Before the Nebraska Public Service Commission
Docket No. NG-0078.01

Examination of SourceGas Distribution LLC Application for Recovery of 2015 Eligible System Safety and Integrity Costs

on behalf of the Nebraska Public Advocate

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DISCLAIMERS

The words *audit* and *examination*, as used in this report, are intended, as commonly understood in the utility regulatory environment, to mean a regulatory review, a field investigation, or a means of determining the appropriateness of a financial presentation for regulatory purposes. These terms are not intended in their precise accounting sense as an examination of booked numbers and related source documents for financial reporting purposes. Neither is the term *audit* in this case an analysis of financial statement presentation in accordance with the standards established by the American Institute of Certified Public Accountants. The reader should distinguish regulatory reviews, such as those that Blue Ridge performs, from financial audits performed by independent certified public accountants.

This document and the opinions, analyses, evaluations, and recommendations are for the sole use and benefit of the contracting parties. There are no intended third-party beneficiaries, and Blue Ridge shall have no liability whatsoever to third parties for any defect, deficiency, error, or omission in any statement contained in or in any way related to this document or the services provided.

This report was prepared based in part on information not within the control of the consultant, Blue Ridge Consulting Services, Inc. While it is believed that the information is reliable, Blue Ridge does not guarantee the accuracy of the information relied upon.

ORGANIZATION OF BLUE RIDGE'S REPORT

This report is organized according to the following major sections: Executive Summary; Overview of Investigation; and Observations, Findings, and Recommendations. The report also contains appendices. The Executive Summary provides a summary of SourceGas's application requests and Blue Ridge's findings and recommendations on the Company's request along with their impact.

The Overview of Investigation provides the background, purpose of the project, project scope, and information reviewed.

The Observations, Findings, and Recommendations section documents Blue Ridge's analysis regarding the components that comprise the System Safety and Integrity Rider (SSIR) Charge. This section addresses the eight questions identified under the purpose of the project:

1) Are the Company's processes and controls sufficient so as to not adversely affect the costs of the System Safety and Integrity Recovery Charge?

2) Does the application provide the information required by Commission orders and specified in the SSIR Tariff?

3) Are the System Safety and Integrity Projects eligible for recovery?

4) Is the revenue requirement associated with the Eligible System Safety and Integrity Costs requested by SourceGas in compliance with Commission orders and as specified in the SSIR Tariff?

5) Is the System Safety and Integrity Rider Charge calculated in compliance with Commission orders and as specified in the SSIR Tariff?

6) Is the amount and timing of the System Safety and Integrity Rider Charge request within the limits established by the Commission?

7) What is the appropriate level of recovery of the System Safety and Integrity Rider Charge?

8) Did the Company timely file the required quarterly surveillance filings with the required information in compliance with Commission orders? Were the quarterly surveillance filings consistent with the Annual Application?

The appendices include the background information reviewed, abbreviations and acronyms, data requests and information provided, and Blue Ridge's workpapers.

EXECUTIVE SUMMARY

On November 10, 2014, SourceGas Distribution LLC, Golden, Colorado ("SourceGas" or "Company"), filed an application with the Nebraska Public Service Commission ("Commission") seeking approval of an increase to the Customer Charges applicable to customers served under Rate Schedule CGS (Choice Gas Service) and Rate Schedule ACGS-NSS (Agricultural Choice Gas Service – Non-Seasonal Service) to cover the incremental annual revenue requirement impact of 2015 Eligible System Safety and Integrity Costs with respect to SSIR Projects, as those terms are defined and applied on Tariff Sheets Nos. 11-15 ("SSIR Tariff").

SourceGas's initial SSIR Application, decided by the Commission on October 28, 2014, reflected costs and projects associated with 2014 Eligible System Safety and Integrity Projects. The change in the originally proposed application filing date prevented SourceGas from seeking 2015 costs. To ensure that future applications, to be filed on October 1 of each year, contain both the proposed projects for the next year and reconciliation calculations for the prior year, SourceGas's November 10, 2014, Application includes the 2015 proposed System Safety and Integrity Projects.

The 2015 SSIR Application seeks approval of the Jurisdictional SSIR Eligible Costs associated with the incremental 2015 SSIR Projects, totaling $13,983,439, which results in a total SSIR Project balance of $24,024,854. The resulting Jurisdictional SSIR Revenue Requirement for 2014 and 2015 System Safety and Integrity Projects is $1,414,747. In this Application, the Company seeks recovery for the incremental change associated with the eligible costs of the addition of the 2015 Projects. In applying for this recovery, the Company seeks to increase the Customer Charge by $0.28 per month for Residential Service, $0.59 per month for Small Commercial Service, and $3.80 per month for Large Commercial Service.

The Public Advocate performed an examination and recommends allowing recovery of the Company's proposed incremental rate base associated with the 2015 SSIR Projects of $13,983,439, which results in a total SSIR Project balance of $24,024,854. The Total SSIR Revenue Requirement of $1,414,747 should be reduced for the property taxes on the 2015 Projects that will not be in service and thus not assessed for property tax purposes in 2015. The revised revenue requirement is recommended to be $1,325,719. Full recovery results in an incremental increase to residential customer bills of $0.22 each month or $2.64 annually. Small commercial customers will have an incremental monthly increase of $0.45 or $5.40 per year, and large commercial customers will have an incremental increase of $2.82 each month or $33.84 annually.

OVERVIEW OF INVESTIGATION

BACKGROUND

On May 1, 2014, SourceGas Distribution LLC, Golden, Colorado ("SourceGas" or "Company") filed an application with the Nebraska Public Service Commission ("Commission") seeking approval to put into effect a system safety and integrity rider (SSIR) tariff and system safety and integrity rider charge. The Company's application requests to adjust the Customer Charge applicable to all customers served under Rate Schedule CGS (Choice Gas Service) and Rate Schedule ACGS-NSS (Agricultural Choice Gas Service – Non-Seasonal Service) to recover certain system safety and integrity costs outside the context of a general rate case.

On October 28, 2014, the Commission issued an Order approving in part the Company's request for an SSIR. In its Order, the Commission explained the basis for its decision:

> The Commission seeks to establish a regulatory scheme that encourages natural gas companies to invest in the safety and integrity of their systems to protect the public. Failure to address the company's ability to recover costs may result in a less robust infrastructure replacement program and more frequent rate cases. Such outcomes undermine the safety and integrity of the natural gas system and impose increased administrative costs on ratepayers.
>
> However, any regulatory framework must include steps to mitigate potentially negative impacts on ratepayers. Allowing the utility to recovery costs on a projected basis between general rate cases without a full review of all of the elements of the cost of service could lead to over-recovery by the utility. Therefore, any cost recovery mechanism should be narrowly tailored to accomplish the Commission's specific policy objective to ensure a safe and reliable system and include reasonable reporting and monitoring to ensure rates remain just and reasonable.[1]

The Commission approved the SSIR with certain modifications and conditions. In addition to providing for a more formal review process, the Order required that SourceGas file a general rate case every sixty (60) months, pay interest to ratepayers on any over collection of SSIR revenues, and make quarterly surveillance filings. Finally, in the Order, the Commission found that should SourceGas implement the SSIR charge, the utility would not file a general rate case prior to January 1, 2017.

On October 31, 2014, SourceGas filed SourceGas Distribution's Nineteenth Revised Tariff Sheet No. 7, which reflects the addition of the Safety and Integrity Charge in SourceGas's rates effective November 1, 2014. The rates filed are as follows:

Table 1: Approved Customer Charge for Rate Schedules CGS and ACGS-NSS

Type of Charge	Residential	Small Commercial	Large Commercial
Customer Charge	$15.23	$23.28	$56.68
Pipeline Replacement Charge (ISR)	$0.84	$1.80	$11.38
Safety and Integrity Charge (SSIR)	$0.78	$1.67	$11.75
Total Approved Customer Charge	$16.85	$26.75	$79.81

A technical conference was held on November 3, 2014. Subsequently, on November 4, 2014, the Commission entered an order modifying certain deadlines and providing a process for the filing of an application for 2015 costs.

On November 7, 2014, SourceGas filed a Motion for Reconsideration of certain portions of the Order specifically related to the rate case moratorium and asymmetrical interest provision. On November 24, 2014, the Commission granted in part and denied in part the Company's Motion for Reconsideration.

[1] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, pages 4-5.

In conclusion, barring the Company's pursuit of any additional judicial relief, the SSIR was approved under the following provisions:

1. SourceGas must not file a general rate case prior to ~~January 1, 2017~~ ***January 1, 2016***.[2]

2. A general rate case application pursuant to §66-1838 must be filed at least every sixty (60) months.[3]

3. Future applications shall be filed no later than ~~September~~ ***October 1*** to allow for a more formalized review process and in order for a surcharge to be effective by ~~January~~ ***February 1*** of the following year.[4]

4. All future SSIR filings will be made in the present docket.[5]

5. SourceGas should file the final reconciliation calculations on or before ~~September~~ October 1 annually.[6]

6. Reconciliation calculations should include interest on any over-collection ***or under-collection*** of SSIR revenue. ~~No interest shall be included in the case of an under-collection of SSIR revenue~~.[7]

7. SourceGas must file quarterly surveillance filings within ~~forty-five (45)~~ ***sixty (60) days*** of the end of each quarter. Such filing shall include calculations of the rate base separated into regular and SSIR components, the realized rates of return on the rate base components, along with supporting calculations. Additionally, the filing should include an update regarding the status of the SSIR project costs, in service dates, and expected schedule over the ensuing duration of the SSIR.[8]

8. No limit on the SSIR charge was implemented at this time. However, the Commission may impose a limit should the Commission find that the requested surcharge is of such a magnitude as to not be in the best interest of the ratepayers.[9]

9. SourceGas may file an SSIR application for 2015 costs on or before November 20, 2014, with an implementation date of February 1, 2015. The filing will require a more limited

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[2] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, page 5 and modified in Order Granting in Part and Denying in Part Motions for Reconsideration, dated November 24, 2014, page 4.
[3] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, page 5.
[4] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, page 5 and modified in Order Modifying Order Approving Application in Part, dated November 4, 2014, page 1.
[5] Docket No. NG-0078, Order Modifying Order Approving Application in Part, November 4, 2014, page 1.
[6] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, page 5 and modified in Order Modifying Order Approving Application in Part, dated November 4, 2014, page 1.
[7] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, page 5 and modified in Order Granting in Part and Denying in Part Motions for Reconsideration, dated November 24, 2014, page 4.
[8] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, pages 5-6 and modified in Order Modifying Order Approving Application in Part, dated November 4, 2014, page 1
[9] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, page 6.

