

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEBRASKA

IN THE MATTER OF THE APPLICATION OF)
SOURCEGAS DISTRIBUTION LLC, GOLDEN,)
COLORADO, SEEKING AUTHORITY TO REFLECT) DOCKET NO. NG-0079
CHANGED DEPRECIATION RATES ON ITS)
NEBRASKA BOOKS OF ACCOUNT EFFECTIVE)
MAY 1, 2014 WITHOUT IMPACTING EXISTING RATES)

NON-CONFIDENTIAL

DIRECT TESTIMONY AND EXHIBITS OF

DONNA H. MULLINAX

ON BEHALF OF THE NEBRASKA PUBLIC ADVOCATE

AUGUST 21, 2014

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I. QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Donna H. Mullinax. My business address is 114 Knightsridge Road, Travelers Rest, South Carolina 29690.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as Vice President and Chief Financial Officer by Blue Ridge Consulting Services, Inc. (Blue Ridge), located in Travelers Rest, South Carolina.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. I have over 35 years of professional experience. I have held the position of Vice President and Chief Financial Officer (CFO) for the last 19 years and have served on various Boards of Directors. As Vice President/CFO, I have been responsible for all aspects of finance and administration, including accounting, cash management, tax planning and preparation, fixed assets, human resources and benefits for my current employer and my previous employer, Hawks, Giffels, & Pullin (HGP), Inc.

In addition to my corporate responsibilities, I have been a utility industry consultant for the last 21 years. My consulting assignments include management, financial, and compliance audits, due diligence reviews, prudence reviews, and economic viability and financial studies. Other projects include numerous rate cases for natural gas and electric utilities and litigation support for various construction claims.

1 From 1991 to 1993, I worked with Cherry, Bekaert & Holland CPAs as a
2 senior accountant and accounting supervisor. My responsibilities included
3 financial reporting and tax return preparation. I was lead auditor for several large
4 financial and compliance audits.

5 From 1988 to 1991, I was a sales representative for Smith, Kline and
6 French Pharmaceutical Company.

7 I worked with Milliken and Company, a large privately held textile and
8 chemical company, from 1979 through 1988. As head of the Quality Assurance
9 Department, I was actively involved in numerous operations' audits supporting
10 Milliken's Quality Program. As the Technical Cause Analyst, I analyzed complex
11 quality and production problems to develop corrective actions through advanced
12 statistical and problem solving techniques. I conducted training seminars for
13 production associates and management on statistical quality control techniques. I
14 held various production management positions with the responsibility of
15 controlling cost, schedule, production, and quality within areas under my control.

16 I am a Certified Public Accountant (CPA), Certified Internal Auditor
17 (CIA), a Certified Financial Planner (CFP) and recently was awarded the
18 designation of Chartered Global Management Account (CGMA). I am a member
19 of the South Carolina Association of Certified Public Accountants, the American
20 Institute of Certified Public Accountants, and the Institute of Internal Auditors. I
21 graduated with honors from Clemson University with a Bachelor of Science in
22 Administrative Management and a Master of Science in Management.

1 **Q. HAVE YOU PREVIOUSLY APPEARED AS A WITNESS OR FILED**
2 **TESTIMONY?**

3 A. Yes. While my primary role has been as an auditor presenting my work through
4 written reports or as a consultant working directly with Commissioners and/or
5 Staff, I have testified in Colorado, Delaware Maryland, and Michigan. I have also
6 supported other experts' testimony in numerous other jurisdictions.

7 **Q. HAVE YOU INCLUDED A MORE DETAILED DESCRIPTION OF YOUR**
8 **QUALIFICATIONS?**

9 A. Yes. A description of my qualifications is included as Attachment A.

10 **II. OVERVIEW OF TESTIMONY AND EXHIBITS**

11 **Q. PLEASE PROVIDE THE PURPOSE OF YOUR TESTIMONY IN THIS**
12 **PROCEEDING.**

13 A. The purpose of my testimony is to present Blue Ridge's analysis and my
14 recommendations in regard to the following the fundamental question related to
15 SourceGas Distribution LLC's (SourceGas or Company) Revenue Deficiency: Is
16 the revenue deficiency of \$4.5 million that SourceGas seeks to recover through
17 the ISR, SSIR, and revised depreciation rates applications appropriate?

18 **Q. ON WHO'S BEHALF ARE YOU TESTIFYING?**

19 A. I am testifying on behalf of the Nebraska Public Advocate.

20 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS THIS FUNDAMENTAL**
21 **QUESTIONS.**

22 A. I believe that the Company's \$4.5 million revenue deficiency that it has used to
23 justify a prospective change in its depreciation rates in this proceeding and docket

1 and the System Safety and Integrity Rider (SSIR) in Docket No. NG-0078 is
2 overstated. I discuss the reasons for this conclusion in the balance of my
3 testimony.

4 **Q. WHAT INFORMATION DID YOU REVIEW IN PREPARATION OF**
5 **YOUR TESTIMONY?**

6 A. I reviewed the Company's application for Docket No. NG-0079 and the prefiled
7 direct testimony and exhibits of Jerrad S. Hammer, which presented the
8 Company's revenue deficiency analysis. I also reviewed Company's application
9 for Docket No. NG-0078, which included the prefiled direct testimony and
10 exhibits of Jerrad S. Hammer. Company Witness Hammer's testimonies regarding
11 the Company's revenue deficiency in Docket No. NG-0078 and NG-0079 are
12 very similar. Additional information was obtained and reviewed through
13 information requests.

14 **Q. WERE THE ANALYSES AND RESULTS PREPARED BY YOU OR**
15 **UNDER YOUR DIRECT SUPERVISION?**

16 A. Yes.

17 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

18 A. After a background section, my testimony addresses the fundamental question
19 regarding the Company's Revenue Deficiency: Is the revenue deficiency of \$4.5
20 million that SourceGas seeks to recover through the ISR, SSIR, and revised
21 depreciation rates applications appropriate?

22 **Q. ARE YOU PRESENTING ANY EXHIBITS IN CONNECTION WITH**
23 **YOUR DIRECT TESTIMONY IN THIS PROCEEDING?**

1 A. Yes. The following exhibits support my analysis and the resulting testimony:

- 2 • Exhibit DHM-1 SourceGas Response to Docket No. NG-0078 PA-1
- 3 • Exhibit DHM-2 SourceGas Response to Docket No. NG-0078 PA-4
- 4 • Exhibit DHM-3 SourceGas Response to Docket No. NG-0078 PA-10
- 5 • Exhibit DHM-4 SourceGas response to Docket No. NG-0078 PA-34
- 6 • Exhibit DHM-5 SourceGas Response to Docket No. NG-0078 PA-36
- 7 • Exhibit DHM-6 SourceGas Response to Docket No. NG-0078 PA-2
- 8 • Exhibit DHM-7 SourceGas Response to Docket No. NG-0078 PA-3
- 9 • Exhibit DHM-8 SourceGas Response to Docket No. NG-0078 PA-38
- 10 • Exhibit DHM-9 SourceGas Response to Docket No. NG-0078 PA-30
- 11 • Exhibit DHM-10 SourceGas Response to Docket No. NG-0078 PA-31
- 12 • Exhibit DHM-11 SourceGas CONFIDENTIAL Response to Docket No.
- 13 NG-0078 PA-49
- 14 • Exhibit DHM-12 SourceGas CONFIDENTIAL Response to Docket No.
- 15 NG-0078 PA-35

16 **III. BACKGROUND**

17 **Q. PLEASE PROVIDE BACKGROUND ON THE COMPANY’S REQUEST**
18 **FOR AN SYSTEM SAFETY AND INTEGRITY (SSIR) RIDER.**

19 A. On June 25, 2013, the Commission approved the Company’s initial request for an
20 infrastructure system replacement (ISR) cost recovery charge pursuant to the State
21 Natural Gas Regulation Act (Act or Neb. Rev. Stat.) §§ 66-1865 and 66-1866.
22 The 2013 ISR resulted in a charge of \$0.50 per month for residential customers,

1 \$1.07 per month for small commercial customers, and \$6.83 per month for large
2 commercial customers. The charge was effective July 1, 2013.¹

3 On May 1, 2014, the Company stated that its existing rates generate a
4 jurisdictional revenue deficiency compared with its current revenue requirement.
5 As stated by SourceGas, the revenue deficiency for its Nebraska jurisdictional
6 customers for the calendar year 2014 is approximately \$4.5 million. The
7 Company stated that when rate case expenses, charges of the Public Advocate and
8 his consultants, and the costs of the Commission's consultants are included in a
9 general rate case customers would have to pay an additional \$5.25 million in the
10 first year of new rates. To avoid filing a general rate case, the Company filed
11 three applications to cumulatively address the calculated revenue deficiency.
12 These applications include the following:

- 13 • Docket No. NG-0072.01 – a request to increase its Infrastructure System
14 Replacement Cost Recovery Charge (2014 ISR) in accordance with Section
15 66-1865 and 66-1866 of the Act
- 16 • Docket No. NG-0079 – a request to prospectively change depreciation rates
17 on the Company's Nebraska book of accounts
- 18 • Docket No. NG-0078 – a request for a new System Safety and Integrity Rider
19 (SSIR) Tariff

20 **Q. DO YOU HAVE ANY CONCERN ABOUT HOW THE COMPANY HAS**
21 **PRESENTED ITS APPLICATIONS FOR DOCKET NOS. NG-0072.01, NG-**
22 **0078, AND NG-0079?**

¹ Docket No. NG-0072, Commission Order dated June 25, 2013, page 3.

1 A. Yes. The Company has calculated a revenue deficiency to justify its need for a
2 revised ISR, a new proposed prospective SSIR, and a prospective change in its
3 depreciation rates instead of presenting each application on their own merits. Neb.
4 Rev. Stat. §66-1866 requires that no other revenue requirement or ratemaking
5 issue shall be examined in consideration of the ISR application. This should also
6 be the case for the Company's request for a change in depreciation rates and the
7 creations of the SSIR. These applications should be considered as separate and
8 distinct matters and not included with an argument that the Company has a
9 revenue deficiency. The Commission should evaluate the revenue deficiency
10 separately and not as justification for stopgap measures to justify expedited
11 recovery of costs.

12 **Q. TAKING WHAT THE COMPANY HAS PROVIDED ON ITS FACE**
13 **VALUE, HOW DO THE THREE APPLICATIONS REDUCE THE**
14 **REVENUE DEFICIENCY?**

15 A. The Company analysis² summarized in the following table shows the impact of
16 each of the three applications on its calculated revenue deficiency. The approval
17 of the 2014 ISR would contribute \$448,454 to the deficiency, leaving a balance of
18 \$4,018,848. The SSIR would contribute an additional \$1,457,272, leaving a
19 balance of \$2,561,576. The Company stated that approval of all three applications
20 would reduce the Company's revenue deficiency to a level that would allow the
21 Company to avoid its planned general rate case at this time.

22

² Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-1, Table 1, page 1.

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Table 1: Cumulative Impact on Revenue Deficiency of Three Applications

Description	Amount	Cumulative Impact
Calculated Revenue Deficiency	\$4,467,302	
Docket No. NG-0072.01 2014 ISR Revenue Increase	\$448,454	\$4,018,848
Docket No. NG-0078 SSIR Proposed Revenue Increase	\$1,457,272	\$2,561,576
Docket No. NG-0079 Proposed Change in Depreciation Rates	\$1,617,639	\$943,937
Remaining Revenue Deficiency	\$943,937	

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3 **Q. WHAT IS THE STATUS OF THE 2014 ISR FILED IN DOCKET NO. NG-**
4 **0072.01?**

5 A. Blue Ridge submitted its report on June 30, 2014, with a recommendation that the
6 Commission allow recovery of \$3,246,649 of the proposed jurisdictional rate base
7 associated with the ISR projects put into service for the period ended April 30,
8 2014, which results in a revenue increase of \$448,454. Residential customer bills
9 would increase by \$0.34 each month or \$4.08 annually. Small commercial
10 customers will have a monthly increase of \$0.73 or \$8.76 per year and large
11 commercial customers will have an increase of \$4.55 each month or \$54.60
12 annually.

