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 CHANGED DEPRECIATION RATES ON ITS NEBRASKA BOOKS OF ACCOUNT EFFECTIVE MAY 1, 2014, WITHOUT IMPACTING EXISTING RATES	))))))	DOCKET NO. NG-0079

PREFILED REBUTTAL TESTIMONY AND EXHIBITS OF

JERRAD S. HAMMER

SECTION **PAGE**

I. INTRODUCTION AND OVERVIEW OF REBUTTAL TESTIMONY

Q. PLEASE STATE YOUR NAME.

A. My name is Jerrad S. Hammer.

Q. ARE YOU THE SAME JERRAD S. HAMMER WHO SUBMITTED PREFILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. My Direct Testimony presented a Jurisdictional revenue deficiency analysis and addresses the impact that the requested change to the Company's depreciation rates would have on SourceGas Distribution's Jurisdictional cost of service in its next general rate case. In connection with my Direct Testimony I also submitted prefiled Exhibit JSH-1, which is a copy of Appendix 2 to the Application in this proceeding. Capitalized terms not defined in my Rebuttal Testimony are defined in my Direct Testimony.

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. My Rebuttal Testimony responds to the Direct Testimony and Exhibits of Mr. William W. Dunkel and the Direct Testimony and Exhibits of Ms. Donna H. Mullinax filed in this docket on behalf of the Public Advocate.

Q. DO YOU HAVE ANY EXHIBITS IN CONNECTION WITH YOUR PREFILED REBUTTAL TESTIMONY?

A. Yes. I will present the following three exhibits, which I prepared or compiled or caused to be prepared or compiled under my supervision.

Exhibit JSH-2 –	Revenue Requirement Comparisons
Exhibit JSH-3 –	The Company's Response, Supplemental Response and Second Supplemental Response to Staff Data Request No. 1-1 (July 24, August 22 and September 10, 2014)
Exhibit JSH-4 –	The Company's Response to Information Request No. PA-4 (June 6, 2014)

Q. IS SOURCEGAS DISTRIBUTION SUBMITTING PREFILED REBUTTAL TESTIMONY OF ANY OTHER WITNESS?

A. Yes. The Company is presenting the prefiled Rebuttal Testimony of Dane A. Watson, PE CDP, a Partner of Alliance Consulting Group. In his Rebuttal Testimony, Mr. Watson addresses Mr. Dunkel's Direct Testimony regarding the timing of depreciation rate implementation and his proposed depreciation rates including their net salvage factors.

The Company also is presenting the prefiled Rebuttal Testimony of Jason R. Pickett, SourceGas's Senior Director – Operations for SourceGas Distribution in Nebraska. In his Rebuttal Testimony, Mr. Pickett addresses from an operational perspective the status of the Company's 2014 System Safety and Integrity Rider ("SSIR") Projects, being addressed in Docket No. NG-0078, in response to Ms. Mullinax's Direct Testimony on that point.

Q. HOW IS YOUR REBUTTAL TESTIMONY PRESENTED?

A. After this Introduction and Overview of Rebuttal Testimony section, my Rebuttal Testimony is divided into the following three sections.

Section II – Executive Summary

Section III – Rebuttal of Direct Testimony of Mr. William W. Dunkel

Section IV – Rebuttal of Direct Testimony of Ms. Donna H. Mullinax

II. EXECUTIVE SUMMARY

Q. BEFORE YOU BEGIN YOUR REBUTTAL TESTIMONY, PLEASE EXPLAIN TO THE COMMISSION WHY THE COMPANY FILED THIS APPLICATION FOR AUTHORITY TO CHANGE THE COMPANY'S DEPRECIATION RATES.

A. The Company's Jurisdictional base rates, including depreciation rates, were established in its last general rate case, filed in 2011 in Docket No. NG-0067. They are the same depreciation rates as established in prior rate cases for these assets.

Because it was not recovering sufficient revenue to cover its revenue requirements under its existing base rates, in the sum of approximately $4.5 million, SourceGas Distribution planned to file a general rate case on or about April 1, 2014. However, following consultation with the Commission Staff and the Public Advocate, the Company developed a three-pronged solution to avoid the planned general rate case at this time. The first prong of this solution was achieved with the Commission's order in Docket No. NG-0072.1, approving an ISR charge. The second prong of the solution is the Company's Application in Docket No. NG-0078 to adopt a System Safety and Integrity Rider (SSIR) Tariff and Charges. This Application to revise depreciation rates is the third prong of the solution.

Q. WHAT IS THE COMPANY REQUESTING FROM THE COMMISSION?

A. The Company seeks authority from the Commission to change its depreciation rates on its Nebraska books, effective May 1, 2014, without changing base rates charged to customers. The depreciation rates that the Commission approved in Docket No. NG-0067 are the same depreciation rates that the Commission approved in prior rate cases for these assets. To evaluate its depreciation rates, SourceGas engaged Alliance Consulting Group to conduct a depreciation rate study. That study, presented through the prefiled Direct and Rebuttal Testimony and Exhibits of Mr. Dane A. Watson, showed that the Company's depreciation rates for six Distribution plant accounts should be revised. If the authority to change these depreciation rates is granted, and if the Commission approves the Company's SSIR Application in Docket No. NG-0078, the Company's revenue deficiency would be reduced to approximately $940,000. Although this is substantial, the relief requested by the Company would achieve a significant improvement in the Company's financial situation without changing customers’ base rates or imposing on customers the expense of a general rate case.

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY CONCERNING MR. DUNKEL'S TESTIMONY.

A. First of all, Mr. Dunkel ignores the big picture of the Company's revenue requirements. His Direct Testimony improperly focuses on just one aspect of the revenue requirement calculation, depreciation rates, rather than on the total revenue requirement that is used to determine just and reasonable base rates. As demonstrated in the Company's Jurisdictional revenue deficiency analysis, Exhibit JSH-2, some revenue requirement components have increased since the last general rate case, while others have decreased. In opposing the Company's effort to revise depreciation rates to reflect present day reality, Mr. Dunkel ignores the fact that the resulting decrease in depreciation expense is more than offset by increases in costs that ratepayers would face in a general rate case which, more than likely, would lead to higher rates. Contrary to Mr. Dunkel's contention, ratepayers are not harmed by the Company's proposal to revise depreciation rates because they are not being asked to pay for the cost increases in *other* revenue requirement categories shown in Exhibit JSH-2. Those other cost increases are higher than the $1,617,639 reduction in depreciation expense that the Company is requesting here.

Second, although Mr. Dunkel agrees that the Company's depreciation rates should be revised, nevertheless he opposes doing so in this proceeding. If Mr. Dunkel's approach is accepted, the only way the Company could resolve its revenue deficiency would be to file a general rate case. But the Company proposes to avoid that approach and the attendant rate case expense by obtaining authority to revise its depreciation rates without changing customers' base rates.