> review to ensure that the projects and associated costs are eligible and the calculations are accurate.[10]

On November 10, 2014, the Company filed an application for recovery of 2015 Eligible System Safety and Integrity Costs through the Safety and Integrity Charge with respect to SSIR Projects as those terms are defined and applied on Tariff Sheet Nos. 11-15 (the "SSIR Tariff"). If approved by the Commission, the Safety and Integrity Charge would increase the monthly Customer Charge as follows:

Table 2: Proposed Change to Approved Customer Charge for Rate Schedules CGS and ACGS-NSS

Type of Charge	Residential	Small Commercial	Large Commercial
Customer Charge	$15.23	$23.28	$56.68
Pipeline Replacement Charge (ISR)	$0.84	$1.80	$11.38
Safety and Integrity Charge (SSIR)	$0.78	$1.67	$11.75
Proposed Increase to Safety and Integrity Charge	$0.28	$0.59	$3.80
Total Customer Charge	$17.13	$27.34	$83.61

The Company agreed to accept the Public Advocate's recommendation to incorporate an ISR-type review process and modified Tariff Sheet Nos. 11-15 (the "SSIR Tariff"). The tariff language reads as follows:

> The Public Advocate shall conduct an examination of the Annual Application. The Public Advocate shall cause an examination to be made of the Annual Application to confirm that the underlying actual and projected Eligible System Safety and Integrity Costs ("SSIR revenue requirements") are in accordance with this SSIR Tariff and to confirm proper calculation of the SSIR True-Up Amount and the Deferred SSIR Balance. The Commission shall require a report regarding such examination to be prepared and filed by the Public Advocate with the Commission not later than sixty days after the Annual Application is filed. No other revenue requirement or ratemaking issue shall be examined in consideration of the Annual Application unless the consideration of such affects the determination of the validity of the System Safety and Integrity Rider Charge.
>
> The Commission shall hold a hearing on the Annual Application at which the Public Advocate shall present his or her report and shall act as trial staff before the Commission. The Commission shall issue an order to become effective not later than one hundred twenty days after the Annual Application is filed. If the Commission finds that the Annual Application complies with the requirements of the SSIR Tariff, the Commission shall enter an order authorizing the Company to collect the proposed System and Safety and Integrity Rider Charge, including any SSIR True-Up Amount and any Deferred SSIR Balance, effective on February 1 of that year.[11]

Based upon the above, the Public Advocate is required to conduct an examination of the Annual Application to confirm that the underlying actual and projected Eligible System Safety and Integrity

[10] Docket No. NG-0078, Order Modifying Order Approving Application in Part, November 4, 2014, page 1.
[11] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.2.B and C.

Costs ("SSIR revenue requirements") are in accordance with the SSIR Tariff and to confirm proper calculation of the SSIR True-Up Amount and the Deferred SSIR Balance.

SourceGas's initial SSIR Application in Docket No. NG-0078 reflected costs and projects associated with 2014 Projects. To ensure that future applications to be filed on October 1 of each year contain both the proposed projects for the next year and reconciliation calculations for the prior year, SourceGas's November 10, 2014, application includes the 2015 proposed projects. The application for 2015 costs does not contain the reconciliation calculations that will be part of the October 1 filings.

The Public Advocate retained Blue Ridge Consulting Services, Inc. to conduct a limited review of SourceGas' Application for recovery of 2015 Eligible System Safety and Integrity Costs through the Safety and Integrity Charge to ensure that the projects and associated costs are eligible and the calculations are accurate.

PURPOSE OF PROJECT

The purpose of the project is to conduct a review of SourceGas's Application for recovery of 2015 Eligible System Safety and Integrity Costs through the Safety and Integrity Charge to ensure that the projects and associated costs are eligible and the calculations are accurate with respect to SSIR Projects as those terms are defined and applied on Tariff Sheet Nos. 11-15 (the "SSIR Tariff") and the Commission orders. Specifically, the following questions will be answered:

1) Are the Company's processes and controls sufficient so as to not adversely affect the costs of the System Safety and Integrity Recovery Charge?

   This task focuses on gaining an understanding of the Company's processes and controls that impact the plant balances and expense categories within the SSIR to ensure that the cost controls are adequate and not unreasonable so as to impact the underlying costs and calculation of the proposed SSIR cost recovery charge rates and rate schedules.

2) Does the application provide the information required by Commission orders and specified in the SSIR Tariff?

   This task evaluates whether SourceGas's application provides the required information.

   Specifically, the approved SSIR Tariff requires that the Annual Application include the following:

   - Pertinent information and supporting data related to Eligible System Safety and Integrity Costs, including, as a minimum, Project description and scope, Project costs, and projected in-service dates for the Projects budgeted to be completed in the upcoming calendar year

   - Details of the Projects costs incurred during the previous calendar year, including an explanation of how the Project costs were managed and any deviations between budgeted and actual costs

   - The calculation of the SSIR True-Up Amount, if any

- The Calculation of the Deferred SSIR Balance, if any[12]

In addition, as part of its analysis, the Company shall identify and describe the proposed Projects that are for high-risk gas infrastructure by providing its risk assessment for each such Project, including, if applicable, the probability of failure, the consequences of failure for the Project, and how it prioritized the Project for which it seeks recovery.[13]

3) Are the System Safety and Integrity Projects eligible for recovery?

This task evaluates each of the Projects that SourceGas has included within its application against Commission orders and the SSIR Tariff to determine eligibility for recovery through the SSIR. Specific transactional testing criteria will be established to validate eligibility of the project and its associated costs.

As stated in the SSIR Tariff, Eligible System Safety and Integrity Projects are one or more of the following:

1. TIMP: 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. DIMP: 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. PHMSA: Projects to comply with final rules and regulations of the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration that become effective on or after the filing date of the Application requesting approval of this SSIR; and

4. Relocations: 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.[14]

4) Is the revenue requirement associated with the Eligible System Safety and Integrity Costs requested by SourceGas in compliance with Commission orders and as specified in the SSIR Tariff?

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[12] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.2.A, i-iv.
[13] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.C.
[14] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.C.

This task reviews the components and calculations used by SourceGas to determine its revenue requirement associated with recovery of the Eligible System Safety and Integrity Costs against what is required in Commission orders and the SSIR Tariff.

Specifically, the SSIR Tariff states that Eligible System Safety and Integrity Costs means (1) 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 shall be in effect, exclusive of all plant in-service included in the determination of the revenue requirement approved in the Company's last general rate case; (2) the plant-related ownership costs associated with such incremental plant investment, including depreciation, accumulated deferred income taxes, and all taxes including income taxes and property taxes; and (3) the projected jurisdictional component of the operation and maintenance expenses related to the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge shall be in effect.[15]

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 for future growth that is not specifically required by statute or regulation, shall be excluded from Eligible System Safety and Integrity Costs.[16]

5) Is the System Safety and Integrity Rider Charge calculated in compliance with Commission orders and as specified in the SSIR Tariff?

This task reviews the components and calculations of the System Safety and Integrity Rider Charge to determine if they comply with Commission orders and as specified in the SSIR Tariff.

Specifically, the System Safety and Integrity Rider Charge shall be 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 the Company's most recent general rate case, divided by the applicable number of bills for the particular customer class, as follows:[17]

System Safety and Integrity Rider Charge =

$((A \pm B \pm C) * D) / E$

Where:

A = Eligible System and Safety and Integrity Costs

B = SSIR True-Up Amount

C = Deferred SSIR Balance

[15] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.B.
[16] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.B.
[17] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.4.A.

D = Customer class allocation basis authorized by the Commission to determine the class cost of service in the Company's most recent general rate case

E = Applicable number of bills for the particular customer class

The SSIR True-Up Amount shall be equal to the difference, positive or negative, between the Eligible System Safety and Integrity Costs as projected for a particular calendar year and the actual Eligible System Safety and Integrity Costs incurred by the Company for that particular calendar year, plus monthly interest calculated on that difference at a rate equal to the then current rate of interest on pipeline refunds established by the Federal Energy Regulatory Commission.[18]

The Deferred SSIR Balance shall be equal to the balance, positive or negative, of SSIR revenues at the end of a particular calendar year less the Eligible System Safety and Integrity Costs as projected by the Company for that particular calendar year, plus monthly interest calculated on that balance at a rate equal to the then current rate of interest on pipeline refunds established by the Federal Energy Regulatory Commission.[19]

The calculated rate shall be an adjustment to the Customer Charge applicable to the Company's 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).[20]

Whenever the Company implements changes in base rates as a result of a final Commission order in a general rate case setting new rates based on approved revenue requirements, the Company shall simultaneously adjust the SSIR to remove all costs that have been included in base rates.[21]

6) Is the amount and timing of the System Safety and Integrity Rider Charge request within the limits established by the Commission?

This task compares the amount and timing of SourceGas's System Safety and Integrity Rider Charge request to the limits established by the Commission.

Specifically, the Commission set no limit on the amount that can be recovered through the System Safety and Integrity Rider Charge at this time. However, the Commission may impose a limit should the Commission find that the requested surcharge is of such a magnitude as to not be in the best interest of the ratepayers.[22]

Each proposed revision in the System Safety and Integrity Rider Charge shall be accomplished by filing an application by October 1 for each year to take effect on the following February 1 (the "Annual Application").[23]

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[18] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.D.
[19] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.A.
[20] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.4.B.
[21] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.5.
[22] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, page 6.
[23] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.2.A.

The Company shall not make effective any revision to the System Safety and Integrity Rider Charge if the Company has not had a general rate proceeding decided or dismissed by issuance of a Commission order within sixty months immediately preceding the date upon which the revision to the System Safety and Integrity Rider Charge otherwise would take effect.[24]

The Company shall not collect a System Safety and Integrity Rider Charge for a period exceeding sixty months after its initial effective date unless within such sixty-month period the Company has filed for or is the subject of a new general rate proceeding, except that the System Safety and Integrity Rider Charge may be collected until the effective date of new rate schedules established as a result of the new general rate proceeding or until the general rate proceeding is otherwise decided or dismissed by issuance of a Commission order without new rates being established.[25]

7) What is the appropriate level of recovery of the System Safety and Integrity Rider Charge?

   This task accumulates Blue Ridge's recommended adjustments and provides a revised level of recovery for the Commission's consideration, if necessary.

8) Did the Company timely file the required quarterly surveillance filings with the required information in compliance with Commission orders? Were the quarterly surveillance filings consistent with the Annual Application?

   This task confirms that SourceGas timely filed the quarterly surveillance filings with the required information as required by Commission order. The information will be reviewed and compared to the Annual Application for any anomalies.

   Specifically, SourceGas must file quarterly surveillance filings within sixty (60) days of the end of each quarter. The filings shall include calculations of the rate base separated into regular and SSIR components, the realized rates of return on the rate base components, and supporting calculations. Additionally, the filing should include an update regarding the status of the SSIR project costs, in service dates, and expected schedule over the ensuing duration of the SSIR.[26]

PROJECT SCOPE

The project scope includes the application filed by SourceGas Distribution LLC on November 10, 2014: *Re: In the Matter of the Application of SourceGas Distribution LLC, Golden. Colorado, for an Order Authorizing It to Put Into Effect a System Safety and Integrity Rider Charge,* Docket No. NG-0078. The Application includes the 2015 proposed projects and completes the initial filing to ensure that future applications to be filed on October 1 of each year contain both the proposed projects for the next year and reconciliation calculations for the prior year.

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[24] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.6.
[25] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.6.
[26] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, pages 5-6 and modified in Order Modifying Order Approving Application in Part, dated November 4, 2014, page 1.

This application does not contain the reconciliation calculations that will be part of future filings. This review will be limited to ensuring that the projects and associated costs are eligible and the calculations are accurate.