13 If the Commission approves the findings in Blue Ridge’s report, the
14 Pipeline Replacement Charge (also referred to as the ISR) will increase as
15 follows: Residential Service will increase from \$0.50 per month to \$0.84 per
16 month, Small Commercial Service will increase from \$1.07 per month to \$1.80
17 per month, and Large Commercial Service will increase from \$6.83 per month to
18 \$11.38 per month.

1 **IV. REVENUE DEFICIENCY**

2 **Q. WHAT FUNDAMENTAL QUESTION WILL YOU ADDRESS IN THIS**
3 **SECTION?**

4 A. This section will address the following fundamental question related to the
5 Company's Revenue Deficiency: is the revenue deficiency of \$4.5 million that
6 SourceGas seeks to recover through the ISR, SSIR, and revised depreciation rates
7 applications appropriate?

8 **Q. HOW MUCH IS THE ANTICIPATED REVENUE DEFICIENCY THAT**
9 **THE COMPANY IS SEEKING TO RECOVER THROUGH THE THREE**
10 **APPLICATIONS AND WHAT ASSUMPTIONS WERE USED TO**
11 **CALCULATE IT?**

12 A. Company witness Hammer's prefiled direct testimony presents an anticipated
13 revenue deficiency from its Nebraska jurisdictional customers of approximately
14 \$4.5 million, assuming (1) a 9.60% return on equity approved by the Commission
15 in Docket No. NG-0067, (2) the current cost of debt and current capital structure
16 with resulted in a cost of capital of 7.30%, (3) Test Year base expenses and
17 jurisdictional revenues, (4) the Commission approved cost of service study
18 allocations from Docket No. NG-0067, and (5) no rate case expenses.³

19 **Q. DID YOU REVIEW THE COMPANY'S ANTICIPATED REVENUE**
20 **DEFICIENCY CALCULATIONS?**

21 A. Yes. Since the Company's applications for a prospective SSIR and a prospective
22 change in depreciation rates on its Nebraska book of accounts is predicated on
23 recouping its anticipated revenue deficiency, I did a high level review of the

³ Prefiled Direct Testimony of Jerrad Hammer, page 5, lines 6-15.

1 revenue deficiency workpapers and additional information obtained through
2 discovery.

3 **Q. DID YOU REVIEW ALL OF THE MAJOR COMPONENTS OF THE**
4 **COMPANY'S REVENUE DEFICIENCY CALCULATION?**

5 A. No. While I did review the Company's revenue deficiency calculations and
6 provided workpapers, I did not perform a full analysis that would typically be
7 done in a general rate case. Of significance, I did not analyze the Company's
8 return on equity of 9.60%. Return on equity can have a major impact on the
9 revenue deficiency. For example, in a recent case in the District of Columbia, the
10 Commission authorized a return on equity of 9.25% for Washington Gas Light
11 Co.⁴ If this Commission authorized a similar return on equity, the Company's
12 current return on equity would be reduced from 9.6% to 9.25%, resulting in a
13 reduction of SourceGas's revenue deficiency of \$292,234.⁵ Also recently, West
14 Coast Gas was authorized a return on equity of 8.5%,⁶ which would result in a
15 \$918,449⁷ reduction in SourceGas's revenue deficiency if that rate were adopted
16 by this Commission.

17 I will concede that other gas utilities during the same time period may
18 have had higher returns on equity authorized, but my point is that the Company's
19 revenue deficiency has not been fully vetted and a full review of the Company's
20 presentation of its revenue deficiency could likely yield in a different result.

⁴ DCPSC, Order # 17132, dated May 15, 2013.

⁵ The impact on SourceGas's revenue deficiency was calculated by inserting a return on equity of 9.25% into SourceGas's Revenue Requirement workpapers.

⁶ CAPUC Docket # D.13-03-014, Order dated March 21, 2013.

⁷ The impact on SourceGas's revenue deficiency was calculated by inserting a return on equity of 8.5% into SourceGas's Revenue Requirement workpapers.

1 **Q. WHAT ARE THE COMPANY'S EXISTING RATES BASED UPON?**

2 A. The Commission approved the Company's current rates in Docket No. NG-0067
3 on May 22, 2012. The Commission authorized a revenue increase of \$4.957
4 million.⁸

5 **Q. HOW MUCH OF THE COMPANY'S INITIAL REQUESTED RATE**
6 **INCREASE IN ITS LAST GENERAL RATE CASE DID THE**
7 **COMMISSION AUTHORIZE?**

8 The Commission granted \$4.957 million of the Company's initial request
9 of \$8.279 million or ~60% of the Company's initial request. The Company
10 initially requested a revenue increase of \$8.279 million based upon a test year of
11 twelve months ending March 31, 2011. SourceGas significantly reduced the
12 increase sought in its rebuttal case to \$6.086 million when it updated the costs in
13 its direct case to use actual data through January 31, 2012, adjusted for known and
14 measurable changes.⁹

15 While each general rate case is unique, companies are rarely authorized all
16 that they request in a general rate case.

17 **Q. PLEASE EXPLAIN YOUR PRESENTATION OF YOUR ANALYSIS OF**
18 **THE COMPANY'S ANTICIPATED REVENUE DEFICIENCY.**

19 A. The following sections present my comments on my review of the Company's
20 anticipated revenue deficiency regarding Weighted Cost of Capital and Return,
21 Choice of Test Year, and Adjustments to Rate Base, Revenue, and Operating
22 Expenses.

⁸ Docket No. NG-0067, Interlocutory Exhibit I, Interlocutory Schedule B1.

⁹ Docket No. NG-0067, Order dated 5/22/12, pages 1-2.

1 A. *Weighted Cost of Capital and Return*

2 **Q. PLEASE EXPLAIN THE RETURN COMPONENT?**

3 A. Under traditional ratemaking, a utility is provided an opportunity to earn a fair
4 return on its investments. The return is calculated based on the approved weighted
5 cost of capital applied to the utility's rate base.

6 **Q. DID THE COMPANY USE THE WEIGHTED COST OF CAPITAL**
7 **APPROVED BY THE COMMISSION IN THE LAST BASE RATE CASE**
8 **WHEN IT CALCULATED ITS ANTICIPATED REVENUE**
9 **DEFICIENCY?**

10 A. No. However, the Company's approach to determining its weighted cost of capital
11 is reasonable. The weighted cost of capital in the last base rate case was 7.67%
12 based upon a return of equity of 9.60%. In this proceeding, the Company used the
13 Commission-approved return on equity of 9.60% but updated the weighting
14 between long-term debt and equity and the cost of long-term debt to the Test Year
15 balances, which resulted in a lower weighted cost of capital of 7.30%.¹⁰

16 **Q. DO YOU HAVE ANY COMMENTS RELATED TO THE WEIGHTED**
17 **COST OF CAPITAL AND THE RETURN COMPONENT?**

18 A. Yes. The determination of the appropriate weighted cost of capital is a major
19 component in a general rate case. The return on equity portion of the weighted
20 cost of capital is frequently hotly contested. In the last base rate case, the
21 Commission authorized a return on equity of 9.60%. Should the Company's
22 calculated revenue deficiency in this proceeding be reviewed in a full general rate
23 case, there is a possibility, based on recent industry trends, that the return on

¹⁰ Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-1, Table 3, Schedules A and B.

1 equity could be reduced. A reduction in the return on equity would reduce the
2 return component and thus the overall calculated revenue deficiency.

3 **B. Test Year**

4 **Q. WHAT TEST YEAR DID THE COMPANY USE TO CALCULATE ITS**
5 **REVENUE DEFICIENCY?**

6 A. The Company used a future year-end December 31, 2014, for its Test Year to
7 calculate its anticipated \$4.5 million revenue deficiency. The Base Year amounts
8 represent Nebraska's actual costs for calendar year 2013 as reported on the
9 Company's books and records.¹¹ The Company made a number of *pro forma*
10 adjustments to forecast its costs through the end of 2014 to develop its Test Year.

11 **Q. IS A FUTURE TEST YEAR REASONABLE?**

12 A. There has been ongoing debate on whether a historical test year with actual costs
13 adjusted for known and measureable changes or a future forecasted test year is the
14 best option to set just and reasonable rates. Utilities argue a future test year is
15 needed because current market and operating conditions cause a utility's total
16 costs to grow more than sales between rate cases, resulting in the erosion of their
17 earnings, a trend they find particularly worrisome in an era of large investments.
18 This is frequently referred to as regulatory lag.

19 However, regulatory lag provides an incentive for a utility to control its
20 costs and provides an effective tool for motivating utilities to act efficiently.

21 Another concern with a future test year, as occurred in SourceGas's last general
22 rate case, is that the forecasted costs are susceptible to error and some costs and

¹¹ Docket No. NG-0078 SourceGas response to Information Request PA-2 (Exhibit DHM-6).

1 sales elements are inherently difficult to predict. Another factor is that utilities
2 have an incentive to present biased forecasts that are not always easy to uncover.

3 In conclusion, a future test year is reasonable as long as the limitations are
4 understood and a company's revenue requirement filing is fully vetted, which is
5 not the case in SourceGas' anticipated revenue deficiency that was used to justify
6 the replacement of the ISR with the SSIR.

7 **C. Adjustments to Develop Future Test Year**

8 **Q. WHAT ADJUSTMENTS DID THE COMPANY MAKE TO THE 2013**
9 **BASE YEAR TO DEVELOP ITS PROJECTED 2014 FUTURE TEST**
10 **YEAR?**

11 A. The Company made two types of adjustments to get from the 2013 Base Year,
12 based on the Company's books and records, to the projected 2014 Future Test
13 Year used in the Company's anticipated revenue deficiency calculations. First, the
14 Company made adjustments totaling \$18,846 (Total State)¹² to remove out of
15 period entries, performed reclassification between FERC account numbers, and
16 removed charitable and political contributions¹³ to develop the 2013 Adjusted
17 Base Year. Second, to project the 2013 Adjusted Base Year into a Future Test
18 Year ending December 31, 2014, the Company made *pro forma* adjustments to
19 rate base, totaling \$12,295,139 (Total State),¹⁴ and operating expense *pro forma*
20 adjustments, totaling \$1,828,559 (Total State).¹⁵

¹² Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-1, Table 2, Schedule C, page 1 of 2.

¹³ Docket No. NG-0078 SourceGas response to Information Request PA-3 (Exhibit DHM-7).

¹⁴ Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-1, Table 2, Schedule B.

¹⁵ Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-1, Table 2, Schedule C, page 1 of 2.

1 **D. Rate Base Adjustments**

2 **Q. WHAT IS THE BASE YEAR RATE BASE?**

3 A. The Company Base Year rate base is \$106,195,774 (Total Sate) and \$85,353,159
4 (Jurisdictional).¹⁶

5 **Q. WHAT PRO FORMA ADJUSTMENTS WERE MADE TO THE BASE**
6 **YEAR RATE BASE?**

7 A. The following table summarizes the *pro forma* adjustments to rate base.

8 **Table 2: Total Pro forma Adjustments to Rate Base¹⁷**

#	Description	Total State Amount	Jurisdictional Amount
1	Utility Plant in Service	\$31,471,685	\$25,143,302
2	CWIP	(12,502,513)	(9,941,610)
3	Less Accumulated Depreciation	(5,552,386)	(4,506,909)
4	Less Accumulated Deferred Income Taxes	(1,121,646)	(893,314)
5	Less Customer Advances		10
6	Plus Working Capital		17
7	Total Pro Forma Adjustments	\$12,295,139	\$9,801,496

9
10 **Q. WHAT CATEGORIES OF PROJECTS ARE INCLUDED IN THE**
11 **\$25,143,302 INCREASE TO JURISDICTIONAL UTILITY PLANT IN**
12 **SERVICE?**

13 A. The Company provided a list of the categories of increases included in the \$25
14 million increase to Utility Plant in Service as summarized in the following table.¹⁸
15

¹⁶ Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-1, Table 2, Schedule B.

