

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEBRASKA

IN THE MATTER OF THE APPLICATION OF)
SOURCEGAS DISTRIBUTION LLC, GOLDEN,)
COLORADO, SEEKING AUTHORITY TO REFLECT) DOCKET NO. NG-0079
CHANGED DEPRECIATION RATES ON ITS)
NEBRASKA BOOKS OF ACCOUNT EFFECTIVE)
MAY 1, 2014, WITHOUT IMPACTING EXISTING RATES)

**POST-HEARING BRIEF OF
SOURCEGAS DISTRIBUTION LLC**

I. EXECUTIVE SUMMARY

SourceGas Distribution LLC ("SourceGas Distribution" or the "Company") respectfully requests that the Nebraska Public Service Commission (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 the depreciation rates set forth in Exhibit 90 on its Nebraska books of account without changing base rates charged to customers.

The Commission should grant the requested relief for the following reasons:

1. It has the broad power, authority and jurisdiction granted to it by Section 66-1804 of the Act to do so;
2. Both the Company and the Public Advocate (the "Parties") agree that the Company's current depreciation rates are higher than appropriate and that the Company is recording more depreciation expense each period than is required to recover the Company's investment over its remaining life;
3. Ratepayers are not being asked to pay for the cost increases in other revenue requirement categories and thus will not be harmed if the Commission approves the requested relief;
4. Customers will benefit if the Commission approves the relief requested by the Company in this proceeding and in Docket Nos. NG-0072.1 and NG-0078 because such approval will not cause the Company to exceed its authorized rate of return and will reduce the Company's current revenue deficiency to a level that will allow the Company to extend the time period between rate cases and avoid a general rate case for several years; and
5. Public Advocate witness Dunkel's analysis in this proceeding is flawed, because he improperly focused on one element of cost, even though he conceded at the

hearing that depreciation expense is just one of the many elements of the Company's revenue requirement.

II. ARGUMENT

1. The Commission Has the Broad Power, Authority and Jurisdiction to Grant the Company's Requested Relief

The Commission has the broad power, authority and jurisdiction to grant the relief sought by SourceGas Distribution in this proceeding.¹ The Commission's jurisdiction over SourceGas Distribution and this matter derives from the Act. The Act grants the Commission "full power, authority, and jurisdiction" to regulate natural gas public utilities such as SourceGas Distribution and expressly permits the Commission to "do all things necessary and convenient for the exercise of such power, authority, and jurisdiction." Neb. Rev. Stat. § 66-1804(1). The Legislature provided that the Commission's powers under the Act should "extend to, but not be limited to, all matters encompassed within the State Natural Gas Regulation Act." Id. The Act and "all grants of power, authority, and jurisdiction in the act made to the commission shall be liberally construed, and all incidental powers necessary to carry into effect the provisions of the act are expressly granted to and conferred upon the commission." Neb. Rev. Stat. § 66-1804(2). In considering the extent of its powers, the Commission should give the Act a broad construction "to accomplish the purpose" and "carry out the spirit" of the Act. *See Davis v. Goodyear Tire & Rubber Co.*, 269 Neb. 683 (2005).

Because it is a regulated utility whose depreciation rates were approved as part of its last general rate case (Docket No. NG-0067), the Company is required to seek Commission approval to change those rates on its Nebraska books of account. The broad grant of authority conferred on the Commission by the Legislature in Section 66-1804 covers an order of the Commission authorizing the Company to change the depreciation rates the Commission approved in Docket No. NG-0067 without changing customer rates.

¹ There is no statute, court decision, rule or order in the Act or elsewhere that prohibits the Commission or restricts its power, authority, and jurisdiction from granting the Company's requested relief in this proceeding.

Additionally, Section 66-1818 of the Act provides that the Commission "shall have authority to examine and audit all accounts of jurisdictional utilities, and all items shall be allocated to the accounts prescribed by the commission." As shown at the hearing: "Depreciation is a process of allocation, not valuation. Depreciation expense is systematically allocated to accounting periods over the life of the properties." (Ex. 52, 5:22-24). An order of the Commission granting the Company's requested relief is the Commission's "prescription" that the Company's depreciation expense "shall be allocated to the accounts" as set forth in Exhibit 90. Thus, the Commission's authority to "examine and audit" the Company's Nebraska books of account supplements the authority granted the Commission under Section 66-1804 of the Act.