Q. ARE THERE OTHER ASSERTIONS IN MR. DUNKEL'S TESTIMONY THAT YOU WILL ADDRESS IN YOUR REBUTTAL?

A. Yes. Mr. Dunkel asserts that SourceGas Distribution proposes to record on its books a depreciation expense that is less than what it actually collects from ratepayers. This is wrong, because SourceGas Distribution does not "actually collect" depreciation expense from its customers. Instead, depreciate expense is embedded in base rates as established in the last general rate case. The amount of embedded depreciation expense does not vary with the amount of depreciation expense that the Company actually records on its books, so there is almost always a mismatch between those two amounts. The Company's revenue deficiency analysis shows that the Test Year depreciation expense is $7,770,205 (Exhibit JSH-2, Line 2, Column [C]). This means that approximately $1.3 million <u>more</u> is going into the Company's reserve account than is being provided by ratepayers through base rates. As a result, customers are likely getting the benefit of a reduction to the Company's rate base, even though they did not contribute to that reduction by paying a commensurate depreciation expense. The Company is asking the Commission to approve the revised depreciation rates so that it can use this cost reduction on its books to pay for other revenue requirement items that have increased since the Company's last general rate case. There is, therefore, no "double recovery" as suggested on page 16 of Mr. Dunkel's testimony.

Q. WHAT AREAS WILL YOU COVER IN ADDRESSING THE DIRECT TESTIMONY OF PUBLIC ADVOCATE WITNESS MULLINAX?

A. I will address Ms. Mullinax's misplaced critique of the Company's Jurisdictional revenue deficiency analysis. This analysis demonstrates why it is important that each prong of the Company's proposed solution be approved. The analysis shows that SourceGas Distribution has a Jurisdictional revenue deficiency, compared with its current revenue requirement, and the Commission's approval of this Application, along with the Application in Docket No. NG-0078, will not cause the Company to exceed its authorized rate of return.

Second, I will explain why Ms. Mullinax's criticism of the Company's Jurisdictional revenue deficiency analysis is wrong. The Company submitted the Jurisdictional revenue deficiency analysis to show that its current rates are not covering its costs, and that the Company needs the relief requested in this docket and in Docket No. NG-0078 in order to avoid a general rate case and the attendant expense. I also will address various inaccuracies in Ms. Mullinax's testimony regarding the information provided by the Company, including authorized return on equity, and the Company's updating of expenses, rate base, and revenues, which does not equate to a future test year. I also will address Ms. Mullinax's testimony on the status of the Company's 2014 SSIR Projects that are being addressed in Docket No. NG-0078, explaining why it is important to use seven months of actual and five months of forecasted information for Projects that have reached in-service or technically complete ("TECO") status.

Finally, I will address Ms. Mullinax's conclusion and rebut each of the nine "potential issues" presented on pages 26-27 of her Direct Testimony. The Company has shown through its Jurisdictional revenue deficiency analysis that the Company is earning less than its authorized return, the Commission's approval of the applications in this docket and in Docket Nos. NG-0072.1 and NG-0078 would not cause the Company to earn more than its authorized return and, importantly, that approval of the three applications will allow the Company to avoid a planned general rate case filing.

III. REBUTTAL OF DIRECT TESTIMONY OF MR. WILLIAM W. DUNKEL

Q. DO YOU AGREE WITH THE MAJOR THEME OF MR. DUNKEL'S DIRECT TESTIMONY THAT CHANGING DEPRECIATION RATES OUTSIDE OF A

GENERAL RATE CASE WOULD CAUSE RATEPAYERS TO BE "OVERCHARGED" AND, THUS, "HARMED" (DUNKEL DIRECT TESTIMONY, PAGE 5, LINES 2-3, PAGE 8, LINES 8-12)?

A. No. Mr. Dunkel misses the big picture in reaching his conclusion. Mr. Dunkel's Direct Testimony focuses incorrectly on one aspect of the revenue requirement calculation rather than the <u>total</u> revenue requirement that is used to determine just and reasonable rates that ratepayers are charged. His Direct Testimony also seems to suggest that every dollar collected from ratepayers can be traced back to a specific component of the total revenue requirement approved by the Commission in a general rate case. This is just not the case.

The Company's three-pronged creative solution is aimed at the <u>total</u> Jurisdictional revenue deficiency that the Company is currently experiencing (which is driven by the <u>total</u> revenue requirement) without having to file a costly, resource intensive and time consuming general rate case. The Company's proposals were not meant to focus on any single individual component of this revenue requirement calculation as it is impossible to equate every dollar collected from ratepayers back to a specific revenue requirement component approved in a general rate case.

Q. USING THE JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS PRESENTED IN THIS CASE AS A STARTING POINT (EXHIBIT JSH-1), HAS THE COMPANY PREPARED AN EXHIBIT COMPARING THE JURISDICTIONAL REVENUE REQUIREMENT APPROVED BY THE COMMISSION IN ITS LAST GENERAL RATE CASE TO THE DATA PRESENTED IN EXHIBIT JSH-1?

A. Yes. Using the Jurisdictional revenue deficiency analysis presented in this case as a starting point (Exhibit JSH-1, which is Appendix 2 to the Application), Exhibit JSH-2 to my Rebuttal Testimony compares all of the components of the Jurisdictional revenue requirement approved by the Commission in the Company's last general rate case (Docket No. NG-0067) with the Jurisdictional revenue deficiency analysis presented in this proceeding.

Q. PLEASE DESCRIBE EACH OF THE COLUMNS IN EXHIBIT JSH-2.

A. Column [A] of Exhibit JSH-2 describes the various components of the Company's Total Revenue Requirement and recognizes that Other Revenues are deducted from that Total Revenue Requirement to arrive at the Net Cost of Service. The difference between the Net Cost of Service and the Pro-Forma Jurisdictional Revenue is the Revenue Deficiency to the Company.

The source of the data in Column [B] of Exhibit JSH-2 is the Company's Response to Information Request PA-1 (which Ms. Mullinax provided with her Direct Testimony in this proceeding as Exhibit DHM-1).

Column [C] of Exhibit JSH-2 contains the same data as presented in the Company's Jurisdictional revenue deficiency analysis in this proceeding, in Exhibit JSH-1, Table 2, Schedule A, Lines 11-18 of Column [C], and in Exhibit JSH-1, Table 1, Lines 4-5 of Column [C].

Exhibit JSH-2, Column [D] is the same as Column [C] of Exhibit JSH-2, except that Column [D] shows the impact of the $1,617,639 Proposed Change in Jurisdictional Depreciation Rates that the Company is requesting in this proceeding (*see* Exhibit JSH-1, Table 1, Line 9, Column [B]). If the Commission approves the Company's Application in this proceeding, the Company will record on its books $6,159,566 of Depreciation Expense as shown in Exhibit JSH-2, Line 6, Column [D].