¹⁷ Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-1, Schedule B.

¹⁸ Docket No. NG-0078 SourceGas response to Information Request PA-38 (Exhibit DHM-8).

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Table 3: Categories of Change in Utility Plant in Service

#	Description	Amount	% of Total
1	In-Service Projects included in the 2014 ISR	\$3,230,387	12.8%
2	Proposed Projects included in the 2014 SSIR	\$8,812,447	35.0%
3	Proposed Projects included in the 2015 SSIR	\$1,459,563	5.8%
4	2014 Nebraska Direct Additions	\$8,806,818	35.0%
5	Corporate Allocation	\$2,834,087	11.3%
6	Total	\$25,143,302	100.0%

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The 2014 ISR projects were addressed in Docket No. NG-0072.01 and includes projects that are used and useful providing service to Nebraska’s ratepayers. The 2014 SSIR includes the costs associated with the proposed projects in which the Company is asking for recovery in Docket No. NG-0078. It includes projects it anticipates putting in service by the end of 2014.

8

Q. WHAT IS THE IN-SERVICE STATUS OF THE 2014 SSIR PROJECTS?

9

A. According to a June 6, 2014, information response, none of the 2014 SSIR projects have been placed in service as of that date.¹⁹ The Company stated that it would provide periodic updates with information about any projects that have been placed in service. As of the date of this testimony, no information on the in-service dates has been provided. The following table shows the projected amounts to be placed in service each month and the actual amounts placed in service that month.

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¹⁹ Docket No. NG-0078 SourceGas Response to Information Request PA-10 (Exhibit DHM-3).

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Table 4: Projected In-Service Date vs. Actual In-Service Date

Projected In-Service Date	# of Internal Order or Budget ID	Projected Amount	Actual Amount
May 2014	9	682,240	0
June 2014	13	2,221,834	0
July 2014	3	19,030	0
August 2014	2	52,517	
September 2014	17	3,224,000	
October 2014	2	148,283	
November 2014	9	5,279,314	
December 2014	0	0	
Total	55	11,627,218	

2

Slight difference due to rounding

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Q. WHAT IS THE SIGNIFICANCE OF THE 2014 SSIR PROJECTS BEING BEHIND SCHEDULE?

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A. If the projects are not in service before December 31, 2014, they should not be included in the rate base at the end of the 2014 Test Year and the Company should not include the return on and return of these dollars in its revenue deficiency.

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Q. PLEASE EXPLAIN THE 2015 SSIR PROJECTS INCLUDED IN THE COMPANY’S RATE BASE.

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A. The 2015 SSIR includes projects that the Company anticipates including in a future SSIR.²⁰ These projects will not be put into service until 2015, a year after the Future Test Year and should not be included in the Company’s presentation of its revenue deficiency. The Company should not be earning a return on and a return of the \$1,459,563 that is a year beyond the future test year.

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Q. WHAT ARE THE REMAINING CATEGORIES IN THE COMPANY’S PROJECTED UTILITY PLANT IN SERVICE?

18

²⁰ Docket No. NG-0078 SourceGas response to Information Request PA-38, Attachment PA-38 (Exhibit DHM-8).

1 A. The 2014 Nebraska Direct Additions of \$8,806,818 includes proposed work
2 associated with facilities, highway relocation, mains, measurement, plant
3 improvement, routine work, equipment, vehicles, and any associated
4 retirements.²¹ While these types of projects do not appear unreasonable, little
5 information has been provided other than a list of categories for these future
6 projects. It is presumed that these projects would not be includable in an ISR or
7 SSIR. Under a typical general rate case, these projects would be evaluated to
8 ensure that the projects did not encounter any delays and whether they were
9 expected to be used and useful and provided a benefit to the Nebraska ratepayers.
10 The forecasted costs would be reviewed for reasonableness.

11 The Corporate Allocation projects include the allocated portions of the
12 Customer Information System, facilities, information technology, software, and
13 associated retirements.²² Little information has been provided other than a list of
14 categories on these future projects. Again, under a typical general rate case, these
15 projects would be fully vetted to determine if they were appropriate to be included
16 in rate base.

17 **Q. IN SUMMARY, WHAT IS YOUR CONCERN REGARDING THE \$25**
18 **MILLION INCREASE TO UTILITY PLANT IN SERVICE?**

19 A. My concern is that with the exception of the 2014 ISR projects, the Company has
20 included additions to utility plant in service that are proposed and may not
21 represent the actual costs of plant put in service. The result is an overstated rate
22 base, and thus the anticipated return on and return of these projects is overstated.

²¹ Docket No. NG-0078 SourceGas response to Information Request PA-38, Attachment PA-38 (Exhibit DHM-8).

²² Docket No. NG-0078 SourceGas response to Information Request PA-38 (Exhibit DHM-8).

1 The Company included costs for projects that will not be put into service until
2 after the Test Year, which strengthens the argument that utilities have an incentive
3 to present biased forecasts and, thus, an overstated revenue deficiency that will
4 not be fully vetted in a general rate case.

5 ***E. Revenue***

6 **Q. DID THE COMPANY FORECAST ANY INCREASE IN ITS REVENUES?**

7 A. Yes. The Company appropriately reflected a full year of recovery from the
8 Pipeline Cost Recovery Charge or ISR approved by the Commission in Docket
9 No. NG-0072. The Company also included an adjustment for weather
10 normalization as shown in the following table.

11 **Table 5: Revenues Included in the Calculated Revenue Deficiency²³**

Description	Amount
Base Year Revenues	\$34,707,094
Weather Normalization	\$(400,917)
Full Year of Pipeline Cost Recovery Charge	\$356,771
Test Year Revenue	\$34,662,948

12
13 **Q. DO YOU HAVE A CONCERN REGARDING THE COMPANY'S**
14 **FORECASTED REVENUES?**

15 A. Yes. One of the premises of sound ratemaking is the matching principle, which is
16 required to achieve consistency between the various components that are used to
17 calculate the revenue requirement. For example, the Company used the matching
18 principal when it included the projected SSIR project costs in rate base and then
19 also made a matching prospective adjustment to depreciation expense. My
20 concern is related to matching revenues with costs. The original ISR, the revised
21 2014 ISR, and the SSIR included projects for current and future load growth. The

²³ Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-1, Table 5, Schedule C.

1 Company removed the incremental cost of the increase in pipe size from the
 2 capital costs with the intent to offset any potential increase in revenues. However,
 3 the removal of the cost of the incremental pipe size reduces the return on and
 4 return of the investment, but may not reflect the actual increase in revenue. Load
 5 growth will increase revenues and should be evaluated in the context of a revenue
 6 deficiency analysis. An increase in revenue should reduce the revenue deficiency.

7 ***F. Operating Expense Adjustments***

8 **Q. HAVE THE COMPANY’S EXPENSES INCREASED SINCE THE LAST**
 9 **BASE RATE CASE?**

10 A. Yes. The following table compares the expenses approved in the last base rate
 11 case (Docket No. NG-0067) to the 2013 Base Year in this proceeding. Most
 12 significant are the reduction in Administrative and General (A&G) expenses and
 13 the increase in Operations and Maintenance (O&M) expenses.

14 **Table 6: Comparison of Expenses Approved in Last Base Rate Case (NG-0067) to Expenses**
 15 **Included in Base Year NG-0078 Revenue Deficiency - Jurisdictional²⁴**

Description	Approved In NG-0067 3/31/11	NG-0078 Base Year 12/31/13	Difference	% Change
Return	5,348,593	6,229,413	880,820	16.47%
O&M Expense	10,984,586	12,948,622	1,964,036	17.88%
A&G Expense	8,699,950	7,183,153	(1,516,797)	-17.43%
Other Taxes	2,094,233	1,929,356	(164,877)	-7.87%
Depreciation	6,476,885	6,845,589	368,704	5.69%
Provision of Income Tax	2,204,966	2,815,178	610,212	27.67%
Total Revenue Requirement	35,809,213	37,951,310	2,142,097	5.98%
Other Revenues	(2,020,218)	(1,892,181)	128,037	-6.34%
Net Cost of Service	33,788,995	36,059,130	2,270,135	6.72%

PA-1 JSH-2 Table 2
Schedule A

²⁴ Docket No. NG-0078 SourceGas response to Information Request PA-1 (Exhibit DHM-1) and Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-1 Schedule A.

1 **Q. WHAT EXPENSES WERE SHIFTED FROM A&G TO O&M?**

2 A. The Company stated that it is shifting expenses from Administrative and General
3 (A&G) to Operations and Maintenance (O&M) through the coding of labor for
4 certain cost centers. Nine cost centers were changed to Operations Support cost
5 centers since the 2011 rate case: Gas Control, Gas Supply & Shipper Services,
6 Technical Services, Engineering, Environmental Health, Safety and Training,
7 Project Management, Engineering, GIS, and Load Growth. This shift accounts for
8 just over \$1 million moving from A&G to O&M based on the labor figures from
9 the 2011 rate case.²⁵

10 **Q. WHAT OTHER CHANGES CAUSED AN INCREASE IN O&M**
11 **EXPENSES FROM THE LAST BASE RATE CASE?**

12 A. The Company stated that a new cost center for Integrity Management was added.
13 In the last base rate case, the Company estimated this cost center's labor at
14 \$57,000. Integrity Management now accounts for approximately \$350,000 of
15 labor.²⁶

16 **Q. WERE THERE OTHER CHANGES MADE SINCE THE LAST BASE**
17 **RATE CASE?**

18 A. Yes. The Company stated that it increased the Direct Capital Rate from 7.15% to
19 18.89%. The impact is a reduction to A&G expense of \$125,000.²⁷ The Direct
20 Capital Rate allocates overhead costs to additions to utility plant in service. This
21 change reduces the A&G expenses, but it increases capital costs.

²⁵ Docket No. NG-0078 SourceGas response to Information Request PA-30 (Exhibit DHM-9).

²⁶ Docket No. NG-0078 SourceGas response to Information Request PA-30 (Exhibit DHM-9).

²⁷ Docket No. NG-0078 SourceGas response to Information Request PA-30 (Exhibit DHM-9).

1 **Q. PLEASE COMMENT ON THESE CHANGES.**

2 A. A utility is in the best position to understand what it needs to provide safe and
3 reliable service and develops its processes and procedures to provide those
4 services. However, during a general rate case, any significant changes as
5 discussed above would be carefully reviewed to ensure that the Company is not
6 over-recovering among its various jurisdictions and that Nebraska ratepayers are
7 not receiving a disproportionate share of the costs. Although, there is no
8 indication that this is the case, a careful review of those costs in a general rate
9 case would ensure that Nebraska ratepayers are paying only for services in which
10 they benefit.

11 **Q. DID THE COMPANY FORECAST ANY ADDITIONAL INCREASES IN**
12 **OPERATING EXPENSES?**

13 A. Yes. The Company made *pro forma* adjustments to Base Year jurisdictional
14 operating expenses totaling \$1,520,002 (Total State \$1,828,559).²⁸

15 **Q. WHAT WAS THE CAUSE FOR MOST OF THE INCREASE TO THE**
16 **FORECASTED OPERATING EXPENSES?**

17 A. The most significant cause for the increase in the forecasted operating expenses
18 was the forecasted hiring of 59 employees to fill new positions during the period
19 January 1, 2014, to December 31, 2014. Wages, benefits, and payroll tax
20 associated with the New Labor totaling \$1,058,534 have been forecasted in the

²⁸ Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-1, Table 2, Schedule C.