The Act does not require SourceGas Distribution to make a general rate filing to change its depreciation rates on its Nebraska books of account without changing base rates charged to customers. The Act defines a "general rate filing" as "any filing which requests changes in overall revenue requirements for a jurisdictional utility but does not include a filing for an infrastructure system replacement cost recovery charge." Neb. Rev. Stat. § 66-1802(8). By definition, SourceGas Distribution's Application is not a "general rate filing" because SourceGas Distribution seeks no change to its overall jurisdictional revenue requirement or to customer rates.

The Public Advocate's objection centers on the concept of "single issue ratemaking." The term "single issue ratemaking" generally refers to a proposal to change customer 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 base rates charged to customers for there to be "single issue ratemaking." For instance, "single issue ratemaking" might occur if a utility's base 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 base 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 change its base 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 base 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,² so long as the filing does not constitute a request for a general increase in base 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.³

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 general rate case.⁴ An LB 658 proceeding does change the overall rates charged to customers, by adding a line item charge, but it does not require a full review of all cost of service elements as does a general rate case. Moreover, the 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.

² The Company filed its application in Docket No. NG-0078 pursuant to Section 66-1808 of the Act.

³ Likewise, the Legislature granted the Commission the power, authority, and jurisdiction to initiate an investigation of one or more, or all, of a utility's jurisdictional rates through Section 66-1809 of the Act.

⁴ The Company filed applications in Docket Nos. NG-0072 and NG-0072.1 pursuant to Sections 66-1865 and 66-1866 of the Act.

For all of these reasons, the Commission has the broad power, authority and jurisdiction to grant the relief sought by SourceGas Distribution in this proceeding.

2. Granting the Company's Requested Relief Is a Reasonable and Appropriate Approach to Start Revising Its Depreciation Rates to Reflect Reality

The Parties agree that the Company's current depreciation rates are higher than appropriate and that the Company is recording more depreciation expense each period than is required to recover the Company's investment over its remaining life. (Ex. 57, 2:19-23, 4:10-17; Tr. 37:12-16). The Parties' stipulation reflects that the Company's current depreciation rates should be lowered to reduce Jurisdictional depreciation expense by \$1,855,061. (Ex. 90).

The Company's depreciation rates should reflect reality. (Tr. 191:21–192:4). Mr. Hammer stated that “if the proposal by SourceGas was approved by this [C]ommission to implement those changes this year, ... [it] would put us in the direction of right sizing those rates to where both experts believe they would be.” (Tr. 37:17-21).

Company witness Watson, who has been conducting depreciation studies for the last 30 years (Tr. 185:22-25), testified that the relief requested by SourceGas Distribution “is both reasonable and appropriate given the facts and circumstances that they have specifically for them.” (Tr. 186:13-17, 197:13-23). On the question of timing, Mr. Watson explained that the Federal Energy Regulatory Commission (“FERC”) in Order No. 618⁵ “speaks to the fact that depreciation rate changes can be recognized without changes in prices.” (Tr. 186:22-24). He also testified that “the method that they’re using or requesting is one that I’ve seen in at least

⁵ FERC Order No. 618, Docket No. RM99-7-000, Depreciation Accounting, 92 FERC ¶ 61,078 (issued July 27, 2000), fn. 25 (“Our action today authorizes utilities to change their method of depreciation for accounting purposes only; it does not authorize any utility to change prices charged for power sales or transmission services (whether determined by stated rates or formula rates) to reflect a change in depreciation.”) (Emphasis in original). Footnote 26 of FERC Order No. 618 states that utilities “most commonly” change their depreciation rates in the context of a rate case and conveys FERC’s expectation that utilities will continue to change their depreciation accounting “predominantly” in the context of rate cases, but it does indicate that changes in depreciation accounting can “occur outside of a rate case.”

three other states in the country, including one where Mr. Dunkel and I both were in the same proceeding.” (Tr. 186:17-21). He elaborated on that testimony as follows:

“I mentioned Michigan has done it for a number of companies. MichCon is one that I’m familiar with.