INFORMATION REVIEWED

Blue Ridge reviewed the following information and has included electronic copies within Appendix A:

1) State Natural Gas Regulation Act §§ 66-1810, 66-1825 and 66-1838
2) Nebraska Administrative Code Title 291, Chapter 9 – Nebraska Public Service Commission
3) Docket No. NG-0067, Order Granting Application in Part, dated May 22, 2012, [Last Base Rate Case]
4) Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014
5) Docket No. NG-0078, SourceGas Distribution LLC filing of Nineteenth Revised Sheet No. 7 reflecting the addition of the Safety and Integrity Charge dated October 31, 2014
6) Docket No. NG-0078, Order Modifying Order Approving Application in Part, dated November 4, 2014
7) Docket No. NG-0078, Order Granting in Part and Denying in Part Motion for Reconsideration, dated November 24, 2014
8) Docket No. NG-0078, SourceGas Distribution LLC REDLINE VERSION of First Revised Sheets No. 11-15, System Safety and Integrity Rider (the "SSIR Tariff"), Exhibit JSH-6.
9) Docket No. NG-0078, SourceGas Distribution LLC First Revised Sheets No. 11-15, System Safety and Integrity Rider (the "SSIR Tariff"), filed December 11, 2014.
10) Docket No. NG-0078, SourceGas Distribution LLC Application dated November 10, 2014, requesting recovery of 2015 Eligible System Safety and Integrity Costs through the Safety and Integrity Charge
11) Docket No. NG-0078, SourceGas Distribution LLC revision to exhibits in Application filed November 10, 2014, dated November 12, 2014

During the audit process, Blue Ridge requested and was provided additional information. A list of the data requested is included as Appendix C. Electronic copies of the information obtained is also provided with this report.

OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

This section documents Blue Ridge's analysis regarding the System Safety and Integrity Rider and the evaluation questions identified under the Purpose of the Project section. The questions are as follows:

1) Are the Company's processes and controls sufficient so as to not adversely affect the costs of the System Safety and Integrity Recovery Charge?

2) Does the application provide the information required by Commission orders and specified in the SSIR Tariff?

3) Are the System Safety and Integrity Projects eligible for recovery?

4) Is the revenue requirement associated with the Eligible System Safety and Integrity Costs requested by SourceGas in compliance with Commission orders and as specified in the SSIR Tariff?

5) Is the System Safety and Integrity Rider Charge calculated in compliance with Commission orders and as specified in the SSIR Tariff?

6) Is the amount and timing of the System Safety and Integrity Rider Charge request within the limits established by the Commission?

7) What is the appropriate level of recovery of the System Safety and Integrity Rider Charge?

8) Did the Company timely file the required quarterly surveillance filings with the required information in compliance with Commission orders? Were the quarterly surveillance filings consistent with the Annual Application?

1. PROCESSES AND CONTROLS

1) Are the Company's processes and controls sufficient so as to not adversely affect the costs of the System Safety and Integrity Recovery Charge?

This task focuses on gaining an understanding of the Company's processes and controls that impact the plant balances and expense categories within the SSIR to ensure that the cost controls are adequate and not unreasonable so as to impact the underlying costs and calculation of the proposed SSIR cost recovery charge rates and rate schedules.

To address this task, Blue Ridge relied upon the work performed in its examination in Docket No. NG-0072.01 and documented in Blue Ridge's report dated June 30, 2014. During our examination of the Company's Infrastructure System Replacement Cost Recovery Charge, we reviewed SourceGas's processes and controls to ensure that they were sufficient so as to not adversely affect the costs in the ISR. The Company's processes and controls were found to be adequate and not unreasonable.

2. REQUIRED INFORMATION

2) Does the application provide the information required by Commission orders and specified in the SSIR Tariff?

This task evaluates whether SourceGas's application provides the required information.

Requirement: The approved SSIR Tariff requires that the Annual Report include pertinent information and supporting data related to Eligible System Safety and Integrity Costs, including, as

a minimum, Project description and scope, Project costs, and Projected in-service dates for the Projects budgeted to be completed in the upcoming calendar year.[27]

Blue Ridge found that the Company provided Project description and scope, estimated Project costs, and projected in service dates on the 58 projects included within the Company's Application.

Requirement: The Annual Application shall include details of the Projects' costs incurred during the previous calendar year, including an explanation of how the Project costs were managed and any deviations between budgeted and actual costs.[28]

Blue Ridge found that the Company's Application includes the 2015 projected Projects, and the analysis of budgeted versus actual costs is not applicable. The budgeted versus actual costs will be provided in the October 1 filing.

Requirement: The Annual Application shall include the calculation of the SSIR True-Up Amount, if any.[29]

Blue Ridge found that the Company's Application includes the 2015 projected Projects, and the analysis of the SSIR True-Up Amount is not applicable. The October 1 filing is expected to include any SSIR True-Up Amount.

Requirement: The Annual Application shall include the Calculation of the Deferred SSIR Balance, if any.[30]

Blue Ridge found that the Company's Application includes the 2015 projected Projects. The October 1 filing is expected to include any Deferred SSIR Balance.

Requirement: As part of its analysis, the Company shall identify and describe the proposed Projects that are for high-risk gas infrastructure by providing its risk assessment for each such Project, including, if applicable, the probability of failure, the consequences of failure for the Project, and how the Company prioritized the Project for which it seeks recovery.[31]

Blue Ridge found as part of our Project testing, discussed in the Eligibility of Projects section of this report, the Company provided the required information on the 58 projects included within the Company's Application.

3. ELIGIBILITY OF PROJECTS

3) Are the System Safety and Integrity Projects eligible for recovery?

This task evaluates each of the Projects that SourceGas has included within its application against Commission orders and the SSIR Tariff to determine eligibility for recovery through the SSIR. Specific transactional testing criteria were established to validate eligibility of the project and its associated costs. This section also summarizes testing completed to confirm specific

[27] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.2.A, i.
[28] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.2.A, ii.
[29] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.2.A, iii.
[30] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.2.A, iv.
[31] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.C.

requirements addressed in other sections such as required information and the exclusion of betterments.

Requirement: As stated in the SSIR Tariff, eligible System Safety and Integrity Projects are one or more of the following:

1. TIMP: 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. DIMP: 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. PHMSA: Projects to comply with final rules and regulations of the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration that become effective on or after the filing date of the Application requesting approval of this SSIR; and

4. Relocations: 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.[32]

Description of Projects

The Company provided a narrative describing the 2015 SSIR Projects.[33] The Company identified 13 types of projects totaling $13,983,439 and provided background, classification under the SSIR Tariff, objective criteria analyzed, project description, and the specific projects. The 13 types of projects, number of projects, and total cost by type are as follows:

1. Replacement of Bare Steel Distribution Main – 7 projects totaling $981,564
2. Replacement of Transmission Pipeline – 2 projects totaling $1,723,334
3. Barricades – 6 projects totaling $264,307
4. Cathodic Protection and Corrosion Prevention – 7 projects totaling $76,335
5. Span Replacements – 5 projects totaling $337,955
6. Town Border Stations – 9 projects totaling $706,024
7. Top of Ground (TOG) Replacement – 8 projects totaling $8,903,705
8. Centerline Surveys – 1 project with no costs included

[32] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.C.
[33] SourceGas Application dated November 10, 2014, Corrected Exhibit 3 – "2015 Projects Reflected in the System Safety and Integrity Rider for SourceGas Distribution LLC in Nebraska."

9. Maximum Allowable Operating Pressure (MAOP) Verification – 2 projects totaling $333,857
10. MAOP Projection – 7 projects totaling $401,063
11. Meter Relocations – 2 projects totaling $194,324
12. Obsolete Valve Replacement – 1 project totaling $60,970
13. Facility Relocation Projects – no costs included

The Company's Application includes 58 projects for 2015. The Company is not seeking recovery on two of the projects at this time: Nebraska Highway Relocation Program and Centerline Survey.

Nebraska Relocation Program: The Company did not include the costs associated with any facility relocation projects in connection with municipal infrastructure projects. The Company explained that municipalities typically do not finalize their plans for infrastructure projects for a particular calendar year until late in the calendar year or early in the next calendar year. Consequently, although the Company is aware of several potential municipal infrastructure projects in 2015 that may require the Company to conduct facility relocation projects, the costs of which are Eligible System Safety and Integrity Costs for recovery through the SSIR Tariff, those Projects are not sufficiently definitive at this time for the Company to request recovery of Eligible System Safety and Integrity Costs through this filing. Therefore, as part of its quarterly surveillance reports, the Company will provide updates of its facility relocation projects in connection with municipal infrastructure projects and will seek to recover the Eligible System Safety and Integrity Costs associated with those projects in the October 1 filing.[34]

Centerline Survey: The Centerline Survey costs were not included as this is a multi-year initiative that began in 2014 to collect GPS centerline information of the entire natural gas transmission pipeline system.[35] The project will be completed in 2016 and costs will be recovered in the 2016 SSIR.[36]

A modified excerpt from the Company's application listing the 2015 proposed projects by type is provided in the following table.

[34] SourceGas's Application dated November 10, 2014, Corrected Exhibit 3, page 3. Note: the Application was filed prior to the SSIR Tariff filing. The Company stated it would include the relocation projects in its November 1 filing. Since the filing date was subsequently changed to an October 1 filing, it is assumed that the update will be provided on October 1 consistent with the Commission orders.
[35] SourceGas's Application dated November 10, 2014, Corrected Exhibit 3, page 23.
[36] SourceGas's Application dated November 10, 2014, Corrected Exhibit 3, page 3 and SourceGas's response to Information Request PA-3.

Table 3: 2015 Projects Sorted by Type[37]

