

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEBRASKA

IN THE MATTER OF THE APPLICATION OF)
SOURCEGAS DISTRIBUTION LLC FOR AN)
ORDER AUTHORIZING IT TO PUT INTO EFFECT) DOCKET NO. NG-0078
A SYSTEM SAFETY AND INTEGRITY RIDER)
TARIFF AND A SYSTEM SAFETY AND)
INTEGRITY RIDER CHARGE)

APPLICATION

SourceGas Distribution LLC ("SourceGas Distribution" or the "Company") hereby files this Application pursuant to the State Natural Gas Regulation Act, Neb. Rev. Stat. §§ 66-1801, et seq. (the "Act"), and specifically, Section 66-1808 of the Act, and 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. By this Application, SourceGas Distribution respectfully requests a decision of the Commission authorizing the Company to put into effect the System Safety and Integrity Rider ("SSIR") Tariff proposed in Exhibit I to this Application. The Company also respectfully requests that the Commission, as part of its decision, authorize SourceGas Distribution's initial System Safety and Integrity Rider Charges, as developed in Exhibit JSH-1 and set forth in Exhibit I on the Schedule of Rates and Other Charges, Sheet No. 7, of SourceGas Distribution's Nebraska Gas Tariff No. 1 (the "Tariff").

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. 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.

2. 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 THIS APPLICATION AND COMMUNICATIONS

A. Content of This Application

3. This Application was prepared by SourceGas Distribution in accordance with the Act, Commission regulations, Nebraska common law and generally accepted accounting and ratemaking principles.

4. This Application consists of this pleading, Exhibit I to this Application (the proposed SSIR Tariff and initial System Safety and Integrity Rider Charges), the Prefiled Direct Testimony and Exhibits of Jerrad S. Hammer, and the Prefiled Direct Testimony and Exhibits of Charles A. Bayles. Mr. Hammer's Prefiled Direct Exhibits are marked Exhibits JSH-1 and JSH-2, and Mr. Bayles's Prefiled Direct Exhibits are marked Exhibits CAB-1 through CAB-17.

5. Mr. Hammer's Prefiled Direct Testimony explains why the Commission should approve the SSIR Tariff and Charges as being just and reasonable and in the public interest. Mr. Hammer presents a Jurisdictional revenue deficiency analysis that reflects the impact of this Application and the Company's pending applications in Docket Nos. NG-0072.1 and NG-0079, and supports the proposed SSIR Tariff from a policy perspective. He also describes the Company's proposed SSIR Tariff and the initial System Safety and Integrity Rider Charges, as developed in Exhibit JSH-1 and set forth in Exhibit I on the Schedule of Rates and Other Charges, Tariff Sheet No. 7.

6. Mr. Bayles's Prefiled Direct Testimony describes the Company's proposed SSIR Tariff and explains why it should be approved by the Commission as being just and reasonable

and in the public interest. Mr. Bayles provides an overview of SourceGas Distribution's natural gas pipeline system in Nebraska, describes the federal regulatory environment that causes the need for the proposed SSIR Tariff, describes the projects and initiatives that are to be covered under the proposed SSIR Tariff, and details SourceGas's projected capital costs and operating expenses for 2014 for those projects and initiatives.

B. Communications

7. Communications regarding this Application should be addressed to:

Jerrad S. Hammer
Director – Rates and Regulatory
SourceGas LLC
SourceGas Distribution LLC
600 12th Street, Suite 300
Golden, CO 80201
(303) 243-3496
jerrad.hammer@sourcegas.com

Stephen M. Bruckner, Esq.
Fraser Stryker PC LLO
500 Energy Plaza
409 South 17th Street
Omaha, NE 68102-2663
(402) 341-6000
sbruckner@fraserstryker.com

Eric W. Nelsen, Esq.
Deputy General Counsel – Regulatory Law
SourceGas LLC
SourceGas Distribution LLC
600 12th Street, Suite 300
Golden, CO 80201
(303) 243-3420
eric.nelsen@sourcegas.com

III. EVENTS PRECEDING THE FILING OF THIS APPLICATION

8. Under its existing rates, SourceGas Distribution experiences a jurisdictional revenue deficiency compared with its current revenue requirement. Mr. Hammer's Exhibit JSH-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 Exhibit JSH-2, Table 1, Line 5, the Company has calculated a revenue deficiency for calendar year 2014 from its Nebraska Jurisdictional customers of approximately \$4.5 million. The revenue deficiency calculations in Exhibit JSH-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 Exhibit JSH-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.

9. Because of this significant jurisdictional 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 Mr. Hammer's Exhibit JSH-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.

10. 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 reflect prospectively changed depreciation rates on its Nebraska books of account (Docket No. NG-0079) 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.