Semco is another one that I’m familiar with, as well as Consumers Energy. Their gas company back in 2009, which Mr. Dunkel and I were both part of, they - - it was a depreciation-only case. And they implemented rates after the approval of the depreciation.

Also, there are two other states. Excel [sic – Xcel] Energy has filed in Minnesota for updates to what they call the remaining life depreciation rates and would get annual filings and would make changes on their books to the depreciation rates related to that.

And then I’m aware that the commission in Ohio, I believe, has a mechanism called AAM, which is Alternative Accounting Methodology that allows the same thing to happen.

There could be more. But those are the – just the ones that I’m aware of at this point.”

(Tr. 212:24–213:20).⁶

Public Advocate witness Dunkel conceded that utilities have requested leave to implement changed depreciation rates outside a rate case, and commissions have granted approval, when the result reflects a decrease in depreciation expense as it does here. (Tr. 229:4-25).

The Public Advocate cross-examined Mr. Watson regarding Exhibits 93 (Consumers Energy Company) and 94 (We Energies). (Tr. 201:2–205:11). Mr. Watson distinguished the case referenced in Exhibit 93 from “other cases where they have implemented rates absent a specific revenue requirement study” (Tr. 202:16-18) and noted that “in other times, they have implemented depreciation rates in Michigan for a number of different companies, absent a change in general rates revenue requirements case.” (Tr. 203:1-5). As to the case referenced in Exhibit 94, Mr. Watson accepted that “it is not unusual” for depreciation rates to be approved

⁶ *E.g.*, Michigan Public Service Commission, Docket Nos. U-15629, U-15778, U-16055, U-16938; Minnesota Public Utilities Commission, Docket No. E,G-002/D-10-173; Ohio Public Utilities Commission, Docket No. 13-1988-GA-AAM; Wisconsin Public Service Commission, Docket No. 4220-DU-108; Regulatory Commission of Alaska, Docket Nos. U-09-015, U-10-043, U-14-045.

and then deferred until the next rate case (Tr. 205:5-9), but indicated that the deferral in the Exhibit 94 case was just “a few-months['] time lag.” (Tr. 206:2-5). Mr. Watson agreed with Commissioner Landis’s point that deferring depreciation rates to a general rate case that is “two or three years ahead” seems to be “counterintuitive” with the concept of having “the most current information in front of us.” (Tr. 205:12–206:1).

“And so the - - both of those cases [referenced in Exhibits 93 and 94] anticipate having a depreciation study approved which, for example, both of those would - - I think both of those were 2013 year-end information that we used to do the depreciation study.

And so they’re talking about simply with the time lag of approval of the depreciation rates, then going nearly immediately into a cost of service filing. So there’s not that two- or three- or five-year time lag, which it does create problems, I believe.”

(Tr. 206:6-17).

For these reasons, granting the Company’s requested relief in this docket is a reasonable and appropriate approach to revise the Company’s depreciation rates to better reflect reality for the affected assets.

3. The Requested Relief Will Not Harm Ratepayers

Public Advocate witness William Dunkel is wrong that changing depreciation rates outside of a general rate case would cause ratepayers to be “overcharged” and, thus, “harmed.” (Ex. 81, 5:2-3, 8:8-12). He focuses incorrectly on one aspect of the revenue requirement calculation rather than the total revenue requirement that is used to determine just and reasonable rates that ratepayers are charged. (Ex. 48, 7:4-7; Ex. 57, 2:9-12; Tr. 191:17-19). As Mr. Dunkel acknowledged on cross examination, depreciation expense is just one of the many elements that go into the revenue requirement analysis used when determining the appropriate level of rates to charge to customers. (Tr. 247:2-17). Mr. Dunkel’s analysis (Ex. 81, 11:14–12:8) does not account for other types of costs (other than depreciation) faced by SourceGas Distribution or the fact that the Company is continuing to invest in its Nebraska system and, thus, has a plant in service balance that is growing. (Ex. 48, 12:18-23). His stubborn focus on

one element of cost forced him to insist that the Company must file a general rate case just to change depreciation rates he agrees are not correct.