1 Test Year.²⁹ This is a substantial increase of 122% over the wages, benefits, and
2 payroll taxes included in the 2013 Base Year of \$477,150.

3 **Table 7: Increase in Wages, Benefits, and Payroll Taxes from Base Year³⁰**

Description	Base Labor	New Labor	Total
Wages	\$348,970	\$765,025	\$1,113,995
Benefits	\$100,470	\$232,761	333,231
Payroll Taxes	\$27,710	\$60,748	\$88,458
Total	\$477,150	\$1,058,534	\$1,535,684

4
5 **Q. DID THE COMPANY MODIFY ITS LABOR COSTS DURING**
6 **DISCOVERY?**

7 A. Yes. While responding to an information request, the Company realized that the
8 percentages used to determine the portion of New Labor to be allocated to
9 Nebraska was based on preliminary amounts. After the Company revised the
10 allocation percentages, wages decreased from \$765,025 to \$724,760³¹ for a
11 reduction of \$40,265. This reduction in wages should also result in a reduction in
12 the *pro forma* cost of benefits and payroll taxes. This is another example of why a
13 utility's revenue deficiency should be reviewed fully in a general rate case.

14 **Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING THE NEW**
15 **LABOR?**

16 A. Yes. The labor cost for these New Labor positions is based upon a forecast. These
17 forecasted new hires may not actually be hired. The Company budgeted
18 headcount as of December 31, 2013, was 1,059 of which 1,037 positions were

²⁹ Docket No. NG-0078 SourceGas response to Information Request PA-31 (Exhibit DHM-10). The Company intends to hire a total of 84 new positions during the period of 1/1/2014 through 12/31/2014. Fifty-nine of those positions impact the expenses in Nebraska.

³⁰ Docket No. NG-0078 SourceGas response to Information Request PA-4 (Exhibit DHM-2).

³¹ Docket No. NG-0078 SourceGas response to Information Request PA-49, Confidential Attachment 49 (Exhibit DHM-11).

1 filled as of that date.³² Since the budgeted headcount for December 31, 2014, is
2 1,143, the Company needs to hire 106 employees in 2014. If the positions are not
3 filled, then the Company will have lower operating expenses, which will reduce
4 the Company's anticipated revenue deficiency for the 2014 Test Year.

5 **Q. DO YOU HAVE ANY OTHER CONCERNS ASSOCIATED WITH THE**
6 **COMPANY'S LABOR COSTS?**

7 A. Yes. The Company has a Short Term Bonus program [BEGIN CONFIDENTIAL]

8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED] .³³ [END

17 CONFIDENTIAL] My belief is that it is not appropriate for the Nebraska
18 ratepayers to carry the burden of rewarding employees through the Short Term
19 Bonus program for financial results that may not be in the ratepayers' best
20 interest. At a minimum, the burden for the costs of rewarding employees for
21 financial results should be shared with the Company's shareholders.

³² Docket No. NG-0078 SourceGas response to Information Request PA-34 (Exhibit DHM-4)

³³ Docket No. NG-0078 SourceGas response to Information Request PA-35 and Confidential Attachment PA-35 (Exhibit DHM-12).

1 Another concern is related to the Growth performance parameter in the
2 Short Term Bonus program, which encourages new customers' requests for
3 service. However, the Company has not included any additional revenue in the
4 revenue deficiency Test Year for new customer growth. The Company expects
5 ratepayers to bear the cost of rewarding employees for new customer growth, but
6 has not included additional revenue that would offset the revenue deficiency.

7 **Q. DO YOU HAVE ANY OTHER COMMENTS ON THE COMPANY'S**
8 **OTHER *PRO FORMA* ADJUSTMENTS?**

9 A. Yes. The Company is forecasting an increase in the Milsap rent expense from
10 \$55,948 to \$102,866 due to a change in the allocation method used from direct
11 assignment to Arkansas to applying a three-factor allocator for all jurisdictions.
12 The Company stated that the new allocation method more accurately reflects the
13 association of costs with those jurisdictions that benefit from those costs.³⁴ While
14 this change in allocation factors may be appropriate, it is another example of an
15 area that would typically be reviewed in a general rate case.

16 **G. Conclusion**

17 **Q. PLEASE SUMMARIZE YOUR CONCLUSION TO THE FUNDAMENTAL**
18 **QUESTION: IS THE REVENUE DEFICIENCY OF \$4.5 MILLION THAT**
19 **THE SOURCEGAS SEEKS TO RECOVER THROUGH THE ISR, SSIR,**
20 **AND REVISED DEPRECIATION RATES APPLICATIONS**
21 **APPROPRIATE?**

22 A. In summary, the anticipated revenue deficiency, which is the Company's
23 justification for its request to prospectively change depreciation rates in Docket

³⁴ Docket No. NG-0078 SourceGas response to Information Request PA-36 (Exhibit DHM-5).

1 No. NG-0079 and the adoption of a new System Safety and Integrity Rider (SSIR)
2 has not been subject to the scrutiny of a general rate case. As this proceeding is
3 not a base rate case, many of the assumptions the Company used to calculate its
4 forecasted revenue deficiency have not been fully explored. Based upon what I
5 did review, the Company's anticipated revenue deficiency of \$4.5 million is likely
6 overstated. Some of the potential issues that could result in a lower revenue
7 deficiency are the following:

- 8 1. While each general rate case is unique, companies are rarely authorized all
9 that they request in a general rate case.
- 10 2. Any change in the rate of return on equity could have a significant impact on
11 the revenue deficiency.
- 12 3. The forecasted costs included in a Future Test year can be susceptible to error,
13 and some costs and sales elements are inherently difficult to predict. Another
14 factor is that utilities have an incentive to present biased forecasts that are not
15 always easy to uncover.
- 16 4. The Company's projected rate base is overstated. Rate base includes 2015
17 SSIR projects' costs that the Company anticipates including in a future SSIR.
18 These projects will not be put into service until 2015, a year after the Future
19 Test Year, and therefore should not be included in the Company's
20 presentation of its revenue deficiency. The Company should not be earning a
21 return on and a return of the \$1,459,563 that is a year beyond the future test
22 year.

- 1 5. The Company could be over-forecasting the 2014 SSIR projects resulting in
2 an overstatement of rate base. When an update to actual costs and actual in
3 service is done, the revenue deficiency could be less.
- 4 6. The Company has included projects within rate base that could contribute to
5 additional revenues that have not been reflected in the Company's calculated
6 revenue deficiency.
- 7 7. The Company has forecasted New Labor that may not be hired by the end of
8 2014, thus overstating the revenue deficiency for labor costs that may not
9 occur.
- 10 8. Nebraska ratepayers may be paying for bonuses that should be shared with the
11 Company's shareholders.
- 12 9. The Company made adjustments between cost centers and to allocation
13 factors that have not been fully vetted to ensure that Nebraska ratepayers are
14 not paying for services from which they are not benefiting.

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16 **A. Yes. I conclude by offering into evidence Exhibits DHM-1 through DHM-12.**

Attachment A – Professional Experience and Education of Donna H. Mullinax

Summary

Mrs. Mullinax has over thirty-five years of financial, management and consulting experience. She has held the position of Vice President and Chief Financial Officer for the last 19 years and served on various Boards of Directors. She has extensive experience in project management; regulatory and litigation support; financial, administration, and human resource management. She has performed numerous financial, compliance and management audits. Mrs. Mullinax has excellent analytical skills and report writing capabilities. She has designed and implemented accounting and business systems and developed policy and procedure manuals to support those systems.

Key Qualifications and Selected Professional Experience

Financial, Administration, and Human Resource Management

As Chief Financial Officer and Vice President she is responsible for all aspects of financial, administration, and human resources. Her responsibilities include accounting, cash management, budgeting, tax planning and preparation, fixed assets, human resources, and employee benefits. Records under her control have been subject to an IRS compliance audit with no findings.

Project Management

Mrs. Mullinax has successfully managed numerous projects controlling cost, schedule, and scope. These projects included management, financial, and compliance audits, M&A due diligence reviews, economic viability studies, prudence reviews, and litigation/regulatory support for construction contract claims and regulatory proceedings. She works well with diverse team members and has an excellent ability to reconcile various viewpoints and establish and maintain effective working relationships among cross-functional teams.

Financial, Compliance, and Management Auditing

Mrs. Mullinax is a skilled auditor. She has performed numerous financial, compliance, and management audits for governmental entities, businesses, and public utilities. As a CPA and CIA, she is knowledgeable about sound internal control processes and procedures and has made numerous recommendations for modifications to provide reasonable assurance regarding the achievement of objectives related to (1) effectiveness and efficiency of operations; (2) reliability of financial records, and (3) compliance with laws and regulations.

She has also conducted detailed base rates revenue requirements and rider compliance audits. She has analyzed financial information and budget projections, performed risk identification, and evaluated performance against industry benchmarks. Her extensive professional experience allows her to effectively analyze and evaluate methods and procedures and to thoroughly document her findings. She has successfully testified to her audit findings.

❖ Before the Nebraska Public Service Commission (NEPSC) on behalf of the Public Advocate of Nebraska

- NEPSC Application NG-0072.01, SourceGas Distribution, LLC May 2014-August 2014.
- NEPSC Application No. NG-0074, Black Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy, July-November 2013.
- NEPSC Application No. NG-0072, SourceGas Distribution, LLC March 2013-May 2013.

Project Manager and Lead Auditor. Led the review of the Companies' applications for an infrastructure system replacement cost recovery charge for compliance to the Nebraska

Natural Gas Regulation Act. The reviews included a detailed mathematical verification and validation of support for the revenue requirements model and reviews of plant work order supporting the requested recovery of utility plant in service. Summarized the transactional testing results and calculated the impact to the customer charge. Drafted the report including documentation of findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly support all work.

❖ On behalf of the Staff of the Public Utilities Commission of Ohio (PUCO)

- Case No. 13-2100-EL-RDR: Delivery Capital Recovery (DCR) Rider Audit of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, Companies), December 2013-present. Project Manager and Lead Auditor.
- Case No. 13-0419-EL-RDR: Distribution Investment Rider (DIR) Audit of Columbus Southern Power Company and Ohio Power Company, d/b/a AEP-Ohio, March-August 2013. Project Manager and Lead Auditor.
- Case No. 12-2855-EL-RDR: Delivery Capital Recovery (DCR) Rider Audit of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, Companies), December 2012-July 2013. Project Manager and Lead Auditor.
- Case No. 11-5428-EL-RDR: DCR Rider Audit of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, Companies), November 2011 - May 2012. Project Manager and Lead Auditor.

Led the review to ensure the accuracy and reasonableness of the Companies' compliance with its Commission-approved infrastructure cost recovery rider filings. The review included a detailed mathematical verification and validation of the support of the riders' revenue requirements model, development of sensitivity analysis that supported the PPS sampling techniques used to isolate specific plant work order for further testing. Summarized the transactional testing results and calculated the impact to the rider's revenue requirements. Detailed variance analyses of historical data with investigations into any significant changes. Drafted the report including documenting findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly support all work performed.

- Case # 08-0072-GA-AIR Columbia Gas of Ohio for an increase in gas rates, April-August 2008
- Case # 07-0829-GA-AIR Dominion East Ohio for an increase in gas rates, November 2007-July 2008
- Case # 07-0589-GA-AIR Duke Energy Ohio for an increase in gas rates. November 2007-February 2008

Lead Auditor and assistant project manager. Performed a comprehensive rate case audit of companies' gas rate filings to validate the filings, provided conclusions and recommendations concerning the reliability of the information, and supported Staff in its evaluation of the reasonableness of the filing. Drafted the report including documenting findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly document work performed.