Exhibit JSH-2, Column [E] is the same as Column [D] of Exhibit JSH-2, except that Column [E] shows the impact of the $1,905,726 total change in Pro-Forma Jurisdictional Revenue that equals the sum of the $1,457,272 SSIR Proposed Total Revenue Increase in Docket No. NG-0078 (*see* Exhibit JSH-1, Table 1, Line 6, Column [B]) and the $448,454 2014 LB-658 Proposed (now

Approved) Annual Revenue Increase in Docket No. NG-0072.1 (*see* Exhibit JSH-1, Table 1, Line 7, Column [B]).

Column [F] of Exhibit JSH-2 shows the differences between the components of the Jurisdictional revenue requirement approved by the Commission in the Company's last general rate case (Docket No. NG-0067) and the components of the Jurisdictional revenue deficiency analysis presented in this proceeding.

Column [G] of Exhibit JSH-2 shows the differences between the components of the Jurisdictional revenue requirement approved by the Commission in the Company's last general rate case (Docket No. NG-0067) and the components of the Jurisdictional revenue deficiency analysis presented in this proceeding if the Commission approves the Company's Application in this proceeding.

Column [H] of Exhibit JSH-2 shows the differences between the components of the Jurisdictional revenue requirement approved by the Commission in the Company's last general rate case (Docket No. NG-0067) and the components of the Jurisdictional revenue deficiency analysis presented in this proceeding if the Commission approves the Company's Application in this proceeding and its SSIR Application in Docket No. NG-0078 (the Commission already has approved the Company's Application in Docket No. NG-0072.1). As shown in Column [H] of Exhibit JSH-2, the reduction in depreciation expense and additional revenues that would result from the Commission's approval of the Company's Applications in Docket Nos. NG-0072.1, NG-0078 and NG-0079 are more than offset by increases in other revenue requirement categories and, in fact, the Company still would be experiencing a revenue deficiency of $943,937 (Exhibit JSH-2, Line 14, Column [H]).

Q. WHAT IMPORTANT CONCLUSIONS ARE DRAWN FROM EXHIBIT JSH-2?

A. An examination of each line item in Exhibit JSH-2 shows that some revenue requirement components have increased since the last general rate case while other items have decreased since the last general rate case. For example, O&M Expense has increased by $2,626,827 (Line 3, Column [F]), whereas A&G Expense has decreased by $832,836 (Line 4, Column [F]). Exhibit JSH-2 demonstrates that, over time, costs on the Company's books do vary from what the Commission has approved and the Company has included in the determination of customer rates from a general rate case proceeding as shown in Column [F]. This is why the focus needs be on the <u>overall</u> revenue requirement level when determining if ratepayers are paying the appropriate level of base rates. Mr. Dunkel's Direct Testimony ignores the fact that the decrease in depreciation expense would be more than offset by increases in costs that ratepayers would be facing in a general rate case and, more than likely, they would end up paying higher rates as a result of such a general rate case.

Q. PLEASE EXPLAIN HOW RATEPAYERS WILL NOT BE HARMED IF THE COMMISSION APPROVES THE COMPANY'S PROPOSAL IN THIS PROCEEDING.

A. Ratepayers will not be harmed if the Commission approves the Company's proposal in this proceeding because ratepayers are not being asked to pay for the cost increases in the other revenue requirement categories shown in Column [G] of Exhibit JSH-2. For example, ratepayers are not being asked to pay for the $1,793,991 increase in O&M and A&G Expenses ($2,626,827 shown on Line 3 of Column [G] minus $832,836 shown on Line 4 of Column [G] of Exhibit JSH-2) or the $933,492 increase in the Provision for Income Tax shown on Line 7 of Column [G] of Exhibit JSH-2. These cost increases are greater than the $1,617,639 reduction in Depreciation Expense that the Company is requesting in this proceeding.

Q. DO YOU AGREE WITH MR. DUNKEL'S TWO "MORTGAGE" ANALOGIES, FOUND ON PAGES 5 AND 14-15 OF HIS DIRECT TESTIMONY?

A. No. Mr. Dunkel's first "mortgage" analogy on page 5 of his Direct Testimony is an oversimplification that does not reflect how the regulatory process works. For instance, Mr. Dunkel's mortgage example assumes incorrectly that the payment for "principal" remains constant. However, SourceGas Distribution constantly is investing in its facilities to serve its customers in Nebraska, which means that the principal amount is constantly increasing as the investment level increases. Yet, the Company does not increase this principal amount at the time of each and every investment; it does so only as permitted under the Act and its Tariff. For instance, assume that in year 1 SourceGas Distribution has invested $1,000 in plant on customers' behalf and charges them a 10% depreciation rate, or $100 per year, to recover the depreciation expense of that investment. In year 2, the Company invests an additional $1,000 for a total investment of $2,000. If the Company were to automatically recover its depreciation costs, then customers would immediately begin paying $200 per year. This is not reality in the regulatory environment. In the regulatory environment, customers continue to pay $100 per year (even though the Company is recording $200 per year in depreciation expense on its books) until such time as the Commission authorizes the Company to recover the additional costs from customers. If the Company did not file a general rate case, but instead in year 2 cut its depreciation rates to 5% on its books and recorded a cost of $100 in depreciation expense on its books, then customers would not be harmed by continuing to pay $100 per year. Only if one were to argue illogically that customers are entitled to $300 of depreciation expense after year 2, even though they had only paid $200 in depreciation expense, could one conclude that customers are "harmed" under my example.

Mr. Dunkel's second "mortgage" analogy on pages 14-15 of his Direct Testimony is an oversimplification of the Company's request in this proceeding and, as a result, does not capture all of the details necessary to evaluate properly the Company's proposal. The Company's creative solution consists of three main components to avoid a planned general rate case at this time that would increase other cost of service components (and that would generate additional rate case expense that ratepayers would have to pay): (i) decreasing the amount of depreciation expense the Company records on its books (Docket No. NG-0079); (ii) generating additional revenue through the increase in the ISR surcharge (Docket No. NG-0072.1); and (iii) generating additional revenue through the implementation of the SSIR Tariff and the SSIR Charges (Docket No. NG-0078). Mr. Dunkel's "mortgage" analogy focuses only on one component of the overall creative solution and not the solution in total.

Q. PLEASE ADDRESS THE "HYPOTHETICAL COMPANY" EXAMPLE ON PAGES 11-12 OF MR. DUNKEL'S DIRECT TESTIMONY.

A. Mr. Dunkel's "hypothetical company" example on pages 11-12 of his Direct Testimony is again flawed and does not reflect what the Company is proposing in this proceeding. Depreciation expense is just one of the many elements that go into the revenue requirement analysis used when determining the appropriate level of rates to charge to customers. Mr. Dunkel's analysis does not account for other types of costs (other than depreciation) faced by SourceGas Distribution or the fact that the Company is continuing to invest in its Nebraska system and, thus, has a plant in service balance that is growing.