Line	Internal Order or Budget ID	Description	Narrative Section Reference	In-Service Date	Betterment Credit	Total In-Service
1	015-286	Isolated Bare Steel replacement Ogallala NE	A.4.a)	Dec-15	-	482,885
2	015-414	Sutton / Deshler Baremain Changeout	A.4.b)	Sep-15	-	99,445
3	015-382	Sidney- Golf Course main replacement	A.4.c)	Nov-15	-	124,867
4	015-344	Scottsbluff- Bare main replacement - Block 65	A.4.d)	Nov-15	-	18,291
5	014-451	Mitchell - Main change out - Block 81	A.4.e)	Oct-15	-	24,388
6	015-373	Scotsbluff - Bare main replacement - Blocks 64,81,96.	A.4.f)	Nov-15	-	48,776
7	014-201	Bayard - Blks 42&43/72&73 - Bare Steel Replacement	A.4.g)	Sep-15	-	182,911
8	015-322	270-0030 Arapahoe to Holbrook Main Replacement	B.4.a)	Nov-15	-	835,294
9	015-422	Sutton 460-0160 Deshler-Chester Lateral Mainline Replacement	B.4.b)	Dec-15	-	888,040
10	015-507	Sutton Barricades	C.4.a)	Dec-15	-	60,970
11	015-332	Holdrege Meter Guards & Barricades	C.4.b)	Dec-15	-	24,388
12	015-263	Kearney Meter Guards & Barricades	C.4.c)	Dec-15	-	28,961
13	015-313	Albion Meter Guards & Barricades	C.4.d)	Dec-15	-	79,261
14	015-343	Scottsbluff Division - meter gaurds / barricades	C.4.e)	Dec-15	-	29,266
15	015-297	McCook Division Meter Guards & Barricades	C.4.f)	Dec-15	-	41,460
16	015-326	Holdrege 480-1739 Anode Bed #1	D.4.a)	Sep-15	-	7,926
17	015-327	Holdrege 480-1739 Anode Bed #2	D.4.a)	Sep-15	-	7,926
18	015-328	Holdrege 480-1739 Anode Bed #3	D.4.a)	Sep-15	-	7,926
19	015-329	Holdrege 480-1739 Anode Bed #4	D.4.a)	Sep-15	-	7,926
20	015-330	Holdrege 480-2365 Anode Bed #1	D.4.b)	Sep-15	-	7,926
21	015-331	Holdrege 480-2365 Anode Bed #2	D.4.b)	Sep-15	-	7,926
22	015-412	Sutton 4 Mag Anode Beds	D.4.c)-e)	Sep-15	-	28,778
23	015-272	St Edward Span Replacement	E.4.a)	Jul-15	-	27,545
24	014-331	Gordon - Blk 54 - 4" Span removal from road bridge	E.4.b)	Aug-15	-	54,873
25	014-435	Broadwater - Span at Broadwater Canal - Remove span on 6" Trans. to Lewell	E.4.c)	Oct-15	-	84,834
26	015-399	NorthPort - Span RPLC - Transmission	E.4.d)	Oct-15	-	128,038
27	014-409	Scottsbluff- Span replacement	E.4.e)	Aug-15	-	42,665
28	014-616	Arapahoe TBS Replacement	F.4.a)	Sep-15	-	75,597
29	014-615	Loomis TBS Replacement	F.4.b)	Sep-15	-	75,597
30	015-415	Chester TBS Replacement	F.4.c)	Nov-15	-	73,164
31	015-419	Waco TBS Replacement	F.4.d)	Nov-15	-	73,164
32	015-421	Phillips TBS Replacement	F.4.e)	Dec-15	-	73,164
33	015-400	Rushville - TBS Replacement	F.4.f)	Nov-15	-	91,456
34	015-289	McCook South TBS Replacement	F.4.g)	Nov-15	-	146,329
35	015-279	Plainview Line Heater	F.4.h)	Sep-15	-	48,776
36	015-280	O'Neill #2 Line Heater Replacement	F.4.i)	Sep-15	-	48,776
37	015-323	Holdrege - TOG 250-1813	G.4.a)	Nov-15	-	31,705
38	015-248	Kearney TOG 370-1720 (Area 8)	G.4.b)	Sep-15	(23,639)	1,463,743
39	015-249	Kearney TOG 370-1720 (Area 9)	G.4.c)	Sep-15	(12,606)	822,641
40	015-250	Kearney TOG 370-8007 (Area 10)	G.4.d)	Oct-15	(16,710)	1,083,139
41	015-288	McCook TOG replacement Farnum to Curtis	G.4.e)	Dec-15	(1,633)	47,143
42	015-580	Sutton 400-1750 (14) 50,260' of 2" steel TOG	G.4.f)	Dec-15	-	1,300,535
43	015-581	Sutton 400-1750 (15) 52,640' of 2" steel TOG	G.4.g)	Dec-15	-	1,437,959
44	015-582	Sutton 390-3308 (9) 37500' of 4" steel, and 61,000' of 2" steel TOG	G.4.h)	Dec-15	-	2,716,840
45	015-681	Centerline Survey	H.4	Dec-16	-	-
46	015-274	Creighton Lateral Replacement	I.4.a)	Nov-15	(11,334)	279,608
47	015-290	Grant Lateral MAOP Verification	I.4.b)	Nov-15	(624)	54,249
48	015-253	Kearney TIGT Reg at Assumption	J.4.a)	Oct-15	-	30,851
49	015-254	Kearney TIGT Reg at Roseland/Holstein	J.4.b)	Oct-15	-	30,851
50	015-255	Kearney TIGT Reg at Campbell/Bladen	J.4.c)	Oct-15	-	30,851
51	015-256	Kearney TIGT Reg at Upland N Feed	J.4.d)	Oct-15	-	30,851
52	015-257	Kearney TIGT Reg at Upland S Feed	J.4.e)	Oct-15	-	30,851
53	015-258	Kearney TIGT Reg at Macon	J.4.f)	Oct-15	-	30,851
54	015-512	Sutton Tallgrass Reg Projects	J.4.g)-i)	Dec-15	-	215,957
55	015-269	Fullerton Meter Relocation	K.4.a)	Jul-15	-	44,458
56	015-368	Alliance - Meter Relocation -- Blks 112/113	K.4.b)	Oct-15	-	149,865
57	015-287	Replace Crane Valves to Mueller valves, Cambridge to McCook	L.4.a)	Dec-15	-	60,970
58	014-695	Nebraska Highway Relocation Program	M	Dec-15	-	-
		Subtotal - 2015 Projects			(66,546)	13,983,439

[37] WP Attachment PA-1 SSIR Rev Req Model.xlsx.

Project Testing

Each 2015 Project was evaluated based on objective criteria identified as T1 through T8 in the following section.[38] The findings of Blue Ridge's review against the criteria are summarized below.

T1 Did each Project include the Project description and scope, costs, and in-service date required by the SSIR Tariff and Commission Orders?

Blue Ridge found that the Company provided adequate descriptions and scope of work for each 2015 Project. Each 2015 Project included an estimated cost and estimated in-service date.

T2 For the proposed projects that are for high-risk gas infrastructure, did the Company provide a risk assessment, including the probability of failure, the consequence of failure, and how Company prioritized the project for recovery?

Blue Ridge found that the 2015 Projects did not include projects being done within a high consequence area[39] and thus the required information of those categories of projects was not provided.

T3 Does the project qualify as an eligible System Safety and Integrity Project?

As stated in the SSIR Tariff, eligible System Safety and Integrity Projects must meet one or more of the following:

1. TIMP: 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. DIMP: 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. PHMSA: Projects to comply with final rules and regulations of the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration that become effective on or after the filing date of the Application requesting approval of this SSIR; and

4. Relocations: 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

[38] WP 2015 SSIR Project Testing Matrix.xlxs.
[39] SourceGas's Application dated November 10, 2014, Corrected Exhibit 3, pages 3-4.

subdivision of the State of Nebraska or another entity having the power of eminent domain.[40]

Blue Ridge found that the Company explained in sufficient detail how each Project qualified under the DIMP, TIMP or PHMSA requirements and, therefore, qualified as an eligible System Safety and Integrity Projects. The Company did not include the costs associated with any facility relocation projects in connection with municipal infrastructure projects.

T4 Did the Company properly exclude the cost of Betterments for projects that extended service or for future growth?

The SSIR Tariff 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 of for future growth that is not specifically required by statute or regulation, shall be excluded from Eligible System Safety and Integrity Costs.[41]

Table 4: 2015 Projects with Upgrades[42]

Project #	Project Description	Betterment Credit	Comment
015-248	Kearney, Nebraska – TOG Replacement 370-1720 (Area 8)	($23,639)	Betterment with Credit
015-249	Kearney, Nebraska – TOG Replacement 370-1720 (Area 9)	($12,606)	Betterment with Credit
015-250	Kearney, Nebraska – TOG Replacement 370-8007 (Area 10)	($16,710)	Betterment with Credit
015-274	Creighton Lateral Replacement	($11,334)	Betterment with Credit
015-288	McCook, Nebraska – TOG Replacement Farnam to Curtis	($1,633)	Betterment with Credit
015-290	Grant Lateral MAOP Verification	($624)	Betterment with Credit
015-382	Sidney – Golf Course Main Replacement		Replace 1 1/4" with 2"
015-580	Sutton 400-1750 (14) 50,260' of 2" steel TOG		Replace 1 1/4" with 2"
015-581	Sutton 400-1750 (15) 52,640' of 2" steel TOG		Replace 1 1/4" with 2"
015-582	Sutton 390-3308 (9) 37500' of 4" steel and 61,000' of 2" steel TOG		Replace 1 1/4" with 2"
015-422	Sutton, Nebraska – Deshler to Chester Lateral Mainline Replacement		Replace 2" with 4"
015-323	Holdrege, Nebraska – TOG Replacement 250-1813		Replace 1 1/4" with 2"
	Total	($66,546)	

Blue Ridge found that the Company excluded the cost of Betterments from six projects of the 2015 Projects. Blue Ridge found that the estimated cost detail did not contain information related to the Betterment exclusion. We recommend that the actual costs associated with the Betterment exclusion should be tested in the True-Up of the 2015 Projects.

Blue Ridge observed that the revenue requirements model Betterment Credit and the amount disclosed in the 2015 Project narrative was significantly different. The Top of Ground (TOP) Replacements' narrative incorrectly stated that betterment costs totaling $175,935 were excluded. The Company confirmed that the project list used to calculate the revenue

[40] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.C.
[41] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.B.
[42] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 3 and WP 2015 Project Testing Matrix.xlsx.

requirements excluded the correct amount of betterment costs for TOP Replacement Projects totaling $54,588.[43]

Blue Ridge found six other projects that increased pipe size that did not have betterment credits. Upon further investigation, we determined that the Company had a reasonable explanation for the increase in pipe size.

- 015-382 Sidney – Golf Course Main Replacement
- 015-323 Holdrege, Nebraska – TOG Replacement 250-1813
- 015-580 Sutton 400-1750 (14) 50,260' of 2" steel TOG
- 015-581 Sutton 400-1750 (15) 52,640' of 2" steel TOG
- 015-582 Sutton 390-3308 (9) 37500' of 4" steel and 61,000' of 2" steel TOG

  In regards to these projects, the Company stated that it is less expensive to replace 1 ¼" steel pipe with 2" PE pipe. The Company, like other utilities has standardized pipe sizes and rarely uses 1 ¼" pipe of any kind. This standardization allows for a reduction in warehousing and tooling costs. The decision to use 2" PE pipe was not driven by load growth potential or increased throughput requirements.[44]

- 015-422 Sutton, Nebraska – Deshler to Chester Lateral Mainline Replacement

  In regard to this project, the Company stated that it is less expensive to replace 2" bare steel pipe with 4" PE pipe. The Company is using 4" PE pipe rather than 2" PE pipe to enable the same throughput in the 2" bare steel pipe at the appropriate pressure. The decision to use 4" PE pipe was not driven by load growth potential or increased throughput requirements. No new customers or load has been identified on this segment.[45]

While the increased pipe size reduces the cost of these projects, the increase in pipe size could result in increased throughput and an increase in revenue. Any increase in revenue should be recognized in the next general rate case, which the Commission required to be filed every 60 months.

T5 Are the project estimates in sufficient detail and do they include supporting documentation to support estimated costs?

Blue Ridge found that the Company provided estimated costs identified as internal cost, outside contractors, materials and supplies, environmental, and AFUDC, if applicable. Overheads are added to those costs and the total is included in the SSIR. The detail provided was sufficient for an estimate.

The Company used an overhead rate of 21.94%.[46] The overhead rate used appears to be reasonable for an estimate based on what was observed in other projects. The Company used

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[43] SourceGas's Application dated November 10, 2014, Corrected Exhibit 3, page 20, and Exhibit 4, Table 3 – TOG Replacement Projects and SourceGas's response to Information Request PA-42.
[44] SourceGas's response to Information Request PA-5, PA-20, and PA-25.
[45] SourceGas's response to Information Request PA-9.
[46] SourceGas's response to Information Request PA-33.

an AFUDC rate of 2% for those projects eligible for AFUDC. This AFUDC rate is reasonable and consistent with what was observed in prior examinations. The Company applied a contingency factor between 5% and 20% on eight main replacement projects.[47]

The 2015 Project costs are based on estimates. The True-Up to be included in the October 1 filing will adjust the SSIR to actual costs, and the Company is required to provide an explanation of how the Project costs were managed and any deviations between budgeted and actual costs.

T6 Was the project included in the 2014 list of projects?

Blue Ridge found that several of the 2015 Projects were initially included within the 2014 Projects. The 2015 Projects were identified as continuation projects and include the same type of project and, in some instances, the same location with different project numbers and budgets. The costs associated with the 2014 Projects that were included as continuation projects in 2015 were excluded in the 2014 Project costs to prevent double counting of the costs. The total costs were moved to 2015 when the entire project will go in service.[48] The 2015 Projects included in the initial 2014 Project filing are listed in the following table.

