRECT TESTIMONY THAT “COMPANIES ARE RARELY**  
12 **AUTHORIZED ALL THAT THEY REQUEST IN A GENERAL RATE CASE?”**

13 A. Yes, that is almost a truism, but the observation is meaningless in the context of  
14 whether the Commission should approve the Company’s Application to implement  
15 the SSIR Tariff and the SSIR Charges. The Company is seeking approval of the  
16 SSIR precisely to avoid a general rate case. Moreover, while I agree with Ms.  
17 Mullinax’s observation from the perspective that utilities in general are rarely  
18 authorized all that they request in a general rate case, SourceGas Distribution has  
19 been authorized more than the majority of its requested increases in general rate  
20 cases. The Company believes that the favorable outcomes in its general rate cases  
21 are attributable to its solid and conservative rate case filings that reflect accurate  
22 accounting data, updated to include actual data, and generally accepted  
23 approaches to ratemaking.

24 **Q. DO YOU AGREE WITH MS. MULLINAX’S CHARACTERIZATIONS ON PAGES**  
25 **14-16 OF HER DIRECT TESTIMONY THAT THE COMPANY USED A “FUTURE**  
26 **TEST YEAR” TO CALCULATE ITS JURISDICTIONAL REVENUE DEFICIENCY?**

1 A. No. Ms. Mullinax incorrectly refers to the Test Year for the Jurisdictional revenue  
2 deficiency analysis presented in my Exhibit JSH-2 as “the projected 2014 Future  
3 Test Year.” (Mullinax Direct Testimony, page 16, lines 6-7). Exhibit JSH-2 shows a  
4 per books Base Year of the twelve months ended December 31, 2013 (see my  
5 Direct Testimony, page 9, lines 1-2), adjusted for known and measurable changes  
6 for calendar year 2014 (see my Direct Testimony, page 5, lines 15-17; see *also* my  
7 Exhibit JSH-2).

8 The Company did not use a “future test year,” as Ms. Mullinax refers to it on  
9 pages 14-16 of her Direct Testimony. As such, Ms. Mullinax’s discussion about the  
10 pros and cons of a “future test year” on page 15 of her Direct Testimony, including  
11 the specter that “utilities have an incentive to present biased forecasts that are not  
12 always easy to uncover” (Mullinax Direct Testimony, page 15, lines 16-17, page 28,  
13 lines 1-2), is a red herring. Moreover, there is no evidence in this proceeding that  
14 the Company has “presented biased forecasts” in its pro forma known and  
15 measurable adjustments to develop its Test Year for the Jurisdictional revenue  
16 deficiency analysis. I affirm that there are no such “biased” adjustments in the Test  
17 Year for that analysis.

18 Ms. Mullinax also is wrong that the use of a future test year “occurred in  
19 SourceGas’s last general rate case.” (Mullinax Direct Testimony, page 15, lines 14-  
20 15). In its last general rate case, SourceGas Distribution “updated the rate base,  
21 cost of capital, expenses and revenues filed in its direct case using actualized data  
22 through January 31, 2012, adjusted for known and measurable changes.” (Docket  
23 No. NG-0067, Order Granting Application, In Part, entered May 22, 2012, page 4).  
24 The Commission concluded that “[u]tilizing updated data based upon actuals rather  
25 than estimates allows the Commission to set rates based upon data that will most  
26 clearly match the time period during with [which] rates will take effect. The

1 Commission has previously relied upon updated information in rate cases and such  
 2 reliance has been affirmed on appeal.” (*Id.*, footnote omitted).

3 **Q. PLEASE ADDRESS MS. MULLINAX’S DIRECT TESTIMONY ON PAGE 18**  
 4 **ABOUT THE STATUS OF THE 2014 SSIR PROJECTS.**

5 A. Table 1 below updates Ms. Mullinax’s Table 5 on page 18 of her Direct Testimony  
 6 with the status of the Company’s 2014 SSIR Projects as of the filing date of this  
 7 Rebuttal Testimony:

Table 1: Capital Spend and In-Service or TECO Amount

Month	Originally Filed Capital Spend	7+5 Capital Spend (A)	Originally Filed In-Service Amount	Updated In- Service or TECO Amount (A) (B)
<b>CWIP- Dec 31, 2013</b>	<b>\$ 2,221,726</b>	<b>\$ 2,221,726</b>		
<b>Jan-14</b>	<b>144,367</b>	<b>12,741</b>		
<b>Feb-14</b>	<b>115,355</b>	<b>24,126</b>		
<b>Mar-14</b>	<b>243,325</b>	<b>105,671</b>		
<b>Apr-14</b>	<b>304,014</b>	<b>484,765</b>		
<b>May-14</b>	<b>676,941</b>	<b>1,047,355</b>	<b>\$ 682,240</b>	
<b>Jun-14</b>	<b>572,282</b>	<b>321,089</b>	<b>2,221,834</b>	<b>\$ 2,135,689</b>
<b>Jul-14</b>	<b>1,344,619</b>	<b>628,492</b>	<b>19,030</b>	<b>676,100</b>
<b>Aug-14</b>	<b>1,881,066</b>	<b>2,596,668</b>	<b>52,517</b>	<b>840,099</b>
<b>Sep-14</b>	<b>1,463,431</b>	<b>1,329,729</b>	<b>3,224,000</b>	<b>1,042,247</b>
<b>Oct-14</b>	<b>2,301,699</b>	<b>2,087,876</b>	<b>148,283</b>	<b>3,533,052</b>
<b>Nov-14</b>	<b>358,391</b>	<b>850,625</b>	<b>5,279,314</b>	<b>3,483,676</b>
<b>Dec-14</b>				
<b>Total</b>	<b>11,627,216</b>	<b>11,710,862</b>	<b>11,627,216</b>	<b>11,710,862</b>

(A) Includes 7 months actual (Jan-14 - Jul-14) and 5 months forecast (Aug-14 - Dec-14).

8 (B) TECO refers to the status when a capital project is complete and the asset is ready for its intended use.

9 **Q. WHAT DOES TABLE 1 ABOVE SHOW?**

10 A. Table 1 above presents capital spend amounts and in-service or technically  
 11 complete (“TECO”) amounts updated with seven months of actual data (January  
 12 2014 through July 2014) and five months of forecast data (August 2014 through  
 13 December 2014). Through July 2014, the Company has spent \$4,845,965 on 2014

1 SSIR Projects compared with its original forecast of \$5,622,629, and has reached  
2 TECO status of \$2,811,789 of its 2014 SSIR Projects compared with its original  
3 forecast of \$2,923,104. Table 1 also shows that the Company remains on target to  
4 spend and to place in service or reach TECO status of approximately the same total  
5 dollar amount of 2014 SSIR Project capital expenditures as it originally forecasted in  
6 its May 1, 2014 Application in this proceeding (*i.e.*, \$11,710,862 as of the filing date  
7 of this Rebuttal Testimony versus \$11,627,218 in the May 1, 2014 Application, for a  
8 positive difference of \$83,646). The data in Table 1 above show that the Company  
9 remains on schedule for its 2014 SSIR Projects.

10 **Q. WHY IS IT IMPORTANT TO CONSIDER PROJECTS THAT HAVE REACHED**  
11 **TECO STATUS WHEN COMPARING WHAT THE COMPANY ORIGINALLY**  
12 **FILED WITH ITS SEVEN MONTHS OF ACTUAL AND FIVE MONTHS OF**  
13 **FORECAST INFORMATION?**

14 A. When a capital project reaches TECO status, it means that the project is complete  
15 and the asset is ready for its intended use. In regulatory terms, it is “used and  
16 useful” for providing natural gas service. It can take several months after the date  
17 that a project reaches TECO status for the Company to receive and compile all of  
18 the invoices and other paperwork related to the project and close the project to plant  
19 in service from an accounting standpoint. This is why none of the 2014 SSIR  
20 Projects reflected in the SSIR Application are closed to plant in service as of the  
21 filing date of this Rebuttal Testimony. However, once the final invoices are received  
22 and compiled and the Project is moved to plant in service, the in-service date most  
23 likely will be the date that the project reached TECO status because the asset was  
24 performing the function that it was intended to perform as of that date. Therefore,  
25 when the Company compiles all of the information that will be submitted on April 1,  
26 2015 with its Annual Report on its 2014 SSIR Projects, there most likely will be

1 Projects with in-service dates of June and July 2014 just like the Company  
2 forecasted to occur in its SSIR Application.

3 **Q. IN ADDITION TO THE DATA IN TABLE 1 ABOVE, IS THERE ANY ADDITIONAL**  
4 **INFORMATION SUPPORTING THE COMPANY’S POSITION THAT IT REMAINS**  
5 **ON SCHEDULE FOR ITS 2014 SSIR PROJECTS?**

6 A. Yes. As I mentioned earlier in my Rebuttal Testimony, the Company is prefiling the  
7 Rebuttal Testimony of Mr. Jason R. Pickett, SourceGas’s Senior Director –  
8 Operations for SourceGas Distribution in Nebraska. Mr. Pickett is responsible for  
9 the oversight and performance of SourceGas Distribution’s operational assets in  
10 Nebraska, including the Company’s SSIR Projects in Nebraska. In his Rebuttal  
11 Testimony, Mr. Pickett states that the Company’s 2014 SSIR Projects remain on  
12 schedule from an operational perspective. Mr. Pickett highlights that the Company  
13 has experienced challenges with its 2014 construction season including  
14 implementing its 2014 SSIR Projects, especially from the “polar vortex” winter  
15 weather followed by the wetter-than-normal spring and summer seasons in  
16 Nebraska. Notwithstanding those and other factors outside the Company’s control,  
17 Mr. Pickett assures the Commission that completing the 2014 SSIR Projects  
18 continues to be among his highest priorities.

19 **Q. IS IT ACCURATE THAT THE COMPANY IS, BUT “SHOULD NOT BE EARNING**  
20 **A RETURN ON AND A RETURN OF THE \$1,459,563 [OF 2015 SSIR PROJECTS]**  
21 **THAT IS A YEAR BEYOND THE FUTURE TEST YEAR” (MULLINAX DIRECT**  
22 **TESTIMONY, PAGE 19, LINES 6-7)?**

23 A. No, this is not accurate at all. The Company is not “earning a return on and a return  
24 of the \$1,459,563 that is a year beyond the future test year.” This proceeding is not  
25 a general rate case for the purpose of setting base rates, and the \$1,459,563 is not  
26 included in the development of the SSIR Charges calculated in my Exhibit JSH-1.

1                   The \$1,459,563 of “2015 SSIR Projects” is the total cost of SSIR Projects  
2                   that the Company initially planned to complete in 2014 but ultimately moved to 2015  
3                   for completion. The Company included the \$1,459,563 of these carry-over SSIR  
4                   Projects in its Jurisdictional revenue deficiency analysis as a component of its Pro  
5                   Forma Adjustment to its Per Books Utility Plant in Service (see Exhibit JSH-2, Table  
6                   2, Schedule B, Line 12).

7   **Q.   WHAT IS THE COMPANY’S RESPONSE TO MS. MULLINAX’S COMMENTS ON**  
8   **PAGES 19-20 OF HER DIRECT TESTIMONY THAT “LITTLE INFORMATION**  
9   **HAS BEEN PROVIDED” ABOUT “THE REMAINING CATEGORIES IN THE**  
10 **COMPANY’S PROJECTED UTILITY PLANT IN SERVICE?”**

11 A.   The Company has submitted sufficient information to support its request in this  
12       proceeding. This is not a general rate case. If it were, the Company would have  
13       filed a full-scale revenue requirement study in accordance with the Commission’s  
14       rules on General Rate Filings and Rate Principles (Natural Gas and Pipeline Rules  
15       and Regulations, Sections 4 and 5), including Rate Base Schedules in compliance  
16       with Rule 004.03. The Company would expect such a full-scale revenue  
17       requirement study to be “fully vetted” and “evaluated” by the Public Advocate’s  
18       consultants, at a concomitantly much greater cost than has been incurred in this  
19       proceeding.

20 **Q.   DO YOU AGREE WITH MS. MULLINAX’S CHARACTERIZATION ON PAGE 21,**  
21 **LINES 15-17 OF HER DIRECT TESTIMONY THAT “LOAD GROWTH” WAS NOT**  
22 **“EVALUATED” IN THE CONTEXT OF THE COMPANY’S JURISDICTIONAL**  
23 **REVENUE DEFICIENCY ANALYSIS (SEE ALSO MULLINAX DIRECT**  
24 **TESTIMONY, PAGE 26, LINES 12-13)?**

1 A. No. To the contrary, my Exhibit JSH-2, Table 5, Schedule D, shows that the  
2 Company included \$221,279 of “load growth” Construction Work in Progress  
3 (CWIP) Revenue in its Jurisdictional revenue deficiency analysis.

4 **Q. DO YOU AGREE WITH THE OBSERVATIONS MADE BY MS. MULLINAX ON**  
5 **PAGES 21-27 OF HER DIRECT TESTIMONY ABOUT THE OPERATING**  
6 **EXPENSE ADJUSTMENTS MADE IN THE COMPANY’S JURISDICTIONAL**  
7 **REVENUE DEFICIENCY ANALYSIS?**

8 A. I do agree with Ms. Mullinax that “[a] utility is in the best position to understand what  
9 it needs to provide safe and reliable service and develops its processes and  
10 procedures to provide those services.” (Mullinax Direct Testimony, page 23, lines  
11 14-16). I also agree with Ms. Mullinax that “there is no indication” that the Company  
12 is “over-recovering among its various jurisdictions” or that its customers in Nebraska  
13 are “receiving a disproportionate share of the costs.” (Mullinax Direct Testimony,  
14 page 23, lines 17-20). I take issue with many of her other observations of the  
15 operating expense adjustments made in the Company’s Jurisdictional revenue  
16 deficiency analysis.

17 First, Ms. Mullinax makes a point of the Company’s estimated labor expense  
18 for its Integrity Management cost center increasing from \$57,000 in its last general  
19 rate case (Docket No. NG-0067) to \$350,000 in its Jurisdictional revenue deficiency  
20 analysis in this proceeding. (Mullinax Direct Testimony page 23, lines 1-6). This  
21 increase in labor expense underscores the importance of system safety and integrity  
22 to the Company and the Company’s firm commitment to undertake promptly the  
23 Projects that would be covered under the proposed SSIR Tariff.

24 Second, Ms. Mullinax points out that the Company’s increase to its Direct  
25 Capital Rate “reduces the A&G expenses, but it increases capital costs.” (Mullinax  
26 Direct Testimony, page 23, lines 9-12). She does not acknowledge that all else

1 being equal, increasing the Direct Capital Rate reduces the Company's  
2 Jurisdictional revenue deficiency because the reduction in expense exceeds the  
3 revenue requirement impact of the increased capital costs.

4 Third, Ms. Mullinax's position that the Company should not be allowed to  
5 recover prudently-incurred and known and measurable expenses associated with its  
6 Short-Term Incentive Plan (Mullinax Direct Testimony, page 26, lines 5-9) is  
7 contrary to general ratemaking principles and contrary to Commission precedent on  
8 this matter. (Docket No. NG-0067, Order Granting Application, In Part, entered May  
9 22, 2012, page 16; Docket No. NG-0061, Final Order Granting Application in Part,  
10 entered August 17, 2010, pages 18-19). If this proceeding were a general rate case  
11 (which it is not), the Company would ensure that the record contained the same type  
12 of evidence that the Commission deemed "sufficient" to support full recovery of the  
13 Company's Short-Term Incentive Plan costs in Docket No. NG-0067.

14 Fourth, Ms. Mullinax misrepresents and misanalyzes the Company's labor  
15 costs on pages 24-25 of her Direct Testimony.