A more appropriate example is to assume that SourceGas Distribution had $50,000,000 plant in service in the Distribution Mains account, an annual depreciation rate of 3.0% and operating expenses of $20,000,000 (related to O&M,

A&G, and Other Taxes) when it filed its last general rate case. Using only these items (which exclude a return on the investment and the provision for income taxes), SourceGas Distribution would establish an amount of $21,500,000 to recover from its ratepayers on an annual basis ($50,000,000 x .03 + $20,000,000). Now assume that in the year immediately following the conclusion of the general rate case, the Company invested an additional $5,000,000 in plant in service and experiences a 4.2275% increase in operating costs. For this second year, the Company would record on its books $1,650,000 for depreciation expense ($55,000,000 x .03) and $20,845,500 in operating expenses for a total expense of $22,495,500. Without a general rate case the Company would have <u>$995,500</u> in unrecovered costs from its customers ($22,495,500 minus $21,500,000).

If, instead, if the Company was allowed to change its depreciation rates in the second year to 1.19%, then it would record on its books $654,500 of depreciation expenses ($55,000,000 x .0119) and $20,845,500 in operating expenses for a total expense of $21,500,00 which would result in <u>zero</u> revenue deficiency and thus no rate increase to customers. Customers would not be harmed by this outcome because they are not being faced with a cost increase through a general rate case of $995,500, plus the substantial costs of filing and prosecuting that rate case. It is in the ratepayers' interest to avoid these cost increases through the general rate case process and instead continue to pay the $21,500,000 annually with $654,500 of depreciation expense and $20,845,500 of operating expenses recorded on the Company's books.

Even if one were to assume that a general rate case would result in no rate increase because of the lower depreciation expense being approved by the Commission, customers would still be worse off because they would have to pay for the substantial cost of filing and prosecuting a general rate case just for the

Company to be able to balance the amount of revenues it is receiving from customers with the amount of expenses on its books. Customers would now be paying more than $21,500,000 after the conclusion of that case because of the rate case expense that would need to be recovered from them. This is exactly the scenario that the Company is trying to avoid with its three-pronged proposed solution; namely, not having to file a general rate case just to lower the depreciation component of the revenue requirement equation while increasing other components of that same equation with the additional costs associated with a rate case filing.

Q. PLEASE DESCRIBE FURTHER THE PROPER CONTEXT IN WHICH TO VIEW THE COMPANY'S SOLUTION FROM A RATEPAYER PERSPECTIVE.

A. SourceGas Distribution's current Total Revenue Requirement as presented in its Jurisdictional revenue deficiency analysis in this proceeding is $41,441,561 (*see* Exhibit JSH-2, Line 8, Column [C]), which produces a Jurisdictional Revenue Deficiency for the Company of $4,467,302 (*see* Exhibit JSH-2, Line 14, Column [C]). If the Company were to follow Mr. Dunkel's recommended approach of not changing the depreciation rates until its next general rate case, then the only way the Company could improve its financial position would be to file a general rate case. Isolating just the proposed change in depreciation expense, the Company's total revenue requirement would be $39,823,922 (*see* Exhibit JSH-2, Line 8, Column [D]), which produces a revenue deficiency for SourceGas Distribution of $2,849,663 (*see* Exhibit JSH-2, Line 14, Column [D]), which could not be achieved without incurring an additional amount of rate case expense that would increase ratepayer rates even more.

Q. PLEASE ADDRESS MR. DUNKEL'S ASSERTION THAT "SOURCEGAS IS PROPOSING TO RECORD ON ITS BOOKS AN AMOUNT FOR DEPRECIATION EXPENSE THAT IT [SIC – IS] <u>LESS</u> THAN [IT] IS <u>ACTUALLY COLLECTING</u>

FROM THE RATEPAYERS" (DUNKEL DIRECT TESTIMONY, PAGE 4, LINE 8 – PAGE 5, LINE 2; EMPHASIS IN ORIGINAL).

A. SourceGas Distribution does not "actually collect" depreciation expense (or accumulated depreciation) from its customers. The depreciation expense embedded in customers' base rates as a result of the Company's last general rate case was $6,476,885 as shown on Exhibit JSH-2, Line 6, Column [B]. The amount of depreciation expense embedded in customers' base rates does not vary with the amount of depreciation expense that the Company is actually recording on its books, so there is more than likely always a mismatch between those two amounts. In any year that the actual depreciation expense on the Company's books is different from the amount included in base rates, there is a mismatch between what is going into the accumulated reserve account, which is used as an offset to gross plant when calculating rate base for regulatory proceedings, and the amount the Company is actually collecting. As demonstrated by the Jurisdictional revenue deficiency analysis filed in this proceeding, the Test Year depreciation expense is $7,777,205 (*see* Exhibit JSH-2, Line 6, Column [C]) , which means that $1,300,320 more is going into the reserve account than is being provided by ratepayers through base rates. Therefore, it is improper to conclude that ratepayers would be "overcharged" in the future when they also are very likely getting the benefit of a reduction to rate base for something to which they never contributed.

Q. DO YOU AGREE WITH MR. DUNKEL'S ASSERTIONS THAT THE COMPANY IS REQUESTING "A CHANGE FROM THE CURRENT PRACTICE" (DUNKEL DIRECT TESTIMONY, PAGE 8, LINES 19-20)?

A. No. The Company is not proposing a "change" from its "current practice." As I stated previously in my Rebuttal Testimony, the Company does not "actually collect" depreciation expense (or accumulated depreciation) from its customers.

Customers' rates are established based upon the total revenue requirement approved by the Commission in a general rate case. This means that customers' bills are not automatically adjusted as the level of depreciation expense resulting from the Commission-approved depreciation rates changes on the Company's books. Therefore, any change in the level of investment made by the Company on behalf of ratepayers that produces a change in the Company's book depreciation expense is not collected from ratepayers until the next general rate case.

Q. DOES SOURCEGAS DISTRIBUTION'S PROPOSAL "CREATE A DISCREPANCY" BETWEEN BOOKED DEPRECIATION EXPENSE AND THE DEPRECIATION EXPENSE RECOVERED FROM CUSTOMERS THAT "CREATES ERRORS" THROUGH "UNDERSTATED AND INACCURATE BOOKED AMOUNTS" (DUNKEL DIRECT TESTIMONY, PAGE 5, LINE 2, PAGE 8, LINE 10 AND PAGE 9, LINES 3-4)?

A. No. There already is a difference, and the difference occurs naturally. As a result of the Company's last general rate case (Docket No. NG-0067), the Commission authorized the recovery of $6,476,885 of depreciation expense in base rates. This amount is shown in Exhibit JSH-2 in Line 6, Column [B]. In comparison, the Company's Jurisdictional revenue deficiency analysis shows that it will experience a depreciation expense of $7,777,205 in the Test Year on its books (*see* Exhibit JSH-2, Line 6, Column [C]). Therefore, the Company already is experiencing a deficiency of $1,300,320 in depreciation expense from what was previously authorized by the Commission and reflected in customers' base rates on its books using the Commission-authorized depreciation rates. This means that annually, customers are getting the benefit of an additional $7,777,205 credit to rate base through the accumulated reserve account while only paying to the Company through base rates $6,476,885 of depreciation expense recorded to the accumulated reserve account. The $1,300,320 additional amount being contributed to the accumulated reserve account is not currently reflected in customers' base rates.

