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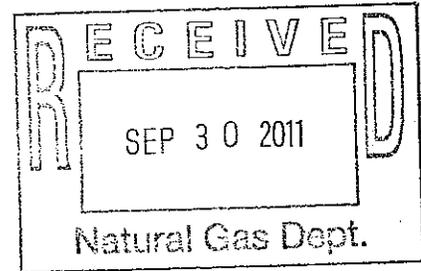
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September 30, 2011

VIA HAND DELIVERY

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



RE: *Application of SourceGas Distribution LLC for Approval of a General Rate Increase,*
Docket No. NG-0067

Dear Mr. Hybl:

As counsel for SourceGas Distribution LLC ("SourceGas Distribution" or the "Company"), I am pleased to present for immediate filing the Company's Application for Approval of General Rate Increase (the "Application"). I understand that the Application will be assigned the docket number of NG-0067.

Please note that the Company has prepared and organized the Application consistent with the Commission's Second Set of Proposed Rules in Commission Docket Rule and Regulation No. 179.

In connection with this filing, I enclose:

1. One original and eight (8) copies of the Application, which consists of three (3) volumes, and contains SourceGas Distribution's proposed Tariff revisions, along with all schedules, exhibits, and pre-filed testimony supporting the Company's requested rate increase;
2. Two (2) sets of CDs which contain:
 - a. An electronic copy of the Application in PDF format;
 - b. An electronic copy of all text documents appearing in the Application (in Word format) and all spreadsheets appearing in the Application (in Excel format); and

Mr. Mike Hybl
September 30, 2011
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- c. An electronic copy of all workpapers used to prepare the analysis and data submitted in support of the Application and any source documents referenced in the Application, prefiled testimony, or exhibits.
3. Motion for Protective Order and Partial Waiver of Requirements Set Forth in Rule 006, along with a Proposed Protective Order governing the exchange of confidential materials in this matter;
4. Two (2) CDs, each marked as "HIGHLY CONFIDENTIAL – RESTRICTED REVIEW ONLY", pursuant to the Proposed Protective Order. These CDs contain confidential exhibits and workpapers not included with the above-described items; and
5. Check in the amount of \$200 for the Commission's filing fee.

Please feel free to contact me with any questions or concerns you may have.

Very truly yours,



Stephen M. Bruckner
FOR THE FIRM

Enclosures
603784

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEBRASKA**

**SOURCEGAS DISTRIBUTION LLC
APPLICATION FOR GENERAL RATE INCREASE**

Docket No. NG-0067

September 30, 2011

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Application For General Rate Increase
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Exhibit VI – Cost of Service Study
Exhibit VII – Tariffs
Exhibit VIII – Prefiled Direct Testimony & Exhibits (Volume 2 and Volume 3)

VOLUME 2 Prefiled Direct Testimony & Exhibits

Mr. Lewis M. Binswanger
Dr. Roger A. Morin
Ms. Margaret (Lynn) L. Norsworthy
Mr. Stephen L. Rocheleau

VOLUME 3 Prefiled Direct Testimony & Exhibits

Mr. Jason R. Pickett
Dr. Robert Livezey
Mr. Larry W. Loos
Mr. Jerrad S. Hammer
Mr. Thomas J. Sullivan
Mr. Verlyn R. Engler

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application of)
SourceGas Distribution LLC for) Docket No. NG-0067
Approval of a General Rate Increase.)

