

**Nebraska Public Service Commission
Natural Gas Department
Annual Report 2014-2015**

The Natural Gas Department regulates rates and service quality of investor-owned natural gas public utilities, pursuant to the State Natural Gas Regulation Act (Neb. Rev. Stat. sec. 66-1801 et seq.), passed by the Nebraska Legislature in 2003 and reviews applications filed under the Major Oil Pipeline Siting Act (Neb. Rev. Stat. sec 57-1401 et seq.), passed by the Nebraska Legislature in 2012.

The Department has an annual budget of approximately **\$1.6 million** for natural gas regulation, of which **\$185,000** relates to a revolving loan fund to be used by municipalities in negotiating a general rate case. The remainder covers the cost of Commission staff, the Public Advocate and consultants. Also, the Department has spending authority of **\$6.5 million** for the processing and review of any major oil pipeline siting applications. The Department is fully cash funded through an assessment process which includes a quarterly assessment for operations and more general matters and direct assessments for dockets related to a specific entity. A more detailed summary of the Department expenses is included herein.

Staff Overview

The Department consists of **Angela DuVall Melton**, director and legal counsel and **Rose Price**, consumer affairs advocate and administrative assistant. Commission accountants, **Steve Stovall** and **Amy Kavan** also assist with direct and quarterly assessments and other accounting functions. Additionally, **Steve Stovall** conducts the review of financials for all competitive natural gas provider certifications and prepares testimony and recommendations regarding the applicant's financial fitness. Additional technical support is provided by the Commission consultants, **Robert Camfield** and **Bruce Chapman** of Christensen and Associates.

William Austin, of Baylor Evnen, is the Public Advocate representing the interests of rate payers in general rate filings and other applications and is a separate office. The Public Advocate, like the Commission staff, utilizes outside consultants for technical support rather than maintaining a full time technical staff.

State Natural Gas Regulation

The Natural Gas Act gives the Commission the authority to regulate jurisdictional utilities; competitive natural gas providers and aggregators. Service to high volume rate payers is specifically exempted from Commission regulation.

Jurisdictional Utilities

Jurisdictional utilities are the local distribution companies who deliver the natural gas service to residential and commercial users. The Act requires that the Commission assess its expenditures for each quarter-year against all jurisdictional utilities, subject to certain adjustments. See *Neb. Rev. Stat.* section 66-1841. The amounts assessed against the utilities is based upon meter counts. Additionally, the Commission assesses direct costs of applications or dockets to the utilities. Such direct assessments cannot exceed one percent of the utility's gross operating jurisdictional revenue less gas cost derived from intrastate natural gas utility business as reflected in the last annual report. See *Neb. Rev. Stat.* section 66-1840. The competitive natural gas providers and aggregators procure and sell the actual commodity. Information regarding meter counts and revenues from the three (3) jurisdictional utilities is set forth below:

Jurisdictional Utilities Meter Counts and Revenues

	Year End 12/31/2013	Year End 12/31/2014
Meter Counts	325,681	325,361
Net Revenues	\$135,688,230	\$130,492,698

Competitive Natural Gas Providers (CNGPs)

We currently have **21 CNGPs and 2 applications pending**. The CNGPs file a brief annual report regarding their annual residential volumes. Those in Black Hills territory serve primarily commercial entities. Those in SourceGas’ territory participate in SourceGas’ Choice Program which allows all of SourceGas distribution customers to select a supplier annually.

Informal and Formal Complaints and Inquiries

In addition to the certification of jurisdictional utilities and competitive natural gas providers, the department handles complaints and inquiries from consumers regarding their natural gas service from jurisdictional utilities and to a lesser extent regarding the CNGPs. The Department processed **one (1) formal complaint** during the fiscal year. The following is a summary of informal complaints and inquiries received for the jurisdictional utilities.

Company	Type	FY 2012-13	FY 2013-14	FY 2014-15
Jurisdictional Utilities				
	Billing Issues	42	54	49
	Service	15	11	0
	Rates	1	0	0
	Misc.	27	27	29
Total		85	92	78
Non Jurisdictional entity		26	36	31
Total Complaints and Inquiries		111	128	109

The Department refers complaints to our contacts at the various companies and works with the companies to address the consumer concerns. We frequently receive complaints/inquiries related to entities outside of our jurisdiction. However, we have contacts at MUD and other entities to whom we forward the complaints. Many, such as MUD, are willing to cooperate with the Commission in receiving and resolving these complaints.