16 **Q. PLEASE EXPLAIN HOW MS. MULLINAX MISREPRESENTS AND**  
17 **MISANALYSES THE COMPANY'S LABOR COSTS ON PAGES 24-25 OF HER**  
18 **DIRECT TESTIMONY.**

19 A. First, Ms. Mullinax wrongly asserts that the Company has forecast "a substantial  
20 increase of 122% over the wages, benefits, and payroll taxes included in the 2013  
21 Base Year" (Mullinax Direct Testimony, page 24, lines 11-12). Ms. Mullinax's  
22 assertion is based on part of the information presented in Table 8 on page 24 of her  
23 Direct Testimony, which references the Company's Response to Information  
24 Request PA-4 (the relevant portion of which Response Ms. Mullinax provided as  
25 Exhibit DHM-18 and I am providing as Exhibit JSH-4). To illustrate the flaws in Ms.  
26 Mullinax's assertion, I have prepared Table 2 below, which uses all of the data

1 provided by the Company in its Response to Information Request PA-4 to show an  
 2 accurate representation of the impacts of the Company's adjustments compared  
 3 with the total dollars that were already included in the 2013 Base Year Amounts.

4 Table 2: Summary of Labor and Pro-Forma Labor Adjustments

Description	Base Year Base Labor	Base Labor Adjustment	Total Test Year Base Labor	Test Year New Labor	Total Test Year Labor
Wages	11,632,235	348,970	11,981,205	765,023	12,746,228
Benefits	3,349,014	100,470	3,449,485	232,761	3,682,246
Payroll Taxes	923,681	27,710	951,391	60,748	1,012,139
Total	15,904,930	477,151	16,382,081	1,058,532	17,440,613

5  
 6 As shown in Table 2, the Company's Labor Adjustment consisted of two  
 7 components. The first component was a 3% increase to the base year labor level  
 8 (\$477,151 / \$15,904,930) to reflect the known and measurable salary changes from  
 9 2013 to 2014. The second component reflected the planned addition of 59  
 10 employees to fill new positions. The \$1,058,532 shown in Table 2 above for new  
 11 labor represents the portion of these new employees' expenses that would be  
 12 allocated to Nebraska. This represents a 6.46% increase over the Total Test Year  
 13 Base Labor expense for existing employees (\$1,058,532 / \$16,382,081), not the  
 14 122% increase stated in Ms. Mullinax's Direct Testimony.

15 Second, Ms. Mullinax incorrectly states on page 25, lines 6-14 of her Direct  
 16 Testimony that "the Company needs to hire 106 employees in 2014" to reach its  
 17 forecasted level of operating expenses. The Company performed its labor  
 18 adjustment in two steps. In the first step, the Company took the actual labor costs  
 19 for 2013 (which included the actual headcount during that year) and reflected known  
 20 and measurable wage, benefit, and payroll tax changes for those employees for the  
 21 2014 Test Year used in the Jurisdictional revenue deficiency analysis. In the  
 22 second step, the Company included any new labor positions that the Company had  
 23 planned to add in 2014, which was the 59 new positions. This two-step process is

1 important because it assures that any vacancies that existed for any period of time  
2 in 2013 also existed in the Company's Test Year calculations. Therefore, the level  
3 of attrition that the Company experienced in 2013 due to having vacant positions  
4 created the same level of attrition in the Company's 2014 Test Year forecasts.

5 **Q. PLEASE RESPOND TO THE "CONCLUSION" SECTION PRESENTED ON**  
6 **PAGES 27-28 OF MS. MULLINAX'S DIRECT TESTIMONY.**

7 A. My response addresses, in order, each of the points that Ms. Mullinax makes in the  
8 "Conclusion" section presented on pages 25-27 of her Direct Testimony.

9 The Company did not present its Jurisdictional revenue deficiency analysis  
10 to "justify its need" for the SSIR. This is not a general rate case and the Company  
11 did not intend it to be transformed into a general rate case through Ms. Mullinax's  
12 review of the Company's Jurisdictional revenue deficiency analysis. The facts that  
13 the Company has demonstrated through its Jurisdictional revenue deficiency  
14 analysis are that: (i) the Company is earning less than its authorized return; (ii) the  
15 Commission's approval of the Company's applications in Docket Nos. NG-0072.1,  
16 NG-0078 and NG-0079 would not cause the Company to earn more than its  
17 authorized return; and (iii) the Commission's approval of the three applications  
18 would allow the Company to avoid its planned general rate case at this time.

19 As to the nine (9) numbered "potential issues" presented on pages 27-28 of  
20 Ms. Mullinax's Direct Testimony, my responses are as follows:

- 21 1. Ms. Mullinax's observation that "companies are rarely authorized all  
22 that they request in a general rate case" is almost a truism, but it is  
23 meaningless in the context of whether the Commission should  
24 approve the Company's Application in this proceeding.
- 25 2. The authorized returns on equity for a utility in the District of  
26 Columbia and another utility in the State of California are much less  
27 relevant to SourceGas Distribution and the Company's operations in  
28 Nebraska than are the authorized returns on equity from the  
29 commissions regulating SourceGas Distribution. In my Rebuttal  
30 Testimony, I present authorized return on equity data points from the

- 1 commissions regulating SourceGas Distribution that are higher than  
2 the Company's currently authorized return on equity in Nebraska of  
3 9.60%.  
4
- 5 3. Ms. Mullinax incorrectly refers to the Test Year for the Jurisdictional  
6 revenue deficiency analysis presented in my Exhibit JSH-2 as "a  
7 Future Test year." The Company did not use a "future test year." As  
8 such, Ms. Mullinax's discussion about the pros and cons of a "future  
9 test year" is a red herring. Ms. Mullinax also is wrong that the use of  
10 a future test year "occurred in SourceGas's last general rate case."
- 11 4. The Company's projected rate base is not overstated. The Company  
12 is not "earning a return on and a return of the \$1,459,563" of 2015  
13 SSIR Projects "that is a year beyond the future test year." This  
14 proceeding is not a general rate case for the purpose of setting base  
15 rates, and the \$1,459,563 is not included in the development of the  
16 SSIR Charges calculated in my Exhibit JSH-1 to my Direct Testimony  
17 in this proceeding.
- 18 5. The Eligible System Safety and Integrity Costs of Projects are  
19 projected using the best available information at the time the SSIR  
20 Charges are calculated. Projections may be more than or less than  
21 the actual Eligible System Safety and Integrity Costs, but the  
22 evidence in this proceeding and in Docket No. NG-0079  
23 demonstrates through the Company's Jurisdictional revenue  
24 deficiency analysis that it is earning less than its authorized return.
- 25 6. Contrary to Ms. Mullinax's assertion, my Exhibit JSH-2, Table 5,  
26 Schedule D, shows that the Company included \$221,279 of "load  
27 growth" Construction Work in Progress (CWIP) Revenue in its  
28 Jurisdictional revenue deficiency analysis.
- 29 7. Ms. Mullinax misrepresents and misanalyses the Company's labor  
30 costs in her Direct Testimony. Table 2 above shows a 6.46%  
31 increase over the Total Test Year Base Labor expense for existing  
32 employees, not the 122% increase stated in Ms. Mullinax's Direct  
33 Testimony. Ms. Mullinax's analysis also fails to reflect that the level  
34 of attrition that the Company experienced in 2013 due to having  
35 vacant positions created the same level of attrition in the Company's  
36 2014 Test Year forecasts.
- 37 8. Ms. Mullinax's position that the Company should not be allowed to  
38 recover prudently-incurred and known and measurable expenses  
39 associated with its Short-Term Incentive Plan is contrary to general  
40 ratemaking principles and contrary to Commission precedent on this  
41 matter.
- 42 9. As Ms. Mullinax admits, "there is no indication" that the Company is  
43 "over-recovering among its various jurisdictions" or that its customers  
44 in Nebraska are "receiving a disproportionate share of the costs." On  
45 the other hand, Ms. Mullinax fails to acknowledge that all else being

1 equal, increasing the Direct Capital Rate reduces the Company's  
2 Jurisdictional revenue deficiency because the reduction in expense  
3 exceeds the revenue requirement impact of the increased capital  
4 costs.

5 **B. COMMISSION APPROVAL OF THE PROPOSED SSIR TARIFF AND SSIR**  
6 **CHARGES**

7 **Q. WHAT PORTION OF MS. MULLINAX'S DIRECT TESTIMONY ARE YOU**  
8 **ADDRESSING IN THIS SECTION OF YOUR REBUTTAL TESTIMONY?**

9 A. In this section of my Rebuttal Testimony, I am addressing Ms. Mullinax's testimony  
10 about whether the Commission should "authorize SourceGas's request to replace  
11 the legislative ISR with its proposed prospective SSIR." (Mullinax Direct Testimony,  
12 page 29, lines 4-6).

13 **Q. DO YOU AGREE WITH MS. MULLINAX'S INTERPRETATION THAT THE**  
14 **COMPANY'S APPLICATION IN THIS PROCEEDING IS A "REQUEST TO**  
15 **REPLACE THE LEGISLATIVE ISR WITH ITS PROPOSED PROSPECTIVE**  
16 **SSIR?"**

17 A. No. SourceGas Distribution's Application in this proceeding does not specifically  
18 request that the Commission authorize the Company "to replace the legislative ISR  
19 with its proposed prospective SSIR." With that said, my Direct Testimony at page  
20 20, lines 4-16 states that if the Commission approves the Application in this  
21 proceeding, the Company expects that it would not make any additional filings under  
22 Sections 66-1865 and 66-1866 of the Act because "[t]here will be no need to do so."

23 **Q. DO YOU AGREE WITH MS. MULLINAX'S UNDERSTANDING OF WHY**  
24 **SOURCEGAS DISTRIBUTION IS REQUESTING THAT THE COMMISSION**  
25 **APPROVE THE COMPANY'S APPLICATION IN THIS PROCEEDING?**

26 A. Only in part, because her testimony is not complete on this point. Ms. Mullinax is  
27 correct that the Company's Application in this proceeding does "address the lag  
28 between the time the Company incurs a cost of a jurisdictional utility plant project

1 and the time the Company can start recovering that cost after Commission  
2 approval.” (Mullinax Direct Testimony, page 29, lines 10-12). I did say in my Direct  
3 Testimony on page 14, lines 1-3 that the “timing of the Company’s recovery of costs  
4 is the most important fundamental difference between the Company’s proposed  
5 SSIR Tariff and the ISR cost recovery charge rate schedules under the Act,” but I  
6 also identified three other fundamental differences between the proposed SSIR  
7 Tariff and the ISR on page 13, lines 21-23 of my Direct Testimony. Those three  
8 other fundamental differences are “(ii) the ability to timely recover all eligible costs,  
9 (iii) the types of costs eligible for recovery, and (iv) the timing of the regulatory  
10 process and stakeholder knowledge,” and they are discussed on pages 15-19 of my  
11 Direct Testimony.

12 **Q. HOW DO YOU RESPOND TO MS. MULLINAX’S POSITION ON PAGE 29, LINES**  
13 **17-18 OF HER DIRECT TESTIMONY THAT THE “SSIR AS PROPOSED BY THE**  
14 **COMPANY DOES NOT PROVIDE CONCURRENT RECOVERY OF COSTS?”**

15 A. Ms. Mullinax takes the position on page 29, line 17 through page 30, line 3 of her  
16 Direct Testimony that a utility’s recovery of its costs at any time before the exact  
17 date that a project is completed is not “concurrent” cost recovery. The Company’s  
18 proposed SSIR Tariff is as close to “concurrent” cost recovery as possible without  
19 overburdening the administrative process. As I stated on page 14, lines 16-18 of my  
20 Direct Testimony, for ISR costs under Sections 66-1865 and 66-1866 of the Act,  
21 “the time period between when the Company incurs the cost of a jurisdictional utility  
22 plant project and the time the Company can start recovering that cost may be up to  
23 one and one-half years.”

24 The proposed SSIR Tariff includes an annual November 1 filing for  
25 identifying Projects and establishing the SSIR Charges to be recovered starting the  
26 immediately following January 1, and an annual April 1 filing to report on the

1 completion of the prior year's Projects and to reconcile projected and actual Eligible  
2 System Safety and Integrity Costs and projected and actual SSIR revenues.  
3 Obviously, Projects identified in an annual November 1 filing for the next calendar  
4 year are not going to be completed by January 1 of that calendar year. To make its  
5 cost recovery more concurrent under the proposed SSIR Tariff, the Company could  
6 have proposed four semi-annual filings (*i.e.*, two semi-annual filings identifying  
7 Projects and establishing the SSIR Charges and two semi-annual filings reporting  
8 on the completion of the prior year's Projects and reconciling costs and revenues),  
9 or even eight quarterly filings. The Company decided that those alternatives would  
10 have put too much stress on the administrative process and would have materially  
11 reduced administrative efficiency. The greater number of filings also would have  
12 meant that the Company would have changed the proposed SSIR Charges more  
13 times each year, which the Company reasonably thought would lead to customer  
14 confusion and strained customer relations.

15 The Company also takes issue with Ms. Mullinax's position that "recovery on  
16 projects that, in many cases, are not even started" "clearly goes beyond the concept  
17 of allowing a utility to earn a return on its rate base, including construction work in  
18 progress." (Mullinax Direct Testimony, page 29, line 22 – page 30, line 2).  
19 However, Ms. Mullinax overlooks the authorization granted in Section 66-1817 of  
20 the Act, which the Commission has applied in previous cases. Paragraph (1) of  
21 Section 66-1817 says that a utility's "property may be deemed to be completed and  
22 dedicated to commercial service if construction of the property will be commenced  
23 and completed in one year or less." Furthermore, paragraph (2) of Section 66-1817  
24 goes a step further by authorizing the Commission to "determine that property of a  
25 jurisdictional utility which has not been completed and dedicated to commercial  
26 service may be deemed to be used and useful in the utility's service to the public."

1           It also is important to point out that the mechanics of the SSIR calculation  
2           only include the monthly revenue requirement generated from a Project once it is in  
3           service and not automatically a full year revenue requirement for the Project. This  
4           assures that ratepayers will not be paying for a revenue requirement during the  
5           period in which a Project is not yet in service and used and useful. For example, if a  
6           Project is placed in service in July, the SSIR revenue requirement calculation only  
7           includes the return of and on that Project for six months (July through December)  
8           when determining the amount that customers will pay in that calendar year.  
9           Customers will not pay the full annual revenue requirement for that Project until the  
10          next calendar year, when the Project will be in service and used and useful for the  
11          entire calendar year.

12   **Q.   DO YOU AGREE WITH MS. MULLINAX’S ADVOCACY FOR “REGULATORY**  
13   **LAG” ON PAGE 30, LINES 7-17 OF HER DIRECT TESTIMONY?**

14   A.   No, and it should be everyone’s goal to minimize the impact of regulatory lag.  
15          “Regulatory lag” is inherent in general rate cases, which the Company is trying its  
16          best to avoid at this time through its three-pronged approach in Docket Nos. NG-  
17          0072.1, NG-0078 and NG-0079. Further, the Company is seeking to recover  
18          through its proposed SSIR Tariff the Eligible System Safety and Integrity Costs of  
19          government mandates (*i.e.*, “Projects”). Because the Company is performing the  
20          Projects in accordance with government mandates, the timing and scope of the  
21          Projects largely are outside the control of the Company. These particular  
22          government mandates involve the safety and integrity of the Company’s pipeline  
23          system in Nebraska, making the impact of “regulatory lag” even more problematic in  
24          the context of this proceeding.

1                   The Company is addressing Ms. Mullinax’s advocacy for a more “vigorous  
2 [review] process” (Mullinax Direct Testimony, page 30, line 11) in Section III.C of my  
3 Rebuttal Testimony.