Since the Commission established the Company's base rates in the last general rate case (Docket No. NG-0067), SourceGas Distribution has made additional investment in its Nebraska Jurisdictional assets. Thus, the Company's current customer rates were set using a lower investment in calculating the original depreciation expense than what exists today. The amount of depreciation expense was set in the Company's last general rate case by multiplying the gross investment at that time by the Commission-approved depreciation rate. That calculated depreciation expense amount was included in the cost of service. From the date of the Commission's order in Docket No. NG-0067, the Company's investment in Nebraska has grown by roughly \$57 million (from roughly \$191 million to roughly \$248 million). (Ex. 57, 5:2-4; Tr. 188:10-24). All else equal, this investment growth increases the recorded depreciation expense without a corresponding increase in the amount that customers contribute toward that expense, because the Company records depreciation expense based on the current investment multiplied by the approved depreciation rate. Since that first additional investment after the calculation of depreciation expense embedded in the Company's base rates, the amount of recorded depreciation expense has been higher than the amount embedded in the base rates charged to customers. (Ex. 57, 4:21-5:11; Tr. 188:10-24).

Customers will not be harmed if the Commission approves the Application because they are not being asked to pay for the cost increases in other revenue requirement categories. (Ex. 48, 10:18-20; Tr. 191:1-25, 304:9-18). Using the Jurisdictional revenue deficiency analysis presented in this case as a starting point (Exs. 45 and 47), Exhibit 49 compares all of the components of the Jurisdictional revenue requirement approved by the Commission in the Company's last general rate case (Docket No. NG-0067) with the Jurisdictional revenue deficiency analysis presented in this proceeding. (Ex. 48, 7:23-8:2). These cost increases are

greater than the stipulated \$1,855,061 reduction in depreciation expense shown in Exhibit 90. (Ex. 48, 10:18-26; Ex. 57, 3:1-5).

Exhibit 49 shows that some revenue requirement components have increased since the last general rate case while other items have decreased since the last general rate case. For example, operations and maintenance ("O&M") expense has increased by \$2,626,827 (Line 3, Column [F]), whereas administrative and general ("A&G") expense has decreased by \$832,836 (Line 4, Column [F]). Exhibit 49 demonstrates that, over time, costs on the Company's books do vary from what the Commission has approved and the Company has included in the determination of customer rates from a general rate case proceeding as shown in Column [F]. This is why the focus needs be on the overall revenue requirement level when determining if ratepayers are paying the appropriate level of base rates. (Ex. 48, 10:1-10).

The Public Advocate ignores the fact that the decrease in depreciation expense would be more than offset by increases in costs that ratepayers would be facing in a general rate case and, more than likely, they would end up paying higher rates as a result of such a general rate case. (Ex. 48, 10:10-14). Isolating the proposed change in depreciation expense, the Company would have a revenue deficiency of \$2,849,663 (Ex. 49, Line 14, Column [D]). Given the substantial cost of a general rate case and the likelihood that such a rate case would result in higher customer charges, it is the Company's position, not the Public Advocate's, which better reflects "the provision of safe, efficient, and reliable utility services at just and reasonable rates." Neb. Rev. Stat. § 66-1830(1).

4. Customers Will Benefit if the Commission Approves the Relief Requested by the Company in this Proceeding and in Docket Nos. NG-0072.1 and NG-0078

Permitting SourceGas Distribution's depreciation rates to be changed as requested would benefit customers in a simple, immediate, and direct manner – by avoiding the filing of a general rate case. The merits of the Company's requested relief in this proceeding stand on their own. SourceGas Distribution submitted its Jurisdictional revenue deficiency analysis (Exs.

45 and 47) to demonstrate the importance of the Commission approving the Company's requested relief in this proceeding and in Docket Nos. NG-0072.1 and NG-0078.