Table 5: 2015 Projects Initially Included with 2014 Projects

		2014 Estimated Cost			
2015 SSIR Internal Order	Description	Initial Application	Revised at Hearing	2015 Cost	Difference
014-201	Bayard - Blks 42&43/72&73 - Bare Steel Replacement	$74,141	$0	$182,911	$108,770
015-373	Scotsbluff - Bare main replacement - Blocks 64,81,96.	$18,535	$0	$48,776	$30,241
014-409	Scottsbluff- Span replacement	$9,886	$0	$42,665	$32,779
014-615	Loomis TBS Replacement	$74,141	$0	$75,597	$1,456
014-616	Arapahoe TBS Replacement	$74,141	$0	$75,597	$1,456
015-274	Creighton Lateral Replacement	$200,791	$0	$279,608	$78,817
015-290	Grant Lateral MAOP Verification	$38,421	$0	$54,249	$15,828
		$490,056	$0	$759,403	$269,347
015-681	Centerline Survey	$1,156,605	$0	$1,258,429	$101,824

2014 Costs from Docket No. NG-0078, Exhibit CAB-17 and Exhibit 91

As shown in the table above the 2015 Project costs were, in some cases, substantially higher than the 2014 Project estimated costs. The Company provided explanation for the increase in project costs, which included increased use of third-party contractors, estimating errors, and changes in project scope.

Use of Third Party Contractors

- 014-201 Bayard-BLKS 42&43/72&73 Bare Steel Replacement, 2014 Project estimated cost $74,141, 2015 Project estimated costs $182,911, increase of $108,770: The Company stated that it plans to replace approximately 1,500 feet of two-inch bare steel

[47] SourceGas's response to Information Request PA34a-PA34b.
[48] SourceGas's response to Information Request PA-17 and PA-18.

main and 26 customer services in four blocks in Bayard, Nebraska that was installed circa 1967. The Company stated that they did not have sufficient internal resources to complete the required work in 2015 and made the decision to use an outside contractor rather than use the originally planned internal resources. The incremental cost to use a contractor is approximately $75,000, and includes inspector and mobilization costs.[49]

Blue Ridge recommends that the Company balance the importance of completing a project to the additional cost that the ratepayer must bear to accomplish the project with outside contractors. The Company should consider whether waiting until 2016 to complete the project with internal resources would result in increased risks.

Estimating Errors

- 015-373 Scottsbluff-Bare main replacement-Blcks 64, 81, 96, 2014 Project estimated cost $18,535, 2015 Project estimated costs $48,776, increase of $30,241: The Company stated that the project was re-scoped for the 2015 budget and determined that the provided estimate for 2014 was incorrect. Approximately $25,000 of the $30,241 increase was for project cost. The remainder of the increase was for the application of overhead to the increased project cost.[50]

- 014-409 Scottsbluff-span replacement 2014, 2014 Project estimated cost $9,886, 2015 estimated cost $42,665, increase of $32,779: The Company stated that the 2015 estimated project cost properly reflects the replacement of an eight-inch diameter span with a bored eight-inch diameter steel pipe with fusion-bonded epoxy. The 2014 estimated project cost was apparently based on incorrect information that a smaller diameter pipeline was being replaced.[51]

- 015-290 Grant Lateral MAOP Verification, 2014 Project estimated cost $38,421, 2015 Project estimated cost $54,249, increase $15,828: The Company explained that the 2014 estimate of $38,421 did not include the cost of burden, which is $9,873, bringing the 2014 estimated cost to $48,294. The resultant $5,995 difference between the total 2014 estimated cost and the 2015 estimated cost of $54,249 (which includes burden) is due to additional company labor and outside services costs.[52]

While the 2015 SSIR Project costs will be trued up to actual costs, Blue Ridge recommends that SourceGas reviews its SSIR estimating processes to ensure that estimates are adequately reviewed and approved to minimize estimating errors.

Scope Change

- 015-274 Creighton Lateral Replacement, 2014 Project estimated costs $200,791, 2015 estimated cost $279,608, increase $78,817: The Company's narrative explained that the

[49] SourceGas's Application dated November 10, 2014, Corrected Exhibit 3, page 7 and SourceGas's response to Information Request PA-7.
[50] SourceGas's response to Information Request PA-38.
[51] SourceGas's response to Information Request PA-39.
[52] SourceGas's response to Information Request PA-40.

Company determined that it will need to bore (rather than trench) more footage than it estimated in the 2014 SSIR Project.[53]

- 015-681 Centerline Survey, 2014 Project estimated costs $1,156,605, 2015 Project estimated costs $1,258,429, increase of $101,824: The Company explained that in 2014, SourceGas planned to survey approximately 572 miles of pipeline. In 2015, the Company plans to survey approximately 630 miles of pipeline. Additionally, the burden rate changed from 23.44% in 2014 to 21.94% in 2015. The increased mileage, offset slightly by the decrease in the burden rate, generates the cost increase of $101,824. SourceGas is not including any costs related to the Centerline Survey in its 2015 SSIR. The Centerline project will be completed in 2016 and will be included in the annual application to be filed on or before October 1, 2016.[54]

<u>Immaterial Increase</u>

- 014-615 Loomis TBS Replacement, 2014 Project estimated cost $74,141, 2015 Project estimated cost $75,597, increase $1,456: The Company's narrative explained that this was a continuation from a 2014 Project.[55] The increase in costs from 2014 to 2015 is immaterial.

- 014-616 Arapahoe TBS Replacement, 2014 Project estimated cost $74,141, 2015 Project estimated cost $75,597, increase $1,456: The Company's narrative explained that this was a continuation from a 2014 Project.[56] The increase in costs from 2014 to 2015 is immaterial.

T7 Should any of the projects, or work within the projects, been classified as O&M expense in accordance with the Code of Federal Regulation (18 CFR)?

Blue Ridge found that the described scope of the 2015 Projects is capital in accordance with the 18 CFR (Uniform System of Accounts). None of the Projects appeared to be O&M expenses. Several projects included minor items of property (e.g., Tap Tees) that are properly classified as capital when installed for the first time.[57] Future replacement of these minor items of property would likely be classified as O&M expense if the replacement is done as a stand-alone without replacing the associated retirement unit.

T8 Is there anything in our review that indicates that the project or its estimated costs should not be included in the SSIR?

Blue Ridge did not find anything in our review that would indicate that a project should not be included in the SSIR. The Company provided estimated costs that will be subject to true-up in the October 1 Annual Application.

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[53] SourceGas's Application dated November 10, 2014, Corrected Exhibit 3, page 25.
[54] SourceGas's response to Information Request PA-41.
[55] SourceGas's Application dated November 10, 2014, Corrected Exhibit 3, page 17,
[56] SourceGas's Application dated November 10, 2014, Corrected Exhibit 3, page 16,
[57] SourceGas's response to Information Request PA-32.

4. REVENUE REQUIREMENT

4) Is the revenue requirement associated with the Eligible System Safety and Integrity Costs requested by SourceGas in compliance with Commission orders and as specified in the SSIR Tariff?

This task reviews the components included and the calculations used by SourceGas to determine its revenue requirement associated with recovery of the Eligible System Safety and Integrity Costs against what is required in Commission orders and the SSIR Tariff.

The SSIR Tariff states that Eligible System Safety and Integrity Costs means (1) 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 shall be in effect, exclusive of all plant in-service included in the determination of the revenue requirement approved in the Company's last general rate case; (2) the plant-related ownership costs associated with such incremental plant investment, including depreciation, accumulated deferred income taxes, and all taxes, including income taxes and property taxes; and (3) the projected jurisdictional component of the operation and maintenance expenses related to the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge shall be in effect.[58]

In addition, the SSIR Tariff requires 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 for future growth that is not specifically required by statute or regulation, shall be excluded from Eligible System Safety and Integrity Costs.[59]

Blue Ridge found that the Company calculated a jurisdictional[60] revenue requirement of $1,414,747[61] to cover the impact of costs incurred and capitalized by SourceGas with respect to eligible infrastructure replacement projects in 2014 and 2015. The revenue requirement calculation is shown in the following table.

[58] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.B.
[59] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.B.
[60] Section 66-1810 of the State Natural Gas Regulation Act exempts service provided to high volume ratepayers from the Commission's regulatory oversight and allows for flexible regulation of service provided to agricultural and interruptible service customers that are not high-volume ratepayers. SourceGas Distribution refers to these customers as "non-jurisdictional" because their rates are not set through traditional ratemaking process. "Jurisdictional customers" are members of the residential and commercial classes that do not meet the definition of high-volume ratepayers.
[61] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 1, page 1.

Table 6: Total Jurisdictional Revenue Requirement - 2014 and 2015 Projects[62]

	2014 Projects	2015 Projects	Total
Gross Plant Balance	$ 7,616,047	$ 10,764,181	$ 18,380,228
Accumulated Depreciation	$ (285,842)	$ (54,501)	$ (340,343)
Net Investments	$ 7,330,205	$ 10,709,680	$ 18,039,885
ADIT Balances	$ (215,205)	$ (134,982)	$ (350,187)
Rate Base	$ 7,115,000	$ 10,574,698	$ 17,689,698
Return on Rate Base			
Interest	$ 200,515	$ 49,365	$ 249,880
Net Income	$ 357,447	$ 88,001	$ 445,448
Taxable Income	$ 587,423	$ 144,619	$ 732,042
Pre-Tax Return on Rate Base	$ 787,938	$ 193,984	$ 981,922
Investment Expenses			
Depreciation	$ 228,361	$ 54,501	$ 282,862
Property Tax Accrual	$ 60,936	$ 89,028	$ 149,964
O&M	$ -	$ -	$ -
Revenue Requirement	$ 1,077,234	$ 337,512	$ 1,414,747

Each of these components within the SSIR revenue requirement allowed by the SSIR Tariff, return, plant-related ownership costs, and operations and maintenance expenses, is addressed in the following sections. The treatment of the exclusion of costs associated with the extension of service for future growth that is not specifically required by statute or regulation (also referred to as betterments) is also discussed.

Return

Return is what the investors in the utility receive for the use of their money in the enterprise. The investment capital is a combination of debt and equity; thus, the return includes both interest on the debt and earnings on the equity. Return is expressed in dollars, while the rate of return is the percentage relationship that the return bears to the total investment. The rate of return includes the weighted cost of long-term debt and the allowed return on common equity. The rate of return is applied to the rate base to determine the earnings required.

Requirement: The SSIR Tariff states that the return is determined by applying a percentage equity 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 shall be in effect, exclusive of all plant in-service included in the determination of the revenue requirement approved in the Company's last general rate case.[63]

[62] WP Attachment PA-1 SSIR Rev Req Model.xlsx.
[63] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.B.

The return is calculated by multiplying rate base, which is comprised of utility plant in service, accumulated deferred income taxes, and accumulated depreciation, by the rate of return. Each component is discussed below.

Rate of Return

The rate of return includes the weighted cost of long-term debt and the allowed return on common equity.

Blue Ridge found that the Company appropriately used the capital structure and cost rates approved in its last rate case[64] to calculate the weighted cost of capital used in the SSIR recovery charge. The following table provides the specific components used to calculate the rate of return.

Table 7: Rate of Return

Description	Percent of Total	Cost of Capital	Weighted Cost of Capital
Long Term Debt	48.84%	5.642%	2.76%
Equity	51.16%	9.60%	4.91%
Total Capital	**100.00%**		**7.67%**

Rate Base

Rate base is the investor-owned property and plant used in supplying utility service to the customer.