APPLICATION FOR GENERAL RATE INCREASE

SourceGas Distribution LLC ("SourceGas Distribution" or the "Company"), pursuant to the State Natural Gas Regulation Act, Neb. Rev. Stat. §§ 66-1801, et seq. (the "Act"), and specifically, Section 66-1838 of the Act, hereby applies to the Nebraska Public Service Commission (the "Commission") for an order authorizing it to increase its rates for natural gas service for all SourceGas Distribution jurisdictional Residential and Commercial customers in Nebraska. In support of this Application, SourceGas Distribution states as follows:

I. DESCRIPTION OF SOURCEGAS DISTRIBUTION

1. SourceGas Distribution is a "jurisdictional utility" as defined in Section 66-1802(10) of the Act. SourceGas Distribution provides natural gas retail distribution and transportation services, through its 5,865 miles of natural gas pipeline, to approximately 86,633 customers in a consolidated rate area spanning 184 communities across the predominately rural western two-thirds of Nebraska. A map of SourceGas Distribution's Nebraska service territory is provided in Exhibit VII, Schedule C, proposed Fourth Revised Sheet No. 6.

2. SourceGas Distribution's customer base consists of approximately 67,944 customers taking Residential Service, 10,120 customers taking Small Commercial Service, and 1,490 customers taking Large Commercial Service. SourceGas Distribution also has approximately 7,035 customers taking Agricultural Service and 44 customers taking High Volume Service. The rates for the Agricultural and High-Volume customers are not being adjusted in this proceeding.

3. SourceGas Distribution's current rates in Nebraska for natural gas service for Residential and Commercial customers are those that the Commission approved in the Company's last general rate case, filed in 2009 at Docket No. NG-0060, and pursuant to the remand from the

District Court of Lancaster County, Nebraska. Those rates went into effect on April 1, 2011.

4. SourceGas Distribution has invested approximately \$175.7 million of utility plant in service in Nebraska. SourceGas employs 199 individuals in Nebraska. SourceGas Distribution has division offices in Albion, Alliance, Holdrege, Kearney, McCook, Scottsbluff, Sidney and Sutton, Nebraska, and SourceGas operates its four-state dispatch services from Scottsbluff, Nebraska.

5. SourceGas Distribution also provides retail natural gas service to customers in Colorado and Wyoming. A SourceGas Distribution affiliate, SourceGas Arkansas Inc., provides retail natural gas service to customers in Arkansas.

II. CONTENT OF APPLICATION AND COMMUNICATIONS

A. Content of Application

6. SourceGas Distribution developed this Application in accordance with the Act, the Commission's Natural Gas and Pipelines Rules and Regulations, Title 291, Chapter 9 of the Nebraska Administrative Code (the "Commission Rules"), Nebraska common law and generally accepted accounting and ratemaking principles.

7. This Application consists of the documents contained within Volumes 1 through 3, and includes the proposed revisions to SourceGas Distribution's Nebraska Gas Tariff ("Tariff"), and all schedules, exhibits and prefiled direct testimony required by the Act and the Commission Rules.

8. This Application is consistent with and organized as set forth in the Commission's second set of proposed rules in Rule and Regulation No. 179. SourceGas Distribution has prepared its revenue requirement and associated schedules and exhibits according to Proposed Rules 004.02 (Exhibit I – General Information), 004.03 (Exhibit II – Rate Base Schedules), 004.04 (Exhibit III – Operating Expense Schedules), 004.05 (Exhibit IV – Rate of Return and Cost of Capital Schedules), 004.06 (Exhibit V – Revenue Schedules), 004.07 (Exhibit VI – Cost of Service Study) and 004.08 (Exhibit VIII – Prefiled Direct Testimony and Exhibits). Exhibit VII contains clean and redlined versions of SourceGas Distribution's Tariff sheets for interim rates and proposed Tariff sheets for final rates. Immediately before the Exhibit I tab is a sheet listing

and describing each of the Schedules contained in Exhibits I through VII, and the witness(es) sponsoring each Schedule. Exhibit I, Schedule G contains information about the witnesses providing prefiled direct testimony and exhibits under Proposed Rule 004.08 (Exhibit VIII). The Company has labeled these exhibits (including with roman numerals) to match the designations in the Commission's second set of proposed rules in Rule and Regulation No. 179.

9. Pursuant to Section 66-1838(3) of the Act, SourceGas Distribution herewith provides notice that it will forego the negotiation process described in Section 66-1838(2) of the Act, and will proceed directly with the Commission's review and approval of this Application.