Furthermore, the Company's proposal in this case would not result in "understated and inaccurate booked amounts." If the Commission approves the Company's Application in its proceeding, then the Company would be recording correctly stated and accurate booked amounts in compliance with the Commission's order. Thus, the Company's proposal does not "create errors."

The Company is asking the Commission to approve the lower depreciation rates so that it can use this cost reduction on its books to offset other revenue requirement items that have increased since the Company's last general rate case. Thus, the Company would not "double-recover" some of its investments as Mr. Dunkel suggests on page 16, lines 6-17 of his Direct Testimony.

IV. REBUTTAL OF DIRECT TESTIMONY OF MS. DONNA H. MULLINAX

Q. WHAT IS MS. MULLINAX'S PRIMARY CONCLUSION IN HER DIRECT TESTIMONY?

A. Ms. Mullinax "believe[s] that the Company's $4.5 million revenue deficiency that it has used to justify a prospective change in its depreciation rates in this proceeding and docket and the System Safety and Integrity Rider (SSIR) in No. NG-0078 is overstated." (Mullinax Direct Testimony, page 3, line 22 – page 4, line 2).

Q. MS. MULLINAX TAKES ISSUE WITH THE PRESENTATION OF THE COMPANY'S JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS, IMPLYING THAT THE COMPANY PRESENTED IT TO "JUSTIFY ITS NEED" FOR THE SSIR. IS THAT THE CASE?

A. No, it is not. In many instances, Ms. Mullinax compares the Jurisdictional revenue deficiency analysis and her review of that analysis to those that would be performed "in a general rate case." (Mullinax Direct Testimony, page 10, lines 5-7, page 18, lines 7-9 and 14-16, page 19, lines 2-4, page 22, lines 4-10, page 23, lines 12-13, page 25, lines 14-15, page 25, line 22 – page 26, line 4). She raises questions about return on equity, adjustments to rate base, and operating expense adjustments, all of which are outside the scope of this proceeding.

The Company did not present its Jurisdictional revenue deficiency analysis to "justify its need" for changing its depreciation rates. The policy reasons for the Company's proposal to change its depreciation rates is provided in the Application and in the Direct Testimony of Mr. Dane A. Watson. The merits of the Company's Application in this docket stand on their own regardless of the results of the Company's Jurisdictional revenue deficiency analysis. Even so, it is important that the Commission bear in mind that the results of the Company's analysis demonstrate that:

(i) "[u]nder its existing rates, SourceGas Distribution experiences a jurisdictional revenue deficiency compared with its current revenue requirement" (Hammer Direct Testimony, page 4, lines 26-27; *see also* the Company's Response, Supplemental Response and Second Supplemental Response to Staff Data Request No. 1-1, collectively provided as Exhibit JSH-3 to my Rebuttal Testimony);

(ii) "the Commission's approval of this Application and the Company's applications in Docket Nos. NG-0072.1 and NG-0078 would not cause the Company to exceed its authorized rate of return" (Hammer Direct Testimony, page 7, lines 10-12); and

(iii) "the Commission's approval of the three applications will reduce the Company's revenue deficiency to a level that will allow the Company to avoid its planned general rate case at this time" (Hammer Direct Testimony, page 7, lines 13-15).

Nothing in Ms. Mullinax's "high level review" of the Company's Jurisdictional revenue deficiency analysis (Mullinax Direct Testimony, page 9, line 23 – page 10, line 2) negates any of these three fundamental findings.

Q. WOULD YOU EXPLAIN THE COMPANY'S REASONS FOR PRESENTING THE JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS?

A. Prior to filing its Application in this proceeding, the Company had a series of discussions with the Public Advocate, the Public Advocate's consultants and Commission Staff. Over the course of those discussions, the participants talked about the importance of the Company demonstrating that it is earning less than its authorized return, that the Commission's approval of the Company's applications in Docket Nos. NG-0072.1, NG-0078 and NG-0079 would not cause the Company to earn more than its authorized return, and that the Commission's approval of the three applications would allow the Company to avoid its planned general rate case at this time.

The Company believed that it therefore was essential to present evidence demonstrating the revenue deficiency. The Public Advocate, the Public Advocate's consultants and Commission Staff were aware that the Company planned to file the Jurisdictional revenue deficiency analysis, and that analysis demonstrates the key points that I just mentioned. The Company took away from their discussions that the filing of such a Jurisdictional revenue deficiency analysis, and the results of that analysis, would be critical to the Commission's consideration of the Company's Application in this proceeding and its application in Docket No. NG-0078.

Q. DO YOU AGREE WITH MS. MULLINAX'S RELIANCE ON A PROVISION IN SECTION 66-1866 OF THE ACT TO SUPPORT HER POSITION CONCERNING THE JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS?

A. No. Sections 66-1865 and 66-1866 of the Act govern ISR cost recovery charge applications such as those filed by the Company and approved by the Commission in Docket Nos. NG-0072 and NG-0072.1. Ms. Mullinax incorrectly states on page 7, lines 4-5 of her Direct Testimony that Section 66-1866 of the Act "requires that no other revenue requirement or ratemaking issue shall be examined in consideration of the ISR application." Actually, the applicable sentence of Section 66-1866(3)(b) of the Act reads: "No other revenue requirement or ratemaking issue shall be examined in consideration of the application or associated proposed rate schedules filed pursuant to the act *unless the consideration of such affects the determination of the validity of the proposed infrastructure system replacement cost recovery charge rate schedules.*" (Emphasis added).

My understanding is that this sentence addresses the scope of the Public Advocate's "examination" of a jurisdictional utility's ISR application to ensure that this "examination" does not inappropriately expand the scope of the utility's ISR application to "other revenue requirement or ratemaking issue[s]." The exception provided in Section 66-1866(3)(b) of the Act is that the Public Advocate's examination may include another revenue requirement or ratemaking issue if such issue "affects the determination of the validity" of the ISR cost recovery charge rate schedules. Furthermore, even if Section 66-1866 of the Act were applicable to the Application in this proceeding, my Direct Testimony and Rebuttal Testimony demonstrate how the Jurisdictional revenue deficiency analysis "affects the determination" of the Commission to grant the Company's Application in this proceeding.

Q. DO YOU AGREE WITH MS. MULLINAX THAT THE COMPANY'S APPLICATIONS IN THIS PROCEEDING AND IN DOCKET NOS. NG-0072.1 AND NG-0078 ARE "STOPGAP MEASURES" TO "JUSTIFY EXPEDITED RECOVERY OF COSTS" (MULLINAX DIRECT TESTIMONY, PAGE 7, LINES 7-11)?