❖ On behalf of the Massachusetts Department of Public Utilities, Case No. D.P.U. 08-110, regarding the Petition and Complaint of the Massachusetts Attorney General for an Audit of New England Gas Company (NEGC), February-August 2010. Lead Auditor and Assistant Project Manager. Conducted a management audit on how NEGC manages its accounting and

financial reporting functions and whether sufficient controls are in place to ensure that the information included in the company's filings can be reasonably relied upon for setting rates – areas reviewed included general accounting, financial reporting, and internal controls; plant accounting; income tax; accounts receivable; accounts payable; cash management; payroll; cost allocations; and capital structure. Developed the report including documenting findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly document work performed.

- ❖ On behalf of the Staff of the Connecticut Public Utilities Regulatory Authority (PURA), Docket 07-07-01: Diagnostic Management Audit of Connecticut Light and Power Company, July 2008-June 2009, Lead Auditor and Assistant Project Manager. Performed an in-depth investigation and assessment of the company's business processes, procedures, and policies relating to the management operations and system of internal controls of the company's executive management, system operations, financial operations, marketing operations, human resources, customer service, external relations, and support services. In addition, supported an in-depth review of the development and implementation process of the company's new customer information system. Developed the report including documenting findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly document all findings.
- ❖ Before the Oregon Public Utilities Commission (ORPUC), Docket No. UP 205: Examination of NW Natural's Rate Base and Affiliated Interests Issues, Co-sponsored between NW Natural, ORPUC Staff, Northwest Industrial Gas Users, Citizens Utility Board, August 2005-January 2006, Lead Auditor and Assistant Project Manager. Examined NW Natural's Financial Instruments, Deferred Taxes, Tax Credits, and Security Issuance Costs to ensure Company compliance with orders, rules, and regulations of the ORPUC and with Company policies. Developed the report including documenting findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly document work performed.

Regulatory and Civil Litigation

She has provided or supported civil or regulatory testimony in Arizona, Colorado, Connecticut, Delaware, Illinois, Maryland, Michigan, Missouri, New York, North Carolina, North Dakota, South Carolina, Texas, and Utah. She has also served as an advisor to public service commissioners in the District of Columbia and Connecticut. In addition to providing analytical support, she has served as an expert witness and routinely works with other highly specialized expert witnesses. She has developed defensible analyses and testimony in connection with rate cases, audit findings, and other regulatory issues. She has also supported various civil litigations including delay and disruption construction claims and financial fraud. She has supported counsel with interrogatories, depositions, and hearings/trials support.

Regulatory Proceedings

- ❖ Before the Nebraska Public Service Commission (NEPSC) on behalf of the Public Advocate of Nebraska
 - NEPSC Application NG-0078, SourceGas Distribution, LLC May 2014-present.
Project Manager, Lead Auditor, and Expert Witness. Led the review of the Companies' applications to replace its infrastructure system replacement (ISR) cost recovery charge with a prospective System Safety and Integrity Rider (SSIR). The review included an analysis of the Company's projected revenue deficiency that led to the request for the prospective SSIR. The SSIR was subject to a detailed mathematical verification and validation of support for the revenue requirements model and reviews of proposed

projects supporting the requested recovery of utility plant in service. Testimony on the analysis will be filed in August 2014.

- ❖ On behalf of the Commissioners and Staff of the District of Columbia Public Service Commission (DCPSC)
 - Formal Case No. 1103 Potomac Electric Power Company (Pepco) base electric rate case, June 2013-present. Project Manager.
 - Formal Case No. 1093 Washington Gas Light Company (WGL) base gas rates case, July 2011-July 2013. Project Manager.
 - Formal Case No. 1087 Pepco base electric rates case, September 2011-December 2012
 - Formal Case No. 1076 Pepco base electric rates case, July-December 2009
 - Formal Case No. 1053 Pepco base electric rates case, February 2007-June 2008

Lead Consultant advising Commissioners and Staff of the Office of Technical and Regulatory Analysis regarding Company's proposed rate base, net operating income and revenue requirements. Assessed the companies' and Intervenors' positions on various issues and provided defensible recommendations for the Commissioners' consideration. Developed "what if" revenue requirement model used during Commission deliberations to analyze the impact of various adjustments. Supported the drafting of the Commission's Order and supplied the revenue requirement schedules to support the final decision. Supported the Commissioners' legal team in addressing motions for reconsideration.

 - Formal Case No. 1106 Washington Gas Light Company (WGL) Interruptible Service Customer Class rates and related issues, February 2014-present. Lead Consultant and Project Manager. Led the effort to review the Distribution Charge Adjustment and proposed changes as well as the review of taxes, depreciation, and cash working capital within the customer class cost of service study.
 - Formal Case No. 1032 Pepco base electric rates case, January-March 2005. Senior Technical Consultant and Assistant Project Manager. Reviewed and evaluated Company's compliance filings for class cost of service and revenue requirements for distribution service pursuant to a settlement approved in May 2002. Provided analysis and recommended adjustments to Staff. Proceeding was settled in anticipation of a full rate case for rates to be effective August 8, 2007.
 - Formal Case No. 1016 WGL natural gas base rates case, June-December 2003. Senior Technical Consultant and Project Manager. Analyzed and recommended adjustments regarding the company's proposed increase to base rates – advised the Commission on party positions during deliberations Review and evaluation of company's depreciation study filed with the Commission.
- ❖ Before the Missouri Public Service Commission, Case No. HR-2011-0241, on behalf of the City of Kansas City: Veolia Energy Company 2011 and 2012 electric base rates case, July-September 2011. Senior Technical Consultant. Analyzed Company's proposed net operating income, rate base, and revenue requirements. Supported testifying witness with drafted testimony and development of a model to calculate an alternative revenue requirement incorporating recommended adjustments.
- ❖ Before the North Dakota Public Service Commission, Case No. PU-10-657/PU-11-55: Northern States Power Company (NSP) 2011 and 2012 electric base rates case, April-November 2011. On behalf of the Commission Staff, Lead Consultant and Assistant Project Manager. Led the analysis of NSP's rate increase filings and supported adjustments for the Commission's consideration. Developed a model to calculate the appropriate revenue requirements and exhibits to support Staff recommended adjustments.

- ❖ Before the Connecticut Public Utilities Regulatory Authority (PURA), Docket 10-02-13: Aquarion Water Company base rates case, on behalf of the PURA, April-August 2010. Senior Technical Consultant and Assistant Project Manager. Reviewed the expense component of the company's revenue requirement and recommended adjustments for Staff consideration.
- ❖ Before the of the Delaware Public Service Commission on behalf of Staff
 - Docket No. 09-414: Delmarva Power & Light Company (DPL) electric base rates case, September 2009-May 2010. Expert Witness and Assistant Project Manager. Analyzed the company's rate increase filings and provided testimony offering adjustments for the Commission consideration related to the rate base and revenue requirements.
 - Docket No. 06-284: DPL's gas base rates case, October 2006-March 2007. Senior Technical Consultant and Assistant Project Manager. Analyzed the Company's filings, checked the mathematical accuracy of the Company's revenue requirements calculations, and provided analytical support to testifying witness.
- ❖ Before the Michigan Public Service Commission (MIPSC) on behalf of the Michigan Attorney General
 - Case No. U-15506: Consumers Energy Company base gas rates case, May-November 2008. Expert Witness and Assistant Project Manager. Analyzed the company's rate increase filings and provided testimony offering adjustments for the Commission consideration related to the rate base and revenue requirements – proceeding was settled through negotiations.
 - Case No U-15244 Detroit Edison electric base rates case, September 2007-October 2008.
 - Case No. U-15245 Consumers Energy Company base gas rates case, July 2007-April 2008.
Senior Technical Consultant and Assistant Project Manager. Analyzed the Company's filings, checked the mathematical accuracy of the Company's revenue requirements calculations, and provided analytical support to testifying witness.
 - Case No. U-14547 Consumers Energy Company base gas rates case, December 2005-April 2006. Expert Witness and Assistant Project Manager. Analyzed Company's rate increase filings and provided testimony offering adjustments for Commission consideration related to the rate base and revenue requirements.
- ❖ Before the Maryland Public Service Commission (MDPSC)
 - Case No. 9092 Pepco electric base rates case, on behalf of the Staff of the MDPSC, December 2006-June 2007. Expert Witness and Assistant Project manager. Analyzed Company's rate increases filings and provided direct and rebuttal testimony offering adjustments for the Commission consideration related to the rate base and revenue requirements.
 - Case No. 9062 Chesapeake Utilities Corporation gas base rates case, on Behalf of the Maryland Office of People's Counsel, May-August 2006. Expert Witness and Assistant Project Manager. Analyzed Company's rate increase filings and provided testimony offering adjustments for the Commission consideration related to the rate base and revenue requirements – participated in settlement negotiations that were ultimately accepted by all parties.

- ❖ Before the Illinois Commerce Commission, Case No. 05-0597, on behalf of the Illinois Citizens Utility Board, Cook County State Attorney's Office and City of Chicago, November 2005-May 2006. Senior Technical Consultant and Assistant Project Manager. Analyzed the Company's filings, checked the mathematical accuracy of the Company's revenue requirements calculations, and provided analytical support to testifying witness.
- ❖ Before the Hawaii Public Utilities Commission (HPUC), Docket No. 05-0075: Instituting a Proceeding to Investigate Kauai Island Utility Cooperative's Proposed Revised Integrated Resource Planning and Demand Side Management Framework, On behalf of the Staff of the HPUC, June-November 2005. Senior Technical Consultant and Assistant Project Manager. Conducted and reported on the results of an industry survey of other cooperatives and Commissions to obtain an overview of how other entities approach the specific issues identified within this docket.
- ❖ Before the Public Utilities Commission of the State of Colorado (COPUC), Docket No. 04A-050E: Review of the Electric Commodity Trading Operations of Public Service Company of Colorado (PSCo), On behalf of the COPUC Staff, March-September 2004. Expert Witness and Assistant Project Manager. Performed a transaction audit of PSCo's electric commodity trading operations and submitted testimony describing the process used to conduct the investigation, a summary of the audit findings, and discussion of the significance of the findings.
- ❖ Before the New York Public Service Commission, Case No. 00-E-0612: Proceeding on Motion of the Commission to Investigate the Forced Outage at Consolidated Edison Company of New York, Inc.'s Indian Point No. 2 Nuclear Generation Facility, On behalf of Consolidated Edison Company of New York, Inc., October 2000-September 2003. Project Manager. Supervised cross functional teams to assist scheduling and nuclear engineering experts with responses to interrogatories and the development of three comprehensive rebuttal testimonies on the prudence of extended outages at the Indian Point 2 nuclear power plant. The proceeding settled prior to filing of testimony.

Civil Litigation

- ❖ ADF Construction vs. Kismet, On Behalf of ADF Construction, December 2003-February 2004. Assistant Project Manager for a delay and disruption construction claim related to a large hotel complex in North Carolina – worked with scheduling experts to determine schedule delay and disruption and calculated related damages.
- ❖ On behalf of New Carolina Construction, July 2002-January 2003
 - New Carolina Construction vs. Atlantic Coast
 - New Carolina Construction vs. Acousti

Project Manager for a delay and disruption claim related to construction of a large high school complex in South Carolina – worked with scheduling experts to determine schedule delay and disruption and calculated related damages. Claim was settled out of court.
- ❖ State of Nevada Bureau of Consumer Protection, September-December 2003. Assistant Project Manager for damage assessment project related to potential litigation regarding the Western Market Manipulation.
- ❖ Oakwood Homes, On behalf of Oakwood Homes, February 1999-May 2000. Assistant Project Manager for a delay and disruption claim related to the construction of a large manufacturing facility in Texas – worked with scheduling experts to determine schedule delay and disruption and calculated related damages. Dispute was settlement through mediation.

