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May 1, 2014

Mr. Steve Meradith, Executive Director
Nebraska Public Service Commission
1200 N Street
Suite 300
Lincoln, NE 68508

RE: Docket No. NG-0079 - SourceGas Distribution LLC
Application for Authority to Reflect Changed Depreciation Rates on
Its Nebraska Books of Account Effective May 1, 2014, Without Impacting Existing Rates

Dear Mr. Meradith:

This firm represents SourceGas Distribution LLC ("SourceGas Distribution" or the "Company"). In accordance with the Rules of Practice and Procedure of the Nebraska Public Service Commission (the "Commission"), Title 291, Chapter 1 of the Nebraska Administrative Code, SourceGas Distribution hereby files this Application requesting that the Commission, through the power, authority and jurisdiction granted to it by Section 66-1804 of the State Natural Gas Regulation Act (the "Act"), issue an order authorizing the Company, as of May 1, 2014, to reflect changed depreciation rates on its Nebraska books of account as recommended in the Depreciation Rate Study (Appendix 1). As further explained in this Application, the change in depreciation rates will not impact the Company's current rates in Nebraska for natural gas service for its jurisdictional Residential and Commercial customers.

I. Description of SourceGas Distribution LLC

SourceGas Distribution is a "jurisdictional utility" as defined in Section 66-1802(10) of the Act. The Company provides natural gas retail distribution and transportation services, through its approximately 5,970 miles of natural gas pipeline in the State, to approximately 88,000 customers in a consolidated rate area spanning nearly 200 communities across the predominately rural western two-thirds of Nebraska.

SourceGas Distribution's current rates in Nebraska for natural gas service for Residential and Commercial customers were approved by the Commission in the Company's last general rate case, filed in 2011 in Docket No. NG-0067. Those rates went into effect on June 1, 2012. Pursuant to the

Commission's final order in Docket No. NG-0067, SourceGas Distribution is authorized to earn an overall rate of return on its jurisdictional rate base of 7.67% and a return on equity of 9.60%.

II. Content of Application and Communications

A. Content of Application

This Application was prepared by SourceGas Distribution in accordance with the Act, Commission regulations, Nebraska common law and generally accepted accounting and ratemaking principles. This Application consists of this pleading, the Depreciation Rate Study conducted by Alliance Consulting Group of the SourceGas Distribution LLC Nebraska Properties as of December 31, 2013 (Appendix 1), and SourceGas Distribution's Jurisdictional Revenue Deficiency Analysis (Appendix 2).

B. Communications

Communications regarding this Application should be addressed to:

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III. Events Preceding the Filing of This Application

Under its existing rates, SourceGas Distribution experiences a jurisdictional revenue deficiency compared with its current revenue requirement. Appendix 2 to this Application is a copy of Exhibit JSH-2 to the Prefiled Direct Testimony of Jerrad S. Hammer in Docket No. NG-0078. Appendix 2 consists of six tables which show the Company's revenue deficiency for its Nebraska jurisdictional customers for calendar year 2014 (the "Test Year") at the rates currently authorized by the Commission. As shown in Appendix 2, Table 1, Line 5, the Company has calculated a revenue deficiency for calendar year 2014 for its Nebraska jurisdictional customers of approximately \$4.5 million. The revenue

deficiency calculations in Appendix 2 are based on: (i) the 9.60% return on equity approved by the Commission in Docket No. NG-0067; (ii) the Company's current cost of debt and current capital structure (which lower the Commission-approved weighted cost of capital to 7.30% from 7.67%, as shown in Appendix 2, Table 3); (iii) Test Year rate base expenses and jurisdictional revenues; (iv) the Commission-approved cost of service study allocations from Docket No. NG-0067; and (v) no rate case expenses.

Because of this significant revenue deficiency, the Company planned to file a general rate case on or about April 1, 2014. Rate cases are costly, resource intensive and time consuming endeavors. The approximately \$4.5 million revenue deficiency shown in Appendix 2 does not include rate case expense or any potential increase in the authorized return on equity. In Docket No. NG-0067, the Commission approved the Company's total rate case expense of \$800,450, amortized over three years at \$266,817 per year. Including the Company's rate case expense, therefore, would increase the revenue deficiency to more than \$4.75 million, at the Company's currently authorized return on equity of 9.60%. In addition, the Company collected from its jurisdictional customers through the State Regulatory Assessment Surcharge approximately \$560,000 of rate case expense in Docket No. NG-0067 for the charges of the Public Advocate and his consultants and the Commission's consultants. Reflecting that additional cost, the total amount that the Company would be requesting jurisdictional customers to pay for through a general rate case proceeding would have been more than \$5.25 million in the first year of new rates.

Through discussions with the Public Advocate and Commission Staff, the Company explored creative solutions to avoid having to file the planned general rate case at this time. This Application, the Company's application filed in accordance with Sections 66-1865 and 66-1866 of the Act (Docket No. NG-0072.1) and its application for an order authorizing the Company to put into effect a System Safety and Integrity Rider Tariff and a System Safety and Integrity Rider Charge (Docket No. NG-0078) are the three essential components of the creative solution that, if approved, will enable the Company to not file its planned general rate case at this time.

Appendix 2 to this Application incorporates into the jurisdictional revenue deficiency calculation the Company's revenue proposals in Docket Nos. NG-0072.1 and NG-0078 and a reduction in depreciation expense in Docket No. NG-0079.

Importantly, if the Commission approves the applications that it is considering in Docket Nos. NG-0072.1 and NG-0078, the Company still would have a jurisdictional revenue deficiency compared with its current revenue requirement. As shown on Line 8 of Appendix 2, Table 1, even if the Commission approves the Company's applications in Docket Nos. NG-0072.1 and NG-0078, the Company still would have a revenue deficiency in the Test Year for its jurisdictional customers of approximately \$2.56 million at the currently authorized 9.60% return on equity and prior to reflecting rate case expenses. The approximately \$2.56 million revenue deficiency is substantial – it represents approximately 6.55% of the Company's jurisdictional net cost of service (\$2,561,576 divided by the \$39,130,250 shown on Line 3 of Appendix 2, Table 1). The Company would have to address this revenue deficiency in a general rate case filing.

As shown on Line 10 of Appendix 2, Table 1, even if the Commission approves this Application and the Company's applications in both Docket Nos. NG-0072.1 and NG-0078, SourceGas Distribution still would have a Test Year revenue deficiency for its jurisdictional customers of approximately \$0.94 million at the currently authorized 9.60% return on equity and prior to reflecting rate case expenses.

This analysis demonstrates that the Commission's approval of this Application and the Company's applications in Docket Nos. NG-0072.1 and NG-0078 would not cause the Company to exceed its authorized rate of return. At the same time, the Commission's approval of the three applications will reduce the Company's revenue deficiency to a level that will allow the Company to avoid its planned general rate case at this time.

IV. Request for Commission Authorization

SourceGas Distribution requests authority to change its depreciation rates on its Nebraska books of account, effective May 1, 2014, as shown in the Depreciation Rate Study that is appended to this Application as Appendix 1. The Commission is authorized to grant this Application through the power, authority and jurisdiction granted to it by Section 66-1804 of the Act.

SourceGas LLC engaged Alliance Consulting Group to conduct the Depreciation Rate Study of the major depreciable Distribution plant accounts of SourceGas Distribution's Nebraska Properties (defined as "SGDNE" in the Depreciation Rate Study) as of the fiscal year ended December 31, 2013. The Depreciation Rate Study analyzes Distribution Accounts 376 (Mains), 380 (Services), 381 (Meters), 381.1 (Meters - Automated Meter Reading ["AMR"] Equipment), 382 (Meter Installations), and 383 (House Regulators). These six accounts cover over 90% of SGDNE's depreciable Distribution plant.

The Depreciation Rate Study uses Company-specific information to recommend individual life and net salvage parameters and individual account depreciation rates. SGDNE's existing depreciation rates, established in the Company's last general rate case (Docket No. NG-0067), are based on a general survey of rates of comparable utilities that resulted in a 3.00% depreciation rate for Accounts 376, 380, 381, 382 and 383 and a 5.00% depreciation rate for Account 381.1. The depreciation rates that the Commission approved in Docket No. NG-0067 are the same depreciation rates that the Commission approved in the two preceding rate cases for these assets, Docket Nos. NG-0060 (2009) and NG-0036 (2006), and are based on a study conducted in 2006. The Company determined in the normal course of business and consistent with generally accepted accounting principles that it now should reevaluate the eight-year old utility depreciation rates being used for its major Distribution accounts of SGDNE's depreciable Distribution plant. Accordingly, SourceGas engaged Alliance Consulting Group to conduct the Depreciation Rate Study.

The Depreciation Rate Study establishes that the depreciation rates for the accounts identified above should be adjusted from the current depreciation rates as follows:

Description	FERC Account	Current Depreciation Rate	Recommended Depreciation Rate
Mains	376	3.00%	1.19%
Services	380	3.00%	3.97%
Meters	381	3.00%	3.44%
Meters - AMR Equipment	381.1	5.00%	3.72%
Meter Installations	382	3.00%	1.85%
House Regulators	383	3.00%	2.02%

The Depreciation Rate Study uses Company-specific information incorporating the straight-line depreciation method, average life group procedure, and remaining-life technique. These concepts are explained further in the Study (Appendix 1 to this Application). This depreciation approach is the standard used by most utilities and regulatory commissions across the United States. It is essential as a matter of fair rate regulation and proper accounting that a Company's depreciation rates distribute the cost of assets, less net salvage (if any), over the estimated useful life of the assets in a systematic and rational manner. The revised depreciation rates set forth in this Application accomplish that goal; the current rates no longer do.

The adjusted depreciation rates established by the Depreciation Rate Study result in a decrease of \$1,790,729.23 in Total Company annual depreciation expense as of the fiscal year ended December 31, 2013, when compared with the depreciation rates currently in effect for the accounts identified above. The table below, which is found in Appendix B to the Depreciation Rate Study, shows the calculation of this decrease in annual depreciation expense as of the fiscal year ended December 31, 2013.

**SourceGas Distribution LLC
 Nebraska Properties
 Comparison of Depreciation Expense- Present Rates vs. Proposed
 Depreciation Study as of December 31, 2013**

Account	Description	Plant at 12/31/2013	Present Accrual Rate	Depr Expense At Current Rates	Proposed Accrual Rate	Depr Expense At Proposed Rates	Difference
376	Mains	102,948,207.03	3.00%	3,088,446.21	1.19%	1,222,973.49	(1,865,472.72)
380	Services	21,784,000.25	3.00%	653,520.01	3.97%	865,331.85	211,811.85
381	House Meters	16,763,866.76	3.00%	502,916.00	3.44%	577,393.04	74,477.04
381.1	Meters	7,252,026.44	5.00%	362,601.32	3.72%	269,974.70	(92,626.62)
382	Meter Installation	4,857,483.42	3.00%	145,724.50	1.85%	90,071.01	(55,653.50)
383	House Regulators	6,468,651.96	3.00%	194,059.56	2.02%	130,794.29	(63,265.27)
		<u>160,074,235.86</u>		<u>4,947,267.60</u>		<u>3,156,538.38</u>	<u>(1,790,729.23)</u>

SourceGas Distribution is not seeking to change any of its existing rates for service currently charged to jurisdictional customers. The proposed changes in depreciation rates, if approved, would impact directly three elements of SourceGas Distribution's cost of service for ratemaking purposes at the time that SourceGas Distribution files its next request for a general increase in rates for its jurisdictional Residential and Commercial customer classes. Those three elements are SourceGas Distribution's

depreciation expense, accumulated reserve for depreciation and amortization, and accumulated deferred income taxes (“ADIT”). This is because the change in depreciation rates would generate a lower annual depreciation expense that would need to be collected from jurisdictional customers. The Company’s proposal to lower the depreciation rates effective May 1, 2014 would result in less accumulated depreciation in its next general rate case filing. This lower amount, however, would be partially offset by a higher amount of ADIT because there would be a greater difference between the book and tax depreciation on Nebraska assets as a result of the change in depreciation rates. The Company has prepared the Jurisdictional Revenue Deficiency Analysis (Appendix 2 to this Application), which establishes that the prospective change in depreciation rates requested through this Application will not cause SourceGas Distribution to exceed its currently authorized overall rate of return of 7.67%.

V. The Application Complies with Nebraska Law

The Commission is authorized under the Act to grant the relief sought in this Application. The relief sought in this Application does not constitute “single issue ratemaking.” The term “single issue ratemaking” generally refers to a proposal to change rates based upon changes in one or more, but not all, elements of the utility’s cost of service. SourceGas Distribution is not proposing to change any customer rates, and there must be a change in the rates charged to customers for there to be “single issue ratemaking.” For instance, “single issue ratemaking” might occur if a utility’s rates were changed solely to reflect an increase or decrease in State or Federal income tax rates, without considering and making adjustments for any other changes that may have occurred in the utility’s cost of service in the period since its rates last were established. The proposal to change SourceGas Distribution’s depreciation rates on a prospective basis does not involve “single issue ratemaking” because there is no change in customer rates and thus no “ratemaking” at all.

Furthermore, even if SourceGas Distribution were seeking to changes its rates (which it is not), it is important to understand that the Act itself does not prohibit “single issue ratemaking,” and there is no Nebraska case law prohibiting “single issue ratemaking.” Instead, the Act provides two distinct ways for a jurisdictional utility to seek a change to its rates. First, the utility may file for a general increase in rates under Section 66-1838 of the Act. SourceGas Distribution and the previous owner of its Nebraska utility assets made such filings in 2006, 2009 and 2011. Second, the utility may file for a change in one or more rates under Section 66-1808 of the Act, so long as the filing does not constitute a request for a general increase in rates. In crafting Section 66-1808 of the Act, the Legislature wisely permitted an option for rate changes to be made short of filing a full-blown general rate case.¹

With its passage of LB 658 in 2009, the Legislature further demonstrated that what might be considered “single issue ratemaking” in another state is permissible in Nebraska. LB 658 is codified in Sections 66-1865 through 66-1867 of the Act. Those sections permit a utility to seek approval of infrastructure system replacement cost recovery charges without filing a rate case. An LB 658 proceeding does in fact change the overall rates charged to customers, but it does not require a full-fledged review of all elements of cost of service, as is done in a general rate case. Moreover, the

¹ Likewise, the Legislature granted the Commission authority to initiate an investigation of one or more, or all, of a utility’s jurisdictional rates through Section 66-1809 of the Act.

Legislature authorized LB 658 infrastructure system replacement cost recovery charges to be effective for up to five years without the utility filing a general rate case.

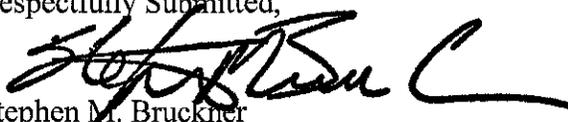
SourceGas Distribution acknowledges that the proposed changes in depreciation rates might have the effect of slightly increasing the Company's revenue requirement in future years, but only if no other factors are considered. However, there are other factors to consider and those factors demonstrate that this Application should be approved. The Jurisdictional Revenue Deficiency Analysis (Appendix 2) shows that SourceGas Distribution currently is under-recovering its Commission-authorized rate of return, even after factoring into the cost of service the impact of the prospective change in depreciation rates and the revenue increases from Docket Nos. NG-0072.1 and NG-0078. SourceGas Distribution currently needs a rate increase to achieve its authorized rate of return. From a customer's standpoint, it is preferable for SourceGas Distribution to obtain the relief sought in this Application, which does not impact rates, rather than to file a general rate case during 2014. In the Company's next general rate case, the Commission would be able to address prospectively the Company's revised depreciation rates.