4 **Q. DO YOU AGREE WITH MS. MULLINAX THAT SECTIONS 66-1865 AND 66-1866**  
5 **OF THE ACT PRESENT “A GOOD FRAMEWORK TO EVALUATE THE**  
6 **COMPANY’S SSIR REQUEST” (MULLINAX DIRECT TESTIMONY, PAGE 31,**  
7 **LINES 7-8)?**

8 A. No, although I appreciate Ms. Mullinax’s conclusion on page 34, line 1 of her Direct  
9 Testimony that “[t]he SSIR projects met most of the requirements for inclusion under  
10 the Act.” The Company did not use the ISR process as its foundation because of its  
11 shortcomings. On pages 13 through 19 of my Direct Testimony, I identified and  
12 described four fundamental differences between the ISR of Sections 66-1865 and  
13 66-1866 of the Act and the Company’s proposed SSIR Tariff that form the basis for  
14 the Company requesting Commission approval to implement its SSIR Tariff. The  
15 Company used as a foundation the SSIR Tariff of its affiliate Rocky Mountain that  
16 the Colorado PUC approved in 2014 by Decision No. R14-0114 in consolidated  
17 Proceeding Nos. 13A-0046G *et al.* The Act is not “a good framework to evaluate  
18 the Company’s SSIR request” because doing so inherently draws the discussion  
19 back towards the shortcomings of the Act that the Company is trying to cure through  
20 its proposed SSIR Tariff.

21 **Q. PLEASE ADDRESS THE “OTHER DIFFERENCE” THAT MS. MULLINAX**  
22 **DISCUSSES ON PAGES 32-33 OF HER DIRECT TESTIMONY, NAMELY THAT**  
23 **THE PROPOSED SSIR TARIFF COVERS “EXPECTED” DATES AND**  
24 **“ESTIMATED” COSTS WHEREAS THE ISR COVERS HISTORICAL DATES AND**  
25 **REALIZED COSTS.**

1 A. This “other difference” discussed by Ms. Mullinax on pages 32-33 of her Direct  
2 Testimony actually is subsumed in the “most fundamental difference” between the  
3 proposed SSIR Tariff and the ISR that I already identified on pages 13-14 of my  
4 Direct Testimony: “the timing of cost recovery.” The Act is backwards looking in  
5 that the Company recovers costs of jurisdictional utility plant projects that were  
6 completed in some cases more than a year before the Company can start  
7 recovering those costs. The proposed SSIR Tariff, in contrast, would require the  
8 Company in the latter part of each calendar year to quantify costs of Projects to be  
9 completed in the upcoming calendar year and would authorize the Company to  
10 recover those costs throughout the calendar year in which the Projects are being  
11 performed and completed, as each Project goes in service and becomes used and  
12 useful. Any differences between projected costs and actual costs of Projects (called  
13 the “SSIR True-Up Amount” in the proposed SSIR Tariff), and between projected  
14 costs and actual revenues generated through the recovery of costs (called the  
15 “Deferred SSIR Balance” in the proposed SSIR Tariff) would be reconciled through  
16 the “detailed true up” process (Mullinax Direct Testimony, page 33, line 3) set forth  
17 in the proposed SSIR Tariff. The reconciliation process means that customers will  
18 be charged the actual costs of the in-service Projects for the actual time period for  
19 which they were in-service.

20 On this topic, I take issue with Ms. Mullinax’s characterization on page 34,  
21 line 14 of her Direct Testimony that the proposed SSIR Tariff would result in  
22 “accelerated recovery of projected costs.” As I explained earlier in my Rebuttal  
23 Testimony, any more frequent filings than the annual November 1 filing and the  
24 annual April 1 filing would have put too much stress on the administrative process,  
25 materially reduced administrative efficiency, and led to customer confusion and  
26 strained customer relations from multiple bill changes to the SSIR Charges each

1 year. The annual filings reasonably balance the Company's ability to concurrently  
2 recover Eligible System Safety and Integrity Costs in the same year that it incurs  
3 those costs with the demands placed on the administrative process to ensure that  
4 the Company is properly implementing the SSIR Tariff.

5 **Q. DO YOU AGREE WITH MS. MULLINAX'S ASSESSMENT ON PAGE 34 OF HER**  
6 **DIRECT TESTIMONY ABOUT THE SSIR PROJECTS HAVING "MET THE**  
7 **REQUIREMENT" UNDER THE ACT "THAT THE PROJECTS DO NOT**  
8 **INCREASE REVENUE?"**

9 A. Yes. I agree with Ms. Mullinax's conclusion on page 34, lines 7-9 of her Direct  
10 Testimony that "[t]he Company's method of adjusting the estimated costs to include  
11 only replacement instead of betterment is adequate." I accept Ms. Mullinax's  
12 observation on page 34, lines 9-11 that "these betterment differentials and their  
13 future recovery of the capital costs will require careful tracking to recognize them in  
14 rate base along with the increase in revenue in the next base rate case." This  
15 "careful tracking" will be accomplished through the annual April 1 report to be filed  
16 under the proposed SSIR Tariff.

17 **Q. DO YOU AGREE WITH MS. MULLINAX'S COMPARISON OF THE TERM**  
18 **"JURISDICTIONAL UTILITY PLANT PROJECTS" UNDER SECTION 66-1866(14)**  
19 **OF THE ACT AND "PROJECTS" UNDER THE PROPOSED SSIR TARIFF?**

20 A. I agree with Ms. Mullinax's finding on page 37, line 5 of her Direct Testimony that  
21 the "SSIR projects are consistent with the types of projects that are allowed in the  
22 Act." I do not agree with Ms. Mullinax's side comment on page 37, line 4 of her  
23 Direct Testimony that the ISR requires "jurisdictional utility plant project[s]" to be  
24 "replacements." The second and third type of jurisdictional utility plant project  
25 defined in Section 66-1802(14) of the Act, which Ms. Mullinax presents on page 34,  
26 line 22 through page 35, line 7 of her Direct Testimony, make no mention that such

1 projects be “replacements.” For example, the ISR cost recovery charge rate  
2 schedules approved by the Commission in Docket Nos. NG-0072 and NG-0072.1  
3 include meter barricade projects for “enhancing the integrity of pipeline system  
4 components” (Section 66-1802(14)(b) of the Act) without being “replacements for  
5 existing facilities” (Section 66-1802(14)(a) of the Act).

6 **Q. DO YOU AGREE WITH MS. MULLINAX’S ASSESSMENT OF WHETHER THE**  
7 **COMPANY’S ESTIMATED COSTS FOR THE PROPOSED SSIR PROJECTS IS**  
8 **“REASONABLE?”**

9 A. I agree with Ms. Mullinax’s finding on page 37, lines 19-20 of her Direct Testimony  
10 that “[t]he Company’s process to estimate project costs is not unreasonable.”  
11 However, it is inappropriate for Ms. Mullinax to speculate on page 37, lines 14-16 of  
12 her Direct Testimony that including an allowance for funds used during construction  
13 (“AFUDC”) and overhead burden in the actual Eligible System Safety and Integrity  
14 Costs of the 2014 SSIR Projects “may result in an under recovery that could result  
15 in an increase in rates during the True Up next April 2015.” This fixation on a  
16 particular component of Eligible System Safety and Integrity Costs ignores the  
17 likelihood that some cost components may decrease to counterbalance the inclusion  
18 of AFUDC and overhead burden.

19 **Q. PLEASE ADDRESS MS. MULLINAX’S “CONCERNS” WITH THE TRUE-UP**  
20 **MECHANISM IN THE PROPOSED SSIR TARIFF.**

21 A. Ms. Mullinax states her “concerns” with the true-up mechanism in the proposed  
22 SSIR Tariff on pages 38-39 of her Direct Testimony. Ms. Mullinax is correct that,  
23 under the proposed SSIR Tariff, the Eligible System Safety and Integrity Costs of  
24 2015 SSIR Projects collected from customers in 2015 will be reconciled in 2016 and  
25 the amount of that reconciliation will be collected from or returned to customers in  
26 2017.

1           The Company disagrees with Ms. Mullinax that this is “an extended period of  
2 time” (Mullinax Direct Testimony, page 39, line 8) for the reconciliation to be  
3 calculated and reflected in customers’ SSIR Charges. As I explained previously,  
4 more frequent filings will burden the administrative process and lead to customer  
5 confusion.

6           Ms. Mullinax’s focus on the time frame also only addresses one side of the  
7 coin. The reconciliation process in the proposed SSIR Tariff is symmetrical. If the  
8 actual Eligible System Safety and Integrity Costs exceed the projected Eligible  
9 System Safety and Integrity Costs and/or the SSIR revenues collected from  
10 customers are less than the projected Eligible System Safety and Integrity Costs,  
11 then customers will be holding funds that would have gone to the Company until the  
12 reconciliation process is complete. As a further effort to improve this process, in  
13 Section III.C of my Rebuttal Testimony I present a proposal to add a symmetrical  
14 interest component to the reconciliation process in the proposed SSIR Tariff.

15           I also take issue with Ms. Mullinax’s “concern” that “the Annual Report and  
16 supposedly the true up as proposed by the Company has no prescribed process for  
17 a review of the estimated costs and in service dates to the actual costs and actual  
18 in-service dates to confirm the proper calculations of the true up and resultant SSIR  
19 rates and rate schedules.” (Mullinax Direct Testimony, page 39, lines 15-18).

20           Section 1.2B of the proposed SSIR Tariff states that “[a]n interested party may  
21 request that the Commission convene a hearing within ninety (90) days of the date  
22 the Company files the Annual Report.” Therefore, after receiving the Annual Report  
23 on April 1, the Public Advocate has three (3) months to review and analyze the  
24 Annual Report, ask the Company questions about the Annual Report, determine  
25 whether he has any concerns about the Annual Report, and decide whether to  
26 request that the Commission open a proceeding and convene a hearing to address

1 any such concerns about the Annual Report. The three-month period for the Public  
2 Advocate to review and analyze the Annual Report actually is a full month more  
3 than what Section 66-1866(3)(b) of the Act provides for the Public Advocate to issue  
4 a report regarding his examination of an ISR filing by a utility. Moreover, Section  
5 66-1866(4) of the Act authorizes a utility to make an ISR filing at any time as long as  
6 the utility has not made another ISR filing within the last twelve months. The Public  
7 Advocate, therefore, may be called upon at any point in the year to examine a  
8 utility's ISR filing and to file his report on that examination. In contrast, under the  
9 proposed SSIR Tariff, the Public Advocate knows in advance that SourceGas  
10 Distribution is going to file its Annual Report on April 1 of each year and can  
11 coordinate resources based upon that knowledge. To address any lingering  
12 concerns, in Section III.C of my Rebuttal Testimony I am presenting a proposal to  
13 add to the SSIR Tariff an ISR-type review process for the Company's April 1 Annual  
14 Reports.

15 The annual November 1 filing under the proposed SSIR Tariff does not  
16 envision the same type of potential hearing process as provided in the proposed  
17 SSIR Tariff for the annual April 1 filing. The Company did not want to overburden  
18 the administrative process. Through the annual November 1 filing, the proposed  
19 SSIR Tariff already provides more information – and sooner – to the Public  
20 Advocate and the Commission than they get through a utility's ISR filing. I address  
21 this point on pages 18-19 and 24 of my Direct Testimony. To summarize those  
22 portions of my Direct Testimony, the purpose of the annual November 1 filing is to  
23 heighten and enhance the focus on pipeline system safety and integrity by making  
24 the Company's upcoming Projects transparent to regulatory stakeholders, and is not  
25 intended to be a prudence review of the upcoming year's Projects. The two months  
26 between the annual November 1 filing and the immediately following January 1

1 implementation of the SSIR Charges to recover the costs of Projects in the  
2 November 1 filing should be sufficient for the Company to meet with Commission  
3 Staff and the Public Advocate to discuss the Company's plans for the upcoming  
4 year and to answer any questions about those plans. The prudence review would  
5 be conducted after the Projects are completed and through the annual April 1 filings,  
6 and would be very similar to how the Public Advocate and the Commission currently  
7 examine jurisdictional utility plant projects completed in the prior year under the ISR  
8 process in Sections 66-1865 and 66-1866 of the Act.

9 **Q. DO YOU AGREE WITH MS. MULLINAX'S RECOMMENDATION ON PAGE 41,**  
10 **LINES 1-3 OF HER DIRECT TESTIMONY THAT "SHOULD THE COMMISSION**  
11 **APPROVE AN SSIR TARIFF, O&M COSTS SHOULD BE EXCLUDED IN ANY**  
12 **TRUE UP OR ANY FUTURE SSIR REQUESTED BY THE COMPANY?"**

13 A. No. The reason why the Company is proposing this "extension beyond what is  
14 permitted under the legislative ISR" (Mullinax Direct Testimony, page 41, lines 6-7)  
15 is laid out on pages 17-18 of my Direct Testimony. Accounting standards dictate  
16 whether an SSIR Project is a capital SSIR Project or an O&M SSIR Project. I am  
17 providing a copy of SourceGas LLC's Capitalization Policy as Exhibit JSH-5.  
18 Section 4.1.1 of SourceGas LLC's Capitalization Policy allows for the capitalization  
19 of any expenditure that meets or exceeds \$1,000 (or is related to a major project or  
20 routine) for a "used and useful" asset in any of the following situations:

21 (i) The asset has an original life expectancy of more than one  
22 calendar year; or

23 (ii) The expenditure prolongs the life of an asset by more than  
24 one calendar year (excluding maintenance and repair made to  
25 maintain assets in operating condition); or

1 (iii) The expenditure results in an enhanced, more proficient, or  
2 more productive asset which however does not necessarily  
3 extend the useful life of an asset.

4 If an SSIR Project does not meet these accounting requirements, then it is an O&M  
5 SSIR Project. Recovery under the proposed SSIR Tariff should not be determined  
6 by accounting standards, but rather on whether the activity generating the cost  
7 qualifies as a System Safety and Integrity Project. Ms. Mullinax's "concern" about  
8 "setting a precedent" (Mullinax Direct Testimony, page 41, lines 8-9) is based upon  
9 the shortcomings of the ISR provisions of the Act that the Company is trying to  
10 address through the proposed SSIR Tariff. Also, the System Safety and Integrity  
11 Rider that the Colorado PUC approved in 2014 for SourceGas Distribution's affiliate  
12 Rocky Mountain does authorize the recovery of Eligible System Safety and Integrity  
13 Costs that are O&M expenses of SSIR Projects.

14 Further, there is nothing "routine" (Mullinax Direct Testimony, page 41, lines  
15 10-14) about O&M expenses incurred by the Company through eligible SSIR  
16 Projects to ensure the integrity and safety of the Company's pipeline system in  
17 Nebraska. There also is nothing special about O&M expenses that make them  
18 more (or less) likely than capital costs to be the subject of "a possibility of over  
19 recovery without a focused reconciliation." (Mullinax Direct Testimony, page 41,  
20 lines 16-17). Ms. Mullinax has no basis for her speculation of an "over recovery,"  
21 and I already have addressed the existence of a "focused reconciliation" process in  
22 the proposed SSIR Tariff.

23 It also is important for the Public Advocate to understand that the Company  
24 will not continue to recover O&M-related Project costs past the year in which the  
25 O&M expenses are incurred. For instance, if the Company has an SSIR-related  
26 O&M project in 2015, it will include that Project in the determination of the 2015

1 revenue requirement for all of its 2015 Projects. When the Company makes its  
2 2016 filing, which will include the new 2016 SSIR Projects and their 2016 revenue  
3 requirement as well as the 2016 revenue requirement of the 2015 Projects, the 2015  
4 O&M Project will be excluded from that calculation. The 2015 O&M Project will be  
5 excluded from that calculation because the Company presumably will have already  
6 collected the dollars associated with that Project in 2015 and will have no need for  
7 additional collection in 2016. This process ensures that ratepayers will not  
8 continually pay for a particular O&M Project in years when there is no O&M expense  
9 for that particular Project.

