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October 1, 2015

Nebraska Public Service Commission
1200 N Street
Suite 300
Lincoln, Nebraska 68508

Attn: Mr. Jeff Pursley
Executive Director

Re: SourceGas Distribution LLC
Docket No. NG-0078.2 – In the matter of the application of SourceGas Distribution LLC
for an order authorizing it to increase the System Safety and Integrity Rider Charges

Dear Mr. Pursley:

Pursuant to the Final Order entered on October 28, 2014 and the Order Modifying Order Approving Application, In Part entered on November 4, 2014 in Docket No. NG-0078, SourceGas Distribution LLC (SourceGas Distribution or the Company) herewith submits for filing with the Nebraska Public Service Commission (Commission) the original and one paper copy of the following tariff sheet:

Twenty-third Revised Sheet No. 7

Canceling Twenty-second Revised Sheet No. 7

By this Application, SourceGas Distribution is proposing to adjust the Safety and Integrity Charges applicable to all customers served under Rate Schedule CGS (Choice Gas Service) and Rate Schedule ACGS-NSS (Agricultural Choice Gas Service – Non-Seasonal Service).

The change in the rates submitted with this Application reflects an increase in the overall Safety and Integrity Charges applicable to the referenced rate schedules to cover the incremental annual revenue requirement impact of costs incurred by SourceGas Distribution with respect to System Safety and Integrity Rider (“SSIR”) Projects as defined on Tariff Sheet No. 13. These eligible projects were not included in the rate base calculation in SourceGas Distribution’s most recently completed rate case, Docket No. NG-0067, or in the calculation of its Infrastructure System Replacement Cost Recovery Charges that became effective on July 1, 2013 and September 1, 2014, and in service and used and useful or will be in service and used and useful by December 31, 2016. If approved by the Commission, the monthly Safety and Integrity Charges shall increase as follows: for the Residential Customer class to \$2.82 per month; for the Small

Commercial Customer class to \$6.00 per month; and for the Large Commercial Customer class to \$41.58 per month.

The proposed 2016 SSIR has been calculated in accordance with Tariff Sheet Nos. 11 through 15, as more fully discussed herein. The tariff sheet included with this Application bears a proposed effective date of February 1, 2016.

This filing includes the following exhibits:

- Exhibit 1 – Clean version of Twenty-third Revised Sheet No. 7.
- Exhibit 2 – Redlined version of Twenty-third Revised Sheet No. 7.
- Exhibit 3 – Narrative describing 2016 projects included in SSIR
- Exhibit 4 – Calculation of the SSIR
- Exhibit 5 – Explanation of variance greater than 10% or \$10,000 of 2014 projects.

I. Calculation of Safety and Integrity Charge

The calculation of the SSIR is shown on the tables that comprise Exhibit 4. A summary of the information shown on each schedule is as follows:

Table 1 – this table shows the derivation of the 2016 SSIR for the residential and small and large commercial customer classes. The rates are determined by dividing each customer class's portion of (1) the jurisdictional revenue requirement attributable to 2014, 2015 and 2016 SSIR projects, (2) the 2014 Deferred SSIR Balance, (3) the 2014 SSIR True-up Amount and (4) the carrying cost associated with the Deferred SSIR Balance and SSIR True-up Amount by the estimated annual number of bills used in SourceGas Distribution's most recently approved rate case in Docket No. NG-0067. The rate change caused by the proposed Safety and Integrity rate is then divided by the current average monthly bill for each customer class to show the average monthly bill increase from the proposed 2016 SSIR.

Table 2A – this table shows the calculation of the statewide revenue requirement resulting from the 2014, 2015 and 2016 SSIR Projects. The statewide revenue requirement is \$1,344,320 for 2014 projects, \$2,132,860 for 2015 projects, and \$1,388,591 for 2016 projects.

The determination of the revenue requirement requires calculation of the incremental revenue required to compensate SourceGas Distribution includes (i) a return, at a percentage equal to the Company's currently authorized weighted average cost of capital including an authorized return on equity of 9.60% grossed up for taxes, on the projected increase in the month ending net plant in-service balances associated with the 2014, 2015 and 2016 Projects; (ii) the plant-related ownership costs associated with such incremental plant investment, including depreciation less any retirements, accumulated deferred income taxes (ADIT), and all taxes

including income taxes and property taxes; and (iii) the projected operation and maintenance (O&M) expenses related to the Projects for 2016.