Section 66-1804 of the Act grants the Commission the authority to "do all things necessary and convenient" to properly regulate jurisdictional utilities. SourceGas Distribution respectfully requests that the Commission utilize that authority to permit the Company, as of May 1, 2014, to reflect changed depreciation rates on its Nebraska books of account as recommended in the Depreciation Rate Study (Appendix 1), without impacting the Company's current rates in Nebraska for natural gas service for its jurisdictional Residential and Commercial customers.

This Application and its Appendices 1 and 2 are also being provided electronically on the enclosed compact disc ("CD").

Please feel free to contact any of the individuals identified in Section II.B of this Application with any questions or concerns you may have.

Respectfully Submitted,



Stephen M. Bruckner

COUNSEL FOR SOURCEGAS DISTRIBUTION LLC

Enc: Appendix 1 – Depreciation Rate Study
Appendix 2 – Jurisdictional Revenue Deficiency Analysis
CD (Application, Appendix 1 and Appendix 2 in native electronic formats)

cc: William F. Austin, Esq., Nebraska Public Advocate
Angela Melton, Esq., Director of Natural Gas Department, Commission
Jerrad S. Hammer, Director – Rates and Regulatory, SourceGas
Eric W. Nelsen, Deputy General Counsel – Regulatory Law, SourceGas

SOURCEGAS DISTRIBUTION LLC
NEBRASKA PROPERTIES
DEPRECIATION RATE STUDY
As of December 31, 2013



<http://www.utilityalliance.com>

**SOURCEGAS DISTRIBUTION LLC
NEBRASKA PROPERTIES
DEPRECIATION RATE STUDY
EXECUTIVE SUMMARY**

SourceGas LLC (“Company”) engaged Alliance Consulting Group to conduct a depreciation study of the major Distribution accounts of SourceGas Distribution LLC’s Nebraska Properties (“SGDNE”) natural gas operations depreciable assets as of fiscal year end December 31, 2013.

The existing depreciation rates are based on a survey of rates of comparable utilities. This study uses Company specific information incorporating the straight-line method, average life group (“ALG”) procedure, and remaining-life technique. That depreciation system is the standard used by most utilities and commissions across the United States. This study recommends a decrease of \$1.8 million in annual depreciation expense when compared to the depreciation rates currently in effect for the accounts included in the study. Due to the data and approach used in the prior study, there is no way to make a comparison of the life and net salvage parameters.

This study includes Distribution Accounts 376, 380, 381, 381.1, 382, and 383, which account for over 90% of SGDNE’s depreciable Distribution plant in Nebraska. The existing rates for all accounts with the exception of 381.1 were based on a functional rate of 3.00% compared to this study where individual life and net salvage parameters as well as individual account depreciation rate recommendations are recommended. These changes can be seen in detail in Appendix A.

SOURCEGAS DISTRIBUTION LLC
NEBRASKA PROPERTIES
DEPRECIATION RATE STUDY
As of December 31, 2013
Table of Contents

PURPOSE.....	4
GENERAL DISCUSSION.....	6
DEFINITION	6
BASIS OF DEPRECIATION ESTIMATES.....	6
SURVIVOR CURVES.....	8
ACTUARIAL ANALYSIS	10
JUDGMENT.....	11
AVERAGE LIFE GROUP DEPRECIATION.....	12
THEORETICAL DEPRECIATION RESERVE.....	13
DETAILED DISCUSSION	13
DEPRECIATION STUDY PROCESS	14
DEPRECIATION RATE CALCULATION	17
REMAINING LIFE CALCULATION	17
CALCULATION PROCESS.....	17
LIFE ANALYSIS.....	19
SALVAGE CHARACTERISTICS	28
APPENDIX A COMPUTATION OF DEPRECIATION ACCRUAL RATES	31
APPENDIX B COMPARISON OF EXISTING VS PROPOSED RATES	33
APPENDIX C PROPOSED PARAMETERS	35
APPENDIX D NET SALVAGE	37

PURPOSE

The purpose of this study is to develop depreciation rates for the depreciable property as recorded on SourceGas Distribution LLC's Nebraska ("SGDNE")'s books at December 31, 2013. The account based depreciation rates were designed to recover the total remaining undepreciated investment, adjusted for net salvage, over the remaining life of SGDNE's property on a straight-line basis. The study focuses on the major Distribution accounts, and all other non-depreciable and depreciable property and property which is amortized such as intangible assets were excluded from this study.

SGDNE provides local gas distribution service to approximately 88,000 customers across nearly 200 communities in Nebraska. This study evaluates the major Distribution assets, which comprise both steel and plastic gas distribution mains, services and various types of meters located across the service area.

STUDY RESULTS

The existing study of annual depreciation expense resulted from the use of a regional survey of depreciation rates. In this study the actuarial analysis was performed using Iowa Curve dispersion patterns with the straight-line method, average life group (“ALG”) procedure and remaining-life technique, and consideration of net salvage in the development of the study recommended depreciation rates. Detailed information for each of these factors will follow in this report.

Overall depreciation rates for Nebraska depreciable property are shown in Appendix A. The recommended rates translate into an annual depreciation accrual of approximately \$3.2 million based on SGDNE’s depreciable investment at December 31, 2013. The annual equivalent depreciation expense calculated by the same method using the currently approved rates was \$4.9 million.

Appendix A presents the computation of the depreciation rates and annual accruals. Appendix B presents a comparison of the composite existing rates versus the recommended study rates. Appendix C presents parameters by account. Appendix D shows net salvage history by plant account.

GENERAL DISCUSSION

Definition

The term "depreciation" as used in this study is considered in the accounting sense, that is, a system of accounting that distributes the cost of assets, less net salvage (if any), over the estimated useful life of the assets in a systematic and rational manner. It is a process of allocation, not valuation. This expense is systematically allocated to accounting periods over the life of the properties. The amount allocated to any one accounting period does not necessarily represent the loss or decrease in value that will occur during that particular period. The Company accrues depreciation on the basis of the original cost of all depreciable property included in each functional property group. On retirement the full cost of depreciable property, less the net salvage value, is charged to the depreciation reserve.

Basis of Depreciation Estimates

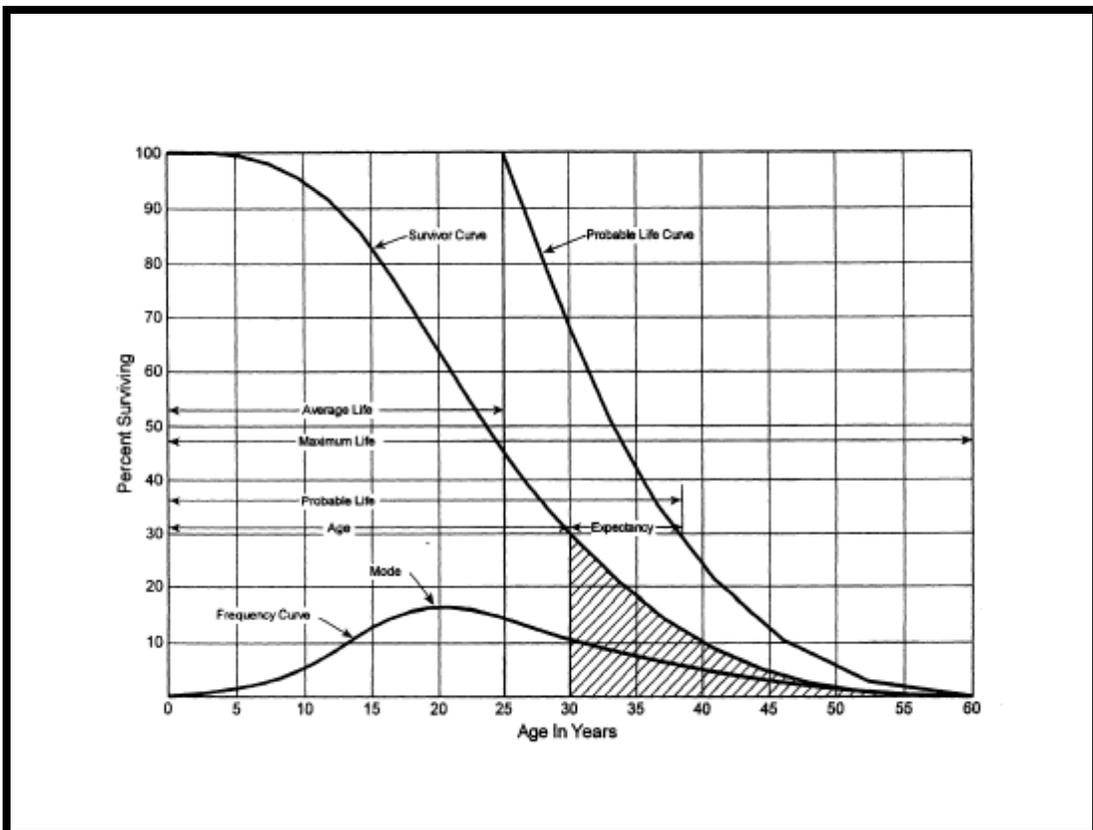
Annual and accrued depreciation were calculated in this study by the straight-line, ALG group, remaining-life depreciation system. In this system, the annual depreciation expense for each group is computed by dividing the original cost of the asset group less allocated depreciation reserve less estimated net salvage by its respective average remaining life. The resulting annual accrual amounts of all depreciable property within a function were accumulated and the total was divided by the original cost of all functional depreciable property to determine the depreciation rate. The calculated remaining lives and annual depreciation accrual rates were based on attained ages of plant in service and the estimated service life and salvage characteristics of each depreciable group, and were computed in a direct weighting by multiplying each vintage or account balance times its remaining life and dividing by the plant investment in service as of December 31, 2013. The computations of the annual depreciation rates are shown in Appendix A and remaining life calculations are provided in the workpapers.

The actuarial life analysis approach utilized in this study is a commonly used

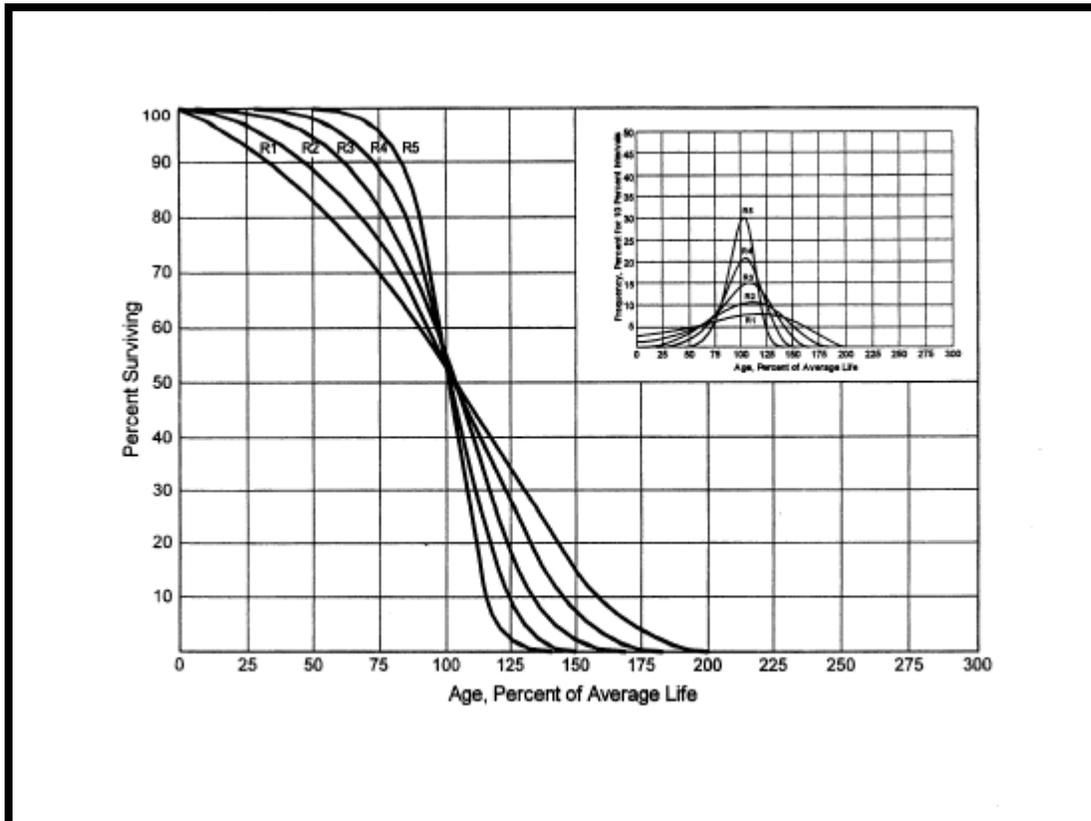
mortality analysis technique for gas utility property when sufficient aged retirement data exists. Since some vintage information is available, actuarial analysis was performed on the accounts. For the accounts using actuarial analysis experience, bands varied depending on the amount of data. Judgment was used to a greater or lesser degree on all accounts. This approach used in this study is more fully described in a later section.

Survivor Curves

To fully understand depreciation projections in a regulated utility setting, there must be a basic understanding of survivor curves. Individual property units within a group do not normally have identical lives or investment amounts. The average life of a group can be determined by first constructing a survivor curve which is plotted as a percentage of the units surviving at each age. A survivor curve represents the percentage of property remaining in service at various age intervals. The Iowa Curves are the result of an extensive investigation of life characteristics of physical property made at Iowa State College Engineering Experiment Station in the first half of the prior century. Through common usage, revalidation and regulatory acceptance, these curves have become a descriptive standard for the life characteristics of industrial property. An example of an Iowa Curve is shown below.



There are four families in the Iowa Curves that are distinguished by the relation of the age at the retirement mode (largest annual retirement frequency) and the average life. For distributions with the mode age greater than the average life, an "R" designation (i.e., Right modal) is used. The family of "R" moded curves is shown below.



Similarly, an "S" designation (i.e., Symmetric modal) is used for the family whose mode age is symmetric about the average life. An "L" designation (i.e., Left modal) is used for the family whose mode age is less than the average life. A special case of left modal dispersion is the "O" or origin modal curve family. Within each curve family, numerical designations are used to describe the relative magnitude of the retirement frequencies at the mode. A "6" indicates that the retirements are not greatly dispersed from the mode (i.e., high mode frequency) while a "1" indicates a large dispersion about the mode (i.e., low mode frequency). For example, a curve with an average life of 30 years and an "L3" dispersion is a

moderately dispersed, left modal curve that can be designated as a 30 L3 Curve. An SQ, or square, survivor curve occurs where no dispersion is present (i.e., units of common age retire simultaneously).

Most property groups can be closely fitted to one Iowa Curve with a unique average service life. The blending of judgment concerning current conditions and future trends along with the matching of historical data permits the depreciation analyst to make an informed selection of an account's average life and retirement dispersion pattern.

Actuarial Analysis

Actuarial analysis (retirement rate method) was used in evaluating historical asset retirement experience where vintage data were available and sufficient retirement activity was present. In actuarial analysis, interval exposures (total property subject to retirement at the beginning of the age interval, regardless of vintage) and age interval retirements are calculated. The complement of the ratio of interval retirements to interval exposures establishes a survivor ratio. The survivor ratio is the fraction of property surviving to the end of the selected age interval, given that it has survived to the beginning of that age interval. Survivor ratios for all of the available age intervals were chained by successive multiplications to establish a series of survivor factors, collectively known as an observed life table. The observed life table shows the experienced mortality characteristic of the account and may be compared to standard mortality curves such as the Iowa Curves. Consistent with the prior study some accounts were analyzed using this method. Placement bands were used to illustrate the composite history over a specific era, and experience bands were used to focus on retirement history for all vintages during a set period. Matching data in observed life tables for each experience and placement band to an Iowa Curve requires visual examination. As stated in Depreciation Systems by Wolf and Fitch, "the analyst must decide which points or sections of the curve should be given the most weight. Points at the end of the curve are often based on fewer exposures and may be given less weight than those points based on

larger samples” (page 46). Some analysts chose to use mathematical fitting as a tool to narrow the population of curves using a least squares technique. Use of the least squares approach does not imply a statistical validity, however, because the underlying data does not meet criteria for independence between vintages and the same average price for property units through time. Thus, Depreciation Systems cautions, “... the results of mathematical fitting should be checked visually and the final determination of best fit made by the analyst” (page 48). This study uses the visual matching approach to match Iowa Curves, since mathematical fitting produces theoretically possible curve matches. Visual examination and experienced judgment allow the depreciation professional to make the final determination as to the best curve type.

