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December 14, 2015

Mr. Jeff Pursley
Executive Director
Nebraska Public Service Commission
1200 "N" Street, Suite 300
Lincoln, NE 68508

RE: Docket No. NG-0088 - SourceGas Distribution LLC
Application for Approval of Accounting and Regulatory Treatment Relative to a Regulatory Asset Comprised of the Net Buyout Costs of Two Gas Supply-Related Contracts and the Costs Associated with Financing the Buyout Costs and Obtaining Commission Approval, and Other Specified Relief

Dear Mr. Pursley:

On behalf of SourceGas Distribution LLC, I enclose the following documents for filing with the Commission:

1. Application in the above-referenced docket.
2. Motion for Protective Order and proposed Order in this docket.
3. Direct testimony and exhibits of Richard Maceyka. The exhibits are identified as Exhibits RAM-1 through RAM-6. This group of exhibits includes Confidential Exhibit RAM-4. Confidential Exhibit RAM-4 is filed herewith under seal but is not served on the Public Advocate at this time, pending issuance of the requested protective order.
4. Direct testimony and exhibits of Jerrad S. Hammer. The exhibits are identified as JSH-1 through JSH-3. JSH-1 and JSH-2 are confidential exhibits that are filed herewith under seal but not serviced on the Public Advocate, pending issuance of the requested protective order.

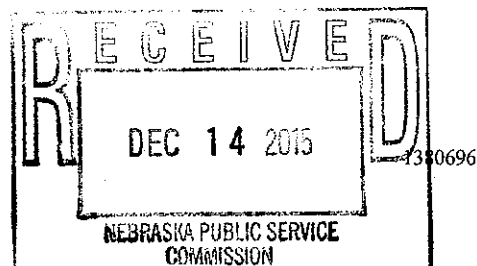
Please contact the undersigned if there are any questions.

Very truly yours,


Stephen M. Bruckner
FOR THE FIRM

SMB/sac
Enclosures

cc: Nicole Mulcahy-Natural Gas Director (w/encls.)
William F. Austin, Public Advocate (w/encls.)
Eric Nelsen, SourceGas Distribution, LLC (w/encls.)



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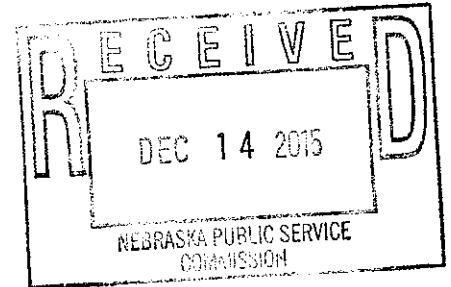
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Regulatory Asset Comprised of the Net Buyout Costs of Two Gas Supply-Related
Contracts and the Costs Associated with Financing the Buyout Costs and
Obtaining Commission Approval, and Other Specified Relief

Dear Mr. Pursley:

SourceGas Distribution LLC ("SourceGas Distribution" or the "Company") is filing this Application pursuant to Neb. Rev. Stat. § 66-1804, and in compliance with the Rules and Regulations of the Nebraska Public Service Commission (the "Commission"). SourceGas Distribution respectfully requests that the Commission issue an Order on an expedited basis (no later than April 15, 2016) approving the creation of a regulatory asset on the Company's books and records comprised of the net buyout costs that the Company will incur to terminate a gas purchase contract (the "P-0802 Contract") with Noble Energy, Inc. ("Noble") and a related gas gathering agreement with WBI Energy Midstream, LLC ("WBI"), along with carrying costs incurred in financing the buyout costs. SourceGas Distribution also requests that the Commission establish a five-year amortization period for recovery of the regulatory asset through the Company's Gas Supply Cost Adjustment ("GSCA") charge, and a corresponding regulatory process by which the regulatory asset will be excluded from the determination of the Company's rate base and the bank loan entered into by SourceGas LLC ("SourceGas") used to finance the regulatory asset will be excluded from the Company's capital structure for ratemaking purposes. Finally, the Company requests that the Commission grant any waivers that it deems required or appropriate in the circumstances. The Company is contemporaneously seeking the appropriate approvals regarding this matter from the Public Utilities Commission of the State of Colorado and the Wyoming Public Service Commission.