10 **Q. PLEASE RESPOND TO THE ASSERTIONS MADE IN MS. MULLINAX’S**  
11 **“CONCLUSION” ON PAGES 42-43 OF HER DIRECT TESTIMONY THAT THE**  
12 **COMMISSION SHOULD NOT APPROVE THE COMPANY’S APPLICATION TO**  
13 **IMPLEMENT ITS PROPOSED SSIR TARIFF.**

14 A. I already have addressed in my Rebuttal Testimony many of the assertions made in  
15 Ms. Mullinax’s “conclusion.” There are a few assertions, however, that warrant a  
16 response here. First, Ms. Mullinax asserts that the proposed SSIR Tariff  
17 “significantly reduces the Company’s incentive to control its costs and eliminates  
18 any motivation to act efficiently.” (Mullinax Direct Testimony, page 42, lines 21-22).  
19 Her assertion ignores that the Company is incurring these costs to ensure the safety  
20 and integrity of its pipeline system in Nebraska. The core of the Company’s  
21 “motivation” is to act prudently to timely address aging infrastructure, the risks of  
22 top-of-ground pipeline, bare steel pipeline, and other pipeline conditions being  
23 targeted by government mandates. “Efficiency” and “cost control” are important,  
24 and are appropriately addressed through the reporting, auditing and reconciliation  
25 processes in the proposed SSIR Tariff.

1           Second, Ms. Mullinax posits that “[i]f the Company is allowed to recover  
2 costs that it has not yet incurred, where is the incentive to ensure that the projects  
3 represent the most effective use of capital and that the work is done efficiently,  
4 minimizing costs?” (Mullinax Direct Testimony, page 42, line 22 – page 43, line 2).  
5 I already have covered in my Rebuttal Testimony the point that the Company is  
6 proposing concurrent recovery of Eligible System Safety and Integrity Costs of its  
7 SSIR Projects, and certainly more concurrent recovery than ISR costs. Moreover,  
8 Ms. Mullinax acknowledges that the Company “is in the best position to understand  
9 what it needs to provide safe and reliable service and develops its processes and  
10 procedures to provide those services.” (Mullinax Direct Testimony, page 23, lines  
11 14-16). Aside from those key points, the “incentive” exists through the Company’s  
12 annual November 1 filings that make its upcoming SSIR Projects transparent to the  
13 Commission and the Public Advocate, the Company’s annual April 1 filings that  
14 interested parties can request that the Commission consider in a prudence hearing,  
15 and the reconciliation process in the proposed SSIR Tariff.

16           Third, Ms. Mullinax’s comment that the result of the proposed SSIR Tariff “is  
17 a shifting of risk from utility shareholders (who are rewarded by a return on their  
18 investment) to ratepayers” (Mullinax Direct Testimony, page 43, lines 6-7) is  
19 misdirected. The “risk” that is at the center of this proceeding is that incidents may  
20 occur that compromise the safety and integrity of the Company’s pipeline system in  
21 Nebraska. The Company has proposed a mechanism that better aligns all  
22 regulatory stakeholders’ interests in ensuring the continued safety and integrity of  
23 the Company’s pipeline system than the combination of the current ISR mechanism  
24 and the general rate case process. The proposed SSIR Tariff balances the  
25 Company’s request for concurrent cost recovery of Eligible System Safety and  
26 Integrity Costs of SSIR Projects with a regulatory process that heightens the Public

1 Advocate's and the Commission's forward-looking visibility into the Company's  
2 system safety and integrity projects.

3 **C. MODIFICATIONS TO THE COMPANY'S PROPOSED SSIR TARIFF**

4 **Q. WHAT PORTION OF MS. MULLINAX'S DIRECT TESTIMONY ARE YOU**  
5 **ADDRESSING IN THIS SECTION OF YOUR REBUTTAL TESTIMONY?**

6 A. In this section of my Rebuttal Testimony, I am addressing Ms. Mullinax's testimony  
7 about "what changes should be made to the Company's SSIR request" "if the  
8 Commission approves the SSIR." (Mullinax Direct Testimony, page 43, lines 11-13).

9 **Q. WHAT ASPECTS OF THE COMPANY'S PROPOSED SSIR TARIFF DOES MS.**  
10 **MULLINAX RECOMMEND BE CHANGED IF THE COMMISSION APPROVES**  
11 **THE SSIR?**

12 A. Ms. Mullinax recommends that the Company's proposed SSIR Tariff be changed by  
13 incorporating into the proposed SSIR Tariff: (i) a review process similar to or the  
14 same as the review process set forth in Section 66-1866 of the Act for a  
15 jurisdictional utility's ISR filings (Mullinax Direct Testimony, page 43, line 14 – page  
16 44, line 21); (ii) a provision to address the "problematic" reconciliation process  
17 (Mullinax Direct Testimony, page 45, line 1); (iii) a requirement that "general rate  
18 cases should be mandated at least every sixty months" (*i.e.*, every five years) as  
19 directed by Section 66-1865 of the Act applicable to a jurisdictional utility's ISR  
20 filings (Mullinax Direct Testimony, page 48, lines 1-11); (iv) base revenue levels as  
21 set forth in Section 66-1865 of the Act for a jurisdictional utility's ISR filings (Mullinax  
22 Direct Testimony, page 45, lines 4-14); and (v) a provision to "limit SSIR increases  
23 to residential customers to \$0.50 per month per filing as is now provided for in the  
24 ISR surcharge" under Section 66-1866 of the Act (Mullinax Direct Testimony, page  
25 46, lines 11-15).

1 **Q. IS THE COMPANY WILLING TO ACCEPT ANY OF THESE FIVE CHANGES TO**  
2 **THE COMPANY’S PROPOSED SSIR TARIFF RECOMMENDED BY THE PUBLIC**  
3 **ADVOCATE?**

4 A. Yes. SourceGas Distribution is willing to accept the Public Advocate’s  
5 recommendations to incorporate into the SSIR Tariff: (i) an ISR-type review process  
6 (including a Commission approval process); (ii) a provision to address the  
7 “problematic” reconciliation process of the SSIR Tariff (*i.e.*, the Company is  
8 proposing a symmetrical interest-bearing component of the true-up amount); and (iii)  
9 an ISR-type requirement that “general rate cases should be mandated at least every  
10 sixty months” (*i.e.*, every five years). Exhibit JSH-6 is a redlined copy of the  
11 Company’s proposed SSIR Tariff marked to show the incorporation of these  
12 recommendations of the Public Advocate.

13 **Q. IS THE COMPANY ADDRESSING THE PUBLIC ADVOCATE’S**  
14 **RECOMMENDATION TO INCLUDE BASE REVENUE LEVELS IN THE**  
15 **PROPOSED SSIR TARIFF?**

16 A. Yes. Although the Company is not drafting into its proposed SSIR Tariff the base  
17 revenue levels set forth in Section 66-1865 of the Act, the added requirement that a  
18 general rate case be conducted “at least every sixty months,” along with the existing  
19 provision that the SSIR Charges be reset in general rate cases (SSIR Tariff, Section  
20 1.5), will safeguard against the Company generating a disproportionate amount of  
21 its revenue through the SSIR Tariff compared with its base rates.

22 **Q. WHY IS THE COMPANY NOT DRAFTING INTO ITS PROPOSED SSIR TARIFF**  
23 **THE BASE REVENUE LEVELS AS SET FORTH IN SECTION 66-1865 OF THE**  
24 **ACT?**

25 A. For its first two ISR filings (Docket Nos. NG-0072 and NG-0072.1), the Company  
26 has been able to work within the base revenue levels set forth in Section 66-1865 of

1 the Act. If the Commission were to deny the Company's request to implement the  
2 SSIR Tariff and the Company had to continue making annual ISR filings under the  
3 Act, the Company likely would bump up against the "ten percent of ... base revenue  
4 level" ceiling in Section 66-1865 of the Act before the end of the 60-month period  
5 since the Commission issued its May 2012 order in the Company's last general rate  
6 case (Docket No. NG-0067). In addition, although the "ten percent of ... base  
7 revenue level" ceiling in Section 66-1865 of the Act may be appropriate to measure  
8 against a jurisdictional utility's ISR filings, no data exists showing that the same  
9 percentage would be appropriate to measure against the Company's annual  
10 requests to recover Eligible System Safety and Integrity Costs. In fact, the "ten  
11 percent of ... base revenue level" likely is too low to be applied to the Company's  
12 proposed SSIR Tariff because the Company is addressing core shortcomings of the  
13 ISR through its proposed SSIR Tariff (e.g., the inability to recover O&M expenses  
14 under the ISR sections of the Act).

15 As to the "lesser of one million dollars or one-half percent of ... base revenue  
16 level" in Section 66-1865 of the Act, the Company well exceeded that floor in each  
17 of its two ISR filings (Docket Nos. NG-0072 and NG-0072.1), and should well  
18 exceed that floor for each annual November 1 filing under its proposed SSIR Tariff.  
19 At the same time, the Company should not be delayed from concurrent recovery of  
20 Eligible System Safety and Integrity Costs of its SSIR Projects if those Costs were  
21 to fall below some base revenue level floor. Such delay also would impede the  
22 Commission and the Public Advocate from having transparency into the Company's  
23 upcoming SSIR Projects, which is a core objective of the Company's proposed  
24 SSIR Tariff. The Company, therefore, has not proposed a "base revenue level" floor  
25 in its proposed SSIR Tariff.

1 **Q. IS THE COMPANY MODIFYING ITS PROPOSED SSIR TARIFF TO “LIMIT SSIR**  
2 **INCREASES TO RESIDENTIAL CUSTOMERS TO \$0.50 PER MONTH PER**  
3 **FILING AS IS NOW PROVIDED FOR IN THE ISR SURCHARGE” UNDER**  
4 **SECTION 66-1866 OF THE ACT, AS THE PUBLIC ADVOCATE IS**  
5 **RECOMMENDING?**

6 A. No. The Company has several issues with the Public Advocate’s recommendation  
7 and the reasoning for that recommendation. First, the Public Advocate’s reference  
8 to a “\$1.27 increase in one year” (Mullinax Direct Testimony, page 46, line 5) is the  
9 sum of the \$0.34 per month increase in the Pipeline Replacement Charge  
10 applicable to the Residential Customer class that the Commission approved in  
11 Docket No. NG-0072.1 and the \$0.93 per month initial SSIR Charge applicable to  
12 the Residential Customer class that the Company is proposing in this proceeding.  
13 The \$0.93 per month, or \$11.16 a year, “represents a 1.375% increase in a  
14 Residential customer’s total average monthly bill, as shown in Exhibit JSH-1, Table  
15 1.” (Hammer Direct Testimony, page 16, lines 1-4). The “\$1.27 increase in one  
16 year” is occurring only because the Company is proposing to transition to the SSIR  
17 Tariff from the ISR mechanism in the Act. It also is important to point out that the  
18 \$0.34 per month increase in the Pipeline Replacement Charge recovers the costs of  
19 eligible infrastructure system replacement projects conducted in 2013, whereas the  
20 \$0.93 per month initial SSIR Charge would recover the Eligible System Safety and  
21 Integrity Costs of Projects conducted in 2014. If the Commission approves the  
22 Company’s proposed SSIR Tariff, the Company no longer will need to make ISR  
23 filings under the Act and the per-month increase will be coming solely from the  
24 applicable SSIR Charge.

25 Second, as with the “ten percent of ... base revenue level” ceiling, imposing  
26 a cap on the SSIR Charge increase applicable to the Residential Customer class at

1 \$0.50 per month would not account for the core shortcomings of the ISR that the  
2 Company is trying to rectify through the proposed SSIR Tariff (*e.g.*, the inability to  
3 recover O&M expenses under the ISR sections of the Act). In addition, the \$0.50  
4 per month cap would not allow the Company the proper revenue level associated  
5 with its SSIR Projects, which would cause the Company to have to file more  
6 frequent general rate cases to make up for this shortfall and thus diminish the  
7 opportunity to extend the time between general rate cases through concurrent cost  
8 recovery of SSIR Projects.

9 Third, imposing a \$0.50 per month cap would signal improperly that some  
10 Projects are more important than others. The Company does not subscribe to that  
11 mindset. From the Company's perspective, "[a]ll Projects are important to assure  
12 pipeline system safety and integrity. The timely recovery of the costs of such  
13 Projects supports the continued improvement of the safety and integrity of the  
14 Company's jurisdictional gas system." (Hammer Direct Testimony, page 15, lines  
15 18-20). The Company is confident that the other stakeholders in the regulatory  
16 process share the Company's perspective.

17 Fourth, I take issue with Ms. Mullinax's characterization that "attempts to  
18 legislatively increase that [\$0.50 per month] cap have been rebuffed ever since" the  
19 enactment of Sections 66-1865 and 66-1866 of the Act. (Mullinax Direct Testimony,  
20 page 46, lines 9-10). In the 2014 session of the Nebraska Legislature, LB 404 and  
21 its amendments would have changed the cap to either \$0.75 per month (AM 1642)  
22 or \$1.00 per month (AM 2192). In the end, because SourceGas Distribution was in  
23 the process of developing its three-pronged creative solution to having to file its  
24 planned general rate case, the Company concluded that the Legislature's very  
25 limited time and resources were better spent on its other initiatives.

1 **IV. REBUTTAL OF DIRECT TESTIMONY OF MR. WILLIAM W. DUNKEL**

2 **Q. HOW DOES MR. DUNKEL'S DIRECT TESTIMONY PERTAIN TO THE**  
3 **PROPOSED SSIR TARIFF OR THE ASSOCIATED PROPOSED SSIR CHARGE?**

4 A. Nowhere in his Direct Testimony does Mr. Dunkel explain how the “depreciation-  
5 related issues” he addresses over the course of 22 pages pertain to the Company’s  
6 proposed SSIR Tariff or the associated proposed SSIR Charge. In fact, Mr. Dunkel  
7 admits on page 22, lines 5-8 that he is not “presenting the specific PA  
8 recommendations pertaining to the proposed SSIR charge” and that “[a]nother PA  
9 witness” is doing so.

10 **Q. PLEASE PROVIDE YOUR ASSESSMENT OF MR. DUNKEL'S DIRECT**  
11 **TESTIMONY IN THIS PROCEEDING.**

12 A. There is nothing in Mr. Dunkel’s Direct Testimony that explains how it is relevant to  
13 the Company’s proposed SSIR Tariff and its associated proposed SSIR Charge that  
14 are the subject of this proceeding. In fact, Mr. Dunkel seems to be questioning the  
15 Commission’s very approval of SourceGas Distribution’s current base rate recovery  
16 in its last general rate case, including the depreciation rates that underlie the  
17 Company’s approved charges to Jurisdictional customers. I am aware that the  
18 courts do not favor collateral attacks on final orders in rate cases, and I also have  
19 learned as a result of my experience in ratemaking that the use of hindsight to  
20 evaluate past conditions is not allowed. With those important parameters in mind, I  
21 feel obligated to address the five issues summarized on pages 3-6 of Mr. Dunkel’s  
22 Direct Testimony.

23 **Q. DO YOU AGREE WITH MR. DUNKEL'S FIRST STATEMENT THAT “ANY NEED**  
24 **FOR A HIGHER FACILITY REPLACEMENT LEVEL NOW IS AT LEAST IN PART**  
25 **‘CATCH UP’ FOR THE FACT THAT IN RECENT YEARS SOURCEGAS’ ACTUAL**

1           **RETIREMENTS HAVE BEEN LOW” (DUNKEL DIRECT TESTIMONY, PAGE 3,**  
2           **LINES 17-18)?**

3    A.    No. My Direct Testimony and the Direct Testimony of Mr. Bayles clearly outline the  
4           reasons why the Company is requesting that the Commission grant the proposed  
5           SSIR Tariff in this proceeding. The process of identifying SSIR Projects in  
6           accordance with the proposed SSIR Tariff appropriately does not involve taking into  
7           consideration the level of retirements in relation to the average service lives  
8           embedded in its depreciation rates for a particular FERC account. The proper way  
9           for the Company to achieve the appropriate level of reserves is through an  
10          adjustment to its depreciation rates (as the Company is proposing in Docket No.  
11          NG-0079), not through the replacement of pipe and subsequent retirement of  
12          existing facilities.