Detailed information for each account is shown later in this study and in workpapers.

Judgment

Any depreciation study requires informed judgment by the analyst conducting the study. A knowledge of the property being studied, company policies and procedures, general trends in technology and industry practice, and a sound basis of understanding depreciation theory are needed to apply this informed judgment. Judgment was used in areas such as survivor curve modeling and selection, depreciation method selection, simulated plant record method analysis, and actuarial analysis.

Judgment is not defined as being used in cases where there are specific, significant pieces of information that influence the choice of a life or curve. Those cases would simply be a reflection of specific facts into the analysis. Where there are multiple factors, activities, actions, property characteristics, statistical inconsistencies, implications of applying certain curves, property mix in accounts or a multitude of other considerations that impact the analysis (potentially in various directions), judgment is used to take all of these factors and synthesize them into a general direction or understanding of the characteristics of the property. In these

cases, it is rare for one factor to individually have a substantial impact on the analysis. However, individual factors may shed light on the utilization and characteristics of assets. Judgment may also be defined as deduction, inference, wisdom, common sense, or the ability to make sensible decisions. There is no single correct result from statistical analysis; hence, there is no answer absent judgment. At the very least for example, any analysis requires choosing upon which bands to place more emphasis.

The establishment of appropriate average service lives and retirement dispersions for Distribution accounts requires judgment to incorporate the understanding of the operation of the system with the available accounting information analyzed using actuarial methods. The appropriateness of lives and curves depends not only on statistical analyses, but also on how well future retirement patterns will match past retirements.

Current applications and trends in use of the equipment also need to be factored into life and survivor curve choices in order for appropriate mortality characteristics to be chosen.

Average Life Group Depreciation

At the request of SGDNE, this study recommends the average life group depreciation procedure to group the assets within each account. After an average service life and dispersion were selected for each account, those parameters were used to estimate what portion of the surviving investment of each vintage was expected to retire. The depreciation of the group continues until all investment in the vintage group is retired. ALG groups are defined by their respective account dispersion, life, and salvage estimates. A straight-line rate for each ALG group is calculated by computing a composite remaining life for each group across all vintages within the group, dividing the remaining investment to be recovered by the remaining life to find the annual depreciation expense and dividing the annual depreciation expense by the surviving investment. The resultant rate for each ALG group is designed to recover all retirements less net salvage when the last unit

retires. The ALG procedure recovers net book cost over the life of each account by averaging many components.

Theoretical Depreciation Reserve

The Company's book depreciation reserves by account were used. This study used a reserve model that relied on a prospective concept relating future retirement and accrual patterns for property, given current life and salvage estimates. The theoretical reserve of a property group is developed from the estimated remaining life of the group, the total life of the group, and estimated net salvage. The theoretical reserve represents the portion of the group cost that would have been accrued if current forecasts were used throughout the life of the group for future depreciation accruals. The computation involves multiplying the vintage balances within the group by the theoretical reserve ratio for each vintage. The straight-line remaining-life theoretical reserve ratio at any given age (RR) is calculated as:

$$RR = 1 - \frac{(Average\ Remaining\ Life)}{(Average\ Service\ Life)} * (1 - Net\ Salvage\ Ratio)$$

DETAILED DISCUSSION

Depreciation Study Process

This depreciation study encompassed four distinct phases. The first phase involved data collection and field interviews. The second phase was where the initial data analysis occurred. The third phase was where the information and analysis was evaluated. Once the first three stages were complete, the fourth phase began. This phase involved the calculation of depreciation rates and documenting the corresponding recommendations.

During the Phase I data collection process, historical data was compiled from continuing property records and general ledger systems. Data was validated for accuracy by extracting and comparing to multiple financial system sources. Audit of this data was validated against historical data from prior periods, historical general ledger sources, and field personnel discussions. This data was reviewed extensively to put in the proper format for a depreciation study. Further discussion on data review and adjustment is found in the Salvage Considerations Section of this study. Also as part of the Phase I data collection process, numerous discussions were conducted with engineers and field operations personnel to obtain information that would assist in formulating life and salvage recommendations in this study. One of the most important elements of performing a proper depreciation study is to understand how the Company utilizes assets and the environment of those assets. Interviews with engineering and operations personnel are important ways to allow the analyst to obtain information that is beneficial when evaluating the output from the life and net salvage programs in relation to the Company's actual asset utilization and environment. Information that was gleaned in these discussions is found in the Detailed Discussion of this study in the life analysis section and the salvage analysis section, and also in workpapers.

Phase 2 was where the Actuarial analysis was performed. Phase 2 and 3 overlap to a significant degree. The detailed property records information is used in phase 2 to develop observed life tables for life analysis. These tables were visually compared to industry standard tables to determine historical life characteristics. It is possible that the analyst would cycle back to this phase based on the evaluation process performed in phase 3. Net salvage analysis consists of compiling historical salvage and removal data by functional group to determine values and trends in gross salvage and removal cost. This information was then carried forward into phase 3 for the evaluation process.

Phase 3 was the evaluation process which synthesized analysis, interviews, and operational characteristics into a final selection of asset lives and net salvage parameters. The historical analysis from phase 2 was further enhanced by the incorporation of recent or future changes in the characteristics or operations of assets that were revealed in phase 1. Phases 2 and 3 allowed the depreciation analyst to validate the asset characteristics as seen in the accounting transactions with actual Company operational experience.

Finally, Phase 4 involved the calculation of accrual rates, making recommendations and documenting the conclusions in the report. The calculation of accrual rates is found in Appendix A. Recommendations for the various accounts are contained within the Detailed Discussion of this report. The depreciation study flow diagram shown as Figure 1¹ documents the steps used in conducting this study. Depreciation Systems, page 289 documents the same basic processes in performing a depreciation study which are: Statistical analysis, evaluation of statistical analysis, discussions with management, forecast assumptions, write logic supporting forecasts and estimation, and write report.

¹ Public Utility Finance & Accounting, A Reader

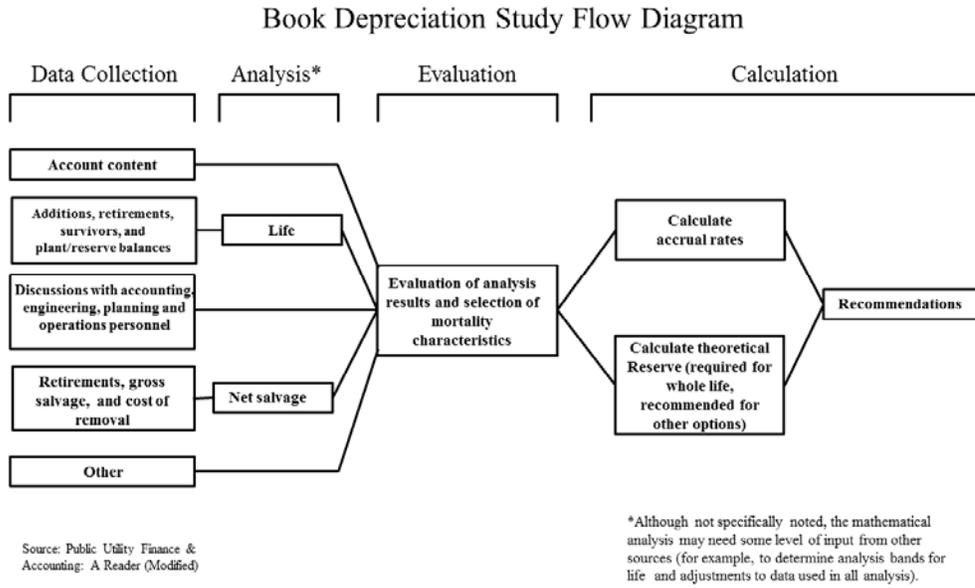


Figure 1

SGDNE DEPRECIATION STUDY PROCESS

Depreciation Rate Calculation

Annual depreciation expense amounts for the depreciable accounts of the Company were calculated by the straight line, average life group, and remaining life system. With this approach, remaining lives were calculated according to standard ALG group expectancy techniques, using the Iowa Survivor Curves noted in the calculation. For each plant account, the difference between the surviving investment, adjusted for estimated net salvage, and the allocated book depreciation reserve, was divided by the average remaining life to yield the annual depreciation expense. These calculations are shown in Appendix A.

Remaining Life Calculation

The establishment of appropriate average service lives and retirement dispersions for each account within a functional group was based on engineering judgment that incorporated available accounting information analyzed using the retirement rate actuarial method. After establishment of appropriate average service lives and retirement dispersion, remaining life was computed for each account. Theoretical depreciation reserve with zero net salvage was calculated using theoretical reserve ratios as defined in the theoretical reserve portion of the General Discussion section. The difference between plant balance and theoretical reserve was then spread over the ALG depreciation accruals. Remaining life is shown for each account in Appendix A.

Calculation Process

Annual depreciation expense amounts for all accounts were calculated by the straight line, remaining life procedure.

In a whole life representation, the annual accrual rate is computed by the following equation,

$$\text{Annual Accrual Rate} = \frac{(100\% - \text{Net Salvage Percent})}{\text{Average Service Life}}$$

Use of the remaining life depreciation system adds a self-correcting

mechanism, which accounts for any differences between theoretical and book depreciation reserve over the remaining life of the group. With the straight line, remaining life, average life group system using Iowa Curves, composite remaining lives were calculated according to standard broad group expectancy techniques, noted in the formula below:

$$\text{Composite Remaining Life} = \frac{\sum \text{Original Cost} - \text{Theoretical Reserve}}{\sum \text{Whole Life Annual Accrual}}$$

For each plant account, the difference between the surviving investment, adjusted for estimated net salvage, and the allocated book depreciation reserve, was divided by the composite remaining life to yield the annual depreciation expense as noted in this equation.

$$\text{Annual Depreciation Expense} = \frac{\text{Original Cost} - \text{Book Reserve} - (\text{Original Cost}) * (1 - \text{Net Salvage \%})}{\text{Composite Remaining Life}}$$

Where the net salvage percent represents future net salvage.

Within a group, the sum of the group annual depreciation expense amounts, as a percentage of the depreciable original cost investment summed, gives the annual depreciation rate as shown below:

$$\text{Annual Depreciation Rate} = \frac{\sum \text{Annual Depreciation Expense}}{\sum \text{Original Cost}}$$

These calculations are shown in Appendix A. The calculations of the theoretical depreciation reserve values and the corresponding remaining life calculations are shown in workpapers. Book depreciation reserves were allocated from a functional level to individual accounts and the theoretical reserve computation was used to compute a composite remaining life for each account.

Life Analysis

The retirement rate actuarial analysis method was applied to those accounts where vintage retirement detail is available. For each account, an actuarial retirement rate analysis was made with placement and experience bands of varying width. The historical observed life table was plotted and compared with various Iowa Survivor Curves to obtain the most appropriate match. The observed life table, a selected placement and experience bands, are shown in Appendix C. The remainder of placement and experience band analyses performed is contained in the workpapers.

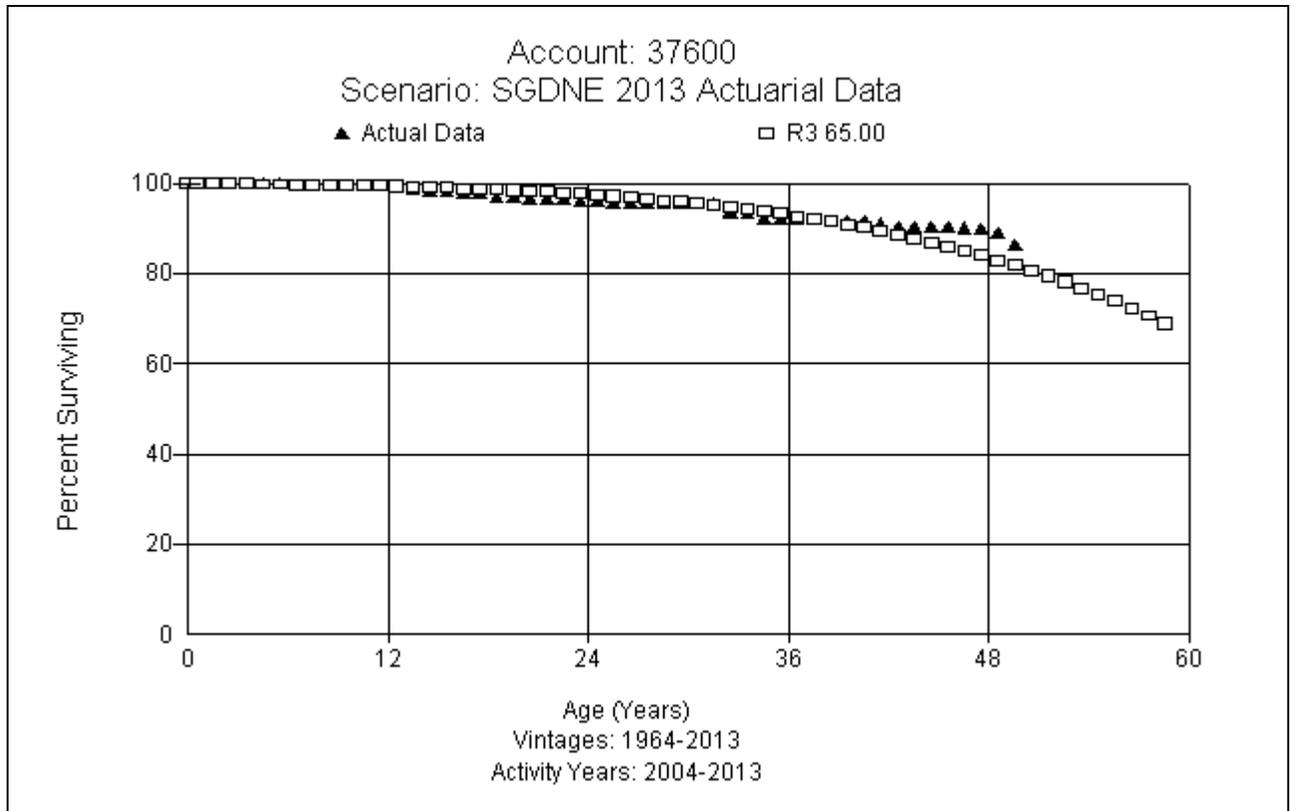
For each account on the overall band (i.e. placement from earliest vintage year through 2013 and experience band from earliest available experience year through 2013), most recently approved survivor curves were used as a starting point. Then using the same average life, various dispersion curves were plotted. Frequently, visual matching would confirm one specific dispersion pattern (i.e. L, S. or R) as an obviously better match than others. The next step would be to determine the most appropriate life using that dispersion pattern. Then, after looking at the overall experience band, different experience bands were plotted and analyzed. Repeated matching usually pointed to a focus on one dispersion family and small range of service lives. Generally, the goal of visual matching was to minimize the differential between the observed life table and Iowa curve in top and mid-range of the plots. When adequate activity is present a graph of the observed life table versus the proposed life and curve is provided for each account where the actuarial life analysis was used.