Blue Ridge found that the Company calculated its return by applying the rate of return to its monthly jurisdictional rate base balance. SourceGas's incremental 2015 jurisdictional rate base is projected to be $10,574,699, resulting in a total rate base included within the SSIR through December 31, 2015, of $17,689,699. Rate base is comprised of (a) original cost of eligible System Safety and Integrity Projects projected to be placed in service minus associated retirements of existing infrastructure (Utility Plant in Service), (b) accumulated deferred income taxes associated with the eligible Projects, and (c) accumulated depreciation associated with the Projects. The following table provides the total rate base associated with the 2014 and 2015 Projects.

Table 8: 2015 Projected Rate Base[65]

Description	2014 Projects	2015 Projects	Total
Utility Plant in Service	$ 10,041,416	$ 13,983,439	$ 24,024,855
Accumulated Deferred Income Taxes	(283,678)	(177,397)	(461,075)
Accumulated Depreciation	(376,849)	(71,257)	(448,106)
Total Rate Base	$ 9,380,888	$ 13,734,785	$ 23,115,674
Jurisdictional Rate Base	$ 7,115,000	$ 10,574,699	$ 17,689,699

Each component included in rate base is discussed below.

Utility Plant in Service: System Safety and Integrity Projects

Utility Plant in Service represents the utility company's investment in production, transmission, and distribution facilities in buildings, vehicles, and general equipment needed to

[64] Docket No. NG-0067, Order entered May 22, 2012, pages 22-25.
[65] WP Attachment PA-1 SSIR Rev Req Model.xlsx.

operate the utility's business. Specific guidelines are established and followed to provide consistency in classifying expenditures as capital or expense. Under traditional rate-of-return ratemaking, the net investment in utility plant is the major component of rate base.

Blue Ridge found that the Company's 2015-projected Utility Plant in Service included 56 projects[66] with a total projected cost of $13,983,439 ($10,764,181 jurisdictionally).[67] Utility plant includes a reduction for the cost of assets planned to be retired totaling $5,303.[68] The projected 2015 Project costs will be subject to true up when the Company files its Annual Application on October 1, which requires explanations for any deviations between the budgeted and actual costs.

Whether these projects meet the criteria for inclusion within the SSIR is discussed in the Eligibility of Projects section of this report.

Accumulated Deferred Income Tax

Income tax includes the total federal, state, and local tax owed to the taxing authorities on the operating income generated by the utility. There are instances when some items of income and/or expense are properly included in the book income of one period but on the income tax return for a different period. These timing differences for plant-related items are typically related to accelerated depreciation allowed for tax purposes that differ from the method used to calculate depreciation for book purposes. The income taxes associated with these timing differences are shown as accumulated deferred income tax (ADIT). Typically, ADIT reduces rate base.

Blue Ridge found that the Company adjusted rate base for ADIT monthly. The incremental ADIT is $177,397 ($134,982 jurisdictionally) for the 2015 Projects.[69] The Company's calculations for ADIT are not unreasonable.

Accumulated Depreciation

Accumulated depreciation represents the aggregate total past depreciation expenses accrued on plant in service adjusted for retirements, and, net salvage (including cost of removal). It is a reduction to rate base.

Blue Ridge found that the Company adjusted rate base for the incremental costs of the 2015 Projects by $71,257 ($54,501 jurisdictionally).[70] The calculation is based on the cumulated depreciation expense for projects placed in service monthly. The costs of planned retired assets were appropriately removed. Blue Ridge found that that the Company's calculations for accumulated depreciation were not unreasonable.

Return

Return is what the investors in the utility receive for the use of their money in the enterprise. It is calculated by applying rate of return to rate base.

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[66] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 3. The Company identified 58 Projects, but excluded from the SSIR the costs associated with two projects: Nebraska Highway Relocation Program and Centerline Survey.
[67] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 3.
[68] WP Attachment PA-1 SSIR Rev Req model, Tab, WP-DEP XP.
[69] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 2A and B.
[70] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 2A and B.

Blue Ridge found that the incremental pre-tax return on incremental rate base for the 2015 Projects is $253,607 ($193,984 jurisdictionally).[71] The return was calculated by applying the rate of return to rate base, which includes the projected increase in the month ending net plant in-service balances associated with the Projects as they are placed in service. The equity component of the return was appropriately grossed up for taxes based on the appropriate income tax rates. The Company's calculations for return were not unreasonable.

Plant-Related Ownership Costs

The SSIR Tariff states that the plant-related ownership costs associated with incremental plant investment, include depreciation, accumulated deferred income taxes, and all taxes, including income taxes and property taxes.

Plant-related ownership costs are calculated from the monthly forecasted incremental increases to plant investment as Projects are placed in-service.

Depreciation

Depreciation is the expense of using property and allocates a portion of the total cost of plant to one accounting period.

Blue Ridge found that depreciation expense was calculated using the depreciation rates applicable to the most recent general rate proceeding of the jurisdictional utility.[72]

Blue Ridge found that the Company's application included incremental depreciation expense from the 2015 Projects of $71,257 ($54,501 jurisdictionally), calculated monthly using the accrual rate of 3.0%.[73] The depreciation rate of 3.0% was the depreciation rate used for Distribution Plant in the Company's last general rate case, Docket No. NG-0067.[74] The Company's methodology to calculate depreciation expense is not unreasonable.

Accumulated Deferred Income Tax

Accumulated deferred income tax is a component of rate base and was discussed previously in the Return section.

Income Tax

Income tax represents the total federal, state, and local tax owed to the taxing authorities on the operating income generated by the utility. The SSIR Tariff allows for the inclusion of all taxes, including income taxes and property taxes.[75]

Blue Ridge found that the income tax rates are consistent with those used in the initial SSIR Application and are not unreasonable. The following tax rates were applied to recognize income taxes associated with the SSIR revenue requirement.

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[71] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 2A-B.
[72] Nebraska State Natural Gas Regulation Act § 66-1866, (5) (h).
[73] WP Attachment PA-1 SSIR Rev Req Model.xlsx, Tab, WP-DEP XP.
[74] SourceGas's response to NG-0072 Information Request PA-3 (included in workpapers).
[75] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.B.

Table 9: Income Tax Rate

Description	Rate
Federal Tax Rate	34.00%
State Tax Rate	7.81%
Combined Rate	39.15%

Blue Ridge found that the Company increased the net income portion of the return to allow for income taxes. The expense components did not include the reduction in income taxes, but since the expenses were not grossed up to include income taxes when calculating the revenue deficiency, the impact is neutral. The Company's treatment of income taxes was not unreasonable.

Property Taxes

Property tax is the tax assessed on property by the local government. The tax is usually based on the value of property owned. The SSIR Tariff allows for the inclusion of property taxes.[76]

Blue Ridge found that the Company included a property taxes accrual for the incremental increase of the 2015 Projects of $115,644 ($89,028 jurisdictionally).[77] The Company used the 2013 property tax assessed value and ratios to derive the property tax rate of 0.83%.[78] The property tax ratio was applied to the year-end Net Investment (Gross Plant less Accumulated Depreciation) balances and then amortized over twelve months.

While the Company's methodology to calculate property tax is consistent with the Initial SSIR Application, the Company should not collect property taxes from ratepayers for property taxes in which the Company will not be assessed. Property taxes are assessed as of 12:01 A.M. on January 1 for taxes to be paid for that year,[79] which are collected in arrears. In other words, the tax assessor will determine the assessed value as of January 1, 2015. The 2015 taxes will be levied and will be due and payable on December 31, 2015.[80] The projected 2015 Projects will not be in service as of January 1, 2015, and thus will not be assessed until the following year or January 1, 2016. As a consequence, Blue Ridge recommends that the Company's property tax accrual should be reduced by $115,644 ($89,028 jurisdictionally), to remove the incremental 2015 Projects.

Operation and Maintenance Expenses

The SSIR Tariff allows recovery of the projected jurisdictional component of the operation and maintenance expenses related to the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge shall be in effect.[81]

Blue Ridge found that the Company did not include operations and maintenance (O&M) expenses in this filing.

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[76] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.B.
[77] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 2B.
[78] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 5.
[79] Neb. Rev. Stat. § 77-1301 (2012 Cum. Supp.).
[80] Neb. Rev. Stat. §§ 77-203 (Reissue 2009) and 77-204 (Reissue 2009).
[81] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.B.

Betterments

Requirement: The SSIR Tariff 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 for future growth that is not specifically required by statute or regulation, shall be excluded from Eligible System Safety and Integrity Costs.[82]

Blue Ridge found that the Company excluded $66,546 (Total Company) associated with betterments.[83] The Betterments were reviewed and are discussed in the Eligibility of Projects section of this report.

Revenue Requirement Calculation

Blue Ridge found that the Company calculated the SSIR revenue requirement on a monthly basis for the 2014 and 2015 Projects. The monthly balances were totaled, resulting in the following Total SSIR Revenue Requirement:

Table 10: 2015 SSIR Revenue Requirements[84]

Description	Total
2014 SSIR Projects	1,077,234
2015 SSIR Projects	337,513
Total SSIR Revenue Requirement	1,414,747

Blue Ridge performed mathematical checks on the detailed revenue requirements schedules, verified that the amounts rolled forward correctly, and, therefore, found nothing unreasonable. The impact of the property tax overstatement will be addressed in the Recommended Recovery section of this report.

5. System Safety and Integrity Rider Charge Calculation

5) Is the System Safety and Integrity Rider Charge calculated in compliance with Commission orders and as specified in the SSIR Tariff?

This task reviews the components and calculations of the System Safety and Integrity Rider Charge to determine if they comply with Commission orders and as specified in the SSIR Tariff.

Requirement: The System Safety and Integrity Rider Charge shall be 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 the Company's most recent general rate case, divided by the applicable number of bills for the particular customer class, as follows:[85]

[82] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.B.
[83] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 3.
[84] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 4.
[85] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.4.A.

System Safety and Integrity Rider Charge =

((A ± B ± C) * D) / E

Where:

A = Eligible System and 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 the Company's most recent general rate case

E = Applicable number of bills for the particular customer class

Blue Ridge found that the Company calculation of the System Safety and Integrity Rider Charge is in accordance with the SSIR Tariff. The Company's Total SSIR Revenue Requirement, which includes the SSIR Revenue Requirement, Deferred SSIR Balance and SSIR True-Up Amount, was allocated to the customer classes using the jurisdictional utility classes of customer allocations approved in the most recent general rate proceeding. The class-allocated SSIR Revenue Requirement was then allocated using the annual number of bills from the most recent general rate case.[86]

Requirement: The SSIR True-Up Amount shall be equal to the difference, positive or negative, between the Eligible System Safety and Integrity Costs as projected for a particular calendar year and the actual Eligible System Safety and Integrity Costs incurred by the Company for that particular calendar year, plus monthly interest calculated on that difference at a rate equal to the then current rate of interest on pipeline refunds established by the Federal Energy Regulatory Commission.[87]

Blue Ridge found that this task is not applicable. The Application includes the 2015 proposed projects and completes the initial filing to ensure that future applications to be filed on October 1 of each year contain both the proposed projects for the next year and reconciliation calculations for the prior year. Any SSIR True-Up Amount is anticipated to be included in the October 1 filing.