11. Importantly, if the Commission approves this Application and the applications that it is considering in Docket Nos. NG-0072.1 and NG-0079, the Company still would have a jurisdictional revenue deficiency compared with its current revenue requirement.

12. As shown on Line 8 of Mr. Hammer's Exhibit JSH-2, Table 1, even if the Commission approves this Application and the Company's application in Docket No. NG-0072.1, the Company still would have a Test Year revenue deficiency 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 Exhibit JSH-2, Table 1). The Company would have to address this revenue deficiency in a general rate case filing.

13. As shown on Line 10 of Exhibit JSH-2, Table 1, even if the Commission approves this Application and the Company's applications in both Docket Nos. NG-0072.1 and Docket No. NG-0079, 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-0079 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. STATUTORY BASIS FOR THIS APPLICATION

14. SourceGas Distribution has filed this Application pursuant to Section 66-1808 of the Act.

15. Sections 66-1808(1) and (2) of the Act authorize jurisdictional utilities to "make effective any changed rate or any term or condition of service pertaining to the service or rates

of such utility” outside of general rate filings.

16. The Commission has recognized that Section 66-1808 of the Act “sets forth procedures for rate changes that are not general rate filings” and provides the Commission “with the jurisdiction to consider alternate mechanisms for processing rate changes that do not rise to the level of a general rate filing.”¹

17. This Application does not rise to the level of a general rate filing. This Application seeks Commission authorization for the Company to implement new terms and conditions of service through a System Safety and Integrity Rider Tariff (see Exhibit I). In addition, this Application seeks Commission authorization for the Company to change its Customer Charges applicable to all customers served under Rate Schedule CGS (Choice Gas Service) and Rate Schedule ACGS-NSS (Agricultural Choice Gas Service – Non-Seasonal Service) through the implementation of a System Safety and Integrity Rider Charge.

18. The Commission has stated that jurisdictional utilities “are encouraged to continue to present rate proposals that minimize regulatory costs and increase efficiency.”² The information presented in Section III of this Application and in the Company’s supporting testimony and exhibits demonstrates that the proposed SSIR Tariff and System Safety and Integrity Rider Charge minimize regulatory costs compared with a general rate filing. The streamlined procedures set forth in the proposed SSIR Tariff also increase efficiency compared with a general rate filing.

19. Accordingly, the Company respectfully requests that the Commission grant this Application pursuant to the Commission’s powers under Section 66-1808 of the Act.

V. THE PROPOSED SYSTEM SAFETY AND INTEGRITY RIDER TARIFF

20. The proposed SSIR Tariff is provided as Exhibit I to this Application. The proposed SSIR Tariff has a proposed effective date of November 1, 2014, consistent with the

¹ Docket No. NG-0031, Order Denying Application (entered November 1, 2005), page 2.
² *Id.* at page 3.

requirement in Section 66-1808(4) of the Act that the Commission issue an order no more than 180 days after the filing of this Application.

21. Mr. Bayles discusses in his Prefiled Direct Testimony the regulatory and operational requirements that necessitate this Application to implement the SSIR Tariff. The federal directives of the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration ("PHMSA") and ongoing public concern have led to a fundamental change of direction in the way that the natural gas industry is regulated, and that change has increased costs and made them more difficult to plan for and predict. Based upon the scope of present legislative mandates and regulatory initiatives, and other signals from regulators, the current flurry of regulatory activity appears to be just the tip of the iceberg. It may take several years before the natural gas industry can extrapolate if and when this fundamental change of direction may settle into a more predictable routine. This fundamental change in direction places greater burdens on pipeline operators such as SourceGas Distribution to implement the requirements of ever-changing federal regulations and requires that the costs of compliance be recovered on a concurrent basis as the costs are incurred.

22. Mr. Hammer discusses in his Prefiled Direct Testimony from a rate making perspective why the Company is proposing to implement the SSIR Tariff and System Safety and Integrity Rider Charge. Jurisdictional utilities are authorized to recover eligible infrastructure system recovery, or "ISR," costs of jurisdictional utility plant projects in accordance with Sections 66-1865 and 66-1866 of the Act. However, there is substantial lag time under the Act between the time the Company incurs a cost of a jurisdictional utility plant project and the time the Company can start recovering that cost after Commission approval. Under the Company's proposed SSIR Tariff, it may recover Eligible System Safety and Integrity Costs of System Safety and Integrity Projects ("Projects") concurrent with its incurrence of those costs. All Projects are important to assure pipeline system safety and integrity. The timely recovery of the costs of such Projects supports the continued improvement of the safety and integrity of the

Company's jurisdictional gas system. It also means that the Company will avoid having its earned return eroded by the delayed recovery of these costs, and that the costs of ensuring the safety and integrity of the Company's pipeline system are recovered gradually over time rather than through a larger adjustment over a shorter period of time if the recovery of those costs had to be delayed until a general rate case filing.