13   **Q.    TURNING TO MR. DUNKEL’S SECOND ISSUE, WHAT IS THE IMPACT ON THE**  
14   **COMPANY OF HAVING “ACCUMULATED OVER A \$27 MILLION RESERVE**  
15   **SURPLUS” IN THE ACCUMULATED DEPRECIATION RESERVE (DUNKEL**  
16   **DIRECT TESTIMONY, PAGE 3, LINES 19-20)?**

17   A.    The impact of having a surplus of over \$27 million in the accumulated depreciation  
18          reserve means that there is an additional \$27 million reduction to rate base included  
19          in the revenue requirement calculation in this proceeding (or in any future revenue  
20          requirement calculations performed for general rate case purposes) that reduces the  
21          return on rate base component that is included in the calculation of customer rates.  
22          This means that the Company is foregoing the return on this \$27 million, which is  
23          more than \$2 million on a pre-tax revenue requirement basis using the  
24          Commission’s 7.67% authorized rate of return approved in the Company’s last  
25          general rate case (Docket No. NG-0067).

1 **Q. WHAT EVIDENCE DOES MR. DUNKEL PROVIDE IN RELATION TO HIS THIRD,**  
2 **FOURTH AND FIFTH ISSUES THAT SOURCEGAS HAS EXPERIENCED A “LOW**  
3 **LEVEL OF ACTUAL RETIREMENTS” (DUNKEL DIRECT TESTIMONY PAGE 4,**  
4 **LINE 10)?**

5 A. Mr. Dunkel appears to base his assertion solely on his finding that “the largest  
6 account ratepayers have been paying a depreciation rate based on retirement levels  
7 that imply approximately a 33 year Average Service Life” while retirements “in the  
8 recent past indicates an Average Service Life of 65 years.” (Dunkel Direct  
9 Testimony page 6, lines 1-4). In admitting that he “take[s] no position pertaining to  
10 the physical conditions of the SourceGas Mains” (Dunkel Direct Testimony page 12,  
11 line 10), Mr. Dunkel disregards that it is more appropriate for a utility like SourceGas  
12 to base its pipeline replacement projects and subsequent retirements on the  
13 physical characteristics of its pipeline and governmental safety and integrity  
14 standards than on what the depreciation rates say the retirement lives should be. In  
15 addition, Mr. Dunkel’s position is problematic for customers in that if the Company  
16 were to replace and retire its pipe in accordance with its depreciation rates instead  
17 of its physical condition and governmental safety and integrity standards, then there  
18 would be a substantial increase in rate base that would result from all of this pipeline  
19 replacement because it costs more to purchase and install pipe today than it did 33  
20 years ago. This substantial increase in rate base would lead to rate increases for all  
21 customers in Nebraska.

22 **Q. HOW DO YOU RESPOND TO MR. DUNKEL’S RENT ANALOGY ON PAGE 17,**  
23 **LINES 12-16 OF HIS DIRECT TESTIMONY?**

24 A. Mr. Dunkel’s rent analogy misrepresents the Company’s proposals in this  
25 proceeding and in Docket No. NG-0079. The Company is proposing to use the  
26 savings generated from depreciation expense to offset other revenue requirement

1 cost increases so that it does not have to file a general rate case at this time to  
2 recover those cost increases.

3 Mr. Dunkel's analogy has the reader "assume you have been paying \$900  
4 per month in rent" (Dunkel Direct Testimony, page 17, line 12). To continue with  
5 that analogy in terms of what the Company is seeking in this case, let's further  
6 assume that the costs covered by the rent consist of \$200 for utilities, \$350 for  
7 property taxes, \$100 for maintenance on the building, \$150 for property insurance,  
8 and \$100 of compensation for the investment that has been made in the building.  
9 Every time the renter pays the \$900 monthly rent, the landlord records the amounts  
10 above on its books in these particular cost categories. The renter does not care  
11 where the money is being recorded on the landlord's books, only that he or she has  
12 to pay \$900 every month. Thus, if the cost of property taxes has gone up by \$25  
13 and the cost of maintenance has gone down by \$25, and the landlord changes the  
14 amounts he records on his books for these items, the renter is indifferent because  
15 he or she still is paying \$900 every month.

16 This is exactly the proposal that SourceGas is making in Docket No. NG-  
17 0079. The Company is proposing to lower its depreciation expense on its books in  
18 order to use this savings in depreciation expense to offset other cost increases in  
19 the revenue requirement calculation without having to change customer rates. This  
20 would allow SourceGas to not have to file the planned general rate case at this time  
21 in order to accomplish the same thing. I address this fundamental premise in more  
22 detail in my Rebuttal Testimony in Docket No. NG-0079.

23 **Q. DOES THIS CONCLUDE YOUR PREFILED REBUTTAL TESTIMONY?**

24 A. Yes. I respectfully request that the Commission approve the SSIR Tariff and the  
25 SSIR Charges being proposed by SourceGas Distribution as being just and

1 reasonable and in the public interest. I will conclude by offering into evidence  
2 Exhibits JSH-3, JSH-4, JSH-5 and JSH-6.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF NEBRASKA

IN THE MATTER OF THE APPLICATION OF )  
SOURCEGAS DISTRIBUTION LLC, GOLDEN, )  
COLORADO, SEEKING AN ORDER AUTHORIZING IT )  
TO PUT INTO EFFECT A SYSTEM SAFETY AND )  
INTEGRITY RIDER TARIFF AND A SYSTEM SAFETY )  
AND INTEGRITY RIDER CHARGE )

DOCKET NO. NG-0078

State of Colorado )  
County of Jefferson )

Affidavit Adopting  
Rebuttal Testimony  
and Exhibits

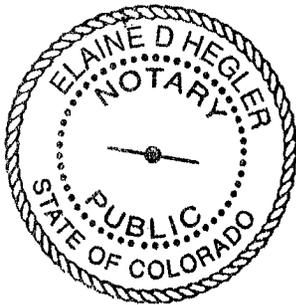
Jerrad S. Hammer being duly sworn on oath, states that he is Jerrad S. Hammer whose Rebuttal Testimony and Exhibits in the above-captioned proceeding accompanies this Affidavit.

Jerrad S. Hammer further states that such Rebuttal Testimony is a true and accurate statement of his answers to questions contained therein, and that he does adopt those answers as his sworn Rebuttal Testimony in this proceeding. Jerrad S. Hammer further states that such Exhibits that accompany his Rebuttal Testimony are true and accurate.

Jerrad S. Hammer  
Jerrad S. Hammer

SUBSCRIBED AND SWORN TO before me, the undersigned Notary Public, this 11th day of September, 2014.

Elaine D. Hegler  
Elaine D. Hegler, Notary Public



My commission expires:  
November 17, 2014

Address of Notary:  
600 12<sup>th</sup> Street, Suite 300  
Golden, CO 80401

**SOURCEGAS DISTRIBUTION LLC  
SYSTEM SAFETY AND INTEGRITY RIDER- DOCKET NO. NG-0078  
AND  
DEPRECIATION RATE STUDY APPLICATION- DOCKET NO. NG-0079  
RESPONSE TO NEBRASKA COMMISSION STAFF  
FIRST SET OF INFORMATION REQUESTS**

**DATE OF REQUEST:** July 14, 2014

**DATE RESPONSE DUE:** July 24, 2014

**REQUESTOR:** Nebraska Commission Staff

**ANSWERED BY:** Jerrad S. Hammer

**DATE RESPONDED:** July 24, 2014 (Supplemented August 22, 2014 and September 10, 2014)

**SUBJECT:** Realized Rates of Return

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**STAFF DATA REQUEST NO. 1-1:**

Please provide calculations for SourceGas' realized rates of return on SourceGas' Nebraska jurisdictional rate base, stated on a rolling 13-month average basis, for months ending December 2012 through and including the latest month for which such data and information are available. In responding, please provide underlying data used

**RESPONSE:**

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

A summary of the requested information is provided in Attachment Staff 1-1A. The Company only calculates certain rate base items (for instance ADIT) on a quarterly basis so monthly rate base information is not available. The analysis in Attachment Staff 1-1A was prepared on a quarterly basis from December 31, 2012 through March 31, 2014, the last period for which rate base information is currently available. The Company will supplement this response with information through June 30, 2014 when it becomes available. The analysis included in Attachment Staff 1-1A also does not factor in the impact of weather on the earnings levels presented in the attachment. In order to simplify the analysis, the Company used the Capital Structure and Cost of Debt that was presented in the earnings analysis in Exhibit JSH-2 of the SSIR Filing (Docket No. NG-0078) and Exhibit JSH-1 of the Depreciation Study Filing (Docket No. NG-0079). In addition, the Company used Commission-approved cost of service study allocations from Docket No. NG-0067 and did not include the amortization of Rate Case expense from that Docket in the analysis.

In addition to the analysis requested in this data request, the Company also prepared an analysis on a quarterly basis from December 31, 2012 through March 31, 2014, the last period for which rate base information is currently available, using weather normalized revenues and period ending rate base. A summary of this analysis is provided as Attachment Staff 1-1B. This analysis presents more of a "rate case view" of the Company's Nebraska Jurisdictional Operations and is what the SourceGas management team reviews and analyzes when developing its planned rate case filings. This analysis incorporates all of the underlying principles that have been used in the past when developing and filing rate cases in Nebraska, including period ending rate base. This analysis incorporates the same Capital Structure and Cost of Debt that was included in the Attachment Staff 1-1A analysis. This analysis also uses the

**SOURCEGAS DISTRIBUTION LLC  
SYSTEM SAFETY AND INTEGRITY RIDER- DOCKET NO. NG-0078  
AND  
DEPRECIATION RATE STUDY APPLICATION- DOCKET NO. NG-0079  
RESPONSE TO NEBRASKA COMMISSION STAFF  
FIRST SET OF INFORMATION REQUESTS**

Commission-approved cost of service study allocations from Docket No. NG-0067 and excludes the impact of any rate case expense.

The detailed files which contain the underlying calculations that feed the summaries in Attachment Staff 1-1A and Attachment Staff 1-1B are being provided electronically on a CD to the Commission Staff, the Public Advocate, and their respective consultants.

**SUPPLEMENTAL RESPONSE:**

SourceGas is supplementing this response to include the calculations described in the original response through June 30, 2014. Please see Supplemental Attachments Staff 1-1A and 1-1B for this information. In addition SourceGas is providing the detailed files for this analysis.

**SECOND SUPPLEMENTAL RESPONSE:**

SourceGas is further supplementing this response to include the calculations described in the original response through July 31, 2014. Please see Second Supplemental Attachments Staff 1-1A and 1-1B for this information. In addition SourceGas is providing the detailed files for this analysis.

**ATTACHMENTS:**

Attachment Staff 1-1A  
Attachment Staff 1-1B  
CD: Detailed Files for Attachments Staff 1-1A and 1-1B

**SUPPLEMENTAL ATTACHMENTS:**

Supplemental Attachment Staff 1-1A  
Supplemental Attachment Staff 1-1B  
Detailed Files for Supplemental Attachments Staff 1-1A and 1-1B

**SECOND SUPPLEMENTAL ATTACHMENTS:**

Second Supplemental Attachment Staff 1-1A  
Second Supplemental Attachment Staff 1-1B  
Detailed Files for Second Supplemental Attachments Staff 1-1A and 1-1B

**SourceGas Distribution LLC - Nebraska**  
**Summary of Realized Earnings using Average Rate Base**

**Docket No. NG-0078 and NG-0079**  
**Second Supplemental Attachment Staff 1-1A**

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
Line No.	Description	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014	6/30/2014	7/31/2014
1	Jurisdictional Revenues	31,815,774	32,367,826	33,878,257	33,952,694	34,707,094	35,557,767	35,337,414	35,380,619
2	Return	5,530,575	5,556,766	5,658,344	5,786,156	5,906,730	6,002,354	6,153,327	6,207,341
3	Expenses _/1	21,920,532	21,853,683	21,940,601	22,012,161	22,042,067	22,073,591	22,663,855	22,805,217
4	Depreciation	6,477,015	6,552,266	6,667,889	6,802,242	6,908,766	7,042,303	7,130,585	7,175,633
5	Provision for Income Tax	2,499,360	2,511,197	2,557,102	2,614,862	2,669,351	2,712,565	2,780,793	2,805,203
6	Total Revenue Requirement	36,427,482	36,473,912	36,823,937	37,215,421	37,526,914	37,830,814	38,728,560	38,993,394
7	Other Revenues	(1,971,793)	(1,969,398)	(2,020,697)	(2,027,176)	(2,047,236)	(2,062,887)	(2,064,374)	(2,097,020)
8	Net Cost of Service	34,455,689	34,504,514	34,803,240	35,188,245	35,479,678	35,767,926	36,664,186	36,896,373
9	Deficiency / (Excess)	2,639,915	2,136,688	924,983	1,235,551	772,584	210,159	1,326,772	1,515,754
10	Operating Earnings	5,390,020	5,931,275	7,290,463	7,165,467	7,803,497	8,504,760	7,607,348	7,496,790
11	Interest Expense	(1,646,623)	(1,654,420)	(1,684,663)	(1,722,717)	(1,758,616)	(1,787,086)	(1,832,035)	(1,848,117)
12	Taxable Income	3,743,397	4,276,855	5,605,800	5,442,750	6,044,881	6,717,674	5,775,313	5,648,673
13	Income Taxes _/2	1,465,712	1,674,585	2,194,929	2,131,087	2,366,849	2,630,279	2,261,301	2,211,715
14	Net Operating Earnings	3,924,308	4,256,689	5,095,534	5,034,380	5,436,648	5,874,482	5,346,047	5,285,075
15	Average Rate Base	75,777,928	76,136,783	77,528,571	79,279,809	80,931,874	82,242,073	84,310,646	85,050,735
16	Return on Rate Base	5.18%	5.59%	6.57%	6.35%	6.72%	7.14%	6.34%	6.21%
17	Return on Equity	5.63%	6.40%	8.24%	7.82%	8.52%	9.30%	7.80%	7.56%

\_/1 Expenses include O&M, A&G, and Other Taxes

\_/2 Income Tax Calculation

Income Tax (Federal and State) Calculated at the Follow 39.15%

Federal Tax Rate - 34.00%

State Tax Rate - 7.81%

Combined Rate = 34.00% + 7.81% - (34.00% x 7.81%) = 39.15%

SourceGas Distribution LLC - Nebraska  
Summary of Weather Normalized Earnings using Period Ending Rate Base