These results are used in conjunction with all other factors that may influence asset lives.

Distribution Plant – FERC Accounts 376, 380-383

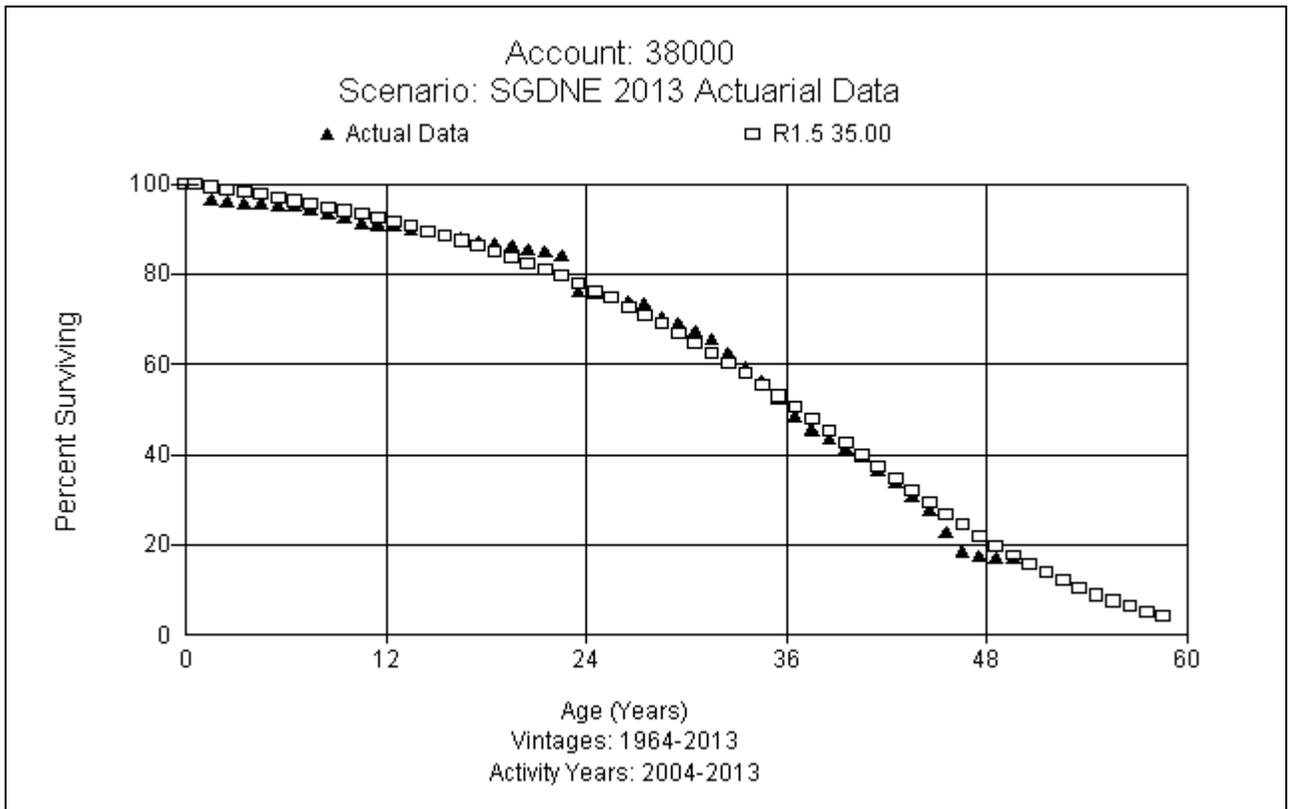
Account 376.00 Mains (65 R3)

These accounts include the cost of steel and plastic mains. There is approximately \$102.9 million in this account. The average age of the investment is 19.39 years and the existing life is unknown. Discussions with Company personnel indicated Nebraska operations have top of ground (TOG) pipe, which is unusual in the industry. Currently there is approximately 850 miles of bare steel of which 630 miles is TOG pipe which was installed in the 1950s and 1960s. The Company has already retired about half of the TOG pipe over time and plans to replace the remaining TOG pipe over the next 15 or so years. There is also some PVC pipe that will be of focus for replacement. The Company has several counties with growing populations. Company would expect a life around 65 years to be reasonable. Best fits have steep dispersion and average service life pretty close to Company expectations, which is within range of others in the industry. Based on the analysis, discussions with Company, mix and type of assets, and future replacement plans, this study recommends a 65 R3. A graph of the observed life table compared to the recommended 65 R3 is shown below.



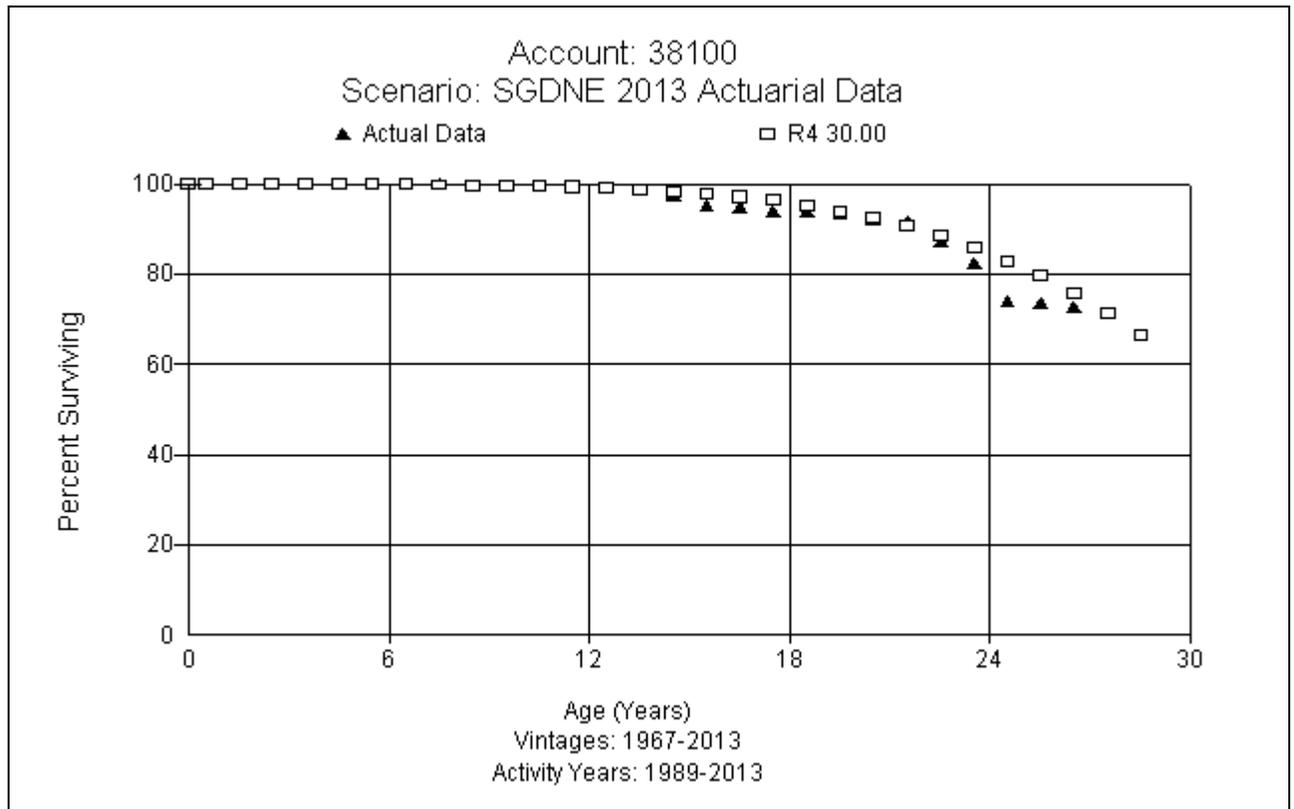
Account 380.00 Services (35 R1.5)

This account consists of all types of services used in distribution operations. There is approximately \$21.8 million of investment in this account. The existing life is unknown. The current average age of investment is 16.28 years. Discussions with Company personnel indicated approximately 58% is steel and 42% is plastic. The Company started installing plastic in the 1990s. Currently all replacements are plastic, when possible. Leaks, reroutes, dig-ins, mains replacements are all factors to retirements. Company expects a life between 35-40 years. The analysis supports Company expectations with life indications between 35-40 years. An excellent fit in the mid placement and short experience band is 35 R1.5. Based on the analysis, input from Company personnel, and type and mix of assets, this study recommends a 35 year life with the R1.5 dispersion. A graph of the observed life table compared to the recommended 35 R1.5 is shown below.



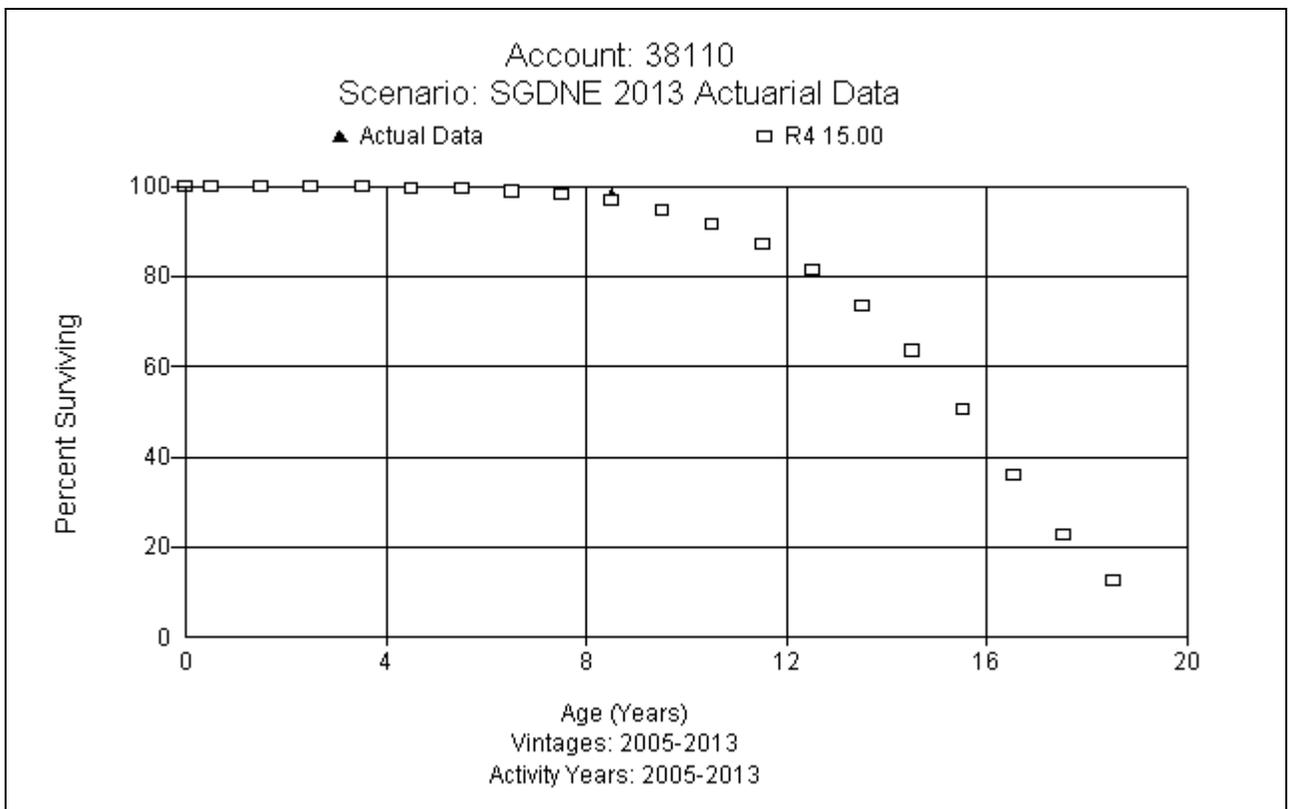
Account 381.00 House Meters (30 R4)

This account includes the cost of meters. The balance is \$16.8 million. The existing life is unknown. The average age of investment is 17.05 years. The average age of retirements is 21.57. There are ERTs on nearly all meters. The Meter shop was consolidated to Arkansas around 2011 and only limited repairs are performed in Nebraska. In the past repairs were classified as “A” and “B” and “A” consists of minor adjustments and diaphragm replacement, which is the only repair performed now. The actuarial analysis indicates a life around 30 to 35 years, but Company personnel believe the elimination of the “B” repairs will shorten the average life of the meters now in service since they will be replaced instead of repaired. The Company expects a 30 year life in the future. Based on the analysis and Company input, this study recommends the 30 R4. A graph of the observed life table compared to the recommended 30 R4 is shown below.



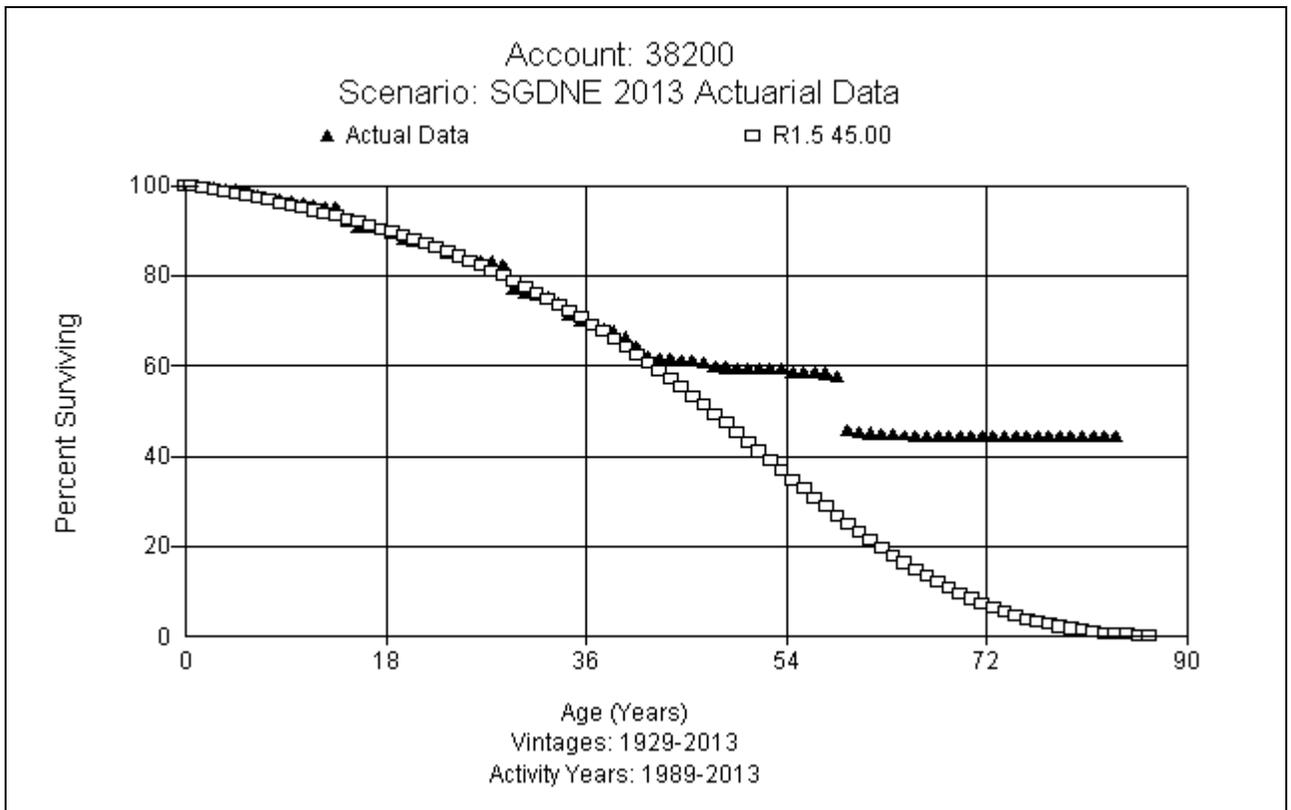
Account 381.10 Meters (15 R4)

This account includes the cost automated meter reading equipment (“AMR”) installed on the Company’s meters. The balance is approximately \$7.3 million. The existing life is unknown. The average age of investment is 7.80 and the average age of retirements is 7.05 years. Due to the technological nature of these assets, a shorter life is expected due to battery life. Discussions with Company personnel indicated ITRON states a 20 year battery life is achievable. However, a 15 year life is expected since the Company operates in much more rural/agricultural areas and the transmitter power is set higher than the level that would allow the full 20 year expected life. Based on the analysis and Company input, this study recommends a 15 year life with the R4 dispersion. A graph of the observed life table compared to the recommended 15 R4 is shown below.