Table 2B – this table shows the derivation of, and the components of, the jurisdictional revenue requirement resulting from 2014, 2015 and 2016 SSIR Projects. The jurisdictional revenue requirement is \$1,018,551 for 2014 projects, \$1,629,828 for 2015 projects, and \$1,063,343 for 2016 projects. By this filing, SourceGas Distribution is seeking to recover the jurisdictional revenue deficiency from its residential and small and large commercial customer classes.¹

Table 3 – this table lists the 2014, 2015 and 2016 SSIR Projects included in the 2016 SSIR calculation including projected in-service date, total project cost, estimated betterment credit, if any, and net project cost to be included in the revenue requirement calculation. The estimated total project cost for 2014 SSIR projects net of all betterment credits is \$9,913,491. The estimated total project cost for 2015 projects net of all betterment credits is \$15,140,095. The estimated total project cost for 2016 projects net of all betterment credits is \$21,103,679.

Table 4 – this table assigns the 2014, 2015 and 2016 SSIR Projects into FERC Accounts and further separates the costs to the jurisdictional customer classes. The “jurisdictional” component of the revenue requirement, as shown on this table, was determined using the cost allocation principles adopted by the Commission in SourceGas Distribution’s most recent general rate case, Docket No. NG-0067.

Table 5 – this table shows the calculation inputs such as depreciation and tax rates and allocation percentages used for calculating the SSIR revenue requirement.

Table 6 – this table shows the reconciliation of authorized to actual 2014 SSIR costs and revenue which are defined and described in Tariff Sheet Nos. 11 through 15 as the SSIR True-Up and SSIR Deferred Balance. The 2014 Deferred SSIR Balance indicated an undercollection of \$47,078 for the months of November and December 2014. The 2014 SSIR True-up Amount indicated that the authorized revenue requirement was \$7,156 higher than the actual revenue requirement for the months of November and December 2014. The net carrying cost of the 2014 Deferred SSIR Balance and SSIR True-up Amount increased the 2016 SSIR by \$1,406.

¹ Section 66-1810 of the Act exempts service provided to high volume ratepayers from the Commission’s regulatory oversight and allows for flexible regulation of service provided to agricultural and interruptible service customers that are not high-volume ratepayers. For ease of reference and understanding, SourceGas Distribution refers to these customers as “non-jurisdictional” because their rates are not set through the traditional ratemaking process. Under this nomenclature, “jurisdictional customers” are the members of the residential and commercial classes that do not meet the definition of high volume ratepayers.

II. Proration of Rate Change

The State Natural Gas Regulation Act does not require changes in rates to be implemented on a proration basis. However, the Commission previously has indicated a preference that changes in rates should be implemented using a proration method, where applicable fixed and volumetric charges during the billing period are pro-rated to reflect the number of days and the amount of usage applicable to the new and superseded rates.

While reserving all rights, SourceGas Distribution intends to implement the February 1, 2016 changes in rates prospectively using a proration approach. This action will require a waiver of the relevant terms of SourceGas Distribution's Nebraska Gas Tariff; specifically, Section 6.2 of Rate Schedule CGS (Choice Gas Service), Section 6.2 of Rate Schedule ACGS - NSS (Agricultural Choice Gas Service – Non-Seasonal Service) and Section 10.1 of the General Terms and Conditions of Service. Accordingly, pursuant to the terms of Section 39, Waiver, of the General Terms and Conditions of Service of its Nebraska Gas Tariff, appearing on Second Revised Sheet No. 93, SourceGas Distribution will waive the referenced tariff provisions so as to implement the February 1, 2016 change in rates following a proration approach. As required by Section 39 of the Tariff, implementation of the rate change on a proration basis will be accomplished in a manner that is not unduly discriminatory to individual customers or classes of customers.

Notice of the proposed revisions contained in Twenty-third Revised Sheet No. 7 is being given to the Commission and the public by this tariff filing. Exhibits 1 through 5 and this transmittal letter are also being provided electronically.

Please contact me at (303) 243-3496 if you have any questions or need additional information.

Very truly yours,

SOURCEGAS DISTRIBUTION LLC



Jerrad Hammer
Director, Rates and Regulatory

Enclosures

cc: Nichole Mulcahy, Esq., Director of Natural Gas Department, NPSC
William F. Austin, Esq., Nebraska Public Advocate
Stephen M. Bruckner, Esq.
Susan L. Rubner (Bailey), Esq.
Choice Gas Program Suppliers