10. Pursuant to Section 66-1829 of the Act and Commission Rule 006.01, SourceGas Distribution is filing contemporaneously with this Application a Motion for Protective Order regarding certain confidential and/or proprietary information that is being, and over the course of this proceeding may be, produced in connection with this case.

11. SourceGas Distribution is not proposing in this Application to adjust rates for its agricultural customers in Nebraska. The rate setting process for such customers is governed by Section 66-1810(2) of the Act.

B. Communications

12. Communications regarding this Application should be addressed to:

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III. OVERVIEW OF APPLICATION

13. The "Base Year" is the twelve months beginning April 1, 2010 and ending March 31, 2011. In accordance with Commission Rule 001.01L, the "Test Year" is the Base Year ended March 31, 2011, adjusted for known and measurable changes occurring within one year of the end of the Base Year.

14. SourceGas Distribution's existing rates and rate structure do not allow it to generate the return on investment to which it is entitled under the Act and which is necessary for SourceGas Distribution to provide adequate and efficient natural gas service to its Nebraska jurisdictional customers. SourceGas Distribution's Test Year results show that it currently is earning a pro forma overall rate of return on rate base of 4.51%. (Exhibit I, Schedule C1, Row 23, Column D). This return is far below the fair and reasonable return required under the Act and applicable case law. This rate proceeding will permit SourceGas Distribution to obtain the just and reasonable rates required by the Act and existing case law.

15. SourceGas Distribution is requesting an annual revenue increase of approximately \$8.279 million. SourceGas Distribution's proposed annual revenue increase is consistent with Section 66-1825(3) of the Act, which requires the Commission to "give due consideration to the public need for adequate, efficient, and reasonable natural gas service and to the need of the jurisdictional utility for revenue sufficient to enable it to meet the cost of furnishing the service, including adequate provisions for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property."

16. This annual revenue increase is based upon a capital structure of 51.43% common equity and 48.57% long-term debt, which is addressed in the prefiled direct testimony of Lewis M. Binswanger and calculated in Exhibit IV, and a return on common equity of 11.00%, which is supported by the prefiled direct testimony and exhibits of Dr. Roger A. Morin. If the Commission grants this Application, SourceGas Distribution will have an opportunity to earn an overall return on its total Nebraska jurisdictional rate base of 8.40%, which is calculated in Exhibit IV.

IV. REASONS FOR INCREASE IN REVENUE REQUIREMENT

17. Table 1 below summarizes the revenue requirement increase since the last rate case. Exhibit I, Schedule B3, contains the calculations supporting Table 1.

Table 1: Primary Drivers for Proposed Revenue Requirement Increase

	<u>\$</u> <u>(Millions)</u>
Cost Drivers Since Previous Rate Case	
Investment in Plant and Equipment	\$ 2.20
Operating Cost Increases	\$ 3.28
Provision for Income Tax	\$ 0.91
Ad Valorem and Other Tax Increase	\$ 0.38
Total Cost Change	<u>\$ 6.77</u>
Revenue Drivers Since Previous Rate Case	
Decrease in Jurisdictional Base Rate Revenue	\$ 0.90
Increase in Non-Jurisdictional Base Rate Revenue	\$ (1.22)
Increase in Other Revenues	\$ (0.07)
Total Revenue Change	<u>\$ (0.39)</u>
Total State Revenue Deficiency	<u>\$ 6.38</u>
Cost of Service Study Allocations	\$ 1.90
Total Proposed Increase	<u><u>\$ 8.28</u></u>

18. As shown in Table 1, \$2.20 million of the \$6.38 million total state revenue deficiency is related to the Company's investment in plant and equipment made to provide safe, efficient, and reliable natural gas service to customers in Nebraska. The testimony of Mr. Hammer, Mr. Pickett and Mr. Rocheleau address aspects of the Company's investment in plant and equipment. Increases in operating costs, which are addressed in Mr. Rocheleau's testimony, account for another \$3.28 million. Changes in the provision for income tax, ad valorem tax and other tax account for another \$1.29 million, as addressed in the testimony of Mr. Rocheleau.