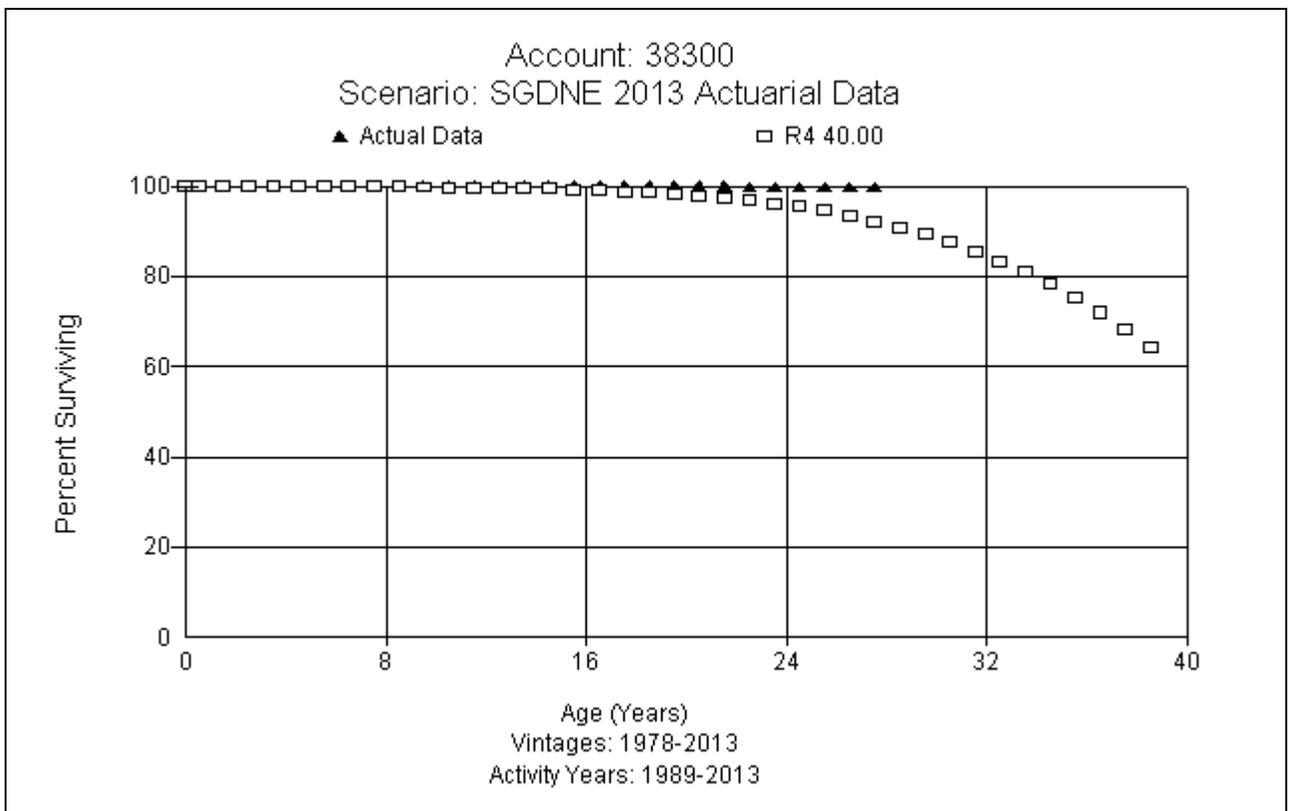
Account 382.00 Meter Installation (45 R1.5)

This account includes the cost of meter installations. This account has a balance of \$4.9 million. The existing life is unknown. The current average age of investment is approximately 23.97 years. The actuarial analysis indicated a life between 40-50 years with flatter dispersion patterns. Discussions with Company personnel indicated the meter loop was being retired if there were significant leaks. Some loops are pre-fabricated but most are built on site. The Company may replace a regulator but not the loop. However, it would likely replace the regulator when replacing the loop. Company believes a 45 year life is reasonable. Based on the analysis, the current process, and Company input, this study recommends a 45 R1.5. A graph of the observed life table compared to the recommended 45 R1.5 is shown below.



Account 383.00 House Regulators (40 R4)

This account includes the cost of house regulators. There is approximately \$6.5 million in this account. The existing life is unknown. The average age of investment is 17.64 years. Normally, the regulator would not be replaced with a normal meter change-out. However, a regulator should be tested when a new meter is installed or swapped. If a regulator is 5 pounds or greater, it is tested once a year. It is also tested when another component (such as the meter) is touched. Company personnel indicated they would expect a 40 year life to be a reasonable estimate if the gas supply is good quality. The actuarial analysis fits are between 40-50 years. Based on the analysis, discussion with Company personnel, and current testing and replacement practices, and judgment this study recommends a 40 R4. A comparison of actual versus simulated balances is shown below for the 40 R4.



Salvage Analysis

When a capital asset is retired, physically removed from service and finally disposed of, terminal retirement is said to have occurred. The residual value of a terminal retirement is called gross salvage. Net salvage is the difference between the gross salvage (what the asset was sold for) and the removal cost (cost to remove and dispose of the asset). Salvage and removal cost percentages are calculated by dividing the current cost of salvage or removal by the original installed cost of the asset. Some plant assets can experience significant negative removal cost percentages due to the timing of the original addition versus the retirement. For example, a Distribution asset in FERC Account 376 Steel Mains with a current installed cost of \$500 (2013) would have had an installed cost of \$17.57² in 1948. A removal cost of \$50 for the asset calculated (incorrectly) on current installed cost would only have a negative 10 percent removal cost ($\$50/\500). However, a correct removal cost calculation would show a negative 284 percent removal cost for that asset ($\$50/\17.57). Inflation from the time of installation of the asset until the time of its removal must be taken into account in the calculation of the removal cost percentage because the depreciation rate, which includes the removal cost percentage, will be applied to the original installed cost of assets.

The net salvage analysis uses the history of the individual accounts as a starting point to estimate the future net salvage that Nebraska can expect in its operations. In this case, the analysis not only looks at the historical experience but also takes into account the Company undercharging removal cost in the last few years in Accounts 376, 380 and 382. Addressing the undercharges through the Company's implementation of PowerPlan in 2015 will lead to changes in net salvage charges and a more negative future expectation for net salvage than was experienced in the past.

² Using the Handy-Whitman Bulletin No. 178, G-3, line 44, $\$17.57 = \$500 \times 29/825$.

Salvage Characteristics

For each account, data for retirements, gross salvage, and cost of removal were derived from 2009-2013. Moving averages, which remove timing differences between retirement and salvage and removal cost, were analyzed over periods varying from one to 5 years. A discussion for each account provides the recommended net salvage factor, the existing net salvage factor if known, and any specific considerations given to support the recommendations.

Distribution Plant – FERC Accounts 376, 380-383

Account 376.00 Mains (-10%)

This account consists of any salvage and removal cost related to mains. The existing net salvage is unknown. The 5 year most recent moving average indicates a barely positive net salvage of 0.44 percent overall. This indication is not the expectation of others in the industry. Expectations are that even with minimal activities associated with abandon in place retirement costs (e.g., cut, cap, purge and bypass), those would exceed any salvage by a considerable degree especially considering the general practice of abandoning pipe in place. Future salvage, if any, is expected to be exceeded by cost of removal resulting in a negative net salvage. Based on the analysis, Company input, future expectations, and judgment, this study recommends a negative 10 percent net salvage for this account at this time.

Account 380.00 Services (-40%)

This account includes any salvage and removal cost related to all types of services related to distribution operations. The existing net salvage is unknown. The 5 year most recent moving average indicates a negative 9.58 percent net salvage. Based on what is typically seen by others in the industry, a negative 10 percent is not representative of the costs at retirement for Services. Even with the undercharging of removal cost, the single and two year bands indicate a negative 106 percent and negative 89 percent net salvage, respectively. No salvage with higher cost of removal is expected in the future. Based on current indications in the

analysis, Company input, future expectations and judgment, this study recommends a negative 40 percent net salvage for this account at this time.

Account 381.00 House Meters (0%)

This account includes any salvage and removal cost related to house meters. The existing net salvage is unknown. No activity has been recorded for this account. It is expected that removal cost for meters is recorded to Account 382 Meter Installations. This study recommends a zero percent net salvage for this account.

Account 381.10 Meters (0%)

This account includes any salvage and removal cost related to house meters. The existing net salvage is unknown. No activity has been recorded for this account. It is expected that removal cost for meters is recorded to Account 382 Meter Installations. This study recommends a zero percent net salvage for this account.

Account 382.00 Meter Installations (-10%)

This account includes any salvage and removal cost related to meter installations. The existing net salvage is unknown. Most recent 5 year moving average is 0.75 percent. These indications are not consistent with others in the industry. No salvage is expected from meters today and some cost of removal is expected resulting in negative net salvage. Based on all the information and judgment, this study recommends a negative 10 percent net salvage for this account at this time.

Account 383.00 House Regulators (0%)

This account includes any salvage and removal cost related to house regulators. The existing net salvage is unknown. No activity has been recorded. No salvage is expected at retirement and any cost of removal associated will be

recorded with Account 382 Meter Installations. A zero percent net salvage is our recommendation for this account at this time.

APPENDIX A
Computation of Depreciation Accrual Rates

**SourceGas Distribution LLC
Nebraska Properties
Computation of Depreciation Accrual Rate
Depreciation Study as of December 31, 2013**

Account	Description	Surviving Balance 12/31/2013	Accumulated Depreciation 12/31/2013	Net Salvage %	Net Salvage Amount	Unaccrued Balance	Remaining Life	Annual Accrual	Accrual Rate
376	Mains	102,948,207.03	55,503,667.76	-10.00%	(10,294,820.70)	57,739,359.97	47.21	1,222,973.49	1.19%
380	Services	21,784,000.25	10,472,770.44	-40.00%	(8,713,600.10)	20,024,829.91	23.14	865,331.85	3.97%
381	House Meters	16,763,866.76	8,412,542.55	0.00%	0.00	8,351,324.21	14.46	577,393.04	3.44%
381.1	Meters	7,252,026.44	5,239,503.98	0.00%	0.00	2,012,522.46	7.45	269,974.70	3.72%
382	Meter Installation	4,857,483.42	2,856,890.13	-10.00%	(485,748.34)	2,486,341.63	27.60	90,071.01	1.85%
383	House Regulators	6,468,651.96	3,435,101.83	0.00%	0.00	3,033,550.13	23.19	130,794.29	2.02%
Grand Total		160,074,235.86	85,920,476.69		(19,494,169.15)	93,647,928.32		3,156,538.38	1.97%

APPENDIX B
Comparison of Existing vs Proposed Rates

**SourceGas Distribution LLC
Nebraska Properties
Comparison of Depreciation Expense- Present Rates vs. Proposed
Depreciation Study as of December 31, 2013**

Account	Description	Plant at 12/31/2013	Present Accrual Rate	Depr Expense At Current Rates	Proposed Accrual Rate	Depr Expense At Proposed Rates	Difference
376	Mains	102,948,207.03	3.00%	3,088,446.21	1.19%	1,222,973.49	(1,865,472.72)
380	Services	21,784,000.25	3.00%	653,520.01	3.97%	865,331.85	211,811.85
381	House Meters	16,763,866.76	3.00%	502,916.00	3.44%	577,393.04	74,477.04
381.1	Meters	7,252,026.44	5.00%	362,601.32	3.72%	269,974.70	(92,626.62)
382	Meter Installation	4,857,483.42	3.00%	145,724.50	1.85%	90,071.01	(55,653.50)
383	House Regulators	6,468,651.96	3.00%	194,059.56	2.02%	130,794.29	(63,265.27)
		160,074,235.86		4,947,267.60		3,156,538.38	(1,790,729.23)

APPENDIX C
Proposed Parameters

**SourceGas Distribution LLC
Nebraska Properties
Proposed Parameters
Depreciation Study as of December 31, 2013**

Account	Description	Life	NS
376	Mains	R3 65	-10
380	Services	R1.5 35	-40
381	House Meters	R4 30	0
381.1	Meters	R4 40	0
382	Meter Installation	R1.5 45	-10
383	House Regulators	R4 40	0

APPENDIX D
Net Salvage

**SOURCEGAS DISTRIBUTION LLC
NEBRASKA PROPERTIES
NET SALVAGE INFORMATION
2009-2013
AS ADJUSTED**

<u>Year</u>	<u>Retirements</u>	<u>Gross Salvage</u>	<u>Cost of Removal</u>	<u>Net Salvage</u>	<u>Net Salv. %</u>	<u>2- yr Net Salv. %</u>	<u>3- yr Net Salv. %</u>	<u>4- yr Net Salv. %</u>	<u>5- yr Net Salv. %</u>
Distribution Mains									
2009	104,750	0	(2,283)	2,283	2.18%				
2010	421,399	0	0	0	0.00%	0.43%			
2011	435,790	1,295	2,288	(993)	-0.23%	-0.12%	0.13%		
2012	165,725	850	0	850	0.51%	-0.02%	-0.01%	0.19%	
2013	232,641	3,848	0	3,848	1.65%	1.18%	0.44%	0.30%	0.44%
Distribution Services									
2009	518,352	0	49,822	(49,822)	-9.61%				
2010	1,343,038	0	40,010	(40,010)	-2.98%	-4.83%			
2011	708,749	0	73,192	(73,192)	-10.33%	-5.52%	-6.34%		
2012	71,283	0	57,850	(57,850)	-81.16%	-16.80%	-8.06%	-8.36%	
2013	33,381	0	35,477	(35,477)	-106.28%	-89.17%	-20.47%	-9.58%	-9.58%
Distribution Meters									
2009	440,184	3,916	0	3,916	0.89%				
2010	734,859	2,065	0	2,065	0.28%	0.51%			
2011	135,075	1,000	0	1,000	0.74%		0.53%		
2012	35,032	5,597	0	5,597	15.98%	3.88%	0.96%	0.94%	
2013	436,250	710	0	710	0.16%	1.34%	1.21%	0.70%	0.75%

SourceGas Distribution LLC - Nebraska
Jurisdictional Revenue Deficiency
For the Test Year Ended December 31, 2014

Docket No. NG-0079, Appendix 2
Docket No. NG-0078
Exhibit JSH-2
Table 1
Page 1 of 1

	[A]	[B]	[C]
Line No.	Description	Amount	Reference
1	Calculated 2014 Revenue Requirement _/1	\$ 41,441,561	Exhibit JSH-2 Table 2, Schedule A, Line 16
2	Other Revenues	\$ 2,311,311	Exhibit JSH-2 Table 2, Schedule A, Line 17
3	Net Cost of Service	\$ 39,130,250	Line 1 - Line 2
4	Pro-Forma Jurisdictional Revenue	<u>\$ 34,662,948</u>	Exhibit JSH-2 Table 5, Schedule C, Line 5
5	Calculated Revenue Deficiency _/1	\$ 4,467,302	Line 3 - Line 4
6	SSIR Proposed Total Revenue Increase	\$ 1,457,272	Exhibit JSH-1 Table 1, Line 6
7	2014 LB-658 Proposed Annual Revenue Increase	<u>\$ 448,454</u>	Docket No. NG-0072.1 Exhibit C, Schedule 1, Line 7.
8	Revenue Deficiency with Requested Revenue Increases _/1	\$ 2,561,576	Line 5 - Line 6 - Line 7
9	Proposed Change in Jurisdictional Depreciation Rates	<u>\$ (1,617,639)</u>	Exhibit JSH-2 Table 6, Line 14
10	Remaining Revenue Deficiency _/1	<u><u>\$ 943,937</u></u>	Line 8 + Line 9

_/1 The calculated revenue requirement and revenue deficiencies do not include any potential increase in ROE from the current Commission authorized level of 9.60% and exclude all potential rate case expenses. In the Company's last General Rate Case, Docket No. NG-0067, the Company spent \$800,450 on rate case expense, which was approved for amortization over three years for an annual revenue requirement and revenue deficiency impact of \$266,817. In addition, the Company charged Jurisdictional customers approximately \$560,000 of Public Advocate related expenses and Commission consultant expenses through the State Regulatory Assessment surcharge.