23. The proposed SSIR Tariff defines Eligible System Safety and Integrity Costs to mean (i) a return, at a percentage equal to the Company's currently authorized weighted average cost of capital grossed up for taxes, on the projected increase in the jurisdictional component of the month ending net plant in-service balances associated with the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge will be in effect, exclusive of all plant in-service included in the determination of the revenue requirements approved in the Company's last general rate case; (ii) the plant-related ownership costs associated with such incremental plant investment, including depreciation, accumulated deferred income taxes (ADIT), and all taxes including income taxes and property taxes; and (iii) the projected jurisdictional component of the operation and maintenance (O&M) expenses related to the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge will be in effect. The Company will determine the jurisdictional component of the revenue requirement by using the cost allocation principles adopted by the Commission in SourceGas Distribution's most recent general rate case, Docket No. NG-0067.³

24. The proposed SSIR Tariff defines System Safety and Integrity Projects to mean one or more of the following four types of Projects:

³ The definition of Eligible System Safety and Integrity Costs states that the return and income taxes and plant-related costs associated with improvements or upgrades to facilities, made at the discretion of the Company to extend service or for future growth that is not specifically required by a statute or regulation, will be excluded from Eligible System Safety and Integrity Costs. Such discretionary improvements or upgrades to facilities are sometimes referred to as "betterments," and would include extensions of main beyond the length of the existing facilities to extend service and increases in pipe size for customer growth. The Company will calculate the value of any betterments and deduct that cost from the total cost of the Project to be included in the SSIR Tariff.

1. Projects to comply with Code of Federal Regulations Title 49 (Transportation), Part 192 (Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards), Subpart O (Gas Transmission Pipeline Integrity Management), including projects in accordance with the Company's transmission integrity management program ("TIMP") and projects in accordance with State enforcement of Subpart O and the Company's TIMP;
2. Projects to comply with Code of Federal Regulations Title 49 (Transportation), Part 192 (Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards), Subpart P (Gas Distribution Pipeline Integrity Management), including projects in accordance with the Company's distribution integrity management program ("DIMP") and projects in accordance with State enforcement of Subpart P and the Company's DIMP;
3. Projects to comply with PHMSA's final rules and regulations that become effective on or after the filing date of this Application requesting approval of the SSIR Tariff; and
4. Facility relocation projects with a per-project total cost of \$20,000 or more, exclusive of all costs that have been, are being, or will be reimbursed otherwise, that are required due to construction or improvement of a highway, road, street, public way or other public work by or on behalf of the United States, the State of Nebraska, a political subdivision of the State of Nebraska or another entity having the power of eminent domain.

25. Exhibit CAB-17 to Mr. Bayles's Prefiled Direction Testimony describes in detail the 2014 SSIR Projects for which the Company is seeking recovery through the System Safety and Integrity Rider Charge.

26. Each proposed revision in the System Safety and Integrity Rider Charges will be accomplished by the Company filing an annual application by November 1st to take effect on the following January 1st (the "Annual Application.")⁴ The Company will include in its Annual Application all pertinent information and supporting data related to Eligible System Safety and Integrity Costs, including, at a minimum, Project description and scope, Project costs and in-service date. The Company will file the first Annual Application by November 1, 2014, to take effect on January 1, 2015, to recover projected 2015 Eligible System Safety and Integrity Costs

⁴ If the Commission approves this Application by the end of September 2014, the Company is willing to move this annual filing date to October 1st to provide three months to review the Annual Application and supporting documentation prior to the January 1st implementation date of the System Safety and Integrity Rider Charges.

and to continue recovering projected 2014 Eligible System Safety and Integrity Costs. In addition, the Company is willing to meet with the Public Advocate and Commission Staff each year after the Annual Application is filed to explain the Company's plans for the upcoming calendar year and answer questions about the Annual Application.

27. Because this Application is being filed in the middle of a calendar year rather than on or about November 1st, the Company is proposing a particular approach to recover 2014 Eligible System Safety and Integrity Costs. The Company is proposing to collect Eligible System Safety and Integrity Costs projected for the period May 1, 2014 through December 31, 2014 through the System Safety and Integrity Rider Charge based on the revenue requirement of those Eligible System Safety and Integrity Costs over the period November 1, 2014, through December 31, 2015, divided by the number of customer bills for that 14-month period. Because of the timing of this Application and the likely effective date of the rates proposed, the Company is trying to avoid changing the proposed rates for the 2014 SSIR Projects on January 1, 2015, only a few months after the SSIR Tariff and the initial rates have been approved. This approach lessens the magnitude of rate changes that customers will see on their bills.