A. No. As I stated in my Direct Testimony on page 6, lines 6-14, the Company's Applications in this proceeding and in Docket Nos. NG-0072.1 and NG-0078 are three essential components of the creative solution that, if approved, would enable the Company to avoid the need for the general rate case that it planned to file on or about April 1, 2014. Given inflationary pressures on the Company's cost of service since April 1, 2014, and the Company's increasing Jurisdictional revenue deficiency shown in its Supplemental and Second Supplemental Responses to Staff Data Request No. 1-1 (Exhibit JSH-3), the Company expects that its revenue requirement in a general rate case filed now would be greater than its revenue requirement in a general rate case filed on or about April 1, 2014.

Q. WILL CUSTOMERS BENEFIT IF SOURCEGAS DISTRIBUTION DOES NOT HAVE TO FILE THAT GENERAL RATE CASE AT THIS TIME?

A. Yes. General rate cases are costly, resource intensive and time consuming endeavors. In the Company's last general rate case (Docket No. NG-0067), the Commission approved the Company's total rate case expense of $800,450, amortized over three years at $266,817 per year. The Commission in that general rate case also authorized the Company to collect from its customers through the State Regulatory Assessment Charge approximately $560,000 of expense for the charges of the Public Advocate and his consultants and the Commission's consultants.

If the Commission approves these three essential components, the Company would not need to collect from customers its expense for prosecuting another general rate case at this time. Furthermore, if the Commission grants the requested relief in these three dockets, the charges of the Public Advocate and his consultants and the Commission's consultants for Docket Nos. NG-0072.1, NG-0078 and NG-0079 should be drastically less than the approximately $560,000 of expense collected from customers through the State Regulatory Assessment Charge in the Company's last general rate case. In fact, as of the filing date of this Rebuttal Testimony, the Commission has assessed a total of $86,350.76 for the Company to collect through the State Regulatory Assessment Charge for all three proceedings combined: $26,366.74 in Docket No. NG-0072.1, $35,164.45 in Docket No. NG-0078 and $24,819.57 in Docket No. NG-0079.

Q. DO YOU HAVE ANY COMMENTS ON MS. MULLINAX'S COMPARISONS OF THE JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS AND HER REVIEW OF THAT ANALYSIS TO THOSE THAT WOULD BE PERFORMED "IN A GENERAL RATE CASE"?

A. Yes. This proceeding is not a general rate case and the Company did not intend it to be transformed into a general rate case through Ms. Mullinax's review of the Company's Jurisdictional revenue deficiency analysis. The Company has presented to the Commission a three-pronged solution to otherwise having to file a costly, resource intensive and time-consuming rate case at this time. The Company's Jurisdictional revenue deficiency analysis is not and was not intended to be in the same form and to the same level of detail as a full-scale revenue requirement study filed in accordance with the Commission's rules on General Rate Filings and Rate Principles (Natural Gas and Pipeline Rules and Regulations, Sections 4 and 5).

Ms. Mullinax's "point" that "the Company's revenue deficiency has not been fully vetted and a full review of the Company's presentation of its revenue deficiency could likely yield in a different result" (Mullinax Direct Testimony, page 10, lines 18-

20) raises the crucial question: Is such a “full vetting” and “full review” worth the substantial costs to be borne by ratepayers through a general rate case? The Company’s Jurisdictional revenue deficiency analysis is not the full-scale revenue requirement study that the Company would file in a general rate case. A full-scale revenue requirement study typically requires the Company to engage outside experts to conduct studies on topics such as return on equity, cost allocation and rate design and to develop testimony and exhibits supporting their studies. Their costs are borne by ratepayers. A full-scale revenue requirement study typically requires the Public Advocate to hire consultants to conduct a “full review” of that study. The extra costs of such a “full review” compared with Ms. Mullinax’s “high level review” in this proceeding are borne by ratepayers.

The facts that the Company has demonstrated through its Jurisdictional revenue deficiency analysis are that: (i) the Company is earning less than its authorized return; (ii) the Commission’s approval of the Company’s applications in Docket Nos. NG-0072.1, NG-0078 and NG-0079 would not cause the Company to earn more than its authorized return; and (iii) the Commission’s approval of the three applications would allow the Company to avoid its planned general rate case at this time.

Nevertheless, because Ms. Mullinax has raised questions on the Company’s authorized return on equity percentage, rate base, revenue and operating expenses, I feel obligated to address her points.

Q. HOW DO YOU RESPOND TO MS. MULLINAX’S POINTS ON PAGES 10 AND 12-13 OF HER DIRECT TESTIMONY ABOUT THE COMPANY’S AUTHORIZED RETURN ON EQUITY?

A. Ms. Mullinax selects an authorized return on equity for a utility in the District of Columbia and an authorized return on equity for a utility in the State of California to suggest that the Company's 9.60% authorized return on equity and revenue deficiency in Nebraska are overstated. The Company has not engaged a return on equity expert to validate the data presented by Ms. Mullinax or to analyze the comparability of the two utilities selected by Ms. Mullinax with the Company. Obviously, SourceGas Distribution is regulated by the commissions in Nebraska, Colorado (in which the Company has an authorized return on equity of 10.00%) and Wyoming (in which the Company has an authorized return on equity of 9.92%), not by the commissions in the District of Columbia or the State of California. I also know that this Commission has authorized a return on equity of 10.10% for Black Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy (Docket No. NG-0061), the Public Utilities Commission of the State of Colorado (the "Colorado PUC") recently approved an authorized return on equity of 9.72% for Atmos Energy Corporation (Proceeding No. 14AL-0300G, Decision No. R14-1027, mailed August 26, 2014), and the Wyoming Public Service Commission recently approved an authorized return on equity of 9.90% for the gas operations of Cheyenne Light, Fuel and Power Company (Docket No. 30005-182-GR-13, Record No. 13752, Bench Decision at the Public Hearing held on July 31, 2014). These data points are much more relevant to SourceGas Distribution and the Company's operations in Nebraska than are the authorized returns on equity for a utility in the District of Columbia and a utility in the State of California.

Q. DO YOU AGREE WITH MS. MULLINAX'S OBSERVATION ON LINES 15-16 OF PAGE 11 OF HER DIRECT TESTIMONY THAT "COMPANIES ARE RARELY AUTHORIZED ALL THAT THEY REQUEST IN A GENERAL RATE CASE?"

A. Yes, that is almost a truism, but the observation is meaningless in the context of whether the Commission should approve the Company's Application in this proceeding. The Company is seeking approval precisely to avoid a general rate case. Moreover, while I agree with Ms. Mullinax's observation from the perspective that utilities in general are rarely authorized all that they request in a general rate case, SourceGas Distribution has been authorized more than the majority of its requested increases in general rate cases. The Company believes that the favorable outcomes in its general rate cases are attributable to its solid and conservative rate case filings that reflect accurate accounting data, updated to include actual data, and generally accepted approaches to ratemaking.