Description of SourceGas Distribution

SourceGas Distribution is a public utility in the State of Nebraska and is subject to the Commission's jurisdiction with respect to its rates charged and terms of natural gas service provided to jurisdictional customers in Nebraska. SourceGas Distribution provides gas service in the western two-thirds of Nebraska, serving a total of approximately 88,000 jurisdictional residential, commercial and agricultural customers. The Company also provides retail natural gas service to customers in the states of Colorado and Wyoming. A SourceGas Distribution affiliate, SourceGas Arkansas Inc., provides retail natural gas service to customers in the state of Arkansas. The relief requested by this Application affects all of the Company's jurisdictional customers in Nebraska.

Communications

Communications regarding this filing should be addressed to:

Jerrad S. Hammer
Director, Rates and Regulatory
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Direct Testimony and Exhibits Supporting This Application

In support of this Application, SourceGas Distribution is filing herewith the Direct Testimony and Exhibits of the following Company witnesses:

- Mr. Richard A. Maceyka. Mr. Maceyka is Vice President, Commercial and System Growth. Mr. Maceyka has overall oversight of the Company's gas supply-related activities and also of the operations of the Company's unregulated commodity marketing affiliate. Mr. Maceyka's Testimony provides the historic background for the P-0802 Contract, explains the past and expected future economics of that contract, and explains

why termination of that contract and the related gathering agreement is prudent and reasonable. Mr. Maceyka also discusses the important benefits that will accrue to SourceGas Distribution's customers as a result of the termination of the two contracts.

- Mr. Jerrad S. Hammer. Mr. Hammer is Director – Rates and Regulatory. In this capacity, Mr. Hammer supervises the preparation of rate and regulatory-related analyses and filings. Mr. Hammer explains the accounting and regulatory treatment that SourceGas Distribution seeks for the net buyout costs that the Company will incur under the termination agreements with Noble and WBI. Mr. Hammer explains why it is necessary and appropriate to use a five-year amortization of the regulatory asset and the process to amortize the asset through SourceGas Distribution's GSCA rate. Finally, Mr. Hammer addresses the estimated bill impact for the average Nebraska residential customer during the amortization period.

Reason for Application and Relief Requested

Two SourceGas companies -- SourceGas Distribution and SourceGas Gas Supply Services, Inc. ("SGGSSI"), collectively, the "SourceGas Companies," are purchasers of gas under a long-term, legacy gas purchase contract designated the P-0802 Contract. Noble is the seller under the P-0802 Contract. Under a contract between SourceGas Distribution and WBI, the gas produced for sale under the P-0802 Contract is gathered by WBI from the production field and transported to a point of interconnection with an interstate pipeline system, WBI Energy Transmission.

The P-0802 Contract was executed by a predecessor utility in December 1973 during a period of nationwide shortages of natural gas in interstate markets, in order to assure a reliable, long term gas supply for the utility and its customers based on then-known conditions. As a direct result of the conditions that existed throughout the 1970s, the P-0802 Contract contains terms (a) that sustain the SourceGas Companies' purchase obligation indefinitely; (b) that require the purchase of substantial gas quantities on a daily basis; and (c) that, over time, have produced, and continue to produce, an overall cost that is usually well above prevailing market prices. Specifically, over the period 2003 through present, the market price of gas has exceeded the all-in cost of the P-0802 Contract gas (base price per MMBtu, plus add-ons, plus gathering costs) on only two, relatively brief, occasions. By contrast, in the last seven years (since October 1, 2008), the all-in price of the P-0802 Contract gas has exceeded the market price by an average of over \$4 per MMBtu. Given the innovations in gas production that have been made in the last decade or so, it is likely that the P-0802 Contract gas will continue to exceed market prices by a wide margin in the coming years.