**SourceGas Distribution LLC - Nebraska
Revenue Requirement Calculation
For the Test Year Ended December 31, 2014**

**Docket No. NG-0079, Appendix 2
Docket No. NG-0078
Exhibit JSH-2
Table 2
Schedule A
Page 1 of 1**

	[A]	[B]	[C]	[D]
Line No.	Description	Total State	Jurisdictional	Reference
1	Adjusted Base Year			
2	Return	7,750,590	\$6,229,413	Table 2, Schedule B
3	O&M Expense	15,282,030	12,948,622	Table 2, Schedule C
4	A&G Expense	8,514,753	7,183,153	Table 2, Schedule C
5	Other Taxes	2,348,813	1,929,356	Table 2, Schedule C
6	Depreciation	8,413,543	\$6,845,589	Table 2, Schedule D
7	Provision for Income Tax	3,502,623	\$2,815,178	Table 2, Schedule E
8	Total Revenue Requirement <u>_/1</u>	45,812,352	37,951,310	Sum Lines 1-7
9	Other Revenues	(2,192,144)	(1,892,181)	Table 6, Schedule D
10	Net Cost of Service	43,620,209	36,059,130	Line 8 + Line 9
11	Test Year			
12	Return	8,647,939	6,944,766	Table 2, Schedule B
13	O&M Expense	16,080,279	13,611,413	Table 2, Schedule C
14	A&G Expense	9,331,814	7,867,114	Table 2, Schedule C
16	Other Taxes	2,562,062	2,102,606	Table 2, Schedule C
15	Depreciation	9,567,695	7,777,205	Table 2, Schedule D
17	Provision for Income Tax	3,908,150	3,138,458	Table 2, Schedule E
16	Total Revenue Requirement <u>_/1</u>	50,097,940	41,441,561	Sum Lines 12-17
17	Other Revenues	(2,647,404)	(2,311,311)	Table 6, Schedule D
18	Net Cost of Service	47,450,536	39,130,250	Line 16 + Line 17

_/1 The calculated revenue requirement and revenue deficiencies do not include any potential increase in ROE from the current Commission authorized level of 9.60% and exclude all potential rate case expenses. In the Company's last General Rate Case, Docket No. NG-0067, the Company spent \$800,450 on rate case expense, which was approved for amortization over three years for an annual revenue requirement and revenue deficiency impact of \$266,817. In addition, the Company charged Jurisdictional customers approximately \$560,000 of Public Advocate related expenses and Commission consultant expenses through the State Regulatory Assessment surcharge.

Total State

Line No.	Description	Base Year Ending Balance	Pro Forma Adjustments	Test Year	Reference
	(A)	(C)	(D)	(E)	(F)
1	Per Books Utility Plant in Service	\$216,355,019	\$31,471,685	\$247,826,704	Workpaper- Total State Plant In Service
2	Construction Work in Progress	\$12,502,513	(\$12,502,513)	\$0	Workpaper- Total State Plant In Service
3	Utility Plant in Service	\$228,857,532	\$18,969,172	\$247,826,704	Line 1 + Line 2
4	Less Accumulated Depreciation, Depletion and Amortization	(\$111,014,631)	(\$5,552,386)	(\$116,567,017)	Workpaper- Accumulated Depreciation
5	Less: Customer Advances	(\$25,144)	\$0	(\$25,144)	Workpaper- Ratebase inputs
6	Net Utility Plant in Service	\$117,817,757	\$13,416,785	\$131,234,543	Line 3 + Line 4 + Line 5
7	Less: Accumulated Deferred Income Taxes	(\$10,793,076)	(\$1,121,646)	(\$11,914,723)	Workpaper- ADIT
8	Less: Customer Deposits	(1,570,512)	\$0	(\$1,570,512)	Workpaper- Ratebase inputs
9	Plus: Total Working Capital	\$741,605	\$0	\$741,605	Workpaper- Working Capital Summary
10	Total Rate Base	\$106,195,774	\$12,295,139	\$118,490,913	Line 6 + Line 7 + Line 8 + Line 9
11	Return on Rate Base	\$7,750,590	\$897,348	\$8,647,939	Line 10 x Calculated Rate of Return

Total Jurisdictional

Line No.	Description	Ending Balance	Pro Forma Adjustments	Test Year	Reference
	(A)	(C)	(D)	(E)	(F)
12	Per Books Utility Plant in Service	\$172,811,036	\$25,143,302	\$197,954,339	Workpaper- Total State Plant In Service
13	Construction Work in Progress	\$9,922,719	(\$9,941,610)	(\$18,891)	Workpaper- Total State Plant In Service
14	Utility Plant in Service	\$182,733,755	\$15,201,692	\$197,935,447	Line 12 + Line 13
15	Less Accumulated Depreciation, Depletion and Amortization	(\$87,853,128)	(\$4,506,909)	(\$92,360,037)	Workpaper- Accumulated Depreciation
16	Less: Customer Advances	(\$21,058)	\$10	(\$21,049)	Workpaper- Ratebase inputs
17	Net Utility Plant in Service	\$94,859,568	\$10,694,793	\$105,554,361	Line 14 + Line 15 + Line 16
18	Less: Accumulated Deferred Income Taxes	(\$8,689,917)	(\$893,314)	(\$9,583,231)	Workpaper- ADIT
19	Less: Customer Deposits	(\$1,408,841)	\$0	(\$1,408,841)	Workpaper- Ratebase inputs
20	Plus: Total Working Capital	\$592,349	\$17	\$592,366	Workpaper- Working Capital Summary
21	Total Rate Base	\$85,353,159	\$9,801,496	\$95,154,655	Line 17 + Line 18 + Line 19 + Line 20
22	Return on Rate Base	\$6,229,413	\$715,352	\$6,944,766	Line 21 x Calculated Rate of Return

Line No.	FERC Account Description	FERC Account	Total State				
			Base Year	Total Base Year Adjustments	Adjusted Base Year	Total Pro Forma Adjustments	Test Year
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Transmission Expense						
2	Operation Supervision & Engineering	850	-	-	-	-	-
3	System Control & Load Dispatching	851	1,623	(1,623)	-	-	-
4	Mains Expense	856	-	-	-	-	-
5	Measuring & Regulating Station Expense	857	3,842	(3,842)	-	-	-
6	Transmission and Compression by Others	858	-	-	-	-	-
7	Other Expense	859	27,606	(27,606)	-	-	-
8	Maintenance of Mains	863	364	(364)	-	-	-
9	Maintenance of Measuring & Regulating Station Expense	865	-	-	-	-	-
10	Distribution Expense						
11	Operation Supervision & Engineering	870	2,141,853	(45)	2,141,808	211,236	2,353,044
12	Distribution Load Dispatching	871	542,187	1,623	543,810	15,484	559,294
13	Mains & Services Expense	874	3,754,156	(787)	3,753,369	356,530	4,109,899
14	Measuring & Regulating Station Expense - General	875	499,801	3,834	503,634	10,988	514,622
15	Measuring & Regulating Station Expense - Industrial	876	12,259	-	12,259	90	12,349
16	Measuring & Regulating Station Expense - City Gate Check Station	877	2,630	-	2,630	69	2,699
17	Meter & House Regulator Expense	878	603,614	(169)	603,444	15,110	618,554
18	Customer Installation Expense	879	513,435	(24)	513,411	12,509	525,920
19	Other Expense	880	1,921,394	28,106	1,949,500	35,090	1,984,590
20	Rents	881	233,860	-	233,860	-	233,860
21	Maintenance Supervision & Engineering	885	36,524	-	36,524	952	37,476
22	Maintenance of Structures & Improvements	886	-	-	-	-	-
23	Maintenance of Mains	887	6,196	364	6,561	117	6,678
24	Maintenance of Measuring & Regulating Station Expense - City Gate Check Station	891	-	-	-	-	-
25	Maintenance of Services	892	161,396	(12)	161,384	3,404	164,789
26	Maintenance of Meters & House Regulators	893	1,207,264	(234)	1,207,030	30,537	1,237,567
27	Maintenance of Other Equipment	894	21,085	-	21,085	41	21,127
28	Customer Accounts Expense, Customer Service and Information and Sales						
29	Meter Reading Expense	902	342,636	(63)	342,572	8,011	350,584
30	Customer Records & Collection Expenses	903	2,435,312	(31)	2,435,281	70,653	2,505,934
31	Uncollectible Accounts	904	317,499	-	317,499	-	317,499
32	Miscellaneous Customer Accounts Expenses	905	5,761	-	5,761	18,558	24,320
33	Informational & Instructional Advertising Expenses	909	8,040	-	8,040	20	8,060
34	Miscellaneous Customer Service & Informational Expenses	910	118	-	118	-	118
35	Demonstration & Selling Expense	912	175,516	82,182	257,699	8,328	266,027
36	Advertising Expense	913	311,018	(86,269)	224,749	522	225,271
37	Administrative and General						
38	Administrative & General Salaries	920	2,798,778	-	2,798,778	460,233	3,259,012
39	Office Supplies & Expenses	921	1,236,774	24,717	1,261,491	41,095	1,302,587
40	Outside Services Employed	923	628,256	(22,941)	605,315	-	605,315
41	Property Insurance	924	604,278	-	604,278	-	604,278
42	Employee Pensions & Benefits	926	2,666,634	-	2,666,634	251,131	2,917,765
43	Franchise Requirements	927	-	-	-	-	-
44	Regulatory Commission Expenses	928	7,738	-	7,738	-	7,738
45	Miscellaneous General Expenses	930.2	313,873	20,464	334,337	-	334,337
46	Rents	931	236,183	-	236,183	64,601	300,784
47	Taxes, other than income	408.1	2,347,247	1,567	2,348,813	213,249	2,562,062
48	Labor - Payroll Taxes		926,655	-	926,655	88,458	1,015,113
49	Ad Valorem Tax Expense		1,420,591	1,567	1,422,158	124,790	1,546,949
50	TOTAL OPERATING EXPENSE		26,126,751	18,846	26,145,596	1,828,559	27,974,155

SourceGas Distribution LLC - Nebraska
 Depreciation & Amortization Expense
 For the Test Year Ended December 31, 2014

Docket No. NG-0079, Appendix 2
 Docket No. NG-0078
 Exhibit JSH-2
 Table 2
 Schedule D
 Page 1 of 1

Line No.	Function	Test Year					Total Jurisdictional		
		Gross Plant As Adjusted _1/	Less: CWIP Retirements	Depreciable Plant As Adjusted	Current Depreciation Rate	Depreciation Expense at Current Rates	Capitalized Depreciaton Expense	Total Depreciation Expense	Depreciation Expense at Current Rates
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
1	Distribution	\$195,526,254		\$195,526,254	3.00%	\$5,865,788		\$5,865,788	\$4,615,863
2	Distribution - AMR	\$7,510,668	\$0	\$7,510,668	5.00%	\$375,533		\$375,533	\$287,139
3	General	\$35,731,949	\$0	\$35,731,949	8.21%	\$2,933,415	(\$361,965)	\$2,571,451	\$2,197,293
4	General - Billing	\$7,490,888	\$0	\$7,490,888	10.00%	\$749,089		\$749,089	\$671,976
5	Intangible	\$194,493	\$0	\$194,493	3.00%	\$5,835		\$5,835	\$4,934
6	Total	\$246,454,252	\$0	\$246,454,252		\$9,929,660	(\$361,965)	\$9,567,695	\$7,777,205

Notes

_1/ Refer to Workpaper Total State Plant In Service, Column F, excluding land plant accounts.

Line No.	Function	Adjusted Base Year					Total Jurisdictional		
		Gross Plant As Adjusted _2/	Less: CWIP Retirements	Depreciable Plant As Adjusted	Current Depreciation Rate	Depreciation Expense at Current Rates	Capitalized Depreciaton Expense	Total Depreciation Expense	Depreciation Expense at Current Rates
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
7	Distribution	\$169,737,239	\$0	\$169,737,239	3.00%	\$5,092,117		\$5,092,117	\$4,004,121
8	Distribution - AMR	\$7,252,026	\$0	\$7,252,026	5.00%	\$362,601		\$362,601	\$277,251
9	General	\$30,610,142	\$0	\$30,610,142	8.26%	\$2,529,071	(\$325,170)	\$2,203,901	\$1,887,302
10	General - Billing	\$7,490,888	\$0	\$7,490,888	10.00%	\$749,089		\$749,089	\$671,976
11	Intangible	\$194,493	\$0	\$194,493	3.00%	\$5,835		\$5,835	\$4,939
12	Total	\$215,284,788	\$0	\$215,284,788		\$8,738,713	(\$325,170)	\$8,413,543	\$6,845,589

Notes

_2/ Refer to Workpaper Total State Plant In Service, Column D, excluding land plant accounts.