Q. DO YOU AGREE WITH MS. MULLINAX'S CHARACTERIZATIONS ON PAGES 13-14 OF HER DIRECT TESTIMONY THAT THE COMPANY USED A "FUTURE TEST YEAR" TO CALCULATE ITS JURISDICTIONAL REVENUE DEFICIENCY?

A. No. Ms. Mullinax incorrectly refers to the Test Year for the Jurisdictional revenue deficiency analysis presented in my Exhibit JSH-1 as "the projected 2014 Future Test Year." (Mullinax Direct Testimony, page 14, lines 12-13). Exhibit JSH-1 shows a per books Base Year of the twelve months ended December 31, 2013 (*see* my Direct Testimony, page 8, lines 19-20), adjusted for known and measurable changes for calendar year 2014 (*see* my Direct Testimony, page 5, lines 3-5; *see also* my Exhibit JSH-1).

The Company did not use a "future test year," as Ms. Mullinax refers to it on pages 13-14 of her Direct Testimony. As such, Ms. Mullinax's discussion about the pros and cons of a "future test year" on pages 13-14 of her Direct Testimony, including the specter that "utilities have an incentive to present biased forecasts that are not always easy to uncover" (Mullinax Direct Testimony, page 14, lines 1-2, page 26, lines 14-15), is a red herring. Moreover, there is no evidence in this proceeding that the Company has "presented biased forecasts" in its pro forma known and measurable adjustments to develop its Test Year for the Jurisdictional revenue deficiency analysis. I affirm that there are no such "biased" adjustments in the Test Year for that analysis.

Ms. Mullinax also is wrong that the use of a future test year "occurred in SourceGas's last general rate case." (Mullinax Direct Testimony, page 13, lines 21-22). In its last general rate case, SourceGas Distribution "updated the rate base, cost of capital, expenses and revenues filed in its direct case using actualized data through January 31, 2012, adjusted for known and measurable changes." (Docket No. NG-0067, Order Granting Application, In Part, entered May 22, 2012, page 4). The Commission concluded that "[u]tilizing updated data based upon actuals rather than estimates allows the Commission to set rates based upon data that will most clearly match the time period during with [which] rates will take effect. The Commission has previously relied upon updated information in rate cases and such reliance has been affirmed on appeal." (*Id.*, footnote omitted).

Q. PLEASE ADDRESS MS. MULLINAX'S DIRECT TESTIMONY ON PAGES 16-17 ABOUT THE STATUS OF THE 2014 SSIR PROJECTS BEING ADDRESSED IN DOCKET NO. NG-0078.

A. Table 1 below updates Ms. Mullinax's Table 4 on page 17 of her Direct Testimony with the status of the Company's 2014 SSIR Projects as of the filing date of this Rebuttal Testimony:

Table 1: Capital Spend and In-Service or TECO Amount

Month	Originally Filed Capital Spend	7+5 Capital Spend (A)	Originally Filed In-Service Amount	Updated In-Service or TECO Amount (A) (B)
CWIP- Dec 31, 2013	**$ 2,221,726**	**$ 2,221,726**		
Jan-14	**144,367**	**12,741**		
Feb-14	**115,355**	**24,126**		
Mar-14	**243,325**	**105,671**		
Apr-14	**304,014**	**484,765**		
May-14	**676,941**	**1,047,355**	**$ 682,240**	
Jun-14	**572,282**	**321,089**	**2,221,834**	**$ 2,135,689**
Jul-14	**1,344,619**	**628,492**	**19,030**	**676,100**
Aug-14	**1,881,066**	**2,596,668**	**52,517**	**840,099**
Sep-14	**1,463,431**	**1,329,729**	**3,224,000**	**1,042,247**
Oct-14	**2,301,699**	**2,087,876**	**148,283**	**3,533,052**
Nov-14	**358,391**	**850,625**	**5,279,314**	**3,483,676**
Dec-14				
Total	**11,627,216**	**11,710,862**	**11,627,216**	**11,710,862**

(A) Includes 7 months actual (Jan-14 - Jul-14) and 5 months forecast (Aug-14 - Dec-14).
(B) TECO refers to the status when a capital project is complete and the asset is ready for its intended use.

Q. WHAT DOES TABLE 1 ABOVE SHOW?

A. Table 1 above presents capital spend amounts and in-service or technically complete ("TECO") amounts updated with seven months of actual data (January 2014 through July 2014) and five months of forecast data (August 2014 through December 2014). Through July 2014, the Company has spent $4,845,965 on 2014 SSIR Projects compared with its original forecast of $5,622,629, and has reached TECO status of $2,811,789 of its 2014 SSIR Projects compared with its original forecast of $2,923,104. Table 1 also shows that the Company remains on target to spend and to place in service or reach TECO status of approximately the same total dollar amount of 2014 SSIR Project capital expenditures as it originally forecasted in its May 1, 2014 Application in this proceeding (*i.e.*, $11,710,862 as of the filing date of this Rebuttal Testimony versus $11,627,218 in the May 1, 2014 Application, for a positive difference of $83,646). The data in Table 1 above show that the Company remains on schedule for its 2014 SSIR Projects.

Q. WHY IS IT IMPORTANT TO CONSIDER PROJECTS THAT HAVE REACHED TECO STATUS WHEN COMPARING WHAT THE COMPANY ORIGINALLY FILED WITH ITS SEVEN MONTHS OF ACTUAL AND FIVE MONTHS OF FORECAST INFORMATION?

A. When a capital project reaches TECO status, it means that the project is complete and the asset is ready for its intended use. In regulatory terms, it is "used and useful" for providing natural gas service. It can take several months after the date that a project reaches TECO status for the Company to receive and compile all of the invoices and other paperwork related to the project and close the project to plant in service from an accounting standpoint. This is why none of the 2014 SSIR Projects reflected in the SSIR Application are closed to plant in service as of the filing date of this Rebuttal Testimony. However, once the final invoices are received and compiled and the Project is moved to plant in service, the in-service date most likely will be the date that the project reached TECO status because the asset was performing the function that it was intended to perform as of that date. Therefore, when the Company compiles all of the information that will be submitted on April 1, 2015 with its Annual Report on its 2014 SSIR Projects, there most likely will be Projects with in-service dates of June and July 2014 just like the Company forecasted to occur in its SSIR Application.

Q. IN ADDITION TO THE DATA IN TABLE 1 ABOVE, IS THERE ANY ADDITIONAL INFORMATION SUPPORTING THE COMPANY'S POSITION THAT IT REMAINS ON SCHEDULE FOR ITS 2014 SSIR PROJECTS?