- ❖ McMillan Carter, On behalf of McMillan Carter, June-September 2002. Project Manager for a delay and disruption claim related to construction of a large high school complex in North Carolina – worked with scheduling experts to determine schedule delay and disruption and calculated related damages. Claim was settled out of court.
- ❖ Fluor Daniel Inc. vs. Solutia, Inc., On behalf of Fluor Daniel, May 2000-August 2001. Assistant Project Manager for a delay and disruption construction claim related to large chemical processing facility in Texas – worked with scheduling experts to determine schedule delay and disruption and calculated related damages. Dispute proceeded through mediation.
- ❖ First National Bank of South Carolina vs. Pappas, On Behalf of First National Bank of South Carolina, 1991-1992. Civil litigation, deposed during pre-trial discovery on analytical findings related to check kiting and fraudulent loan applications. Supported counsel and expert witnesses during civil proceeding.
- ❖ First Union vs. Pappas, On Behalf of First Union, 1991-1992. Civil litigation, deposed during pre-trial discovery on analytical findings related to check kiting and fraudulent loan applications. Dispute was settled out of court.

Testimony proffered

Before the Colorado Public Utilities Commission

- Public Service Company of Colorado - Docket No. 04A-050E

Before the Delaware Public Service Commission

- Delmarva Power & Light Company - Docket No. 09-414

Before the Maryland Public Service Commission

- Potomac Electric Power Company - Case No. 9092
- Chesapeake Utilities Corporation - Case No. 9062

Before the Michigan Public Service Commission

- Consumers Energy Company - Case No. U-15506
- Consumers Energy Company - Case No. U-14547

Before the Public Service Commission of Nebraska

- SourceGas Distribution LLC – Docket No. NG-0078

System Implementation

Mrs. Mullinax has worked with various business and local governmental entities to design and implement accounting and business systems that addressed real world problems and concerns. She has developed accounting policy and procedure manuals for county governments, a library, and a water utility.

Professional Experience

Blue Ridge Consulting Services, Inc.: 2004 - Present

Vice President and Chief Financial Officer

Senior Technical Consultant / Expert Witness

Hawks, Giffels & Pullin, Inc.: 1993 - 2004

*Vice President and Chief Financial Officer
Executive Consultant
Controller*

Cherry, Bekaert & Holland, CPAs: 1991 - 1993

*Accounting Supervisor
Senior Accountant
Staff Accountant*

Smith, Kline and French Pharmaceutical Company: 1988 - 1991

Professional Sales Representative

Milliken & Company: 1979 - 1988

*Quality Assurance Manager
Technical Cause Analyst
Department Manager*

Professional Certification

Certified Public Accountant (CPA), State of South Carolina - 1993
Certified Financial Planner (CFP) - 1994
Certified Internal Auditor (CIA) - 2006
Chartered Global Management Account (CGMA) - 2012

Professional Affiliations

Member of the American Institute of Certified Public Accountants (AICPA)
Member of the South Carolina Association of Certified Public Accountants (SCACPA)
Member of the Institute of Internal Auditors (IIA)
Member of the Western Carolinas Chapter of the Institute of Internal Auditors (WCIIA)

Education

Clemson University, B.S. Administrative Management with honors, 1978
Clemson University, M.S. in Management, 1979
College for Financial Planning, 1994
NARUC Utility Rate School, 32nd Annual Eastern

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: May 27, 2014
DATE RESPONSE DUE: June 6, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 6, 2014
SUBJECT: Cost Drivers Contributing to Deficiency

INFORMATION REQUEST PA-1:

Reference Prefiled Direct Testimony of Jerrad Hammer, page 5, lines 18-20. Please provide the major cost drivers that are contributing to the revenue deficiency of \$4.5 million.

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

Please see Attachment PA-1.

ATTACHMENTS:

Attachment PA-1

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: May 27, 2014
DATE RESPONSE DUE: June 6, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 6, 2014
SUBJECT: Workpapers to Support Total Pro Forma Adjustments

INFORMATION REQUEST PA-4:

Reference Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-2, Table 2, Schedule C. Please explain the following Total Pro Forma Adjustments in Column F. Provide all workpapers that supports the adjustment.

	<u>Line #</u>	<u>FERC Account</u>	<u>FERC Account Description</u>	<u>Total Pro Forma Adjustments</u>
a)	11	870	Distribution: Operation Supervision & Engineering	211,236
b)	12	871	Distribution: Distribution Load Dispatching	15,484
c)	13	874	Distribution: Mains & Services Expense	356,530
d)	14	875	Distribution: Measuring & Reg Station-General	10,988
e)	17	878	Distribution: Meter & House Regulator Expense	15,110
f)	18	879	Distribution: Customer Installation Expense	12,509
g)	19	880	Distribution: Other Expense	35,090
h)	26	893	Distribution: Maint of Meters & House Regulators	30,537
i)	30	903	Customer Accounts: Customer Records & Collection	70,653
j)	32	905	Customer Accounts: Misc Customer Accounts Expense	18,558
k)	38	920	A&G: Administrative & General Salaries	460,233
l)	39	921	A&G: Other Supplies & Expenses	41,095
m)	42	926	A&G: Employee Pensions & Benefits	251,131
n)	46	931	A&G: Rents	64,601

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

Please refer to Attachment PA-4.

ATTACHMENTS:

Attachment PA-4

SourceGas Distribution LLC - Nebraska
 Discovery Response PA-4 - Pro Forma Adjustments
 PF-04 Labor, Benefit, and Payroll Tax Expenses
 Summary Data

Docket NG-0078
 Attachment PA-4
 Page 8 of 39

Base Year Labor		
FERC	Base Year Amount	2014 Increase (3%)
870	1,457,552.21	43,726.57
871	384,276.79	11,528.30
874	2,750,391.17	82,511.74
875	351,043.63	10,531.31
876	2,877.21	86.32
877	2,198.30	65.95
878	483,665.27	14,509.96
879	400,264.30	12,007.93
880	1,059,132.24	31,773.97
885	30,261.68	907.85
887	3,757.70	112.73
892	109,115.14	3,273.45
893	978,062.14	29,341.86
894	1,356.56	40.70
901	6,367.40	191.02
902	250,210.00	7,506.30
903	830,642.89	24,919.29
905	3,663.67	109.91
908	638.36	19.15
911	1,388.34	41.65
912	125,010.96	3,750.33
913	15,907.85	477.24
920	2,384,551.55	71,536.55
922		
Total	11,632,335.36	348,970.06

Base Year Benefits		
FERC	Base Year Amount	Percent of Labor
870	105,554.19	7.24%
871	26,668.35	6.94%
874	109,838.31	3.99%
875	15,211.66	4.33%
876	114.29	3.97%
877	91.84	4.18%
878	19,989.94	4.13%
879	16,707.77	4.17%
880	45,291.61	4.28%
885	1,457.89	4.82%
887	152.60	4.06%
892	4,368.14	4.00%
893	39,847.35	4.07%
894	24.16	1.78%
901	91.00	1.43%
902	10,377.67	4.15%
903	48,658.14	5.86%
905	190.68	5.20%
908	34.61	5.42%
911	135.85	9.79%
912	13,256.70	10.60%
913	1,477.65	9.29%
920	202,704.28	12.69%
922	(35,539.75)	-1.49%
926	2,622,309.20	22.54%
Total	3,349,014.13	

Base Year Payroll Taxes		
FERC	Base Year Amount	Percent of Labor
408.1	923,680.66	7.94%

Total Pro Forma Adjustment Amount							
FERC	Base Labor			New Labor			Total Amount
	Wages	Benefits	Payroll Taxes	Wages	Benefits	Payroll Taxes	
870	43,726.57	3,166.63		153,244.94	11,097.82		211,235.95
871	11,528.30	800.05		2,950.78	204.78		15,483.92
874	82,511.74	3,295.15		260,327.04	10,396.30		356,530.22
875	10,531.31	456.35					10,987.66
876	86.32	3.43					89.75
877	65.95	2.76					68.70
878	14,509.96	599.70					15,109.66
879	12,007.93	501.23					12,509.16
880	31,773.97	1,358.75					33,132.72
885	907.85	43.74					951.59
887	112.73	4.58					117.31
892	3,273.45	131.04					3,404.50
893	29,341.86	1,195.42					30,537.28
894	40.70	0.72					41.42
901	191.02	2.73					193.75
902	7,506.30	311.33					7,817.63
903	24,919.29	1,459.74		7,909.75	463.34		34,752.13
905	109.91	5.72					115.63
908	19.15	1.04					20.19
911	41.65	4.08					45.73
912	3,750.33	397.70		3,738.13	396.41		8,282.57
913	477.24	44.33					521.57
920	71,536.55	9,081.13		336,854.03	42,761.57		460,232.27
922	(1,066.19)				(5,020.53)		(6,086.72)
926		78,669.28			172,461.61		251,130.88
408.1			27,710.42			60,747.78	88,458.20
Totals	348,970.06	100,470.42	27,710.42	765,024.68	232,761.29	60,747.78	1,535,684.65

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: May 27, 2014
DATE RESPONSE DUE: June 6, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 6, 2014
SUBJECT: Exhibit JSH-1-SSIR Model, Table 4: Supporting Detail

INFORMATION REQUEST PA-10:

Reference Application dated May 1, 2014, Exhibit JSH-1-SSIR Model, Table 4: For each work order/project (Internal Order Numbers)/ Budget ID that have been placed in-service, please provide the following in a Microsoft Excel format:

- a) Supporting detail for assets (units and dollars by FERC account) added to utility plant from the Asset Accounting system.
- b) Supporting detail for retirements, cost of removal and salvage, if applicable, charged or credited to plant (units and dollars) for each replacement work order.
- c) The individual work order or project estimated an actual in-service dates with explanations for delays > 60 days.
- d) The individual work order or project budget vs. actual costs, with explanations for any variances +/- 15%.

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

As of the date of this response, none of the projects listed on Exhibit JSH-1, Table 4, have been placed in service. SourceGas Distribution periodically will update this response with information about any projects that have been placed in service.

ATTACHMENTS:

None

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
THIRD SET OF INFORMATION REQUESTS**

DATE OF REQUEST: June 13, 2014
DATE RESPONSE DUE: June 23, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 23, 2014
SUBJECT: Full-Time Equivalent Headcount

INFORMATION REQUEST NO. PA-34:

Follow up to Information Request PA-4, Attachment PA-4, PF-04, Labor, Benefits, and Payroll Tax Expenses. Please provide the FTE (full-time equivalent) headcount as of 12/31/2013 and the FTE headcount assumed as of 12/31/2014.

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

The total budgeted headcount for SourceGas LLC as of 12/31/2013 was 1,059 of which 1,037 positions were filled as of that date. The total budgeted headcount for SourceGas LLC projected for 12/31/2014 is 1,143.

ATTACHMENTS:

None

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
THIRD SET OF INFORMATION REQUESTS**

DATE OF REQUEST: June 13, 2014
DATE RESPONSE DUE: June 23, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 23, 2014
SUBJECT: Milsap Rent Expense

INFORMATION REQUEST NO. PA-36:

Follow up to Information Request PA-4, Attachment PA-4, PF-05 Additional Rent: Please explain in detail why the Milsap rent expense increased from \$55,948 to \$102,866.