The Company's analysis shows a revenue deficiency for calendar year 2014 from its Nebraska Jurisdictional customers of approximately \$4.5 million. (Exs. 45 and 47). The analysis conservatively applies the Company's currently authorized 9.60% return on equity, current cost of debt and current capital structure (which lower the Commission-approved weighted cost of capital to 7.30% from 7.67%) and the types of known and measurable changes that have been accepted by the Commission. (Tr. 35:19–36:10).

The analysis does not reflect the very substantial cost of conducting a general rate case. In its last general rate case (Docket No. NG-0067), the Company spent \$800,450 on rate case expense (amortized in base rates over three years at \$266,817 per year) and charged its Jurisdictional customers an additional \$560,000 of expense for the charges of the Public Advocate and his consultants and the Commission's consultants. (Ex. 48, 21:18-24). In contrast, at the time of the rebuttal filing in this docket the Commission had assessed only a total of \$86,350.76 (currently, approximately \$129,000) for the Company to collect from its customers through the State Regulatory Assessment Charge for Docket Nos. NG-0072.1, NG-0078 and NG-0079, combined. (Ex. 48, 22:6-10).

The revenue deficiency analysis shows that if the Commission grants the Application in this docket and approves the Company's application in Docket No. NG-0078 (the Commission already has issued its order of approval in Docket No. NG-0072.1), the Company still would have a Jurisdictional revenue deficiency of approximately \$0.94 million at the currently authorized 9.60% return on equity, prior to reflecting rate case expense. (Exs. 45 and 47).

The Public Advocate reviewed the Company's Jurisdictional revenue deficiency analysis (Ex. 82, 9:23–10:2; see *generally* Ex. 82, pp. 9-27 and Ex. 83), which the Company rebutted through Exhibit 48 (pp. 17-26) and Exhibit 61 (pp. 3-4). The Public Advocate made no claim based on Public Advocate witness Ms. Donna Mullinax's review of all of the data generated in

this case that the Company would exceed its approved revenue requirement in Nebraska. (Tr. 272:7–276:25). Nothing in the Public Advocate’s review of the Company’s Jurisdictional revenue deficiency negated any of the fundamental findings that the Company has a Jurisdictional revenue deficiency compared with its current revenue requirement, that the Commission’s approval of the Company’s requested relief in this proceeding and in Docket Nos. NG-0072.1 and NG-0078 will not cause the Company to exceed its authorized rate of return, and that the Commission’s approval in the three proceedings will reduce the Company’s revenue deficiency to a level that will allow the Company to avoid its planned general rate case for several years. (Ex. 48, 18:13–19:5; Tr. 46:4-5).

Although Ms. Mullinax asserted that the Company “overstated” its Jurisdictional revenue deficiency through the application of pro forma known and measurable changes (Ex. 77, 4:5-7), the Public Advocate did not – and could not – question the level of the Company’s actual revenue deficiency based on actual data through August 2014. Exhibit 62⁷ shows on the page labeled “Third Supplemental Attachment Staff 1-1B” that for the 12-months ended August 31, 2014, the Company’s actual return on rate base is 5.22% (versus the 7.67% that the Commission approved in Docket No. NG-0067) and the Company’s actual return on equity is 5.71% (versus the 9.60% that the Commission approved in Docket No. NG-0067). At the hearing, Mr. Hammer referenced Line 9, Columns [I] and [J], on the same page of Exhibit 62 and provided the following testimony:

“And if you look at the attachment 1-1B to that exhibit, what the company has shown is - - shows is on an actual basis, with no adjustments, no pro formas, none of the stuff that you’ve heard earlier today in the earnings analysis, that we are actually deficient by \$3 million.

And that \$3 million is an increase of about 2 - - a little over [\$]250,000 from July [2014]. So I think ... taking the argument about the pro formas and about the projections out of the equation, I think you can see with actual data as presented in that response to staff, that historically we are in an underearnings position.”

⁷ The transcript incorrectly references “Exhibit 50.” (Tr. 302:6-8).

(Tr. 301:8-22).