19. The total \$6.77 million in cost increases is moderated slightly by a \$0.39 million

increase in revenues (the components of which are addressed in the testimony of Mr. Hammer, Mr. Rocheleau and Mr. Engler), for a total state revenue deficiency of \$6.38 million.

20. The total proposed revenue requirement increase is \$8.28 million after reflecting the \$1.90 million of cost of service study allocations that are fully discussed in the testimony of Mr. Sullivan.

21. SourceGas Distribution requires the rate relief in order to continue to meet its fundamental obligation to serve its customers safely and reliably, while recovering its costs and providing a reasonable opportunity to earn a fair and reasonable return on its investment.

V. RATE STRUCTURE AND EFFECTIVENESS

22. SourceGas Distribution's proposed rate design is addressed in Mr. Sullivan's testimony, and presented in Exhibit I, Schedule B2. SourceGas Distribution is proposing to increase its monthly Customer Charge for Residential Service to \$15.00 (from \$12.25), for Small Commercial Service to \$25.00 (from \$14.50) and for Large Commercial Service to \$60.00 (from \$44.60). SourceGas Distribution is proposing to retain its two-tier Distribution Charges, and to adjust the First Tier to \$0.5407 per therm (from \$0.4220 per therm) and the Second Tier to \$0.1548 per therm (from \$0.1208 per therm).

23. Consistent with the Commission's decision in the Company's last rate case to apply the District Court ordered revenue increase "equally among the categories of rates for each class of ratepayers," the proposed percentage increases to the Customer Charges and the Distribution Charges are comparable for the Residential and Large Commercial customer groups. (Docket No. NG-0060, Order Approving Recalculated Rates and Refund Plan, entered March 29, 2011, page 6). Because the current Customer Charge for the Small Commercial customer group is far below the customer related cost of service, SourceGas Distribution is proposing a percentage increase in that Customer Charge that is much greater than the percentage increase in the Distribution Charges. The clean and redlined versions of SourceGas Distribution's Tariff containing these rates are provided in Exhibit VII, Schedules C and D,

respectively.

24. The bill impacts are explained further by Mr. Sullivan, and presented in Exhibit I, Schedule B2. Under SourceGas Distribution's proposed rate design, the average monthly bill for Residential customers on a statewide basis will increase \$6.14, from the current level of \$59.56 to \$65.70, which represents an increase of 10.3%. The average monthly bill for Small Commercial customers on a statewide basis will increase under the Company's proposed rate design by \$17.06, from the current level of \$116.72 to \$133.78, which represents an increase of 14.6%.

25. SourceGas Distribution intends to collect interim rates, subject to refund upon the adoption of final rates, beginning on January 1, 2012. The interim rates will be set based upon the annual revenue increase that SourceGas Distribution seeks in this case, adjusted to reflect the current Commission-authorized return on common equity of 9.60%. SourceGas Distribution has decided to set interim rates based upon the current Commission-authorized return on common equity rather than the 11.00% return on common equity requested in this case so as not to presuppose the Commission's ultimate decision in this case on the proper level of the Company's return on common equity. With that said, SourceGas Distribution has provided the required evidence, through the testimony of Dr. Morin and related exhibits, that an 11.00% return on common equity is needed to produce a fair and reasonable return on SourceGas Distribution's rate base assets.

VI. TARIFF CHANGES AND SUPPORTING DOCUMENTATION

26. In support of this Application, and as provided in Section 66-1838 of the Act, SourceGas Distribution submits herewith the proposed revisions to its Tariff to implement its proposed rate increases and other charges. The revised sections of the Tariff are attached to this Application. (Application, Volume 1, Exhibit VII). Exhibit VII includes Tariff sheets containing interim rates in clean and redlined format (Exhibit VII, Schedules A and B, respectively) and proposed final rates in clean and redlined format (contained in Exhibit VII, Schedules C and D, respectively).