28. SourceGas Distribution proposes to submit a report each year by April 1st detailing the Project costs incurred during the previous calendar year (the "Annual Report"). The Annual Report will explain how the Company managed Project costs and explain any deviations between budgeted and actual costs. An interested party may request that the Commission convene a hearing within ninety (90) days of the date the Company files the Annual Report. If the Commission approves this Application and the implementation of the Company's 2014 System Safety and Integrity Rider Charges, SourceGas Distribution will file its first Annual Report by April 1, 2015.

29. The proposed SSIR Tariff contains provisions by which the Company will reconcile projected Eligible System Safety and Integrity Costs with actual Eligible System Safety and Integrity Costs (called the "SSIR True-Up Amount"). The proposed SSIR Tariff also

contains provisions by which the Company will reconcile the projected revenues generated through the recovery of Eligible System Safety and Integrity Costs with the actual revenues generated through the recovery of Eligible System Safety and Integrity Costs (called the "Deferred SSIR Balance").

30. Upon the effective date of the Company's next general rate case, SourceGas Distribution will simultaneously adjust the System Safety and Integrity Rider Charges to remove all costs that have been included in base rates.

VI. THE PROPOSED SYSTEM SAFETY AND INTEGRITY RIDER CHARGE

31. The System Safety and Integrity Rider Charge is equal to the Eligible System Safety and Integrity Costs, plus or minus the SSIR True-Up Amount, plus or minus the Deferred SSIR Balance, multiplied by the customer class allocation basis authorized by the Commission to determine the class cost of service in SourceGas Distribution's most recent general rate case, divided by the applicable number of bills for the particular customer class. See Exhibit I to this Application. This is shown in equation form as follows:

$$\text{System Safety and Integrity Rider Charge} = ((A \pm B \pm C) * D) / E$$

Where:

A = Eligible System Safety and Integrity Costs

B = SSIR True-Up Amount

C = Deferred SSIR Balance

D = Customer class allocation basis authorized by the

Commission to determine the class cost of service in

SourceGas Distribution's most recent general rate case

E = Applicable number of bills for the particular customer class

32. SourceGas Distribution proposes that the System Safety and Integrity Rider Charge be a separate adjustment to the Customer Charge applicable to its Residential Service, Small Commercial Service and Large Commercial Service under Rate Schedules CGS (Choice

Gas Service) and ACGS-NSS (Agricultural Choice Gas Service – Non-Seasonal Service). The System Safety and Integrity Rider Charge to be applied to each type of service is set forth on the Schedule of Rates and Other Charges, Tariff Sheet No. 7, which is provided as part of Exhibit I to the Company's Application.

33. Exhibit JSH-1 submitted with Mr. Hammer's Prefiled Direct Testimony shows the derivation of SourceGas Distribution's System Safety and Integrity Rider Charges applicable to its Residential Service, Small Commercial Service and Large Commercial Service under Rate Schedules CGS (Choice Gas Service) and ACGS-NSS (Agricultural Choice Gas Service – Non-Seasonal Service). The initial System Safety and Integrity Rider Charges proposed to be effective November 1, 2014 are presented in Table 1 of Exhibit JSH-1 and listed below.

Residential Service	\$0.93 per month
Small Commercial Service	\$1.99 per month
Large Commercial Service	\$14.03 per month

34. Table 1 of Exhibit JSH-1 also presents a bill impact analysis. For Residential Service, the \$0.94 per month increase to the Customer Charge represents a 1.375% increase in a Residential customer's total average monthly bill.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

VII. SUMMARY

35. SourceGas Distribution respectfully requests that the Commission:
- a. Approve the Company's proposed SSIR Tariff presented in Exhibit I to this Application as being just and reasonable and in the public interest;
 - b. Approve the Company's proposed System Safety and Integrity Rider Charges presented in Exhibit I to this Application as being just and reasonable and in the public interest;
and
 - c. Grant such other and further relief as the Commission deems just and reasonable.

Respectfully Submitted,

SOURCEGAS DISTRIBUTION LLC, Applicant.

BY:


Stephen M. Bruckner #17073
Fraser Stryker PC LLO
500 Energy Plaza
409 South 17th Street
Omaha, NE 68102-2663
(402) 341-6000
SBruckner@fraserstryker.com

And

Eric W. Nelsen
Deputy General Counsel – Regulatory Law
SourceGas Distribution LLC
600 12th Street, Suite 300
Golden, Colorado 80201
(303) 243-3420
Eric.Nelsen@sourcegas.com

Attorneys for SourceGas Distribution LLC