General Rate Filings

The Commission also sets distribution rates for the three (3) Jurisdictional Utilities. Black Hills’ last rate case was completed in August 2010. SourceGas’ last rate filing was completed in May 2012. NorthWestern’s last rate case was settled and approved in December 2007. NorthWestern is different as it typically negotiates its rate increases with the affected municipalities. Although an application is filed with the Commission, our review of the application is limited if the utility and the municipalities reach an agreement. Black Hills and SourceGas file cases with the Commission. These are contested cases involving the Public Advocate.

Infrastructure System Replacement (ISR) Recovery Charge (Neb. Rev. Stat. §§ 66-1865 and 66-1866) provides cost recovery through a surcharge for certain safety-related capital projects between general rate cases. It is a backward-looking cost recovery for costs incurred the previous year. Both SourceGas and Black Hills have utilized this surcharge.

- The Commission cannot approve a surcharge that would “produce total annualized infrastructure system replacement cost recovery revenues below one million dollars or one-half percent of the jurisdictional utility’s base revenue level approved by the commission in...the most recent general rate proceeding.”
- Further, the utility cannot collect more than ten percent of its base revenue from the last rate case through the surcharge.
- Also, the residential surcharge cannot be greater than \$.50 for each rate payer each year.
- Finally, utilities must come in for a general rate case at least every 5 years.

System Safety and Integrity Rider (SSIR) (Docket NG-0078) is a surcharge sought by SourceGas and approved by the Commission in October 2014. It is intended to recover, outside of a general rate case, costs associated with the replacement of high risk infrastructure such as bare steel and above ground pipe and maintain the integrity of the system. It is distinct from the ISR in that it is based upon projections and is forward looking with a reconciliation based upon actuals on an annual basis. The use of the surcharge has certain limitations:

- SourceGas must apply annually
- SourceGas must come in for a general rate case at least every five years to allow for a complete review of all rate components.
- SourceGas must provide quarterly surveillance filings including its revenues and current rate of return to ensure rates remain just and reasonable.

Summary of Department Assessments

On a quarterly basis, the Commission enters an order assessing the jurisdictional utilities for the upcoming quarterly operational expenses of the Department. Those expenses include salaries and overhead in addition to public advocate and consultant expenses for general rule making dockets, general investigations and other not attributable to a specific docket or entity. The quarterly assessment is allocated among the three (3) jurisdictional utilities based upon annual meter counts. Additionally, when a specific application is filed or docket opened relating to a particular entity, a notice of assessment is entered and the costs are directly assessed against that entity and ultimately passed on to rate payers.

The quarterly assessments for the fiscal year 2014-2015 remained constant at \$95,000 per quarter. The following summarizes the general payments made and direct assessments for the Public Advocate, the Public Advocate’s consultants and the Commission’s consultants.

Summary of Assessments						
General	SourceGas NG-072.01	Black Hills NG-0074.01	SourceGas NG-0078	SourceGas NG-0078.01	SourceGas NG-0079	Total
\$55,127	\$32,449	\$26,226	\$77,223	\$31,407	\$93,083	\$ 315,514

Major Oil Pipeline Siting Act

The Commission has not yet received any applications under the Major Oil Pipeline Siting Act. The Nebraska Supreme Court did not declare the Act unconstitutional in its decision in December 2014. Several lawsuits have been filed regarding the use of eminent domain by TransCanada relating to the Keystone XL pipeline route. The Commission adopted a standard progression order and developed rules and regulations when the Act was passed. An FAQ regarding the process is posted on the Commission website.

Hazardous Liquid Pipelines

Currently, the natural gas rules refer all safety regulation to the fire marshal. We have common carrier authority over intrastate hazardous liquid pipelines. We have not certificated any such pipelines. It is our understanding that none are currently operating in Nebraska; however, we have discussed taking legislative steps to remove or clarify this authority.