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

The Milsap rent expense increased from \$55,948 to \$102,866 due to a change in the allocation method utilized -- from direct assignment to Arkansas to application of the 3-factor allocator for all jurisdictions. This change reflects the Company's determination that a portion of the building's square footage was being utilized for general corporate functions and that, accordingly, that portion of the Milsap building rent should be allocated to all jurisdictions instead of being directly coded to the Arkansas jurisdiction. The new allocation method more accurately reflects the association of costs with those jurisdictions that benefit from those costs.

ATTACHMENT:

None

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: May 27, 2014
DATE RESPONSE DUE: June 6, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 6, 2014
SUBJECT: Base Year Calendar and Calculations

INFORMATION REQUEST PA-2:

Reference Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-2, Table 2, Schedule C.

- a) What calendar period does the Base Year in Column C cover?
- b) How were the amounts in the Base Year amounts derived?

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

- a) The Base Year represents calendar year 2013.
- b) The amounts represent SourceGas Distribution- Nebraska's actual costs for calendar 2013 as reported on the Company's books and records.

ATTACHMENTS:

None

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: May 27, 2014
DATE RESPONSE DUE: June 6, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 6, 2014
SUBJECT: Workpapers to Support Adjustments

INFORMATION REQUEST PA-3:

Reference Prefiled Direct Testimony of Jerrad Hammer, Exhibit JSH-2, Table 2, Schedule C. Please explain the following Total Base Year Adjustments in Column C. Provide all workpapers that supports the adjustment.

	<u>Line</u>	<u>FERC</u>	<u>FERC Account Description</u>	<u>Total Base Year Adjustments</u>
a)	7	859	Transmission: Other Expense	(27,606)
b)	19	880	Distribution: Other Expense	28,106
c)	35	912	Customer Accounts: Demonstration & Selling Expense	82,182
d)	36	913	Customer Accounts: Advertising Expense	(86,269)
e)	39	921	A&G: Office Supplies & Expenses	24,717
f)	40	923	A&G: Outside Services Employed	(22,941)
g)	45	930.2	A&G: Miscellaneous General Expenses	20,464

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

Please refer to Attachment PA-3.

ATTACHMENTS:

Attachment PA-3

**SOURCEGAS DISTRIBUTION LLC
 SYSTEM SAFETY AND INTEGRITY RIDER
 DOCKET NO. NG-0078
 RESPONSE TO PUBLIC ADVOCATE'S
 THIRD SET OF INFORMATION REQUESTS**

DATE OF REQUEST: June 13, 2014
DATE RESPONSE DUE: June 23, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 23, 2014
SUBJECT: Projects Included in Utility Plant in Service

INFORMATION REQUEST NO. PA-38:

The following requests are based on the following table.

Changes in Utility Plant in Service by Docket

Docket	As of Date	Jurisdictional Utility Plant in Service	Source
NG-0067	3/31/11	\$156,982,692	Interlocutory Exhibit II, Schedule A
NG00078 Base Year	12/31/13	\$182,733,755	Exhibit JSH-2, Table 2, Schedule B
Incremental Since Last Base Rate Case		<u>\$25,751,063</u>	
NG00078 Base Year	12/31/13	\$182,733,755	Exhibit JSH-2, Table 2, Schedule B
NG-0072.01 Incremental 2nd ISR	4/30/14	\$3,230,387	Exhibit C, Schedule 3
NG-0078 SSIR Incremental	12/31/14	\$8,812,447	Exhibit JSH-1, Table 3
UPIS with ISRs and SSIR		\$194,776,589	
NG-0078 Revenue Deficiency	12/31/14	\$197,935,447	Exhibit JSH-2, Table 2, Schedule B
Additional UPIS at the End of Test Year		<u>\$3,158,858</u>	
NG-0072 Incremental Initial ISR	2/28/13	\$4,762,165	Exhibit C, Schedule 3

- a) Please confirm the amounts in the table. If any amounts are incorrect, please explain why the information is incorrect and provide the correct information.
- b) Please explain the type of projects included in the additional Utility Plant in Service of \$3,158,858 (beyond what is included in the ISR and SSIR) that is assumed to be in service by the end of the Test Year 12/31/14.

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

- a) Confirmed.

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
THIRD SET OF INFORMATION REQUESTS**

- b) As shown on Exhibit JSH-2 Table 2, Schedule B, Line 2, the change in Utility Plant in Service is \$25,143,302. Please see Attachment PA-38, which shows the \$25M change in UPIS by category. The \$9,941,610 change in CWIP is included in the \$25M change in UPIS.

ATTACHMENT:

Attachment PA-38

Line No.	Category	Reference	Total Nebraska	Jurisdictional % 79.89%	Total Jurisdictional
Nebraska Direct					
1	3rd Party Billing		\$ 7,863		\$ 6,282
2	Extra Incentive Allowance		18,209		14,547
3	Facilities		1,243,583		993,521
4	Highway Relocation		308,922		246,804
5	Mains		3,068,697		2,451,638
6	Measurement		2,441,209		1,950,327
7	Plant Improvement		1,370,803		1,095,160
8	Routines		2,026,251		1,618,809
9	ROW/Encroachments		5,000		3,995
10	T&W Equipment		1,438,169		1,148,979
11	Vehicles		2,344,929		1,873,407
12	Grand Total	Sum Lines 1-11	\$ 14,273,636		\$ 11,403,467
13	Retirements		(3,870,753)		(2,596,649)
14	2014 Nebraska Direct Additions	Line 12 + 13	\$ 10,402,883		\$ 8,806,818
Pipeline Integrity					
15	Pipeline Integrity (LB658)		\$ 4,067,256		\$ 3,230,387
17	Pipeline Integrity (2014 SSIR)		11,627,216		8,812,447
18	Pipeline Integrity (2015 SSIR)		1,826,925		1,459,563
19	Total Pipeline Integrity	Sum Lines 17-16	\$ 17,521,397		\$ 13,502,397
Corporate Allocation					
20	Customer Information System		\$ 57,000		\$ 45,538
21	Facilities		74,829		59,783
22	Information Technology		1,493,082		1,192,851
23	Software		2,143,487		1,712,471
24	Total	Sum Lines 21-24	\$ 3,768,399		\$ 3,010,642
25	Meter Shop transfer		290,062		231,735
26	Retirements		(511,055)		(408,291)
27	2014 Nebraska Corporate Additions	Sum Lines 25-27	\$ 3,547,405		\$ 2,834,087
28					
29					
30	Total Nebraska 2014 Additions	Exh. JSH-2, Table 2, Sch. B, Line 12	\$ 13,950,288		\$ 25,143,302
31					
32	Total Nebraska 2014 Additions				\$ 25,143,302
33	Change in CWIP (included in the Total Nebraska Additions)	Exh. JSH-2, Table 2, Sch. B, Line 13			(9,941,610)
34	Docket No. NG-0072.1 (LB658)				(3,230,387)
35	Docket No. NG-0078 (SSIR)				(8,812,447)
36	Total 2014 Net Gross Plant In Service	Sum Lines 32-35			\$ 3,158,858

**SOURCEGAS DISTRIBUTION LLC
 SYSTEM SAFETY AND INTEGRITY RIDER
 DOCKET NO. NG-0078
 RESPONSE TO PUBLIC ADVOCATE'S
 THIRD SET OF INFORMATION REQUESTS**

DATE OF REQUEST: June 13, 2014
DATE RESPONSE DUE: June 23, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 23, 2014
SUBJECT: Base Year Cost and Expense

INFORMATION REQUEST NO. PA-30:

Follow up to Information Request PA-1 and Exhibit JSH-2, Table 2, Schedule A. The following requests are based on the following table.

**Comparison of Expenses Approved in NG-0067 to
 Expenses Included in Base Year NG-0078 Revenue Deficiency - Jurisdictional**

Description	Approved In NG-0067 3/31/11	NG-0078 Base Year 12/31/13	Difference	% Change
Return	5,348,593	6,229,413	880,820	16.47%
O&M Expense	10,984,586	12,948,622	1,964,036	17.88%
A&G Expense	8,699,950	7,183,153	(1,516,797)	-17.43%
Other Taxes	2,094,233	1,929,356	(164,877)	-7.87%
Depreciation	6,476,885	6,845,589	368,704	5.69%
Provision of Income Tax	2,204,966	2,815,178	610,212	27.67%
Total Revenue Requirement	35,809,213	37,951,310	2,142,097	5.98%
Other Revenues	(2,020,218)	(1,892,181)	128,037	-6.34%
Net Cost of Service	33,788,995	36,059,130	2,270,135	6.72%
	PA-1	JSH-2 Table 2 Schedule A		

- a) Please explain in detail why the Base Year O&M costs increased by \$1,964,036 (17.88%) over the amount approved in NG-0067. What changes were made to the Company's operations that resulted in the increase?
- b) Please explain in detail why Base Year A&G expenses decreased by \$1,516,797 (-17.43%) from the amount approved in NG-0067. What changes were made to the Company's operations that caused the decrease?

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
THIRD SET OF INFORMATION REQUESTS**

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

- a.) The changes that have been made since the approval of the Base Year O&M amount of \$10,984,586 in NG-0067 which are contributing to the shift of expenses from A&G to O&M are primarily related to the coding of labor for certain cost centers. Nine corporate cost centers were changed to Operations Support cost centers since the 2011 rate case. These include Gas Control, Gas Supply & Shipper Services, Technical Services, Engineering, Environmental Health, Safety and Training, Project Management, Engineering, GIS, and Load Growth. This shift accounts for just over \$1 million moving from A&G to O&M based on the labor figures from the 2011 rate case. Additionally, a new cost center for Integrity Management was added. This was originally estimated in the approved NG-0067 case at approximately \$57,000 of labor and now accounts for approximately \$350,000 of labor. Any other differences between the approved amount in NG-0067 and this filing are not due to changes in operations.
- b.) In addition to the shift from A&G to O&M mentioned above, the other main factor causing the reduction in A&G expenses from the NG-0067 approved amount of \$8,699,950 to the current filing amount of \$7,183,153 is an increase in the Direct Capital Rate. The rate at the time of the 2011 rate case was 7.15%. The rate for 2013 which is used in this filing is 18.89%. This accounts for a reduction in A&G expense of approximately \$125,000. Any other differences between the approved amount in NG-0067 and this filing are not due to changes in operations.

ATTACHMENTS:

None

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
THIRD SET OF INFORMATION REQUESTS**

DATE OF REQUEST: June 13, 2014
DATE RESPONSE DUE: June 23, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 23, 2014
SUBJECT: Pro Forma for New Labor

INFORMATION REQUEST NO. PA-31:

Follow up to Information Request PA-4, Attachment PA-4, PF-04, Labor, Benefits, and Payroll Tax Expenses, pro forma for New Labor.

- a) Please confirm that the Company has included a pro forma adjustment for New Labor of \$1,058,534 [New Labor wages of \$765,024, New Labor benefits of \$232,761, and New Labor payroll taxes of \$60,748]. If the information is incorrect, please provide the correct information and explain any discrepancy.
- b) Please confirm that the Company intends to hire 59 new employees during the period of 1/1/2014 through 12/31/14 with total corporate salaries of \$3,661,765 and an NE-allocated total salaries of \$765,025? If the information is incorrect, please provide the correct information and explain any discrepancy.
- c) Please explain in detail what changed since the last base rate case (NG-0067) that required the addition of this New Labor.
- d) Please explain in detail what additional tasks will be done by the New Labor that were not previously being performed and the benefits of those new tasks to the ratepayers of Nebraska.
- e) If the New Labor will be performing tasks previously performed by others, where has the Company recognized the cost savings for eliminating the original positions or contract expenses responsible for that task?