Requirement: The Deferred SSIR Balance shall be equal to the balance, positive or negative, of SSIR revenues at the end of a particular calendar year less the Eligible System Safety and Integrity Costs as projected by the Company for that particular calendar year, plus monthly interest calculated on that balance at a rate equal to the then current rate of interest on pipeline refunds established by the Federal Energy Regulatory Commission.[88]

Blue Ridge found that this task is not applicable. The Application includes the 2015 proposed projects and completes the initial filing to ensure that future applications to be filed on October 1 of each year contain both the proposed projects for the next year and reconciliation calculations for the prior year. Any Deferred SSIR Balance is anticipated to be included in the October 1 filing.

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[86] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 1.
[87] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.D.
[88] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.3.A.

Requirement: The calculated rate shall be an adjustment to the Customer Charge applicable to the Company's 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).[89]

Blue Ridge found the Company applied the calculated rate change for the 2015 SSIR Projects to the monthly Customer Charge applicable to the Company's 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).[90]

Requirement: Whenever the Company implements changes in base rates as a result of a final Commission order in a general rate case setting new rates based on approved revenue requirements, the Company shall simultaneously adjust the SSIR to remove all costs that have been included in base rates.[91]

Blue Ridge found that this task is not applicable. A general rate case has not occurred since the implementation of the SSIR. No adjustment is required to adjust the SSIR to remove all costs that have been included in base rates.

In conclusion, Blue Ridge found that the System Safety and Integrity Rider Charge were calculated in compliance with Commission orders and as specified in the SSIR Tariff.

6. AMOUNT AND TIMING OF REQUEST

6) Is the amount and timing of the System Safety and Integrity Rider Charge request within the limits established by the Commission?

This task compares the amount and timing of SourceGas's System Safety and Integrity Rider Charge request to the limits established by the Commission.

Requirement: The Commission set no limit on the amount that can be recovered through the System Safety and Integrity Rider Charge at this time. However, the Commission may impose a limit should the Commission find that the requested surcharge is of such a magnitude as to not be in the best interest of the ratepayers.[92]

To aid the Commission in its consideration of the impact of the SSIR on the Nebraska ratepayers, Blue Ridge supplies the following showing the Company's total SSIR Fixed Charge Rate impact to customer average monthly bill.

[89] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.4.B.
[90] SourceGas's Application dated November 10, 2014, Exhibit 4, Table 1.
[91] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.5.
[92] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, page 6.

Table 11: SSIR Percent of Average Current Monthly Bill[93]

Description	Residential	Small Commercial	Large Commercial
SSIR Fixed Charge Rate	$1.06	$2.26	$15.55
Average Monthly Bill with SSIR	$68.68	$139.94	$1,244.98
SSIR Percent of Average Monthly Bill	1.54%	1.61%	1.25%

Requirement: Each proposed revision in the System Safety and Integrity Rider Charge shall be accomplished by filing an application by October 1 for each year to take effect on the following February 1 (the "Annual Application").[94]

Blue Ridge found that this task is not applicable. The task will be applied to the Company's Annual Application filing on October 1.

Requirement: The Company shall not make effective any revision to the System Safety and Integrity Rider Charge if the Company has not had a general rate proceeding decided or dismissed by issuance of a Commission order within sixty months immediately preceding the data upon which the revision to the System Safety and Integrity Rider Charge otherwise would take effect.[95]

Blue Ridge found that the Company's last base rate case (Docket No. NG-0067), decided on May 22, 2012, is within sixty months of the Company's filing examined in this report.

Requirement: The Company shall not collect a System Safety and Integrity Rider Charge for a period exceeding sixty months after its initial effective date unless within such sixty-month period the Company has filed for or is the subject of a new general rate proceeding, except that the System Safety and Integrity Rider Charge may be collected until the effective date of new rate schedules established as a result of the new general rate proceeding or until the general rate proceeding is otherwise decided or dismissed by issuance of a Commission order without new rates being established.[96]

Blue Ridge found that the Company began collecting SSIR effective November 1, 2014.[97] The Company has collected the SSIR Charge for less than sixty months.

7. Recommended Recovery

7) What is the appropriate level of recovery of the System Safety and Integrity Rider Charge?

This task accumulates Blue Ridge's recommended adjustments and provides a revised level of recovery for the Commission's consideration, if necessary.

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[93] WP Attachment PA-1 SSIR Rev Req Model.xlsx.
[94] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.2.A.
[95] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.6.
[96] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, Section 1.6.
[97] Docket No. NG-0078, SSIR Tariff filed on December 11, 2014, footer shows an effective date of November 1, 2014.

Blue Ridge recommended that the Company's accrued property tax for the projected 2015 Projects should be excluded. As discussed in the Revenue Requirements / Property Tax section, the Company should not collect property taxes from ratepayers that the Company will not be required to pay. Blue Ridge recommends removing the 2015 Project property taxes, which results in the following recommended SSIR recovery.

Table 12: Recommended SourceGas Jurisdictional SSIR Revenue Requirement[98]

Description	Amount
Total SSIR Revenue Requirements – As Filed	$1,414,747
Total SSIR Revenue Requirement – Adjusted	$1,325,719
Impact of Removing 2015 Property Taxes	$89,028

Table 13: Impact of Recommended Adjustments on Fixed Charge Rate by Class[99]

Description	As Filed	Adjusted	Change
Residential	$0.28	$0.22	($0.06)
Small Commercial	$0.59	$0.45	($0.14)
Large Commercial	$3.80	$2.82	($0.98)

8. QUARTERLY SURVEILLANCE FILINGS

8) Did the Company timely file the required quarterly surveillance filings with the required information in compliance with Commission orders? Were the quarterly surveillance filings consistent with the Annual Application?

This task confirms that SourceGas timely filed the quarterly surveillance filings with the required information as required by Commission order. The information will be reviewed and compared to the Annual Application for any anomalies.

Requirement: SourceGas must file quarterly surveillance filings within sixty (60) days of the end of each quarter. The filings shall include calculations of the rate base separated into regular and SSIR components, the realized rates of return on the rate base components, along with supporting calculations. Additionally, the filing should include an update regarding the status of the SSIR project costs, in service dates, and expected schedule over the ensuing duration of the SSIR.[100]

Blue Ridge found that the Company has not yet filed any quarterly surveillance filings. The next examination should review the quarterly surveillance filings.

[98] WP Attachment PA-1 Impact of Recomemdations.xlsx.
[99] WP Attachment PA-1 Impact of Recomemdations.xlsx.
[100] Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014, pages 5-6 and modified in Order Modifying Order Approving Application in Part, dated November 4, 2014, page 1

APPENDICES

Appendix A: Background Information Reviewed

Appendix B: Abbreviations and Acronyms

Appendix C: Data Requests and Information Provided

Appendix D: Work Papers

APPENDIX A: BACKGROUND INFORMATION REVIEWED

The following background documents were reviewed and are included electronically on the attached computer diskette.

1) State Natural Gas Regulation Act §§ 66-1810, 66-1825 and 66-1838

2) Nebraska Administrative Code Title 291, Chapter 9 – Nebraska Public Service Commission

3) Docket No. NG-0067, Order Granting Application in Part dated May 22, 2012, [Last Base Rate Case]

4) Docket No. NG-0078, Order Approving Application in Part, dated October 28, 2014

5) Docket No. NG-0078, SourceGas Distribution LLC filing of Nineteenth Revised Sheet No. 7 reflecting the addition of the Safety and Integrity Charge dated October 31, 2014

6) Docket No. NG-0078, Order Modifying Order Approving Application in Part, dated November 4, 2014

7) Docket No. NG-0078, Order Granting in Part and Denying in Part Motion for Reconsideration, dated November 24, 2014

8) Docket No. NG-0078, SourceGas Distribution LLC REDLINE VERSION of First Revised Sheets No. 11, 12, 13, 14, and 15, System Safety and Integrity Rider (the "SSIR Tariff"), Exhibit JSH-6.

9) Docket No. NG-0078, SourceGas Distribution LLC First Revised Sheets No. 11, 12, 13, 14, and 15, System Safety and Integrity Rider (the "SSIR Tariff"), filed December 11, 2014.

10) Docket No. NG-0078, SourceGas Distribution LLC Application dated November 10, 2014, requesting recovery of 2015 Eligible System Safety and Integrity Costs through the Safety and Integrity Charge

11) Docket No. NG-0078, SourceGas Distribution LLC revision to exhibits in Application filed November 10, 2014, dated November 12, 2014

12) Nebraska Revenue Statutes §§ 77-203, 77-204, and 77-1301

APPENDIX B: ABBREVIATIONS AND ACRONYMS

The following abbreviations and acronyms are used in this report.

ADIT	Accumulated Deferred Income Taxes
AFUDC	Allowance for Funds Used during Construction
ARDA	Accumulated Reserve for Depreciation, Depletion, and Amortization
ARO	Asset Retirement Obligation
ACVG	Alternating Current Voltage Gradient
CFR	Code of Federal Regulations
CGS	Choice Gas Service
CIAC	Contributions in Aid of Construction
CIS	Close Interval-Survey
CP	Cathodic Protection
CWIP	Construction Work In Progress
DIMP	Distribution Integrity Management Program
FEMA	Federal Emergency Management Agency
FERC	Federal Energy Regulatory Commission
HDD	Hydraulic Directional Drill
ICCP	Impressed Current Cathodic Protection
IR	Information Request
ISR	Infrastructure System Replacement
KMIGT	Kinder Morgan Interstate Gas Transmission LLC
MAOP	Maximum Allowable Operating Pressure
PHMSA	Pipeline and Hazardous Materials Safety Administration
PSI	Per Square Inch
P/W	Painted and Wrapped
TIMP	Transmission Integrity Management Program
TOG	Top of Ground
UPIS	Utility Plant in Service

APPENDIX C: DATA REQUESTS AND INFORMATION PROVIDED

The following is a list of the data requests submitted. SourceGas provided responses electronically. The non-confidential responses are included on the attached computer diskette. Confidential responses are filed under seal.

IR #	Request
PA-01	Reference to SourceGas's 2015 Application dated November 10, 2014 (Docket No. NG-0078.1), Exhibit 4 – Rate Calculation. Please provide the Excel files that support Exhibit 4, calculation of safety and integrity charges
PA-02	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, page 2. Please provide any additions or modifications to the PHMSA "that become effective on or after the filing date of the application requesting approval of the SSIR."
PA-03	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, page 3: The Company states that while there are facility relocations pending, they are not known at this time. The Company stated, "The Company will provide updates of its facility relocation projects in connection with municipal infrastructure projects and, through its November 1, 2015 annual filing, will seek to recover the Eligible System Safety and Integrity Costs associated with those projects. a. Please confirm that the Company meant the annual application on or before September 1 as approved by the Commission in the Order dated October 28, 2014 as opposed to "November 1, 2015" as stated. b. Please confirm that it is the Company's intention to include these relocation costs in the true up for the 2015 projects. c. Please explain how the Company believes that this approach is in compliance with the Commission Order dated October 28, 2014, which requires that the Company file information regarding the proposed projects (in this instance by November 10, 2014) to allow a more formal review by the Public Advocate on the eligibility of those projects and their proposed costs.
PA-04	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, G15Page 5, Replacement of Bare Steel Distribution Main Specific Project a) Ogallala Nebraska-Ogallala Isolated Replacement: Please indicate the number of feet of bare steel pipe that is being changed out.
PA-05	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 6, c, Sidney- Golf Course Main Replacement. a. Please explain why the Company did not exclude the betterment costs of incremental pipe size cost increase from 1 1/4" to 2" pipe. b. Why is the line being rerouted?
PA-06	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 6, Replacement of Bare Steel Distribution Main Specific Project d) Scottsbluff Nebraska – Block 65: a. How many feet of pipe is being removed? b. Is the budget for this project separate and in addition to what was budgeted for 2014? c. Will the six meters associated with services be retired or relocated? If relocated, please explain how relocation of the same meters represents a capital activity. d. Please explain what a "fire gate" is.