Docket No. NG-0078 and NG-0079  
Second Supplemental Attachment Staff 1-1B

Line No	[A] Description	[B] 12/31/2012	[C] 3/31/2013	[D] 6/30/2013	[E] 9/30/2013	[F] 12/31/2013	[G] 3/31/2014	[H] 6/30/2014	[I] 7/31/2014
1	Jurisdictional Revenues - Weather Normalized	33,179,659	33,196,913	33,644,488	33,725,192	34,306,178	34,711,498	34,769,939	34,810,513
2	Return	5,788,027	5,656,796	5,786,434	6,105,663	6,229,378	6,262,508	6,409,514	6,477,142
3	Expenses _/1	21,922,691	21,853,704	21,939,872	22,017,778	22,044,737	22,077,675	22,665,974	22,810,912
4	Depreciation	6,612,274	6,884,160	6,884,026	7,066,621	7,124,004	7,295,108	7,364,390	7,400,503
5	Provision for Income Tax	2,615,708	2,556,402	2,614,988	2,759,253	2,815,162	2,830,133	2,896,568	2,927,130
6	Total Revenue Requirement	36,938,700	36,951,061	37,225,319	37,949,314	38,213,280	38,465,424	39,336,446	39,615,687
7	Other Revenues	(1,975,396)	(1,980,720)	(2,026,720)	(2,036,732)	(2,053,856)	(2,067,920)	(2,069,130)	(2,100,971)
8	Net Cost of Service	34,963,304	34,970,341	35,198,599	35,912,582	36,159,424	36,397,505	37,267,316	37,514,716
9	Deficiency / (Excess)	1,783,645	1,773,428	1,554,111	2,187,390	1,853,246	1,686,007	2,497,377	2,704,202
10	Operating Earnings	6,620,090	6,439,770	6,847,311	6,677,526	7,191,293	7,406,634	6,808,706	6,700,070
11	Interest Expense	(1,723,274)	(1,684,203)	(1,722,800)	(1,817,844)	(1,854,678)	(1,864,542)	(1,908,310)	(1,928,445)
12	Taxable Income	4,896,816	4,755,567	5,124,511	4,859,682	5,336,615	5,542,092	4,900,396	4,771,625
13	Income Taxes _/2	1,917,329	1,862,023	2,006,482	1,902,789	2,089,530	2,169,984	1,918,730	1,868,311
14	Net Operating Earnings	4,702,761	4,577,747	4,840,829	4,774,737	5,101,763	5,236,650	4,889,975	4,831,759
15	Rate Base	79,305,441	77,507,367	79,283,620	83,657,582	85,352,672	85,806,605	87,820,830	88,747,443
16	Return on Rate Base	5.93%	5.91%	6.11%	5.71%	5.98%	6.10%	5.57%	5.44%
17	Return on Equity	7.04%	7.00%	7.37%	6.62%	7.13%	7.36%	6.36%	6.12%

\_/1 Expenses include O&M, A&G, and Other Taxes

\_/2 Income Tax Calculation

Income Tax (Federal and State) Calculated at the Fol 39.15%

Federal Tax Rate - 34.00%

State Tax Rate - 7.81%

Combined Rate = 34.00% + 7.81% - (34.00% x 7.81%) = 39.15%

**SOURCEGAS DISTRIBUTION LLC  
SYSTEM SAFETY AND INTEGRITY RIDER  
DOCKET NO. NG-0078  
RESPONSE TO PUBLIC ADVOCATE'S  
FIRST SET OF INFORMATION REQUESTS**

**DATE OF REQUEST:** May 27, 2014  
**DATE RESPONSE DUE:** June 6, 2014  
**REQUESTOR:** Nebraska Public Advocate  
**ANSWERED BY:** Jerrad S. Hammer  
**DATE RESPONDED:** June 6, 2014  
**SUBJECT:** Workpapers to Support Total Pro Forma Adjustments

---

**INFORMATION REQUEST PA-4:**

Reference Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-2, Table 2, Schedule C. Please explain the following Total Pro Forma Adjustments in Column F. Provide all workpapers that supports the adjustment.

	<u>Line #</u>	<u>FERC Account</u>	<u>FERC Account Description</u>	<u>Total Pro Forma Adjustments</u>
a)	11	870	Distribution: Operation Supervision & Engineering	211,236
b)	12	871	Distribution: Distribution Load Dispatching	15,484
c)	13	874	Distribution: Mains & Services Expense	356,530
d)	14	875	Distribution: Measuring & Reg Station-General	10,988
e)	17	878	Distribution: Meter & House Regulator Expense	15,110
f)	18	879	Distribution: Customer Installation Expense	12,509
g)	19	880	Distribution: Other Expense	35,090
h)	26	893	Distribution: Maint of Meters & House Regulators	30,537
i)	30	903	Customer Accounts: Customer Records & Collection	70,653
j)	32	905	Customer Accounts: Misc Customer Accounts Expense	18,558
k)	38	920	A&G: Administrative & General Salaries	460,233
l)	39	921	A&G: Other Supplies & Expenses	41,095
m)	42	926	A&G: Employee Pensions & Benefits	251,131
n)	46	931	A&G: Rents	64,601

**RESPONSE:**

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

Please refer to Attachment PA-4.

**ATTACHMENTS:**

Attachment PA-4

SourceGas Distribution LLC - Nebraska  
 Discovery Response PA-4 - Pro Forma Adjustments  
 PF-04 Labor, Benefit, and Payroll Tax Expenses  
 Summary Data

Docket NG-0078  
 Attachment PA-4  
 Page 8 of 39

Base Year Labor		
FERC	Base Year Amount	2014 Increase (3%)
870	1,457,552.21	43,726.57
871	384,276.79	11,528.30
874	2,750,391.17	82,511.74
875	351,043.63	10,531.31
876	2,877.21	86.32
877	2,198.30	65.95
878	483,665.27	14,509.96
879	400,264.30	12,007.93
880	1,059,132.24	31,773.97
885	30,261.68	907.85
887	3,757.70	112.73
892	109,115.14	3,273.45
893	978,062.14	29,341.86
894	1,356.56	40.70
901	6,367.40	191.02
902	250,210.00	7,506.30
903	830,642.89	24,919.29
905	3,663.67	109.91
908	638.36	19.15
911	1,388.34	41.65
912	125,010.96	3,750.33
913	15,907.85	477.24
920	2,384,551.55	71,536.55
<b>Total</b>	<b>11,632,335.36</b>	<b>348,970.06</b>

Base Year Benefits		
FERC	Base Year Amount	Percent of Labor
870	105,554.19	7.24%
871	26,668.35	6.94%
874	109,838.31	3.99%
875	15,211.66	4.33%
876	114.29	3.97%
877	91.84	4.18%
878	19,989.94	4.13%
879	16,707.77	4.17%
880	45,291.61	4.28%
885	1,457.89	4.82%
887	152.60	4.06%
892	4,368.14	4.00%
893	39,847.35	4.07%
894	24.16	1.78%
901	91.00	1.43%
902	10,377.67	4.15%
903	48,658.14	5.86%
905	190.68	5.20%
908	34.61	5.42%
911	135.85	9.79%
912	13,256.70	10.60%
913	1,477.65	9.29%
920	302,704.28	12.69%
922	(35,539.75)	-1.49%
926	2,622,309.20	22.54%
<b>Total</b>	<b>3,349,014.13</b>	

Base Year Payroll Taxes		
FERC	Base Year Amount	Percent of Labor
408.1	923,680.66	7.94%

Total Pro Forma Adjustment Amount							
FERC	Base Labor			New Labor		Total Amount	
	Wages	Benefits	Payroll Taxes	Wages	Benefits		Payroll Taxes
870	43,726.57	3,166.63		153,244.94	11,097.82		211,235.95
871	11,528.30	800.05		2,950.78	204.78		15,483.92
874	82,511.74	3,295.15		260,327.04	10,396.30		356,530.22
875	10,531.31	456.35					10,987.66
876	86.32	3.43					89.75
877	65.95	2.76					68.70
878	14,509.96	599.70					15,109.66
879	12,007.93	501.23					12,509.16
880	31,773.97	1,358.75					33,132.72
885	907.85	43.74					951.59
887	112.73	4.58					117.31
892	3,273.45	131.04					3,404.50
893	29,341.86	1,195.42					30,537.28
894	40.70	0.72					41.42
901	191.02	2.73					193.75
902	7,506.30	311.33					7,817.63
903	24,919.29	1,459.74		7,909.75	463.34		34,752.13
905	109.91	5.72					115.63
908	19.15	1.04					20.19
911	41.65	4.08					45.73
912	3,750.33	397.70		3,738.13	396.41		8,282.57
913	477.24	44.33					521.57
920	71,536.55	9,081.13		336,854.03	42,761.57		460,233.27
922		(1,066.19)			(5,020.53)		(6,086.72)
926		78,669.28			172,461.61		251,130.88
408.1			27,710.42			60,747.78	88,458.20
<b>Totals</b>	<b>348,970.06</b>	<b>100,470.42</b>	<b>27,710.42</b>	<b>765,024.68</b>	<b>232,761.29</b>	<b>60,747.78</b>	<b>1,535,684.65</b>

Table of Contents

1. Applicability .....	2
1.1. Process Owners .....	2
1.2. Intended Users .....	2
2. Purpose .....	2
3. Effective Dates .....	2
4. Core Information and Requirements .....	2
4.1. Policy .....	2
4.1.1. General Information and Guidelines .....	2
4.1.2. Capital Asset Types and System Categorization .....	3
4.1.3. Capital Projects .....	4
4.1.4. Construction Work in Progress (CWIP) and Internal Order (IO) creation .....	6
4.1.5. Project Revision Notification (PRN) .....	8
4.1.6. Field Replacement Items .....	8
4.1.7. Internal-Use Software and License Costs .....	9
4.1.8. Lease Considerations .....	12
4.1.9. Capitalizing Minor Items .....	12
4.1.10. Maintenance and Repair .....	13
4.1.11. Overhead .....	13
4.1.12. AFUDC .....	15
4.1.13. Impairment .....	15
4.1.14. Standby Inventory .....	16
4.1.15. Disposition of Assets .....	16
4.1.16. Affiliate Sale of Assets .....	17
4.1.17. Asset Retirement Obligation (ARO) .....	17
4.1.18. Depreciation, Amortization and Depletion .....	18
4.1.19. Land .....	18

## **1. Applicability**

### **1.1. Process Owners**

- Controller

### **1.2. Intended Users**

- All SourceGas Employees

## **2. Purpose**

The purpose of this document is to provide guidelines, procedures and requirements for capitalizing expenditures in accordance with Federal Energy Regulatory Commission guidelines and Generally Accepted Accounting Principles.

## **3. Effective Dates**

This policy was adopted on July 31, 2009. Revised May 1, 2014.

## **4. Core Information and Requirements**

### **4.1. Policy**

#### **4.1.1. General Information and Guidelines**

SourceGas capitalizes expenditures in accordance with Federal Energy Regulatory Commission guidelines and Generally Accepted Accounting Principles. The vast majority of capital assets relate to the Company's natural gas distribution infrastructure. Assets are capitalized when they are placed in service with the exception of meters and some regulators. Based on FERC regulations, meters and some related hardware are capitalized when purchased.

The policy allows capitalization of any expenditure that meets or exceeds \$1,000 (or is related to a major project or routine) and meets any of the following criteria:

- 1) The asset meets the "used and useful" test. To be included in the company's regulated rate base the asset is "used" in serving ratepayers and is "useful" in an economic sense.
- 2) The asset has an original life expectancy of more than one calendar year, or
- 3) The expenditure prolongs the life of an asset by more than one calendar year (excludes maintenance and repair made to maintain assets in operating condition – see sections 4.1.3 and 4.1.10 below), or

- 4) The expenditure results in an enhanced, more proficient, or more productive asset which however *does not necessarily* extend the useful life of an asset.

Please contact Property Accounting in Golden, CO for any clarifications.

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All capital projects must be approved according to the “Expenditure Authority Approval” policy prior to proceeding with any project. The Expenditure Authority Approval policy is evaluated annually by senior management, and serves to set specific approval levels and processes.

#### 4.1.2. Capital Asset Types and System Categorization

##### Utility Plant

Utility plant capital assets include tangible or intangible assets and are used in the regulated gas distribution business of the company. Regulated utility assets are classified as:

- Transmission and Distribution, Storage, General, Intangible, Long-Term Gas Storage and CWIP (FERC Accounts - Utility Plant 101-107)

Tangible capital assets can be purchased or constructed, new, used, or leased, and typically include land and land rights, structures and improvements, equipment, vehicles, materials, and other completed construction projects. Many utility plant capital assets were started as projects in CWIP accounts.

Intangible capital assets include organization costs, franchises and consents, and computer software. Franchises and consents may include; the right to be the sole service provider of gas services, easements, rights of way and rights of use, siting, environmental and other licenses, purchased fuel or other contracts, transmission and distribution agreements, or other agreements.

#### Non-Utility

Non-utility capital assets include land, structures, equipment or other tangible or intangible property that are not currently used in utility operations. Non-utility assets are classified as:

- Non-utility Storage, CWIP, and Other (FERC Accounts - Other Property and Investments 121-122)

The Company uses SAP to account for both tangible and intangible assets. Due to the ease-of-use for creating an Internal Order (IO) to categorize the capital asset (which can also be considered a capital project), the Company guideline is as follows:

- Expenditures that meet one of the criteria listed in section 4.1.1 and exceed \$3,000 in the aggregate, or are not one of the project types listed above that require an IO to be initiated. This sends the expenditure through a series of approvals which are necessary *prior* to making the associated expenditure. This type of capital IO is marked as either AFEC (authorized for expenditure capital, operations related capital assets) or AFEO (authorized for expenditure – non-operations, for non-operations related capital assets).
- Routine internal orders are designed for low cost (less than \$3,000) projects that are high in volume (quantity) and also meet the criteria listed above in section 4.1.1. This type of capital IO is marked as AFER (authorized for expenditure routine).
  - Routine Internal Orders are categorized based on the work completed. The five types of Routine Internal Order include: service lines, main lines, meter installations, measurement and regulating stations, and large capacity meter installations.
- Tools that exceed \$500 on an individual basis, or \$5,000 in the aggregate and must meet the capitalization criteria listed above in section 4.1.1. This type of capital IO is typically marked as AFEC.

#### 4.1.3. Capital Projects

The capital work begins when the decision to proceed with a project is made and the necessary approvals have been obtained. There are four phases to a capital project and each phase has different criteria determining what expenditures qualify for capital treatment. These stages are: preliminary, pre-acquisition, acquisition-or-construction, and in-service.

The table below outlines the four phases. The term “property, plant, and equipment” hereinafter referred to as “PP&E”.

	<b>Preliminary Stage</b>	<b>Pre-acquisition Stage</b>	<b>Acquisition or Construction Stage</b>	<b>In-service Stage</b>
<b>Time Line</b>	Prior to time when acquisition of specific PP&E becomes probable.	Acquisition of specific PP&E is probable but has not yet occurred.	Acquisition has occurred or construction has commenced but PP&E is not yet substantially complete and ready for its intended use.	Subsequent to when PP&E is substantially complete and ready for its intended use.
<b>Sample Activities</b>	Consideration of alternatives, feasibility studies, activities occurring prior to decision to select specific PP&E	Surveying, zoning, engineering studies, design layouts, traffic studies (these all may also occur in preliminary stage)	Acquisition, construction, or installation of PP&E; engineering work, design work	Replacements, additions to existing PP&E, repairs and maintenance
<b>Accounting for costs directly identifiable with specific PP&amp;E</b>	Expense ( <i>Unless the expenditure meets the criteria for CFR Account 183.2 preliminary survey</i> )	Capitalize	Capitalize	Capitalize replacements & corresponding cost of removals; expense repairs and maintenance

*Preliminary stage* costs, except for payments to obtain an option to acquire PP&E, should be charged to expense as incurred.

Consideration must be made in determining if the expenditure meets the criteria to be included in CFR account 183.2 – Other preliminary survey and investigation charges that are made for the purpose of determining the feasibility of utility projects under contemplation. Depending on the ultimate outcome of the utility project, these costs will be capitalized if construction results or expensed if the project work is abandoned.

*Pre-acquisition and acquisition-or-construction stage* costs should be capitalized as long as the costs are directly identifiable with the specific capital project or asset that will ultimately be placed in service. Directly identifiable costs are restricted to:

1. Incremental direct costs of activities incurred in transactions with independent parties related to the specific capital project or asset.
2. Costs directly related to activities performed by the entity for the specific PP&E.
3. Payments to obtain an option to acquire PP&E.

*In-service stage* costs related to PP&E including costs for routine, recurring, or periodic repairs and maintenance activities, should be charged to expense as incurred, unless those costs are for the acquisition, replacement or construction of additional components.

Removal costs arise as a result of the removed component, rather than any replacement component, and should be charged to the FERC (Federal Energy Regulatory Commission) account for cost of removal (108200-natural \ FERC-108).

Costs for planned major maintenance activities are not a separate PP&E asset or component. Those costs should be charged to expense as incurred, except for acquisitions or replacements of components that meet the criteria for being capital under the in-service stage guidance. (See 4.1.10 for further explanation of treatment for Repairs & Maintenance).