In light of this unfavorable economic profile, the SourceGas Companies sought and reached an agreement with Noble to terminate the P-0802 Contract and SourceGas Distribution has reached agreement with WBI to terminate the gathering agreement and to resolve litigation by SourceGas Distribution against WBI through a payment that will be applied to reduce the buyout cost of the P-0802 Contract. Specifically, under the terms of the termination agreements, the P-0802 Contract will be terminated as of the last day of the month in which all required approvals are received for the accounting and regulatory treatment sought by SourceGas

Distribution in this proceeding. The agreement between SourceGas Distribution and WBI will terminate contemporaneously with the termination of the P-0802 Contract.¹

As explained in the Direct Testimony and Exhibits filed with this Application, SourceGas Distribution submits that the relief sought herein should be granted, because termination of the P-0802 Contract and WBI agreement benefits both the Company and its customers in the following ways:

- The transactions eliminate the risk that SourceGas Distribution will have to purchase, and customers pay for, high cost gas under the P-0802 Contract for additional decades.
- The contract terminations eliminate the risk associated with increased production from new wells drilled by Noble, by well recompletions, or by removal of pressure restrictions that currently reduce the Company's daily take obligations.
- The termination agreement eliminates the risk that Noble sells its rights under the P-0802 Contract to a buyer that is more aggressive in developing the field and increasing the amount of gas SourceGas Distribution is obligated to purchase under the P-0802 Contract.

SourceGas Distribution respectfully requests the following relief by an order of the Commission issued no later than April 15, 2016:

- a. Approval to establish, for accounting and ratemaking purposes, a regulatory asset equal to (i) Nebraska's share of SourceGas Distribution's portion of the net buyout costs plus, (ii) Nebraska's share of SourceGas Distribution's portion of the carrying costs associated with SourceGas entering into a bank loan to finance the regulated buyout costs and the costs to obtain Commission approval;
- b. Approval to amortize the regulatory asset into the Company's GSCA account over a five-year period; and
- c. Approval to exclude, for regulatory purposes, the debt issued by SourceGas related to the buyout costs from the calculation of the Company's capital structure and exclude, for regulatory purposes, the regulatory asset from the calculation of the Company's rate base.

No changes are required to SourceGas Distribution's approved Nebraska Tariff in order to amortize the regulatory asset through the Company's GSCA rates over the proposed five-year amortization period.

¹ The agreement with Noble also provides for termination of three other gas purchase contracts designated as the P-0823, P-0831 and P-0832 contracts under which SGGSSI is obligated to make additional purchases of gas. SGGSSI's purchases under these three contracts are not regulated and the costs associated with terminating these three contracts are excluded from the regulatory asset being requested by this filing. See Confidential Exhibit JSH-1, Page 1 of 1.

The net costs to terminate the two contracts are comprised of (a) the payment that the SourceGas Companies will make to Noble for termination of the gas purchase contracts held by Noble, including the P-0802 Contract; and (b) the payment that SourceGas Distribution will receive from WBI for termination of the gas gathering agreement held by WBI and settlement of pending litigation that SourceGas Distribution filed against WBI in Colorado District Court. Under the terms of the termination agreement of the P-0802 Contract between Noble and the SourceGas Companies, the buyout payment amount is confidential and, therefore, will be disclosed pursuant to the terms of a protective order issued by the Commission.

SourceGas Distribution intends to finance its share of the net buyout costs through SourceGas entering into a bank loan with a five-year maturity. The Company determined that a five-year loan (and a matching five-year amortization period for the regulatory asset) achieves a reasonable balance between (a) limiting financing costs for the buyout and (b) managing the rate impact compared with amortizing the regulatory asset over a longer or shorter time frame.

Once all of the required regulatory approvals are received from the Commission, the Public Utilities Commission of the State of Colorado and the Wyoming Public Service Commission, SourceGas will enter into the five-year bank loan to finance the regulated net buyout costs and will make the negotiated buyout payment to Noble. Once the bank loan is entered into, the exact carrying costs will be known. In addition, the Company will know the costs to obtain Commission approval once Commission approval is granted. SourceGas Distribution then will make a compliance filing with the Commission that will show the accounting entries related to the establishment of the regulatory asset, including the carrying costs and the costs to obtain Commission approval, and the monthly amortization amount to be included in the GSCA calculation going forward.