IR #	Request
PA-07	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 7, Replacement of Bare Steel Distribution Main Specific Project g) Bayard Nebraska – Blocks 42,43,72,73 Bare Main Replacement: Please provide the justification for the Company's choice to use a third-party contractor to complete the project rather than internal resources? What is the incremental increase in costs to use a third party contractor?
PA-08	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 8, Replacement of Transmission Pipeline Specific Projects, a) Arapahoe, Nebraska – Arapahoe to Hollbrook: a. Please explain what changes will take place in the operations (operating advantages) of the 13,000 feet of 3" bare steel pipe when replaced with 2" pipe. b. Please provide the impact on the line with the change from 450 to 100 psig. c. Please explain how the smaller diameter 2" PE Pipe will be able to operate at less than 100 psig without the addition of some means of pressure regulation.
PA-09	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 9, Replacement of Transmission Pipeline Specific Projects, b) Sutton-Nebraska – Deshler to Chester Lateral Mainline Replacement: a. Please provide the cost analysis supporting replacing 42,250 feet of two-inch steel bare main with four-inch PE pipe based on the high cost of replacing the pipeline with two-inch steel pipe. b. Does installing four-inch pipe to replace two-inch pipe add customers, extend service, or add load? c. Please explain why the Company did not exclude the betterment costs of incremental pipe size cost increase from the 2" vs. 4" pipe. d. Please explain how the pressure will be reduced and whether a new regulator is being installed.
PA-10	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 9, C, Barricades and Page 10, 4 Special Projects: Please indicate the number of barricades that will be installed at each of the following locations: a. Sutton b. Holdrege c. Kearney d. Albion e. Scottsbluff f. McCook
PA-11	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 11-12, 4, projects a-e. Install Anode Ground Beds. g. For each project please provide the length of pipe the Company has determined will be protected by new Anode Ground beds to correct the system. h. Please explain in detail what "correct the system" means. i. Please explain what the degree of risk is for each location that makes it necessary to install Anode Ground Beds.
PA-12	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 14,a), St. Edwards, Nebraska – Span Replacements. Please provide documentation that supports that the State Fire Marshall has recommended that these spans be replaced.
PA-13	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 14, Span Replacements Specific Project b), Gordon, Nebraska – Block 54 Span Replacement: How many feet of the four-inch steel gas main will be eliminated?

IR #	Request
PA-14	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 14, Span Replacements Specific Project c) Broadwater, Nebraska – Broadwater Canal Span Replacement: a. How many feet of the three-inch span will be removed? b. What is the purpose of the meter that will be tied into the new 3 inch pipeline and is it new?
PA-15	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 15, Span Replacements Specific Project d), Northport, Nebraska – Span Replacement: How many feet of and what size pipe is the Span over the canal?
PA-16	Reference Docket No. NG-0078, 2015 SS5IR Projects Application, Exhibit 3, Page 15, Span Replacements Specific Project e), Scottsbluff, Nebraska – 21st Avenue Span Replacement: How may feet of eight-inch diameter span will be removed?
PA-17	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 16, Town Boarder Stations Specific Project a) Arapahoe, Nebraska – TBS replacement: Is the budget for this project separate and in addition to what was budgeted for 2014?
PA-18	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 17, Town Boarder Stations Specific Project b) Loomis, Nebraska – TBS Replacement: Is the budget for this project separate and in addition to what was budgeted for 2014?
PA-19	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 18, h, Plainview, Nebraska – Plainview #2 TBS Line Heater Replacement: What type of new line heater will be installed?
PA-20	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 20, Top of Ground (TOG) Replacement Specific Project, a) Holdrege, Nebraska – TOG Replacement 250-1813: c. What is the cost difference between the use of 1¼- inch steel vs. two-inch PE? d. Please explain why the Company did not exclude the betterment costs of incremental pipe size cost increase from 1 ¼" steel vs. the 2" PE line.
PA-21	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 20, Top of Ground (TOG) Replacement Specific Project b) Kearney, Nebraska – TOG Replacement 370-1720 (Area 8): Please explain why replacing 1 ¼" pipe and 3" pipe with 2" pipe and 4" pipe, respectively, in the best interest of public safety.
PA-22	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 21, Top of Ground (TOG) Replacement Specific Project c) Kearney, Nebraska – TOG Replacement 370=1720 (Area 9): Why is replacing 1 ¼" pipe and 3" pipe with 2" pipe and 4" pipe, respectively, in the best interest of public safety?
PA-23	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 21, Top of Ground (TOG) Replacement Specific Project d) Kearney, Nebraska – TOG Replacement 370-8007 (Area 10): Why is replacing 1 ¼" pipe and 3" pipe with 2" pipe and 4" pipe, respectively, in the best interest of public safety?
PA-24	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 21, Top of Ground (TOG) Replacement Specific Project e) McCook, Nebraska – TOG Replacement Farnam to Curtis: Why is replacing 3" pipe with 4" pipe, respectively, in the best interest of public safety?

IR #	Request
PA-25	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 22, f-h, Sutton Nebraska, TOG replacement. e. For the 3 projects referenced why is replacing 1 1/4" pipe with 2" pipe respectively in the best interest of public safety? f. Please explain why the Company did not exclude the betterment costs of incremental pipe size cost increase from 1 ¼" to 2".
PA-26	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 23-24, Centerline Surveys: Please confirm that the Company will not include any costs of this project in the 2014 or 2015 SSIR.
PA-27	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, page 25, a, Albion-Nebraska – Creighton Lateral. g. Why is the material grade of the pipe uncertain "even though" as built documentation for the segment was found?
PA-28	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 26, Maximum Allowable Operating Pressure (MAOP) Verification Specific Project b) Ogallala, Nebraska – Grant Lateral: h. What is the size of the pipe being removed? i. What size of the pipe being installed? j. Why are the segments being replaced with a different size pipe and what does that have to do with both segments residing in a class 3 location?
PA-29	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 26, MAOP Protection: Please provide the study that determined the most timely and cost effective choice would be to install mainline pressure regulator stations?
PA-30	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Pages 26-29, MAOP Protection: k. Please provide the information from Tallgrass Interstate Gas Transmission (TGIT) that supports the proposed installation of mainline regulating stations at the nine locations listed on Pages 27-29. l. Will other locations require mainline regulating stations in 2015 based on what TGIT plans to do?
PA-31	Reference Docket No, NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 31, a-b, Fullerton, Nebraska and Alliance Nebraska – Meter Relocation: m. Will the Company retire and replace or relocate and use the same 49 meters at the 2 locations? n. If the Company will not retire the meters, please explain how the relocation of the meter only represents a capital activity.
PA-32	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 3, Page 32, Obsolete Valve Replacement Specific Project a) McCook, Nebraska – Replace Crane Valve with Mueller Valves from Cambridge NE to McCook, NE: o. Are tap tees considered a unit of property? p. Are Crane Valves considered a unit of property? q. Please explain how 14 one-inch Crane Valves can be removed and abandoned? Is this the same as removed and retired? r. Are the Crane Valves that are not in use in rate base? s. Does the Company have any other Crane Valves that are not used and useful and should be

IR #	Request
	retired from utility service?
PA-33	Reference Docket No. NG-0078 SourceGas' Application dated November 10, 2014 (2015 SSIR): Please provide the work papers that support Exhibit 4, including but not limited to workpapers identified as WPADIT BAL and WP-DEP XP.
PA-34	Reference Docket No. NG-0078, 2015 SSIR Projects Application, Exhibit 4, Table 3, page 2 of 2: Please provide detailed supporting documentation for the cost estimates for each of the 58 projects, including betterments.
PA-35	***CONFIDENTIAL*** Please provide the most recent copy of the "Expenditure Authority Approval Policy."
PA-36	Please confirm that since Tap Tees are a minor item of property, replacement" of Tap Tees will be charged to O&M and not capital.
PA-37	Follow up to PA-34a and NG-0078.1 SSIR Application – Exhibit 4 – SSIR Calculation – Table 3 – Page 2 of 2: Please provide estimated cost detail for the Centerline Survey (Line 58).
PA-38	Reference 2014 Costs from Docket No. NG-0078, Exhibit CAB – 17, Exhibit 91 and Docket No. NG-0078.01, Exhibit 4, Table 3. 2015 Internal Order No. 015-373: Scottsbluff, Nebraska – Blocks 64, 81, 96, Bare Main Replacement: The 2014 project was estimated at $18,535 and the 2015 project estimated cost is $48,776. Please explain the $30,241 increase in estimated cost from 2014 to 2015.
PA-39	Reference 2014 Costs from Docket No. NG-0078, Exhibit CAB – 17, Exhibit 91 and Docket No. NG-0078.01, Exhibit 4, Table 3. 2015 Internal Order No. 014-409: Scottsbluff, Nebraska – 21st Avenue Span Replacement. The 2014 project was estimated at $9,886 and the 2015 project estimated cost is $42,665. Please explain the $32,779 increase in estimated cost from 2014 to 2015.
PA-40	Reference 2014 Costs from Docket No. NG-0078, Exhibit CAB – 17, Exhibit 91 and Docket No. NG-0078.01, Exhibit 4, Table 3. 2015 Internal Order No. 15-290: Ogallala, Nebraska – Grant Lateral, MAOP Verification: The 2014 project was estimated at $38,421 and the 2015 project estimated cost is $54,249. Please explain the $15,828 increase in estimated cost from 2014 to 2015.
PA-41	Reference 2014 Costs from Docket No. NG-0078, Exhibit CAB – 17, Exhibit 91 and Docket No. NG-0078.01, Exhibit 4, Table 3. 2015 Internal Order No. 015-681: Centerline Survey: The 2014 project was estimated at $1,156,605 and the 2015 project estimated cost is $1,258,429. Please explain the $101,824 increase in estimated cost from 2014 to 2015.
PA-42	Reference Corrected Exhibit 3, page 20, and Exhibit 4, Table 3 – TOG Replacement Projects: The narrative states that betterment costs totaling $175,935 were excluded. The project list in Exhibit 4, Table 3, only excludes $54,588 in betterment credits for TOP Replacement Projects. Please explain the difference.

APPENDIX D: WORK PAPERS

Workpapers that support Blue Ridge's analysis are listed below. All workpapers are included on the provided computer diskette.

- WP Attachment PA-1 SSIR Rev Req Model.xlsx
- WP 2015 SSIR Project Testing Matrix.xlsx
- WP Attachment PA-1 Impact of Recommendations
- Docket No. NG-0078, Hearing Exhibit 91 [Updated Exhibit JSH-7]
- Docket No. NG-0078 Direct Testimony of Charles A. Bayles, Exhibit CAB-17, Attachment 1
- Docket No. NG-0078 Exhibit JSH-8.xlsx (revised for hearings)
- Docket No. NG-0072 Attachment PA-2D2-Revenue Requirement Model-Interlocutory Order.xlsx
- Docket No. NG-0078 SourceGas's response to Information Request PA-53 [Property Taxes]
- Docket No. NG-0078 SourceGas's response to Information Request PA-57 [Annual # of Customer Bills]