27. Mr. Hammer describes Exhibit JSH-12, the Statement of Nature, Reasons and Basis For Revisions to the Tariff. The Company's proposed changes to the Tariff fall into six principal areas. The first area consists of the changes in customer and distribution charges in the Tariff necessary to implement the increase in revenue requirement and changes in rate design proposed by SourceGas Distribution in its general rate filing herein. The second area involves the Company's proposal to implement two rate adjustment mechanisms, the Customer Adjustment Rider and the Use Per Customer Adjustment Rider, that address the long-standing problems faced by SourceGas Distribution with respect to customer losses and declining average annual usage per customer, respectively. The third area involves changes that the Company is proposing to enhance its High Energy Assistance Tool ("HEAT") program. The fourth area involves changes that SourceGas Distribution is proposing to its Choice Gas Program rate schedules in order to increase administrative efficiencies. The fifth area involves changes to conform the Tariff to the requirements of rules adopted by the Commission in recent years. The sixth, and final, area reflects miscellaneous Tariff changes to clarify provisions or to eliminate obsolete text. For example, SourceGas Distribution proposes to update its Regular Construction Allowance to \$1,275 from \$1,210, and to add three new payment options for customers to choose from when electing to avail themselves of the Extra Construction Allowance, applicable to main and service line extensions.

VII. WITNESSES

28. SourceGas Distribution's direct case consists of the testimony and exhibits of the following witnesses contained in Volumes 2 and 3 of this Application, the Schedules contained in Volume 1 of this Application, and the proposed Tariff revisions contained in Volume 1.

a. **Lewis M. Binswanger**, Vice President – Regulatory and Governmental Affairs. Mr. Binswanger provides an overview of SourceGas LLC and SourceGas Distribution, including its operations and the business environment in Nebraska. He provides an overview of SourceGas Distribution's rate case filing, describes generally the authority and principles that

SourceGas Distribution employed in preparing this rate case, and identifies the primary drivers of this case. Mr. Binswanger addresses the capital structure, cost of debt and overall rate of return that SourceGas Distribution is proposing in this case. Mr. Binswanger also addresses matters related to energy efficiency, in particular SourceGas Distribution's HEAT program, its relation to the use per customer adjustment mechanism that SourceGas Distribution is proposing in this case, and the important energy efficiency benefits that natural gas provides to Nebraska. In addition, Mr. Binswanger discusses SourceGas Distribution's proposal for the recovery of Commission assessment costs and rate case expenses. Furthermore, he discusses SourceGas Distribution's customer service accomplishments over the last one and one-half years, in support of SourceGas Distribution's commitment of dollars associated with customer service functions. Finally, he supports SourceGas Distribution's request to recover costs associated with variable compensation through its Short-Term Incentive Plan program, by describing the program and its underlying policy. (Application, Volume 2).

b. **Dr. Roger A. Morin**, Emeritus Professor of Finance at the Robinson College of Business, Georgia State University and Professor of Finance for Regulated Industry at the Center for the Study of Regulated Industry at Georgia State University, and a principal in Utility Research International. Dr. Morin presents an independent appraisal of the fair and reasonable rate of return on equity capital that is committed to SourceGas Distribution's Nebraska gas distribution assets. (Application, Volume 2).

c. **Margaret (Lynn) L. Norsworthy**, Manager, Regulatory Accounting. Ms. Norsworthy testifies on cost assignments and allocations, including the updated Cost Assignment and Allocation Manual. (Application, Volume 2).

d. **Stephen L. Rocheleau**, Controller. Mr. Rocheleau testifies on SourceGas Distribution's proposed overall revenue requirement, including operating expenses, depreciation, taxes and other revenue. (Application, Volume 2).