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

- a. The Company has included a pro forma adjustment for New Labor of \$1,058,534 as shown in Attachment PA-4.xlsx. The labor portion of that amount is \$765,025, benefits are \$232,761 and payroll taxes are \$60,748.
- b. The Company intends to hire a total of 84 new positions during the period of 1/1/2014 through 12/31/2014. Only 59 of those positions impact the expenses in Nebraska. The total salaries of \$3,661,765 are not all corporate salaries. Nebraska technicians account for \$462,189 and Operations Support staff accounts for \$835,508 of the total. The total amount directly attributable, assigned or allocated to Nebraska of \$765,025 is correct.
- c. The New Labor is required due to a number of new regulations imposed by, among others, PHMSA and Congressional requirements, the increased capital investment that the Company is

**SOURCEGAS DISTRIBUTION LLC
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making, both in the field and in additional hardware and software, some of which is needed to support the new regulations and additional capital investments, and support staff needed to provide sufficient coverage to enable the Company to respond more timely to safety issues and continue to maintain and improve on response times to customer requests as well as emergencies.

- d. The tasks that will be performed by these new positions include, among other things, updating educational materials based on the new regulations and increasing public awareness activities; performing construction inspection, welding, operations and maintenance of the system; enhancing cybersecurity; providing additional on-call services; building and enhancing software systems for increased safety and service levels; creating and managing a new learning and development team that will assist in the roll-out and training of new systems, changes to systems, and training of new requirements; and establishing and running a fleet management program.
- e. The only tasks the New Labor will be performing that were previously performed are related to the Call Center employees who are being converted from contractors to full time employees. Attachment PA-4.xlsx has an adjustment that accounts for the savings realized by converting these positions from contractor to permanent.

ATTACHMENTS:

None

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RESPONSE TO PUBLIC ADVOCATE'S
SIXTH SET OF INFORMATION REQUESTS**

DATE OF REQUEST: July 08, 2014
DATE RESPONSE DUE: July 18, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: July 18, 2014
SUBJECT: Allocation of "Expense Portion to NE"

INFORMATION REQUEST PA-49:

Follow up to Information Request PA-32: Please fill in the actual numbers used for each position in the columns labeled "Capital Percentage Calculation Method" and "Expense Allocation Method" that were used to determine how much of the Annual Salary is allocated "Expense Portion to NE".

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

The actual percentages used for each position have been added to the original data submitted in response to Information Request PA-32. During this process it was identified that the percentages used were the preliminary 2014 percentages in some instances. Additional columns have been added to the data to show the final 2014 percentages and the re-calculated Expense to NE amount. This data is show in Confidential Attachment PA-49.

Confidential Attachment PA-49 is being submitted pursuant to the Commission's Protective Order, entered in Docket No. NG-0078 on June 9, 2014.

ATTACHMENTS:

Confidential Attachment PA-49

**SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER
DOCKET NO. NG-0078
RESPONSE TO PUBLIC ADVOCATE'S
THIRD SET OF INFORMATION REQUESTS**

DATE OF REQUEST: June 13, 2014
DATE RESPONSE DUE: June 23, 2014
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: June 23, 2014
SUBJECT: Bonus Payout Parameters

INFORMATION REQUEST NO. PA-35:

Follow up to Information Request PA-4, Attachment PA-4, PF-04, Detailed Data-Base Year Benefits:

- a) Please explain Short Term Bonus-Gro and provide the performance parameters that are measured that result in the bonus payout.
- b) Please explain Short Term Bonus-Fin and provide the performance parameters that are measured that result in the bonus payout.

RESPONSE:

Subject to SourceGas Distribution LLC's General Objections, SourceGas Distribution responds as follows:

The Short Term Bonus-Gro(wth) and Short Term Bonus-Fin(ancial) portions of the SourceGas LLC 2013 Short Term Incentive Program are explained, including the performance parameters required for payout, in the letters that are delivered to SourceGas employees. Attached as Confidential Attachment PA-35.pdf is a copy of a representative letter.

Confidential Attachment PA-35.pdf is being submitted pursuant to the Commission's Protective Order, entered in Docket No. NG-0078 on June 9, 2014.

ATTACHMENT:

Confidential Attachment PA-35.pdf



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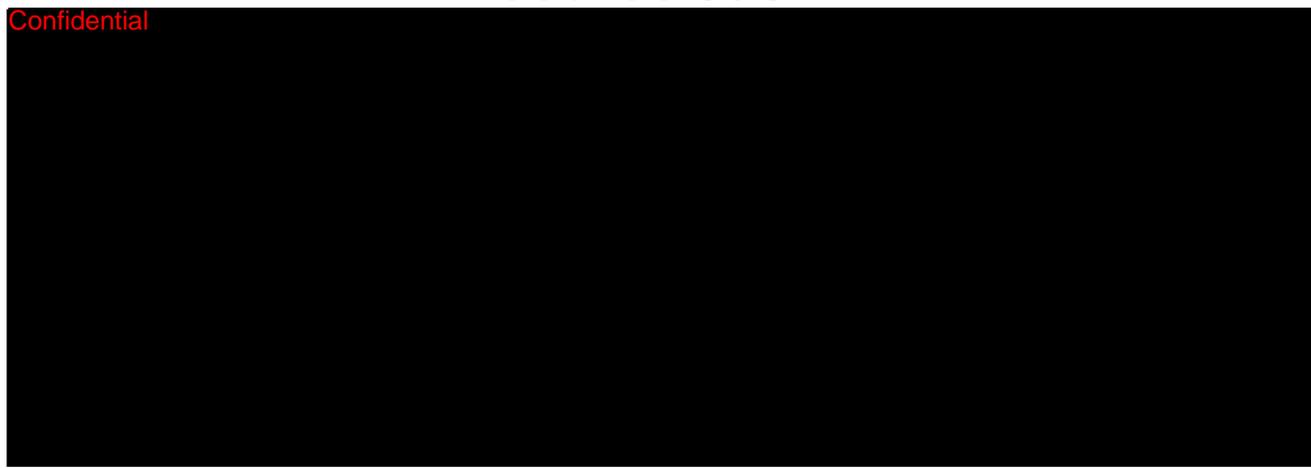
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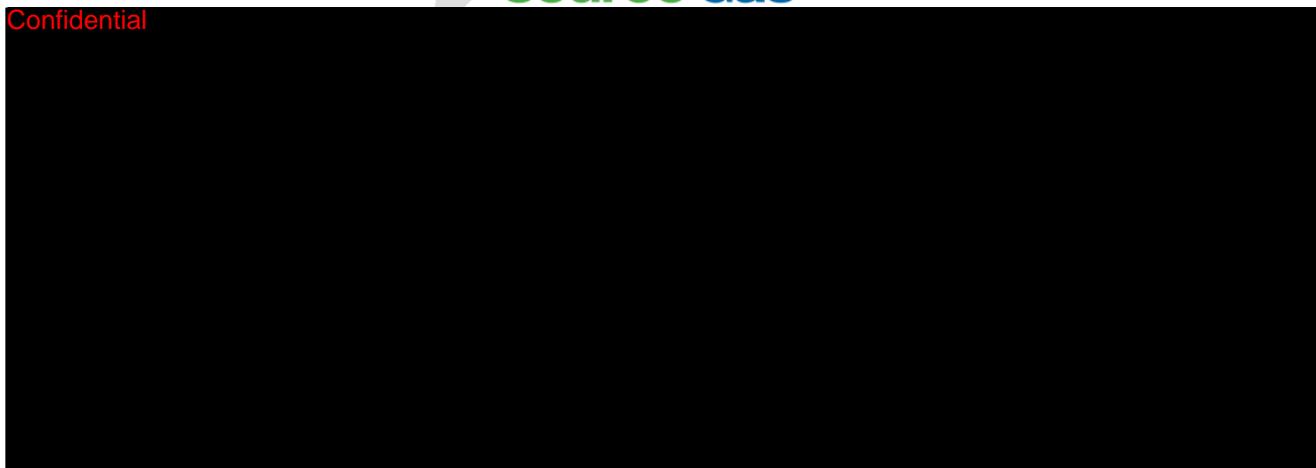
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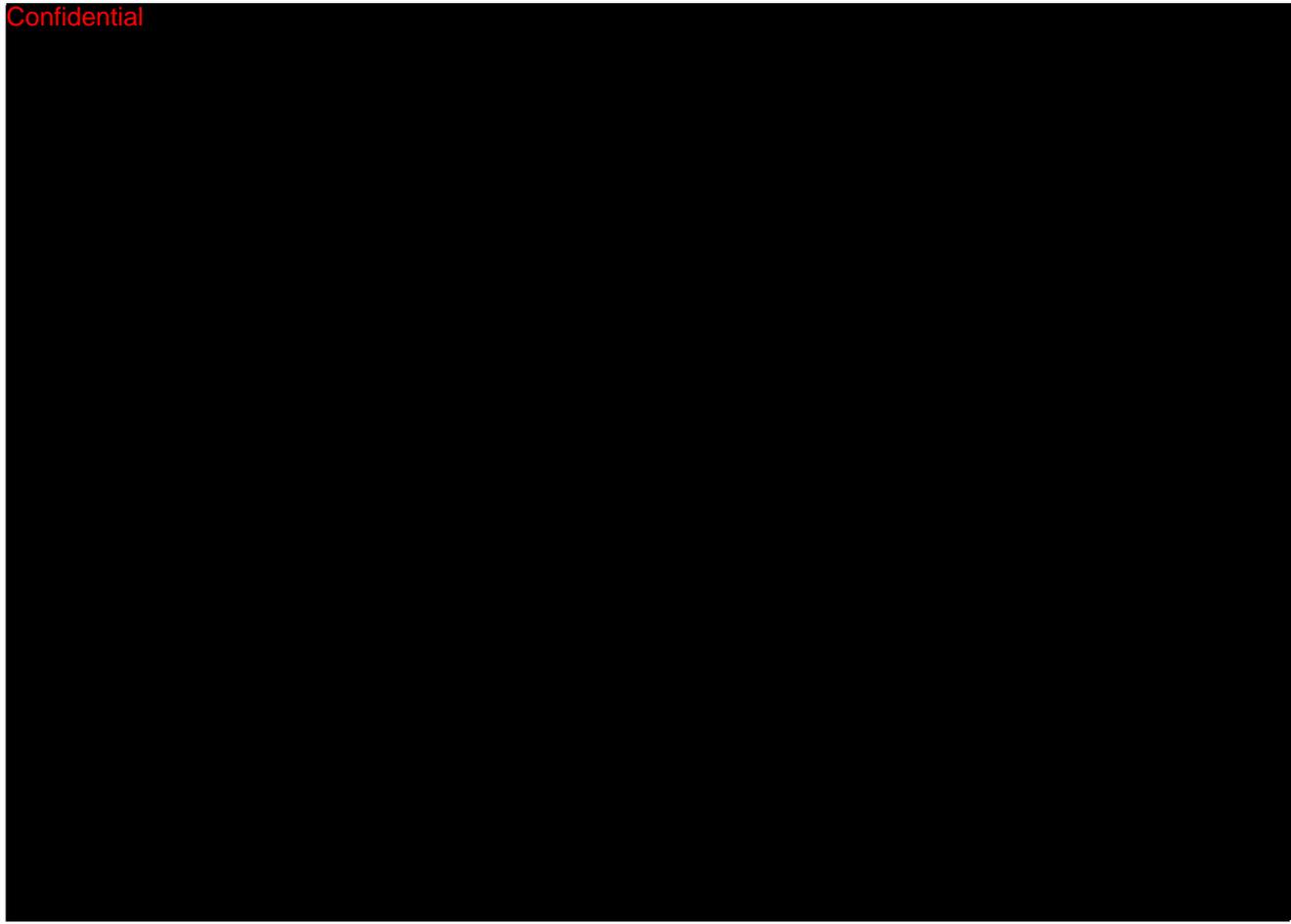


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