In response to a question from Commission Staff, the Company agreed to provide an annual "surveillance filing" similar to Exhibit 62 around May 1 of each year until its next general rate case to demonstrate that it is not in an overearnings position. (Tr. 120:7–121:3, 301:23–302:3).

Commissioner Landis asked Mr. Hammer about the timing of the next general rate case. Mr. Hammer responded that based upon current information and factors within the Company's control, the Company projects that the filing of its next general rate case could be delayed several years if the Commission approves the relief requested by the Company in this proceeding and in Docket Nos. NG-0072.1 and NG-0078. Otherwise, the Company projects that it would file its next general rate case in about the next year. (Tr. 45:23–46:5).

Commission approval in the three proceedings, therefore, could delay the next general rate case by a few years. Mr. Hammer aptly summarized the importance of the relief requested in this proceeding to the Company's financial position:

"So the problem - - so what - - what the depreciation is doing is it's lowering our depreciation expense on our books by I think about [\$]1.6 to [\$]1.8 million that was stipulated.

Without that then, ... our cost of service in Nebraska is less than \$40 million. So that depreciation represents ... close to 5 percent of our revenue requirement.

So anytime you start running a deficiency between 5 and 10 percent of your revenue requirement, then it's ... incumbent upon us as a utility to start looking at rate relief to cover that deficit. For a utility our size with only a \$40 million revenue requirement, [\$]1.6 to [\$]1.8 million is a significant shortfall."

(Tr. 47:13–48:5).

Commission approval of the Company's requested relief in this proceeding also will improve the Company's net income because "depreciation expense is one of the components reducing net income." (Tr. 209:17–210:18).

As Mr. Hammer testified, consumers benefit in two ways relative to a general rate case if the Commission approves the SSIR Tariff and Charges and the Company's requested relief in this proceeding and in Docket Nos. NG-0072.1 and NG-0078.

"One is they're not paying for the cost of that general rate case as you stated correctly.

The other piece of it is ... based on our analysis and even with these, ... the full vetting aside, we feel like we put forth a very conservative earnings analysis that didn't ... push our ROE up to ... something that ... the commission may decide to give us a higher ROE or something like that. So the other thing the consumer is saving is the very real possibility that a general rate case would result in increased distribution rates.

So ... approving these two dockets is leaving base rates at their existing level, ... having a general rate case would have the costs involved plus, I think, the very real possibility that base rates would end up being higher at the end of that general rate case."

(Tr. 49:23–50:18).

For these reasons, customers will benefit if the Commission approves the relief requested by the Company in this proceeding and in Docket Nos. NG-0072.1 and NG-0078.

5. Public Advocate Witness Dunkel's Analysis in This Proceeding is Flawed

Mr. Dunkel wrongly asserts that SourceGas Distribution proposes to record on its books a depreciation expense that is less than what it actually collects from ratepayers. (Ex. 81, 4:8–5:2). SourceGas Distribution does not "actually collect" depreciation expense (or accumulated depreciation) from its customers. Instead, \$6,476,885 of depreciation expense is embedded in customers' base rates as established in the last general rate case. (Ex. 49, Line 6, Column [B]). The amount of embedded depreciation expense does not vary with the amount of depreciation expense that the Company actually records on its books, so there is almost always a mismatch between those two amounts. In any year that the actual depreciation expense on the Company's books is different from the amount included in base rates, there is a mismatch between what is going into the accumulated reserve account, which is used as an offset to

gross plant when calculating rate base for regulatory proceedings, and the amount the Company is actually collecting. (Ex. 48, 5:1-8, 15:3-14).

The Company's revenue deficiency analysis shows that the test year depreciation expense is \$7,770,205 (Ex. 49, Line 6, Column [C]) under current depreciation rates. This means that approximately \$1.3 million more is going into the Company's reserve account than is being provided by ratepayers through base rates. As a result, customers are likely getting the benefit of a reduction to the Company's rate base, even though they did not contribute to that reduction by paying a commensurate depreciation expense. The Company is asking the Commission to approve the revised depreciation rates so that it can use this cost reduction on its books to pay for other revenue requirement items that have increased since the Company's last general rate case. Mr. Dunkel's assertion that the Company would be "double recovering" some of its investments (Ex. 81, 16:6-17) is flatly wrong. (Ex. 48, 5:8-18, 15:14-20, 17:8-12; Tr. 187:5-8).