SourceGas Distribution LLC - Nebraska
 Federal & State Income Taxes
 For the Test Year Ended December 31, 2014

Docket No. NG-0079, Appendix 2
 Docket No. NG-0078
 Exhibit JSH-2
 Table 2
 Schedule E
 Page 1 of 1

Line No.	Description	Adjusted Base Year		Test Year	
		Total State	Total Jurisdictional	Total State	Total Jurisdictional
	(A)	(B)	(C)	(D)	(E)
1	Rate Base_1/	\$106,195,774	\$85,353,159	\$118,490,913	\$95,154,655
2	Return on Rate Base Percentage_2/	7.30%	7.30%	7.30%	7.30%
3	Return on Rate Base	\$7,750,590	\$6,229,413	\$8,647,939	\$6,944,766
4	Adjustments for Tax Purposes:				
5	Interest & Debt Expense Percentage_3/	2.17%	2.17%	2.17%	2.17%
6	Interest & Debt Expense	(\$2,307,590)	(\$1,854,688)	(\$2,574,758)	(\$2,067,671)
7	Taxable Rate Base Earnings	\$5,443,000	\$4,374,725	\$6,073,181	\$4,877,095
8	Income Tax (Factor 64.35096%)_4/	\$3,502,623	\$2,815,178	\$3,908,150	\$3,138,458
9	Total Income Taxes	\$3,502,623	\$2,815,178	\$3,908,150	\$3,138,458

Notes

_1/ Refer to Exhibit- JSH-2, Table 2, Schedule B

_2/ Refer to Exhibit- JSH-2, Table 3, Schedule A

_3/ Refer to Exhibit- JSH-2, Table 3, Schedule A

_4/ Using a combined income tax rate with the following gross-up factor:

Tax rate/(1-tax rate) 1.643509616

Tax Rate

Combined (Federal and State) Income Tax Rate

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
Rate of Return & Cost of Capital
For the Test Year Ended December 31, 2014**

**Docket No. NG-0079, Appendix 2
Docket No. NG-0078
Exhibit JSH-2
Table 3
Schedule A
Page 1 of 1**

Line No.	Actual Capital Categories	Capitalization	Percent of Total	Cost of Capital	Weighted Cost of Capital	Reference Schedule No.
	(A)	(B)	(C)	(D)	(E)	(F)

Approved in NG-0067

1	Long Term Debt	\$450,000,000	48.84%	5.642%	2.76%	
2	Equity	\$471,454,332	51.16%	9.60%	4.91%	
3	Total Capital	\$921,454,332	100.00%		7.67%	

Test Year Balances

4	Long Term Debt	\$475,000,000	46.61%	4.662%	2.17%	Table 3, Schedule B
5	Equity	\$544,094,615	53.39%	9.60%	5.13%	Table 3, Schedule C
6	Total Capital	\$1,019,094,615	100.00%		7.30%	

SourceGas Distribution LLC - Nebraska
Average Cost of Debt
For the Test Year Ended December 31, 2014

Docket No. NG-0079, Appendix 2
Docket No. NG-0078
Exhibit JSH-2
Table 3
Schedule B
Page 1 of 1

Line No	Description	Interest Rate	Principal	Annual Interest Expense	Amortization of Issuance Cost	Total Issuance Expense
	(A)	(B)=(F)/(C)	(C)	(D)	(E)	(F)=(D)+(E)
Approved in NG-0067						
1	Term loan	4.752%	\$125,000,000	\$5,744,167	\$196,135	\$5,940,302
2	Senior Notes	5.985%	\$325,000,000	\$19,175,000	\$274,798	\$19,449,798
3	Weighted Average Cost Of Debt	5.642%	\$450,000,000	\$24,919,167	\$470,933	\$25,390,100

Test Year Balances

4	Term loan	1.798%	\$150,000,000	\$2,655,000	\$41,266	\$2,696,266
5	Senior Notes	5.985%	\$325,000,000	\$19,175,000	\$274,798	\$19,449,798
6	Weighted Average Cost Of Debt	4.662%	\$475,000,000	\$21,830,000	\$316,064	\$22,146,064

SourceGas Distribution LLC - Nebraska
Debt and Equity
For the Test Year Ended December 31, 2014

Docket No. NG-0079, Appendix 2
Docket No. NG-0078
Exhibit JSH-2
Table 3
Schedule C
Page 1 of 1

Line No.	Description	(unaudited) 3/31/2013	(unaudited) 6/30/2013	(unaudited) 9/30/2013	(audited) 12/31/2013	4 Quarter Average
	(A)	(C)	(D)	(E)	(F)	(G)
1	Member's Capital:					
2	Member's Capital	\$ 343,604,972.67	\$ 374,820,744.08	\$ 372,320,136.29	\$ 360,057,021.44	\$ 362,700,718.62
3	Current Period Net Income (Loss)	29,830,715.51	27,287,160.92	27,071,637.10	48,433,248.87	33,155,690.60
4	Retained Earnings	142,041,678.02	142,041,678.02	142,041,678.02	142,041,678.02	142,041,678.02
5	Accumulated Comprehensive Income (Loss)	(2,123,430.56)	(697,172.39)	(1,208,338.47)	(249,860.28)	(1,069,700.43)
6	Member's Capital	\$ 513,353,935.64	\$ 543,452,410.63	\$ 540,225,112.94	\$ 550,282,088.05	\$ 536,828,386.82
7	Long-Term Debt					
8	\$325M Sr. Notes	\$ 325,000,000.00	\$ 325,000,000.00	\$ 325,000,000.00	\$ 325,000,000.00	\$ 325,000,000.00
9	\$125M Term Loan	125,000,000.00	-	-	-	\$ 31,250,000.00
10	\$150M Term Loan	-	150,000,000.00	150,000,000.00	150,000,000.00	\$ 112,500,000.00
11	Total Long-Term Debt	\$ 450,000,000.00	\$ 475,000,000.00	\$ 475,000,000.00	\$ 475,000,000.00	\$ 468,750,000.00
12	Total Capitalization (for pro forma)	\$ 963,353,935.64	\$ 1,018,452,410.63	\$ 1,015,225,112.94	\$ 1,025,282,088.05	\$ 1,005,578,386.82
13	Ratios:					
14	Debt	46.71%	46.64%	46.79%	46.33%	46.61%
15	Equity	53.29%	53.36%	53.21%	53.67%	53.39%

SourceGas Distribution, LLC - Nebraska
Rate of Return Under Current and Proposed Rates
For the Test Year Ended December 31, 2014, as adjusted

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]
Line No.	Description	Total Nebraska \$	Residential Service \$	Small Commercial Service \$	Large Commercial Service \$	Total Jurisdictional \$	Non-Jurisdictional Customer Classes					Total Non-Jurisdictional \$	Basis of Allocation or Reference
							Agriculture \$	High Volume			Super HV \$		
								Full Tariff \$	Negotiated-D ⁽¹⁾ \$	Negotiated-T ⁽²⁾ \$			
1	<u>Return Under Existing Rates</u>												
2	Rate Base	118,490,913	63,118,959	17,949,074	14,086,622	95,154,655	17,208,116	1,794,783	2,108,830	1,857,910	366,619	23,336,258	CCOSS Study Workpaper B, Workpaper 2 of 4, Line 20
3	Revenue Requirement	50,097,940	28,460,462	7,731,312	5,249,787	41,441,561	6,577,208	619,498	736,911	594,781	127,980	8,656,379	
4	Other Revenues	<u>(2,647,404)</u>	<u>(1,947,963)</u>	<u>(278,631)</u>	<u>(84,718)</u>	<u>(2,311,311)</u>	<u>(327,921)</u>	<u>(2,502)</u>	<u>(3,010)</u>	<u>(2,158)</u>	<u>(502)</u>	<u>(336,093)</u>	
5	Net Cost of Service	47,450,536	26,512,499	7,452,682	5,165,069	39,130,250	6,249,287	616,996	733,901	592,623	127,479	8,320,286	CCOSS Study Workpaper B, Workpaper 1 of 4, Line 28

(1) Negotiated-D are negotiated tariff customers served off of the distribution system
(2) Negotiated-T are negotiated tariff customers served off of the transmission system only

SourceGas Distribution, LLC - Nebraska
Allocation of Cost of Service
For the Test Year Ended December 31, 2014, as adjusted

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]
Line No.	Description	Total Nebraska \$	Residential Service \$	Small Commercial Service \$	Large Commercial Service \$	Total Jurisdictional \$	Non-Jurisdictional Customer Classes				Total Non-Jurisdictional	Basis of Allocation or Reference	
							High Volume						
							Agriculture \$	Full Tariff \$	Negotiated-D \$	Negotiated-T \$	Super HV \$		
1	Total Cost of Service												
2	Transmission												
3	Demand	3,341,288	1,454,020	487,106	659,136	2,600,263	286,273	105,075	120,258	229,418	-	741,024	Winter Period Peak Demand
4	Commodity	3,341,288	1,017,555	345,160	557,099	1,919,814	828,254	113,192	141,024	339,004	-	1,421,474	Commodity
5	Total Transmission	6,682,575	2,471,576	832,266	1,216,235	4,520,077	1,114,527	218,267	261,282	568,422	-	2,162,498	Line 3 + Line 4
6	Distribution												
7	Demand	6,186,053	2,890,432	968,314	1,310,290	5,169,036	569,080	208,877	239,060	-	-	1,017,017	Winter Period Peak Demand
8	Commodity	4,353,783	1,475,615	500,536	807,880	2,784,031	1,201,098	164,147	204,507	-	-	1,569,751	Commodity
9	Customer	5,971,624	3,459,643	1,034,261	377,876	4,871,780	1,093,263	4,813	1,768	-	-	1,099,843	Distribution Customer Cost Allocator
10	Total Distribution	16,511,459	7,825,690	2,503,110	2,496,047	12,824,847	2,863,440	377,837	445,334	-	-	3,686,612	Sum of Line 7 through Line 9
11	Services	10,518,419	7,469,543	2,233,021	815,854	10,518,419	-	-	-	-	-	-	Services Cost Allocator
12	Meters and Regulators	7,805,387	4,452,898	985,084	530,137	5,968,119	1,768,301	18,771	14,820	11,587	23,790	1,837,268	Meters & Regulators
13	Customer Accounts	8,254,213	6,098,514	1,139,470	166,526	7,404,510	802,982	2,121	12,464	12,614	19,522	849,703	Customer Accounts
14	Direct												
15	Franchise Requirements	-	-	-	-	-	-	-	-	-	-	-	Jurisdictional Commodity
16	Regulatory Commission Expense	7,738	4,101	1,391	2,245	7,738	-	-	-	-	-	-	Jurisdictional Commodity
17	Regulatory Asset ⁽³⁾	-	-	-	-	-	-	-	-	-	-	-	Jurisdictional Commodity
18	Other Revenues												
19	Late Fees	(251,132)	(171,760)	(26,615)	(3,890)	(202,265)	(48,868)	-	-	-	-	(48,868)	Other Revenue Workpaper (SCS&LCS, Cust)
20	Service Fees	(644,034)	(585,113)	(38,069)	(5,564)	(628,746)	(15,288)	-	-	-	-	(15,288)	Other Revenue Workpaper (SCS&LCS, Cust)
21	XIA Revenues	(1,420)	(1,420)	-	-	(1,420)	-	-	-	-	-	-	Other Revenue Workpaper (SCS&LCS, Cust)
22	Supplier Fees	(1,295,557)	(904,749)	(135,237)	(19,764)	(1,059,750)	(235,807)	-	-	-	-	(235,807)	Other Revenue Workpaper (Juris, Cust)
23	CWIP Revenue	(221,279)	(146,781)	(41,740)	(32,758)	(221,279)	-	-	-	-	-	-	Jurisdictional Rate Base
24	Total Direct	(2,405,685)	(1,805,722)	(240,270)	(59,730)	(2,105,722)	(299,963)	-	-	-	-	(299,963)	Sum of Line 15 through Line 23
25	Super High Volume Direct												
26	Direct	84,167	-	-	-	-	-	-	-	-	84,167	84,167	Direct
27	Total Super High Volume Direct	84,167	-	-	-	-	-	-	-	-	84,167	84,167	Line 26
28	Total Cost of Service	47,450,536	26,512,499	7,452,682	5,165,069	39,130,250	6,249,287	616,996	733,901	592,623	127,479	8,320,286	Sum of Lines 5, 10, 11, 12, 13, 24, and 27

(3) Regulatory Asset expense includes return and taxes on the Regulatory Asset rate base item shown on Table 3, Line 15

SourceGas Distribution, LLC - Nebraska
Allocation of Rate Base
For the Test Year Ended December 31, 2014, as adjusted

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]
Line No.	Description	Total Nebraska \$	Residential Service \$	Small Commercial Service \$	Large Commercial Service \$	Total Jurisdictional \$	Non-Jurisdictional Customer Classes				Total Non-Jurisdictional	Basis of Allocation or Reference	
							High Volume						
							Agriculture \$	Full Tariff \$	Negotiated-D \$	Negotiated-T \$			Super HV \$
1	Rate Base												
2	Transmission												
3	Demand	10,656,424	4,637,331	1,553,537	2,102,194	8,293,062	913,016	335,117	383,542	731,686	-	2,363,361	Winter Period Peak Demand
4	Commodity	10,656,424	3,245,306	1,100,824	1,776,764	6,122,893	2,641,563	361,007	449,770	1,081,191	-	4,533,530	Commodity
5	Total Transmission	21,312,847	7,882,637	2,654,360	3,878,958	14,415,955	3,554,579	696,123	833,311	1,812,878	-	6,896,892	Line 3 + Line 4
6	Distribution												
7	Demand	19,680,168	9,195,554	3,080,571	4,168,527	16,444,653	1,810,458	664,517	760,541	-	-	3,235,515	Winter Period Peak Demand
8	Commodity	9,701,635	3,288,147	1,115,356	1,800,219	6,203,721	2,676,434	365,772	455,707	-	-	3,497,913	Commodity
9	Customer	19,259,958	11,158,201	3,335,746	1,218,745	15,712,692	3,526,041	15,524	5,701	-	-	3,547,266	Distribution Customer / Services
10	Total Distribution	48,641,761	23,641,902	7,531,673	7,187,491	38,361,066	8,012,933	1,045,813	1,221,949	-	-	10,280,695	Sum of Line 7 through Line 9
11	Services	18,186,130	12,914,687	3,860,848	1,410,595	18,186,130	-	-	-	-	-	-	Distribution Customer / Services
12	Meters and Regulators	21,006,442	11,983,973	2,651,132	1,426,743	16,061,848	4,758,983	50,518	39,886	31,183	64,025	4,944,594	Meters & Regulators
13	Customer Accounts	9,062,573	6,695,759	1,251,062	182,835	8,129,656	881,621	2,329	13,685	13,849	21,434	932,917	Customer Accounts
14	Direct												
15	Regulatory Asset	-	-	-	-	-	-	-	-	-	-	-	Jurisdictional Commodity
16	Total Direct	-	-	-	-	-	-	-	-	-	-	-	Line 15
17	Super High Volume Direct												
18	Direct Customer Assignment	281,160	-	-	-	-	-	-	-	-	281,160	281,160	Direct
19	Total Super High Volume Direct	281,160	-	-	-	-	-	-	-	-	281,160	281,160	Line 18
20	Total Rate Base	118,490,913	63,118,959	17,949,074	14,086,622	95,154,655	17,208,116	1,794,783	2,108,830	1,857,910	366,619	23,336,258	Sum of Lines 5, 10, 11, 12, 13, 16, and 19

SourceGas Distribution, LLC - Nebraska
 Class Allocation Basis
 For the Test Year Ended December 31, 2014, as adjusted

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]
Line No.	Description	Total Nebraska	Residential Service	Small Commercial Service	Large Commercial Service	Total Jurisdictional	Non-Jurisdictional Customer Classes					Total Non-Jurisdictional	Basis of Allocation or Reference
							High Volume						
							Agriculture	Full Tariff	Negotiated-D	Negotiated-T	Super HV		
1 Allocation Bases													
2	Winter Period Peak Demand		24.19%	24.49%	29.21%		100.00%						
3	Peak Day - therms/Day	1,243,346	541,064	181,260	245,275	967,599	106,527	39,100	44,750	85,370			
4	Transmission Allocation Factor	100.0000%	43.5168%	14.5784%	19.7270%	77.8222%	8.5678%	3.1447%	3.5992%	6.8662%			
5	Distribution Allocation Factor	100.0000%	46.7250%	15.6532%	21.1814%	83.5595%	9.1994%	3.3766%	3.8645%				
6 Commodity													
7	Annual Throughput - therms	264,035,333	47,769,047	16,203,494	26,152,947	90,125,488	38,882,296	5,313,810	6,620,350	15,914,520	107,178,870		
8	Transmission Allocation Factor	100.0000%	30.4540%	10.3301%	16.6732%	57.4573%	24.7885%	3.3877%	4.2206%	10.1459%			
9	Distribution Allocation Factor	100.0000%	33.8927%	11.4966%	18.5558%	63.9451%	27.5875%	3.7702%	4.6972%				
10 Distribution Customer / Services													
11	Average Number of Customers	86,455	67,686	10,117	1,479	79,282	7,130	19	7		7	11	
12	Weighting Factor		1.00	2.00	5.00		3.00	5.00	5.00				
13	Weighted Number of Customers	116,831	67,686	20,235	7,393	95,313	21,389	94	35				
14	Distribution Customer Cost Allocator	100.0000%	57.9347%	17.3196%	6.3279%	81.5822%	18.3076%	0.0806%	0.0296%				
15	Services Cost Allocator		71.0139%	21.2296%	7.7564%	100.0000%							
16 Meters & Regulators													
17	Average Number of Customers	86,455	67,686	10,117	1,479	79,282	7,130	19	7		7	11	
18	Weighting Factor		1.00	1.48	5.45		3.77	15.15	32.57	25.16	33.38		
19	Weighted Number of Customers	118,645	67,686	14,974	8,058	90,718	26,879	285	225	176	362		
20	Meters & Regulators Cost Allocator	100.0000%	57.0490%	12.6206%	6.7919%	76.4615%	22.6549%	0.2405%	0.1899%	0.1484%	0.3048%		
21 Customer Accounts													
22	Average Number of Customers	86,455	67,686	10,117	1,479	79,282	7,130	19	7		7	11	
23	Weighting Factor		1.00	1.25	1.25		1.25	1.25	20.00	20.00	20.00		
24	Weighted Number of Customers	91,611	67,686	12,647	1,848	82,181	8,912	24	138	140	217		
25	Customer Accounts Cost Allocator	100.0000%	73.8836%	13.8047%	2.0175%	89.7058%	9.7282%	0.0257%	0.1510%	0.1528%	0.2365%		
26	Annual Use per Customer - therms		706	1,602	17,688		5,454	282,149	957,159	2,273,503	9,893,434		