#### 4.1.4. Construction Work in Progress (CWIP) and Internal Order (IO) creation

##### CWIP

The time period from initial capital project approval, to completion and in-service, is the project's construction phase. During this time costs related to the project accumulate as "Construction Work in Progress" (CWIP). Projects that are in the construction phase are tracked by an Internal Order (detailed below) that functions as a unique identifier within SAP.

### Internal Orders

SourceGas refers to a capital work order as an “internal order” (hereinafter referred to as “IO”) within our platform system, SAP. An IO is initiated in SAP by the individual with responsibility for the project, or Project Manager. The Project Manager is typically a Field Coordinator or Division Manager in Operations, but for certain projects the project manager may reside in another department Engineering, Information Technology, Accounting, etc. The IO contains detailed information about the project including description, justification, estimated dates and duration, estimated costs, location of the project, budget category, billing information and associated agreements where applicable, and scope of work.

Upon initiation in SAP, the IO is assigned a system generated number and is routed for approval through workflow that is based upon the position/department of the IO initiator and the dollar amount of the project. Generally, the order of workflow approval is as follows: Property Accounting (initial verification only: capital vs. expense, account coding, SAP system criteria), Engineering, the Project Manager’s Supervisor, and the Budget Code owner. If estimated costs on the project exceed thresholds indicated by the Authority for Expenditure (AFE) approval policy, the IO will be routed to the appropriate individual per the AFE levels defined in SAP for further approval. SAP will not allow charges to be posted to an IO until all approvals have been executed in SAP. This is a platform system control.

IO’s that have completed the approval process in SAP are then released becoming available to accept charges within SAP for the respective IO number. The IO number allows SAP to generate project reporting that primarily includes project spend, budget comparisons, and completion status. Project Managers are responsible for reviewing, managing and tracking all charges coded to IO’s. Additionally, IO’s allow for visibility into capital expenditures that are periodically reviewed by the Operations Department, and also allow for Property Accounting to ensure completeness by reconciling the IO sub-ledger balances to the general ledger.

When a project has been completed, the Project Manager changes the status in SAP to “technically complete” (also referred to as TECO) and attaches a completion report. The completion report contains detailed information about the project including description of the work performed, start/end dates, assets created as a result of the project, and assets retired as a result of the project. It also includes location of the assets noted and billing information if applicable. Concurrent with each month-end close, a report is generated by SAP containing all projects with a status of “technically complete”. This triggers the process of placing the assets into service.

Property Accounting performs a detailed review of all technically complete IO's prior to assets being placed into service and/or retired. Encompassed in each review is ensuring capitalization is appropriate, charges appear appropriate, burden and AFUDC have been calculated accurately, and correct FERC plant account numbers have been assigned (300-399). Property Accounting then places the individual assets into service by crediting Construction Work-In-Progress and debiting Gross Plant-In-Service. Property Accounting also retires individual assets where applicable, reducing Gross Plant-in-Service and Accumulated Depreciation for the corresponding assets. Depreciation begins calculating based on the in-service date of the asset, impacting Depreciation Expense and Accumulated Depreciation accordingly.

4.1.5. Project Revision Notification (PRN)

A PRN is mandatory when the total project cost in relation to the approved budget for the project authorized, exceeds the following:

- 1) \$20,000 or 20%, whichever is less, for projects less than \$500,000.
- 2) \$100,000 or 10%, whichever is less, for projects greater than or equal to \$500,000.

The SourceGas PRN form is available on the Intranet.

4.1.6. Field Replacement Items

Specific guidelines are used in determining whether a field replacement item is capital or expense. The associated grid will assist in determining proper classification. Please contact Property Accounting with any specific questions.

Asset	Capital Projects	Expense Items
Pipe	<p><b>Plastic Mains</b></p> <ul style="list-style-type: none"> <li>• All new and replacement, including transition fittings, that involve adding or retiring footage</li> <li>• Relocation or offsets that involve adding or retiring footage</li> </ul> <p><b>Steel Mains</b></p> <ul style="list-style-type: none"> <li>• All new and replacement, including transition fittings, that involve adding or retiring footage</li> <li>• Relocation or offsets that involve adding or retiring footage</li> </ul>	<p><b>Plastic Mains</b></p> <ul style="list-style-type: none"> <li>• Relocation that does not involve adding or retiring footage</li> <li>• Repairs to plastic mains that do not require adding or retiring pipe</li> </ul> <p><b>Steel Mains</b></p> <ul style="list-style-type: none"> <li>• Relocation that does not involve adding or retiring footage</li> <li>• Repairs to steel mains that do not require adding or retiring pipe</li> </ul>

<p><b>Cast Iron Mains</b></p> <ul style="list-style-type: none"> <li>• All replacements, any length, including transition fittings</li> <li>• Relocation that involves adding or retiring footage</li> </ul> <p><b>All Mains</b></p> <ul style="list-style-type: none"> <li>• Abandonment or removal without a replacement main installation</li> <li>• Reinstatement of previously abandoned pipe</li> <li>• Installation of new facilities and/or replacement of existing facilities to enable Pipeline Integrity inspections</li> <li>• Clocksprings, strongbacks Weld-over sleeves as the result is generally considered substantial betterment<sup>1)</sup></li> </ul>	<p><b>Cast Iron Mains</b></p> <ul style="list-style-type: none"> <li>• Relocation that does not involve adding or retiring footage</li> <li>• Repairs to cast iron mains that do not require adding or retiring pipe</li> </ul> <p><b>All Mains</b></p> <ul style="list-style-type: none"> <li>• Replacement or addition of clamps, valves, pipe coating, couplings, and supports, unless the work is done as part of a capital project as defined in this table</li> <li>• Pipeline Integrity Assessment Costs – the actual costs to perform the inspections</li> </ul>
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<sup>1</sup> Substantial betterment – makes property affected more useful, more efficient, of greater durability, or of greater capacity than what was originally anticipated for that piece of property. (i.e. increases pressure capacity or life-over-previous for that pipe). If the replacement or additions result in a substantial betterment, the excess cost of the replacement over the estimated cost of replacing without betterment can be capitalized.

4.1.7. Internal-Use Software and License Costs

ASC 350-40 allows for the capitalization of software that is specifically internal-use software. Internal-use software is defined as software which is “acquired, internally developed, or modified solely to meet the entity’s internal needs.” ASC 350-40 also requires that “during the software’s development or modification, no substantive plan exists or is being developed to market the software externally.”

Software development is divided into three phases (Preliminary Project Stage, Application Development Stage and Post-Implementation Stage) which are summarized as follows:

- Preliminary Project Stage
- Conceptual formulation of alternatives
- Evaluation of alternatives
- Determination of existence of needed technology
- Final selection of alternatives

Internal and external costs incurred during the preliminary project stage should be *expensed* as they are incurred.

Application Development Stage

Design of chosen path, including software configuration and software interfaces  
Coding  
Installation to hardware  
Testing, including parallel processing phase

Internal and external costs incurred to develop internal-use computer software during the application development stage should be *capitalized*. Costs to develop or obtain software that allows for access or conversion of old data by new systems should also be capitalized.

Post-Implementation / Operation Stage

Training  
Application maintenance

Software costs incurred after the preliminary project stage has been completed and management has committed to the funding and completion of the software project may be capitalized. Activities included in the post-implementation stage (internal and external training costs and maintenance costs) should be *expensed* as incurred.

Costs which may be capitalized include (ASC 350-40-30-1):

- External direct costs of materials and services consumed in developing or obtaining internal-use computer software. Examples of those costs include but are not limited to fees paid to third-parties for services provided to develop the software during the application development stage, costs incurred to obtain computer software from third-parties, and travel expenses incurred by employees in their duties directly associated with developing software.
- Payroll and payroll-related costs (ex. employee benefits costs, etc.) for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project. Examples of employee activities include but are not limited to coding and testing during the application development stage.
- Interest costs incurred during development, in accordance with ASC-835-20, "Capitalization of Interest Cost."

- If the company suspends all activities related to the software developed or obtained for internal use, interest capitalization shall cease until activities are resumed.

General and administrative and overhead costs should be expensed.

For all capitalized costs related to internally developed software, ASC 350-40 requires that impairment should be recognized and measured in accordance with the provisions of ASC 360-10, 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.'

#### License Costs

Software Licenses: In the case of software licensing, there are often two components that have potential capital impact: 1) the actual license payment, and 2) any customization/modification necessary by the vendor to get the software ready for use as SourceGas requires.

ASC 350-40 states:

"Entities often license internal-use software from third parties. Though ASC 840, Accounting for Leases, excludes licensing agreements from its scope, entities should analogize to that Statement when determining the asset acquired in a software licensing arrangement."

If the license is paid for and SourceGas is able to continue using the asset regardless of whether the company continues to pay future license renewals (for ex, Microsoft Office), the initial payment of the license can be capitalized (meeting criteria (b) of ASC 840-30 – Accounting for Capital Leases). However, if SourceGas fails to retain any use of the asset if future license renewals are not paid, then the initial payment of the license should be expensed unless it can be determined that the one-year license fee exceeds 90% of what it would cost to purchase the software outright.

#### Customization

Customization/modification necessary to get the software put into use per SourceGas requirements can be capitalized as long as the company intends to use the software for more than one year. In the event that the company stops using the software at any time by failure to continue paying the license renewals, the asset must be retired.

#### 4.1.8. Lease Considerations

##### Capital Leases

When evaluating certain transactions (primarily lease and license transactions), SourceGas reviews the transaction to determine whether the transaction qualifies as a capital lease.

Per ASC 840-30, a lease should be treated as a capital lease if it meets any one of the following four conditions:

- (a) The lease life exceeds 75% of the life of the asset.
- (b) There is a transfer of ownership to the lessee at the end of the lease term.
- (c) There is an option to purchase the asset at a "bargain price" at the end of the lease term.
- (d) The present value of the lease payments, discounted at an appropriate discount rate, exceeds 90% of the fair market value of the asset.

If SourceGas determines that they have entered into a capital lease based on the criteria listed above, a debit will be recorded for the appropriate asset type and a credit will be recorded to a lease payable liability account. Effectively the capital lease will be treated as an asset and will be depreciated over the asset's useful life.

##### Operating Leases

If the terms of a lease do not meet the capital lease criteria, then the lease is classified as an operating lease. The lease payments are expensed if used as part of regular maintenance and operating activities or capitalized in CWIP if the asset is used as part of capital asset construction or acquisition.

#### 4.1.9. Capitalizing Minor Items

Definition: Minor items of property are the components of construction that are smaller and less significant than the retirement unit (the capitalization unit on its own). Minor items being installed as a component of a new capitalization unit may be capitalized along with their associated costs as long as the minor item is directly linked to the capital unit.

Subsequent replacement or additions of these minor items shall be accounted for as maintenance unless a substantial betterment is obtained. If the replacement or additions results in a substantial betterment, the excess cost of the replacement over the estimated cost of replacing without betterment can be capitalized. A substantial betterment is defined as a betterment whose primary aim is to make the property

affected more useful, more efficient, or of greater durability or capacity than initially intended.

#### 4.1.10. Maintenance and Repair

Definition: Maintenance and repair are expenditures made to maintain assets in operating condition. They represent expenditures that are expected or required in normal operations.

Maintenance and repair costs are charged to an expense account in the period in which they are incurred on the basis that it is the primary period benefited. Replacing minor parts, lubricating and adjusting equipment, repainting, and cleaning are examples of maintenance charges that occur regularly and are treated as ordinary operating expense.

The following are specific examples as defined by FERC:

- Direct field supervision of maintenance.
- Inspecting, testing, and reporting on condition of plant specifically to determine the need for repairs, replacements, rearrangements and changes *and* inspecting and testing the adequacy of repairs which have been made.
- Work performed specifically for the purpose of preventing failure, restoring service ability or maintaining life of plant.
- Rearranging and changing the location of plant not retired.
- Repairing for reuse materials recovered from plant.
- Testing for, locating and clearing trouble.
- Net cost of installing, maintaining, and removing temporary facilities to prevent interruptions in service.
- Replacing or adding minor items of plant which do not constitute a retirement unit (as defined by SourceGas).

#### 4.1.11. Overhead

Definition: Overhead refers to the allocation of administrative and general costs applicable to construction work to qualifying capital projects. These costs include a portion of the following, according to the methods outlined in the SourceGas Cost Allocation Assignment Manual (CAAM):

- (a) Labor and associated benefits, payroll taxes, and procurement card costs.
- (b) Occupancy costs related to facilities that accommodate personnel included in

the administrative and general labor costs noted above. Occupancy costs that are related to expense-natured activities will be expensed.

- (c) Insurance costs including workers compensation, property, general, excess, special crime, auto, non-owned aircraft, control of well and commission credit.
- (d) Vehicle depreciation for vehicles with a 392 FERC account designation.
- (e) Contract labor for the call center.
- (f) Power-operated equipment for equipment with a 396 FERC account designation.

The rate of overhead applied is determined annually by Property Accounting and analyzed at least quarterly. The underlying basis supporting the rate is based on a time study performed annually by the Regulatory Department. This study entails detailed review with every Cost Center Manager, of each employee's work activities, and occurs in conjunction with the annual budgeting process. These costs are gathered into a capital overhead pool that is distributed to construction activity across all states. Cost centers in both the O&M and the A&G cost centers use this method. The capitalization rate applied to these cost centers is the total of the directly capitalized labor divided by total gross labor.

Based on the above analysis, coupled with forecasted capital spending for the calendar year, an overhead rate is calculated. Integral to that calculation is that all anticipated costs appropriately supporting capital spending for the year are allocated to those projects. The overhead pools and overhead rates are monitored on a monthly basis to ensure that the pools are being cleared.

Overhead is applied to qualified construction projects on a monthly basis, and is calculated by Property Accounting concurrent with each month-end closing cycle. Projects/cost components exempted from overhead are:

- Costs arising from internally developed software (see section 4.1.7).
- Capitalized interest (see section 4.1.12).
- Pre-payments and reimbursements for assets under construction.

#### Overhead for large construction projects

Large transmission and storage capital projects that are in excess of \$5 million dollars, the overhead rate applied may be lower than the normal overhead rate that is applied to qualified construction projects. Historically, large capital projects consume overhead at a lower rate than smaller projects since: a) they typically include vendor provided equipment or use of external labor, and b) after taking these factors out of

the equation, the remaining corporate resources spent supporting capital do not change as the dollar amount of the projects change. For such projects, all departments that work directly on the qualifying projects charge their time directly to the project. The remaining overhead rate charged to the project consists of indirect A&G, Administrative Support Departments and Occupancy, Insurance and Vehicle total dollars as a percent of Overhead applied to budgeted capital.

#### 4.1.12. AFUDC

Interest is capitalized as an “allowance for funds used during construction” (AFUDC) and is applied monthly by Property Accounting to all capital projects that meet the following criteria:

Allowance for funds used during construction includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed without prior approval of the respective Commission allowances computed in accordance with the prescribed CFR formula.

All eligible IO’s in each period receive AFUDC based on the total balance in the IO (differs from overhead allocation). The rate applied equals 1/12th of the annualized interest rate multiplied by the balance of the IO each month end until completed.

Interest rates to be applied to eligible projects are supplied by Treasury each month, except for those in Arkansas. In Arkansas, the AFUDC rate is stipulated by Arkansas Public Service Commission.

AFUDC begins when a qualifying capital project first incurs costs and continues until the project is completed and placed in service. AFUDC is applied to projects through the last month of costs incurred. AFUDC is not applied to routine/blanket IO’s.

#### 4.1.13. Impairment

Impairment of a capital asset occurs when its fair value decreases below its book (carrying) value. Common indicators of impairment include; a change in the current business environment, uninsured physical damage that would require restoration to return the asset to its service utility, new laws, regulations or other environmental factors, technological changes or obsolescence, changes in the manner or expected duration of use, or construction stoppage.