Mr. Dunkel also wrongly asserts that approving the requested change in depreciation rates would "create a discrepancy" between booked depreciation expense and the depreciation expense recovered from customers. (Ex. 81, 9:3-4). His assertion is wrong because there already is a difference, and the difference occurs naturally. In the last general rate case, the Commission authorized the recovery of \$6,476,885 of depreciation expense in base rates. This amount is shown in Exhibit 49 on Line 6, Column [B]. In comparison, the Company's Jurisdictional revenue deficiency analysis shows that it will experience a depreciation expense of \$7,777,205 in the test year on its books (see Exhibit 49, Line 6, Column [C]). Therefore, the Company already is experiencing a deficiency of \$1,300,320 in depreciation expense from what was previously authorized by the Commission and reflected in customers' base rates on its books using the Commission-authorized depreciation rates. This means that annually, customers are getting the benefit of an additional \$7,777,205 credit to rate base through the accumulated reserve account while only paying to the Company through base rates \$6,476,885

of depreciation expense recorded to the accumulated reserve account. The \$1,300,320 additional amount being contributed to the accumulated reserve account is not currently reflected in customers' base rates. (Ex. 48, 16:14–17:2). As a rebuttal witness, Mr. Hammer explained how “at best you could say our current rates are collecting [\$]120,000 more in depreciation expense than was authorized in the last rate case.” (Tr. 298:13–300:1). Even in that “best” case, therefore, the Company still is experiencing a deficiency of more than \$1 million in depreciation expense from what was previously authorized by the Commission.

Finally, although he conceded the current depreciation rates are too high, Mr. Dunkel argued that the Company is engaged in a “game.” (Tr. 225:24-25, 226:23, 229:2-3). “If it’s a decrease, the companies will do it. And if no one notices, it goes through.” (Tr. 229:14-16). This statement is false. Contrary to Mr. Dunkel’s view, the Company filed its application in this proceeding requesting approval to change depreciation rates on its Nebraska books of account without changing base rates charged to customers. The Company did not try to “do it” hoping that “no one notices.” The Company specifically is requesting Commission approval. If the Commission approves the Company’s requested relief, then the Company would be recording correctly stated and accurate booked amounts in compliance with that Commission order and not “understated and inaccurate booked amounts” and “errors” as asserted by Mr. Dunkel. (Ex. 48, 17:3-7). Mr. Dunkel’s view that this proceeding and the relief requested by the Company is a “game” is offensive and does not reflect reality.

The undisputed facts remain that: (i) the Company is earning less than its authorized return; (ii) the Commission’s approval of the Company’s applications in Docket Nos. NG-0072.1, NG-0078 and NG-0079 would not cause the Company to earn more than its authorized return; and (iii) the Commission’s approval of the three applications would allow the Company to avoid its planned general rate case at this time.

III. CONCLUSION

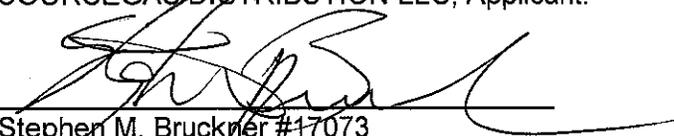
For the foregoing reasons, the Company respectfully requests that the Commission, pursuant to its power, authority, and jurisdiction granted to it by Section 66-1804 of the Act, issue an order authorizing the Company, as of May 1, 2014, to reflect the depreciation rates set forth in Exhibit 90 on its Nebraska books of account without changing base rates charged to customers.

Dated: October 15, 2014

Respectfully Submitted,

SOURCEGAS DISTRIBUTION LLC, Applicant.

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1211830.2

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing document was delivered via electronic mail to the following on this 15th day of October, 2014:

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A handwritten signature in black ink, appearing to read "Stephen B. ...", is written over a solid horizontal line.