CCOSS Inputs Workpaper
 Line 7 / 365 / Line 2, CCOSS Inputs Workpaper
 Line 3 / Column C, Line 3 excl. Super HV
 Line 3 / Column C, Line 3 excl. Super HV
 CCOSS Inputs Workpaper
 Line 7 / Column C, Line 7 excl. Super HV
 Line 7 / Column C, Line 7 excl. Super HV
 CCOSS Inputs Workpaper
 Weighting Factor Study
 Line 11 x Line 12
 Line 13 / Column C, Line 13 excl. Neg.-T and Super HV
 Line 13 / Column C, Line 13 excl. Neg.-T and Super HV
 Line 11
 Weighting Factor Study
 Line 17 x Line 18
 Line 19 / Column C, Line 19
 Line 11
 Weighting Factor Study
 Line 22 x Line 23
 Line 24 / Column C, Line 24
 Line 7 / Line 11

SourceGas Distribution, LLC - Nebraska
Unit Cost of Service
For the Test Year Ended December 31, 2014, as adjusted

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]
Line No.	Description	Total Nebraska	Residential Service	Small Commercial Service	Large Commercial Service	Total Jurisdictional	Non-Jurisdictional Customer Classes				Total Non-Jurisdictional	Basis of Allocation or Reference	
							Agriculture	High Volume					
								Full Tariff	Negotiated-D	Negotiated-T			Super HV
1	Transmission - Demand - \$		1,454,020	487,106	659,136	2,600,263							Workpap, Line 3
2	\$/therm		0.0304	0.0301	0.0252	0.0289							Line 1 / Workpap, Line 7
3	Transmission - Commodity - \$		1,017,555	345,160	557,099	1,919,814							Workpap, Line 4
4	\$/therm		0.0213	0.0213	0.0213	0.0213							Line 3 / Workpap, Line 7
5	Distribution - Demand - \$		2,890,432	968,314	1,310,290	5,169,036							Workpap, Line 7
6	\$/therm		0.0605	0.0598	0.0501	0.0574							Line 5 / Workpap, Line 7
7	Distribution - Commodity - \$		1,479,716	501,927	810,126	2,791,769							Workpap, Line 8, 15, 16, and 17
8	\$/therm		0.0310	0.0310	0.0310	0.0310							Line 7 / Workpap, Line 7
9	Distribution - Customer - \$		3,459,643	1,034,261	377,876	4,871,780							Workpap, Line 9
10	\$/therm		0.0724	0.0638	0.0144	0.0541							Line 9 / Workpap, Line 7
11	Services, Meters, and Customer Accounts Related - \$		16,211,132	4,115,914	1,450,542	21,777,588							Workpap, Lines 11, 12, 13, 19, 20, 22, and 23
12	\$/month/customer		19.96	33.90	81.75	22.89							Line 11 / 12 / Workpap, Line 11
13	Total Demand - \$/therm		0.0909	0.0898	0.0753	0.0862							Line 2 + Line 6
14	Total Commodity - \$/therm		0.0523	0.0523	0.0523	0.0523							Line 4 + Line 8
15	Total - \$/therm		0.1432	0.1421	0.1276	0.1385							Line 13 + Line 14
16	Total Cost of Service - \$		26,512,499	7,452,682	5,165,069	39,130,250							Line 1 + Line 3 + Line 5 + Line 7 + Line 9 + Line 11

SourceGas Distribution LLC- Nebraska
Base Year Revenues Under Current Rates
Test Year Ended December 31, 2014

Docket No. NG-0079, Appendix 2
Docket No. NG-0078
Exhibit JSH-2
Table 5
Schedule A
Page 1 of 1

Line No.	[A] Description	[B] Total Jurisdictional	[C] Residential	[D] Small Commercial	[E]		[F]
					Large Commercial		
					Maximum Rate	Negotiated Rate	
1	A. Base Year Billing Determinants						
2	Number of Premises Billed	948,408	810,019	120,735	17,630		24
3	Average Number of Monthly Premises Billed	79,034	67,502	10,061	1,469		2
4	Volumes- therms						
5	First Tier _/1	17,873,265	13,475,303	3,154,174	1,231,071		12,717
6	Second Tier _/2	77,838,682	37,917,673	14,062,493	25,858,516		-
7	Total Base Year Volumes	95,711,947	51,392,976	17,216,667	27,089,587		12,717
8	B. Current Rates						
9	Cost of Gas- \$/therm _/3		\$ 0.6300	\$ 0.6300	\$ 0.6300	\$	0.6300
10	Distribution Charge - \$/therm						
11	First Tier		\$ 0.4675	\$ 0.4675	\$ 0.4675	\$	0.0180
12	Second Tier		\$ 0.1338	\$ 0.1338	\$ 0.1338	\$	-
13	Customer Charge- \$/month		\$ 14.70	\$ 22.75	\$ 56.15	\$	20.00
14	C. Base Year Revenues						
15	Cost of Gas - \$	60,298,527	32,377,575	10,846,500	17,066,440		8,012
16	Distribution Charge - \$						
17	First Tier	8,350,035	6,299,704	1,474,576	575,526		229
18	Second Tier	10,414,816	5,073,385	1,881,562	3,459,869		-
19	Total Distribution Charge Revenue	18,764,851	11,373,089	3,356,138	4,035,395		229
20	Customer Charge - \$	15,644,405	11,907,279	2,746,721	989,925		480
21	Pipeline Cost Recovery Charge - \$ _/4	297,838	183,941	58,645	55,252		-
22	Total Base Year Margin - \$	34,707,094	23,464,309	6,161,504	5,080,572		709
23	Total Base Year Revenue - \$	95,005,621	55,841,884	17,008,004	22,147,012		8,721

Notes

_/1 First Tier - Residential is First 20 therms, for Small Commercial First 40 therms, for Large Commercial First 80 therms, and for Negotiated Rate all therms.

_/2 Second Tier - Residential is Over 20 therms, for Small Commercial Over 40 therms, and for Large Commercial Over 80 therms.

_/3 Includes the Cost of Gas and the P-802 GCA Surcharge.

_/4 Approved in Docket No. NG-0072 Effective July 1, 2014. Amounts are actual amounts billed from July 1, 2014 through December 31, 2014.

SourceGas Distribution LLC- Nebraska
 Test Year Revenues Under Current Rates
 Test Year Ended March 31, 2011

Docket No. NG-0079, Appendix 2
 Docket No. NG-0078
 Exhibit JSH-2
 Table 5
 Schedule B
 Page 1 of 1

Line No.	Description	[A] Total Jurisdictional	[B] Residential	[C] Small Commercial	[D] Large Commercial		[E] Maximum Rate	[F] Negotiated Rate
					[D] Small Commercial	[E] Maximum Rate		
1	A. Test Year Billing Determinants							
2	Number of Premises Billed	948,408	810,019	120,735		17,630		24
3	Average Number of Monthly Premises Billed	79,034	67,502	10,061		1,469		2
4	Volumes- therms							
5	First Tier _/1	17,873,265	13,475,303	3,154,174		1,231,071		12,717
6	Second Tier _/2	74,842,295	36,224,696	13,465,708		25,151,891		-
7	Total Base Year Volumes	92,715,560	49,699,999	16,619,882		26,382,962		12,717
8	B. Current Rates							
9	Cost of Gas- \$/therm _/3		\$ 0.6300	\$ 0.6300		\$ 0.6300		\$ 0.6300
10	Distribution Charge - \$/therm							
11	First Tier		\$ 0.4675	\$ 0.4675		\$ 0.4675		\$ 0.0180
12	Second Tier		\$ 0.1338	\$ 0.1338		\$ 0.1338		-
13	Customer Charge- \$/month		\$ 14.70	\$ 22.75		\$ 56.15		\$ 20.00
14	Pipeline Replacement Charge - \$/month		\$ 0.50	\$ 1.07		\$ 6.83		-
15	C. Test Year Revenues							
16	Cost of Gas - \$	58,410,803	31,310,999	10,470,526		16,621,266		8,012
17	Distribution Charge - \$							
18	First Tier	8,350,035	6,299,704	1,474,576		575,526		229
19	Second Tier	10,013,899	4,846,864	1,801,712		3,365,323		-
20	Total Distribution Charge Revenue	18,363,934	11,146,568	3,276,288		3,940,849		229
21	Customer Charge - \$	15,644,405	11,907,279	2,746,721		989,925		480
22	Pipeline Replacement Charge - \$ _/4	654,609	405,010	129,186		120,413		-
23	Total Test Year Margin - \$	34,662,948	23,458,857	6,152,196		5,051,186		708.91
24	Total Test Year Revenue - \$	93,073,751	54,769,857	16,622,721		21,672,452		8,721

Notes

_/1 First Tier - Residential is First 20 therms, for Small Commercial First 40 therms, for Large Commercial First 80 therms, and for Negotiated Rate all therms.

_/2 Second Tier - Residential is Over 20 therms, for Small Commercial Over 40 therms, and for Large Commercial Over 80 therms.

_/3 Includes the Cost of Gas and the P-802 GCA Surcharge.

_/4 Approved in Docket No. NG-0072 Effective July 1, 2014. Amounts are actual amounts billed from July 1, 2014 through December 31, 2014 plus a proforma adjustment for the remaining 6 months.

SourceGas Distribution LLC- Nebraska
 Summary of Pro Forma Revenue Adjustments
 Test Year Ended December 31, 2014

Docket No. NG-0079, Appendix 2
 Docket No. NG-0078
 Exhibit JSH-2
 Table 5
 Schedule C
 Page 1 of 1

	[A]	[C]	[E]
Line No.	Description	Jurisdictional	Reference
1	Base Year Revenue - \$	34,707,094	Exhibit JSH-2 Table 5, Schedule A
2	Heat Normalization - \$	(400,917)	Nebraska WNA Workpaper
3	Subtotal - Adjusted Base Year - \$	34,306,178	Line 1 + Line 2
4	Full Year of Pipeline Cost Recovery Charge - \$	356,771	Test Year Revenues Workpaper - Line 29
5	Test Year Revenue - \$	34,662,948	Line 3 + Line 4

SourceGas Distribution LLC - Nebraska
Other Operating Revenues
For the Test Year Ended December 31, 2014

Docket No. NG-0079, Appendix 2
Docket No. NG-0078
Exhibit JSH-2
Table 5
Schedule D
Page 1 of 1

Total State

Line No.	Description	Account 487 Forfeited Discounts	Account 488 Miscellaneous Service Fee Revenue	Account 495 Extra Construction Allowance Revenue	Interdepartmental Rents	CWIP Revenue	Total Other Revenue
	(A)	(B)	(C)		(D)	(E)	(F)
1	Total Other Revenue	(251,132)	(1,939,591)	(\$1,420)	\$0	\$0	(\$2,192,144)
2	Adjustments		\$0		(\$233,982)	(\$221,279)	(\$455,261)
3	Total Other Revenue as Adjusted	(\$251,132)	(\$1,939,591)		(\$233,982)	(\$221,279)	(\$2,647,404)

Total Jurisdictional

Line No.	Description	Account 487 Forfeited Discounts	Account 488 Miscellaneous Service Fee Revenue	Account 495 Extra Construction Allowance Revenue	Interdepartmental Rents	CWIP Revenue	Total Other Revenue
	(A)	(B)	(C)		(D)	(E)	(F)
4	Total Other Revenue	(\$202,265)	(\$1,689,916)		\$0	\$0	(\$1,892,181)
5	Adjustments		\$0		(\$197,852)	(\$221,279)	(\$419,131)
6	Total Other Revenue as Adjusted	(\$202,265)	(\$1,689,916)		(\$197,852)	(\$221,279)	(\$2,311,311)

**SourceGas Nebraska
Comparison of Depreciation Expense- Present Rates vs. Proposed
Depreciation Study**

Docket No. NG-0079, Appendix 2

Docket No. NG-0078

Exhibit JSH-2

Table 6

Page 1 of 1

Line No.	Account	Description	Plant at 12/31/2013	Present Accrual Rate	Adjusted Base Year		Depr Expense At Proposed Rates	Total Nebraska Difference	Jur %	Total Jurisdictional Difference
					Depr Expense At Current Rates	Proposed Accrual Rate				
1	376	Mains	102,948,207	3.00%	3,088,446	1.19%	1,222,973	(1,865,473)	78.63%	(1,466,891)
2	380	Services	21,784,000	3.00%	653,520	3.97%	865,332	211,812	78.63%	166,556
3	381	House Meters	16,763,867	3.00%	502,916	3.44%	577,393	74,477	78.63%	58,564
4	381.1	AMR Equipment	7,252,026	5.00%	362,601	3.72%	269,975	(92,627)	76.46%	(70,824)
5	382	Meter Installation	4,857,483	3.00%	145,725	1.85%	90,071	(55,653)	78.63%	(43,762)
6	383	House Regulators	6,468,652	3.00%	194,060	2.02%	130,794	(63,265)	78.63%	(49,748)
7		Total	160,074,236		4,947,268		3,156,538	(1,790,729)		(1,406,105)

Line No.	Account	Description	Plant at 12/31/2014	Present Accrual Rate	Test Year		Depr Expense At Proposed Rates	Total Nebraska Difference	Jur %	Total Jurisdictional Difference
					Depr Expense At Current Rates	Proposed Accrual Rate				
8	376	Mains	119,338,511	3.00%	3,580,155	1.19%	1,417,682	(2,162,473)	78.69%	(1,701,678)
9	380	Services	25,496,976	3.00%	764,909	3.97%	1,012,823	247,914	78.69%	195,087
10	381	House Meters	17,925,592	3.00%	537,768	3.44%	617,406	79,638	78.69%	62,668
11	381.1	AMR Equipment	7,510,668	5.00%	375,533	3.72%	279,603	(95,930)	76.46%	(73,350)
12	382	Meter Installation	5,552,728	3.00%	166,582	1.85%	102,963	(63,619)	78.69%	(50,063)
13	383	House Regulators	6,536,201	3.00%	196,086	2.02%	132,160	(63,926)	78.69%	(50,304)
14		Total	182,360,677		5,621,034		3,562,638	(2,058,396)		(1,617,639)