Based on the guidance in ASC 360-10-05, "Accounting for the Impairment or Disposal of Long-Lived Assets," the company completes an impairment analysis and if an impairment is indicated, the Company measures the amount of impairment and reduces the carrying (book) value of the asset by that amount (a portion of the asset is written-off, which reduces it to its fair value). Capital assets are not written-down if the impairment is temporary, or due to a reduction in demand for services.

Quarterly, Property Accounting contacts all Division Managers regarding any obsolete or impaired assets. If any are identified, Property Accounting prepares entries to remove them from the fixed asset ledger. Valuations are determined using book value, current market value, or the Handy Whitman guide, as appropriate.

#### 4.1.14. Standby Inventory

Standby inventory refers to parts held in reserve to prevent plant or asset shutdown or loss of capacity due to their unavailability. It is to be used in the event of a catastrophic failure. The company purchases and holds these items to ensure that the company has a mitigating control to guard against a catastrophic failure that would impede ongoing operations and impacts to customers. These items must be purchased in advance as they are generally expensive, not subject to normal periodic replacement, and have long lead-time to obtain. At the time that the items are used, the determination will be made as to whether the inventory can be capitalized or expensed. If the items qualify as capital at that time, they will be appropriately identified and placed into service accordingly and the appropriate retirement unit will be identified and removed from service. If the items do not qualify as capital at the time they are used, they will be expensed to repairs and maintenance.

#### 4.1.15. Disposition of Assets

##### (a) Utility Asset Disposition – Non-Operating Unit/System

When a utility asset is disposed of or retired from use that does not qualify as an operating unit/system, the book cost of the asset will be credited to plant and a corresponding debit shall be made to the accumulated provision for depreciation/amortization in accordance with the CFR, Title 18, Part 201 – Gas Plant Instructions. The cost of removal and salvage (i.e., proceeds received from the disposition of the asset) shall be charged to the accumulated provision for depreciation/amortization.

(b) Utility Asset Disposition – Operating Unit/System

When a utility asset is disposed of or retired from use that qualifies as an operating unit/system, the book cost of the asset will be credited to plant and a debit shall be made to the accumulated provision for depreciation/amortization in the amount of the depreciation expense incurred to date in accordance with the CFR, Title 18, Part 201 – Gas Plant Instructions. The remaining net book value of the asset will be booked to the gain/loss on disposition of asset accounts, net of any consideration received for the property or costs incurred related to the disposition of the property.

(c) Non-utility Asset Disposition

When a non-utility asset is disposed of or retired from service, the book cost of the asset will be credited to plant and a debit shall be made to the accumulated provision for depreciation/amortization in the amount of the depreciation expense incurred to date. The remaining net book value of the asset will be booked to the gain/loss on disposition of asset accounts, net of any consideration received for the property or costs incurred related to the disposition of the property.

4.1.16. Affiliate Sale of Assets

(a) Utility and Non-Utility Assets

When a utility or non-utility asset is sold between different affiliated rate jurisdictions, the asset shall be disposed of as set forth in section 4.1.15 on the selling jurisdiction's books. The acquiring jurisdiction will debit plant for the net book value at the time of sale on the selling jurisdiction's books.

4.1.17. Asset Retirement Obligation (ARO)

Definition: Asset retirement obligations are considered legal obligations associated with the retirement of a tangible long-lived asset.

SourceGas accounts for asset retirement obligations in accordance with Accounting Standards Codification Topic 410 ("ASC 410"). The standard generally requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Amounts recognized as asset retirement obligations are initially capitalized and subsequently depreciated over the estimated useful life of the related asset. Accretion expense is recognized to reflect the increase in the fair value of asset retirement obligations over the remaining life of the related asset.

SourceGas performs a periodic review of the current and potentially new asset retirement obligations. SourceGas utilizes its experienced workforce that has an in-depth understanding of the contracts and laws that affect business operations. The appropriate personnel from various departments within the organization participate in the identification of an asset retirement. Accordingly, the process to identify asset retirement obligations is appropriately focused to the updates of determinations regarding asset retirement obligations made in prior years, as well as addressing any new asset retirement obligations that may have arisen during the review process.

#### 4.1.18. Depreciation, Amortization and Depletion

The company uses the following methods to allocate the cost of an asset over its useful life: depreciation (used for tangible assets), amortization (used for intangible assets), and depletion (used for natural resources).

##### (a) Depreciation and Rates and Useful Lives of Assets

Subsequent to assets being capitalized and placed in service, the company utilizes composite method depreciation and uses commission approved rates for regulated entities.

An estimated useful life is determined for each new or used capital asset based on the type of asset and how long it is expected to meet service demands. Characteristics in determining the useful life may include: general guidelines obtained from professional or industry organizations, obsolescence, wear and tear from use or the passage of time, the level of maintenance required, legal limitations, or experience with similar assets. The depreciation rates are based on the most recent commission approved rates by the respective utility commissions.

#### 4.1.19. Land

Land is characterized as having an inexhaustible life. All expenditures made to acquire land and to ready it for its intended use should be considered as part of the land cost.

Examples of expenditures to be capitalized as land:

- Purchase price or, if donated, fair market value at time of donation
- Commissions.
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.).

**Title: Capitalization Policy**

**CAPITALIZATION  
Policy: 1.2**

**Effective: June 2, 2014**

**Version: 2.0 Revised**

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- Permanent landscaping such as land clearing, excavation, fill, grading, drainage (includes movement of earth in preparation for water impoundment).
- Demolition of existing buildings and improvements (less salvage).
- Removal, relocation, or reconstruction of property of others on the land so that the land may be used differently (railroad, telephone and power lines).
- Interest on mortgages accrued at date of purchase.
- Accrued and unpaid taxes at date of purchase.
- Other costs incurred in acquiring the land.

SourceGas Distribution LLC  
Nebraska Gas Tariff  
Nebraska Tariff No. 1

First Revised Sheet No. 11  
Cancels Original Sheet Nos. 11-15

SYSTEM SAFETY AND INTEGRITY RIDER ("SSIR")

1. SYSTEM SAFETY AND INTEGRITY RIDER ("SSIR")

1.1 APPLICABILITY. Residential Service, Small Commercial Service and Large Commercial Service under Rate Schedules CGS (Choice Gas Service) and ACGS-NSS (Agricultural Choice Gas Service - Non-Seasonal Service) are subject to this SSIR designed to collect Eligible System Safety and Integrity Costs, as defined herein. The Company shall collect Eligible System Safety and Integrity Costs projected for the period April 1, 2014 through December 31, 2014 through the System Safety and Integrity Rider Charge based on the revenue requirement of those Eligible System Safety and Integrity Costs over the period November 1, 2014, through December 31, 2015 divided by the number of customer bills for that 14-month period. As set forth in Section 1.2 of this SSIR, the System Safety and Integrity Rider Charge shall be subject to annual changes to be effective on January 1 of each year beginning with 2015. The System Safety and Integrity Rider Charge to be applied to each Rate Schedule is set forth on the Schedule of Rates and Other Charges, Sheet No. 7 of this Tariff.

1.2 ANNUAL FILINGS.

A. Each proposed revision in the System Safety and Integrity Rider Charge shall be accomplished by filing an application by November 1 of each year to take effect on the following January 1 (the "Annual Application"). The Company shall include in its Annual Application pertinent information and supporting data related to Eligible System Safety and Integrity Costs, including, at a minimum, Project description and scope, Project costs and in-service date. The Company shall file the first Annual Application by November 1, 2014, to take effect on January 1, 2015.

B. The Company shall submit a report each year by April 1 detailing the Project costs incurred during the previous year (the "Annual Report"). The Annual Report shall explain how the Project costs were managed and any deviations between budgeted and actual costs. ~~An interested party may request that the Commission convene a hearing within ninety (90) days of the date the Company files the Annual Report.~~ The Company shall file the first Annual Report by April 1, 2015. The Public Advocate shall conduct an examination of the Annual Report. The Public Advocate shall cause an examination to be made of the Annual Report to confirm that the underlying actual Eligible System Safety and Integrity Costs are in accordance

SourceGas Distribution LLC  
Nebraska Gas Tariff  
Nebraska Tariff No. 1

First Revised Sheet No. 11  
Cancels Original Sheet Nos. 11-15

with this SSIR Tariff and to confirm proper calculation of the SSIR True-Up Amount and the Deferred SSIR Balance. The Commission shall require a report regarding such examination to be prepared and filed by the Public Advocate with the Commission not later than sixty days after the Annual Report is filed. No other revenue requirement or ratemaking issue shall be examined in consideration of the Annual Report unless the consideration of such affects the determination of the validity of the System Safety and Integrity Rider Charge. The Commission shall hold a hearing on the Annual Report at which the Public Advocate shall present his or her report and shall act as trial staff before the Commission. The Commission shall issue an order to become effective not later than one hundred twenty days after the Annual Report is filed, except that the Commission may, for good cause, extend such period for an additional thirty days. If the Commission finds that the Annual Report complies with the requirements of this SSIR Tariff, the Commission shall enter an order authorizing the Company to reflect the SSIR True-Up Amount and the Deferred SSIR Balance in an Annual Application filing to be made by the Company.

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SourceGas Distribution LLC  
Nebraska Gas Tariff  
Nebraska Tariff No. 1

First Revised Sheet No. 12  
Cancels Original Sheet Nos. 11-15

SYSTEM SAFETY AND INTEGRITY RIDER ("SSIR")

1.3 DEFINITIONS.

- A. "Deferred SSIR Balance" shall be equal to the balance, positive or negative, of SSIR revenues at the end of a particular calendar year less the Eligible System Safety and Integrity Costs as projected by the Company for that particular calendar year, plus monthly interest calculated on that balance at a rate equal to the then current rate of interest on pipeline refunds established by the Federal Energy Regulatory Commission.
- B. "Eligible System Safety and Integrity Costs" shall mean (1) a return, at a percentage equal to the Company's currently authorized weighted average cost of capital grossed up for taxes, on the projected increase in the jurisdictional component of the month ending net plant in-service balances associated with the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge shall be in effect, exclusive of all plant in-service included in the determination of the revenue requirements approved in the Company's last general rate case; (2) the plant-related ownership costs associated with such incremental plant investment, including depreciation, accumulated deferred income taxes, and all taxes including income taxes and property taxes; and (3) the projected jurisdictional component of the operation and maintenance expenses related to the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge shall be in effect. The return and income taxes and plant related costs associated with improvements or upgrades to facilities, made at the discretion of the Company to extend service or for future growth that is not specifically required by a statute or regulation, shall be excluded from Eligible System Safety and Integrity Costs.

SourceGas Distribution LLC  
Nebraska Gas Tariff  
Nebraska Tariff No. 1

First Revised Sheet No. 13  
Cancels Original Sheet Nos. 11-15

SYSTEM SAFETY AND INTEGRITY RIDER ("SSIR")

- C. "System Safety and Integrity Projects" ("Projects") shall mean one or more of the following:
- i. Projects to comply with Code of Federal Regulations Title 49 (Transportation), Part 192 (Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards), Subpart O (Gas Transmission Pipeline Integrity Management), including Projects in accordance with the Company's transmission integrity management program ("TIMP") and Projects in accordance with State enforcement of Subpart O and the Company's TIMP;
  - ii. Projects to comply with Code of Federal Regulations Title 49 (Transportation), Part 192 (Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards), Subpart P (Gas Distribution Pipeline Integrity Management), including Projects in accordance with the Company's distribution integrity management program ("DIMP") and Projects in accordance with State enforcement of Subpart P and the Company's DIMP;
  - iii. Projects to comply with final rules and regulations of the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration that become effective on or after the filing date of the Application requesting approval of this SSIR; and
  - iv. Facility relocation projects with a per-Project total cost of \$20,000 or more, exclusive of all costs that have been, are being, or will be reimbursed otherwise, that are required due to construction or improvement of a highway, road, street, public way or other public work by or on behalf of the United States, the State of Nebraska, a political subdivision of the State of Nebraska or another entity having the power of eminent domain.

SourceGas Distribution LLC  
Nebraska Gas Tariff  
Nebraska Tariff No. 1

First Revised Sheet No. 14  
Cancels Original Sheet Nos. 11-15

SYSTEM SAFETY AND INTEGRITY RIDER ("SSIR")

Projects shall be analyzed based upon objective criteria, such as, but not limited to: specific regulatory requirements, threat assessment, corrosion control analysis, pipeline vintage, pipeline material, pipeline design and class location, pipeline configuration and segmentation, pipeline system constraints, pipeline replacement history, population density, pipeline maintenance and internal inspection history, pipeline piggability, existence and reliability of pipeline asset and testing records, pipeline leakage and other incident history, subject matter expert knowledge, Project timeframe, weather and climate constraints on the construction season, permitting constraints, probability of pipeline testing failures and dewatering constraints, service outage management, and pipeline source of supply and availability of alternate gas supply. As part of its analysis, the Company shall identify and describe the proposed Projects that are for high-risk gas infrastructure by providing its risk assessment for each such Project including, if applicable, the probability of failure, the consequences of failure for the Project and how it prioritized the Project for which it seeks recovery.

- D. SSIR True-Up Amount" shall be equal to the difference, positive or negative, between the Eligible System Safety and Integrity Costs as projected for a particular calendar year and the actual Eligible System Safety and Integrity Costs incurred by the Company for that particular calendar year, plus monthly interest calculated on that difference at a rate equal to the then current rate of interest on pipeline refunds established by the Federal Energy Regulatory Commission.

SYSTEM SAFETY AND INTEGRITY RIDER ("SSIR")

1.4 SSIR ADJUSTMENT CALCULATION

- A. The System Safety and Integrity Rider Charge shall be equal to the Eligible System Safety and Integrity Costs, plus or minus the SSIR True-Up Amount, plus or minus the Deferred SSIR Balance, multiplied by the customer class allocation basis authorized by the Commission to determine the class cost of service in the Company's most recent general rate case, divided by the applicable number of bills for the particular customer class, as follows:

$$\text{System Safety and Integrity Rider Charge} = \frac{((A \pm B \pm C) * D)}{E}$$

Where:

- A = Eligible System Safety and Integrity Costs  
B = SSIR True-Up Amount  
C = Deferred SSIR Balance  
D = Customer class allocation basis authorized by the Commission to determine the class cost of service in the Company's most recent general rate case  
E = Applicable number of bills for the particular customer class

- B. The calculated rate shall be an adjustment to the Customer Charge applicable to the Company's Residential Service, Small Commercial Service and Large Commercial Service under Rate Schedule CGS (Choice Gas Service) and ACGS-NSS (Agricultural Choice Gas Service - Non-Seasonal Service).

- 1.5 SSIR ADJUSTMENT WITH CHANGES IN BASE RATES. Whenever the Company implements changes in base rates as a result of a final Commission order in a general rate case setting new rates based on approved revenue requirements, the Company shall simultaneously adjust the SSIR to remove all costs that have been included in base rates.

- 1.6 The Company shall not make effective any revision to the System Safety and Integrity Rider Charge if the Company has not had a general rate proceeding decided or dismissed by issuance of a Commission order within sixty months immediately preceding the date upon which the revision to the System Safety and Integrity Rider Charge otherwise would take effect. The Company shall not collect a System Safety and Integrity Rider Charge for a period exceeding sixty months after its initial effective date unless within such sixty-month period the Company has filed for or is the subject of a new general rate proceeding, except that the System Safety and Integrity Rider Charge may be collected until the

SourceGas Distribution LLC  
Nebraska Gas Tariff  
Nebraska Tariff No. 1

First Revised Sheet No. 15  
Cancels Original Sheet Nos. 11-15

effective date of new rate schedules established as a result of the new general rate proceeding or until the general rate proceeding is otherwise decided or dismissed by issuance of a Commission order without new rates being established.

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