e. **Jason R. Pickett**, Director, Asset Management in Nebraska. Mr. Pickett supports construction work in progress in Nebraska and rate base pro forma adjustments. (Application, Volume 3).

f. **Dr. Robert Livezey**, an independent consultant since retiring as Chief of National Weather Service Climate Services in 2008. Dr. Livezey explains climate normals, reviews his research and conclusions regarding changing climate normals, compares various methods for predicting the current climate, and makes a recommendation for defining "normal" weather for purposes of ratemaking in this case. (Application, Volume 3).

g. **Larry W. Loos**, an independent contractor to Black & Veatch Management Consulting. Mr. Loos addresses the issue of the most appropriate basis upon which to weather-normalize Test Year sales. (Application, Volume 3).

h. **Jerrad S. Hammer**, Manager, Regulatory. Mr. Hammer calculates SourceGas Distribution's billing determinants and revenues, addresses plant in service and related components, sponsors updates to the Company's Regular Construction Allowance and Extra Construction Allowance, and discusses the revisions being proposed to SourceGas Distribution's Tariff. (Application, Volume 3).

i. **Thomas J. Sullivan**, of Navillus Utility Consulting LLC and formerly with Black & Veatch Management Consulting. Mr. Sullivan sponsors the cost of service study used to determine the jurisdictional and non-jurisdictional class cost of service. He also designs the Company's interim rates and proposed final rates, and sponsors SourceGas Distribution's proposed Customer Adjustment and Use Per Customer Adjustment riders. (Application, Volume 3).

j. **Verlyn R. Engler**, Senior Manager, Load Growth & Products and Services. Mr. Engler describes SourceGas Distribution's Agricultural and High Volume customer load in Nebraska, discusses competition from other energy sources for agricultural load, addresses SourceGas Distribution's policy with respect to setting rates for Agricultural and High Volume

customer load, testifies about the loss of Agricultural and High Volume customers despite SourceGas Distribution's efforts to retain them, supports certain information and assumptions in SourceGas Distribution's cost of service study, and supports the proposed change in payment options with respect to the Company's Extra Construction Allowance. (Application, Volume 3).

IX. SUMMARY

29. SourceGas Distribution respectfully requests that the Commission:

a. Authorize the proposed annual retail natural gas rate increase in the amount of \$8.279 million, based upon the Test Year ended March 31, 2011, adjusted for known and measurable changes, as shown in Exhibit I, Schedule B1 (Volume I);

b. Authorize and approve the changes proposed to SourceGas Distribution's Tariff, and the just and reasonable rates set forth therein, as shown in Exhibit VII (Volume I); and

c. Grant such other and further relief as the Commission deems just and reasonable.

30. SourceGas Distribution further respectfully requests that the rates set forth in Exhibit VII, Schedule C, submitted with this Application, be made effective after Commission approval pursuant to Neb. Rev. Stat. § 66-1838(16). Pursuant to Neb. Rev. Stat. § 66-1838(10)(a), SourceGas Distribution intends to collect the interim rates set forth in Exhibit VII, Schedule A, subject to refund, beginning on January 1, 2012.

September 30, 2011

Respectfully Submitted,

SOURCEGAS DISTRIBUTION LLC, Applicant.

BY:



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Russell A. Westerhold #22498
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And

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Attorneys for SourceGas Distribution LLC

VERIFICATION

STATE OF COLORADO)
) ss.
COUNTY OF JEFFERSON)

Lewis M. Binswanger, being of lawful age and having been first duly sworn, states that he is the Vice President, Regulatory and Governmental Affairs, for Applicant SourceGas Distribution LLC, and that he has read the Application, Volumes 1 through 3, knows the contents thereof, and that the statements and allegations contained therein are true to the best of his information, knowledge and belief.

Lewis M. Binswanger

SUBSCRIBED AND SWORN to before me this 28th day of September, 2011.

Elaine D. Hegler
Notary Public

My Commission Expires: 11-17-14