SourceGas Distribution does not seek permission to change its GSCA rate through the order requested in this filing. Instead, the Company intends to propose a change to that rate as part of the normal filing to modify its GSCA rate effective June 1, 2016. The monthly amortization of the regulatory asset will begin in the first month after the termination of the P-0802 Contract and will replace the monthly losses on the contract that are currently being borne by customers through the GSCA rate. While the exact amortization amount will not be known until the buyout financing is in place, SourceGas Distribution estimates that, based on the current market cost of gas, the monthly cost for an average Nebraska residential customer using 70 therms of gas per month will be \$0.48 higher, or an increase of 0.68% over that customer's current average monthly bill.

Request for Expedited Treatment

SourceGas has agreed in the termination agreements with Noble and WBI to seek expedited approval of the relief requested in this Application. Accordingly, SourceGas Distribution respectfully requests expedited approval of the proposed regulatory accounting treatment through a final Commission order issued no later than April 15, 2016, so that its transactions can close timely by no later than May 1, 2016.

SourceGas Distribution recognizes that the Nebraska Public Advocate likely will intervene in this proceeding. In order to achieve the expedited relief requested herein, SourceGas Distribution will commit to an expedited process to address this Application with the Public Advocate, and any other intervenors, in order to achieve a negotiated resolution without a hearing before the Commission.

Verification

A Verification that is signed by SourceGas Distribution's Vice President, Commercial and System Growth, Mr. Richard A. Maceyka, a person authorized to act on behalf of SourceGas Distribution, and that affirms that the contents of this Application and the supporting documents are true, accurate and correct is included as part of this Application.

Conclusion

WHEREFORE, for the reasons stated herein and in the supporting witness testimony provided herewith, SourceGas Distribution respectfully requests that the Commission, with or without a hearing, and on an expedited basis no later than April 15, 2016, issue an Order:

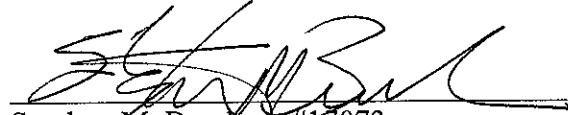
- i. Authorizing SourceGas Distribution to establish, for accounting and ratemaking purposes, a regulatory asset equal to (i) Nebraska's share of SourceGas Distribution's portion of the net buyout costs plus, (ii) Nebraska's share of SourceGas Distribution's portion of the carrying costs associated with SourceGas entering into a bank loan to finance the regulated buyout costs and the costs to obtain Commission approval;
- ii. Authorizing SourceGas Distribution to amortize the regulatory asset into the Company's GSCA account over a five-year period;
- iii. Allowing the Company to exclude, for regulatory purposes, the borrowing to pay the buyout costs from the calculation of the Company's capital structure and exclude, for regulatory purposes, the regulatory asset from the calculation of the Company's rate base;
- iv. Granting such other relief that the Commission finds to be required or appropriate in the circumstances.

Dated this 14th day of December, 2015.

Respectfully Submitted,

SOURCEGAS DISTRIBUTION LLC, Applicant.

BY:



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and

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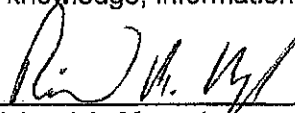
Attorneys for SourceGas Distribution LLC

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VERIFICATION

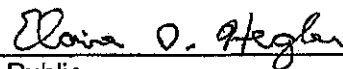
STATE OF COLORADO)
) ss
COUNTY OF JEFFERSON)

Richard A. Maceyka, being duly sworn upon his oath says: that he is Vice President, Commercial and System Growth for SourceGas LLC, and is authorized to act on behalf of SourceGas Distribution LLC; that he has read the foregoing Application and supporting documentation and has personal knowledge of the matters therein set forth concerning SourceGas Distribution LLC; and that the facts therein stated are true, accurate, and correct to the best of his knowledge, information, and belief.



Richard A. Maceyka

Subscribed and sworn to before me this 14th day of December, 2015.



Notary Public

Address of Notary:
600 12th Street, Suite 300
Golden, CO 80401



(SEAL)