A. Yes. As I mentioned earlier in my Rebuttal Testimony, the Company is prefiling the Rebuttal Testimony of Mr. Jason R. Pickett, SourceGas's Senior Director –

Operations for SourceGas Distribution in Nebraska. Mr. Pickett is responsible for the oversight and performance of SourceGas Distribution's operational assets in Nebraska, including the Company's SSIR Projects in Nebraska. In his Rebuttal Testimony, Mr. Pickett states that the Company's 2014 SSIR Projects remain on schedule from an operational perspective. Mr. Pickett highlights that the Company has experienced challenges with its 2014 construction season including implementing its 2014 SSIR Projects, especially from the "polar vortex" winter weather followed by the wetter-than-normal spring and summer seasons in Nebraska. Notwithstanding those and other factors outside the Company's control, Mr. Pickett assures the Commission that completing the 2014 SSIR Projects continues to be among his highest priorities.

Q. IS IT ACCURATE THAT THE COMPANY IS, BUT "SHOULD NOT BE EARNING A RETURN ON AND A RETURN OF THE $1,459,563 [OF 2015 SSIR PROJECTS] THAT IS A YEAR BEYOND THE FUTURE TEST YEAR" (MULLINAX DIRECT TESTIMONY, PAGE 17, LINES 15-16)?

A. No, that is not accurate at all. The Company is not "earning a return on and a return of the $1,459,563 that is a year beyond the future test year." This proceeding is not a general rate case for the purpose of setting base rates, and the $1,459,563 is not included in the development of the SSIR Charges calculated in my Exhibit JSH-1 filed in Docket No. NG-0078.

The $1,459,563 of "2015 SSIR Projects" is the total cost of SSIR Projects that the Company initially planned to complete in 2014 but ultimately moved to 2015 for completion. The Company included the $1,459,563 of these carry-over SSIR Projects in its Jurisdictional revenue deficiency analysis as a component of its Pro Forma Adjustment to its Per Books Utility Plant in Service (*see* Exhibit JSH-1 [Appendix 2 to the Application], Table 2, Schedule B, Line 12).

Q. WHAT IS THE COMPANY'S RESPONSE TO MS. MULLINAX'S COMMENTS ON PAGES 17-18 OF HER DIRECT TESTIMONY THAT "LITTLE INFORMATION HAS BEEN PROVIDED" ABOUT "THE REMAINING CATEGORIES IN THE COMPANY'S PROJECTED UTILITY PLANT IN SERVICE?"

A. The Company has submitted sufficient information to support its request in this proceeding. This is not a general rate case. If it were, the Company would have filed a full-scale revenue requirement study in accordance with the Commission's rules on General Rate Filings and Rate Principles (Natural Gas and Pipeline Rules and Regulations, Sections 4 and 5), including Rate Base Schedules in compliance with Rule 004.03. The Company would expect such a full-scale revenue requirement study to be "fully vetted" and "evaluated" by the Public Advocate's consultants, at a concomitantly much greater cost than has been incurred in this proceeding.

Q. DO YOU AGREE WITH MS. MULLINAX'S CHARACTERIZATION ON PAGE 20, LINES 4-6 OF HER DIRECT TESTIMONY THAT "LOAD GROWTH" WAS NOT "EVALUATED" IN THE CONTEXT OF THE COMPANY'S JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS (*SEE ALSO* MULLINAX DIRECT TESTIMONY, PAGE 25, LINES 3-4)?

A. No. To the contrary, my Exhibit JSH-1 (Appendix 2 to the Application), Table 5, Schedule D, shows that the Company included $221,279 of "load growth" Construction Work in Progress (CWIP) Revenue in its Jurisdictional revenue deficiency analysis.

Q. DO YOU AGREE WITH THE OBSERVATIONS MADE BY MS. MULLINAX ON PAGES 20-25 OF HER DIRECT TESTIMONY ABOUT THE OPERATING EXPENSE ADJUSTMENTS MADE IN THE COMPANY'S JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS?

A. I do agree with Ms. Mullinax that "[a] utility is in the best position to understand what it needs to provide safe and reliable service and develops its processes and procedures to provide those services." (Mullinax Direct Testimony, page 22, lines 2-4). I also agree with Ms. Mullinax that "there is no indication" that the Company is "over-recovering among its various jurisdictions" or that its customers in Nebraska are "receiving a disproportionate share of the costs." (Mullinax Direct Testimony, page 22, lines 6-8). I take issue with many of her other observations of the operating expense adjustments made in the Company's Jurisdictional revenue deficiency analysis.

First, Ms. Mullinax makes a point of the Company's estimated labor expense for its Integrity Management cost center increasing from $57,000 in its last general rate case (Docket No. NG-0067) to $350,000 in its Jurisdictional revenue deficiency analysis in this proceeding. (Mullinax Direct Testimony page 21, lines 10-15). This increase in labor expense underscores the importance of system safety and integrity to the Company and the Company's firm commitment to undertake promptly the Projects that would be covered under the proposed SSIR Tariff.

Second, Ms. Mullinax points out that the Company's increase to its Direct Capital Rate "reduces the A&G expenses, but it increases capital costs." (Mullinax Direct Testimony, page 21, lines 18-21). She does not acknowledge that all else being equal, increasing the Direct Capital Rate reduces the Company's Jurisdictional revenue deficiency because the reduction in expense exceeds the revenue requirement impact of the increased capital costs.

Third, Ms. Mullinax's position that the Company should not be allowed to recover prudently-incurred and known and measurable expenses associated with its Short-Term Incentive Plan (Mullinax Direct Testimony, page 24, lines 17-21) is contrary to general ratemaking principles and contrary to Commission precedent on this matter. (Docket No. NG-0067, Order Granting Application, In Part, entered May 22, 2012, page 16; Docket No. NG-0061, Final Order Granting Application in Part, entered August 17, 2010, pages 18-19). If this proceeding were a general rate case (which it is not), the Company would ensure that the record contained the same type of evidence that the Commission deemed "sufficient" to support full recovery of the Company's Short-Term Incentive Plan costs in Docket No. NG-0067.

Fourth, Ms. Mullinax misrepresents and misanalyses the Company's labor costs on pages 22-23 of her Direct Testimony.

Q. PLEASE EXPLAIN HOW MS. MULLINAX MISREPRESENTS AND MISANALYSES THE COMPANY'S LABOR COSTS ON PAGES 22-23 OF HER DIRECT TESTIMONY.

A. First, Ms. Mullinax wrongly asserts that the Company has forecast "a substantial increase of 122% over the wages, benefits, and payroll taxes included in the 2013 Base Year" (Mullinax Direct Testimony, page 23, lines 1-2). Ms. Mullinax's assertion is based on part of the information presented in Table 7 on page 23 of her Direct Testimony, which references the Company's Response to Information Request PA-4 (the relevant portion of which Response Ms. Mullinax provided as Exhibit DHM-2 and I am providing as Exhibit JSH-4). To illustrate the flaws in Ms. Mullinax's assertion, I have prepared Table 2 below, which uses all of the data provided by the Company in its Response to Information Request PA-4 to show an accurate representation of the impacts of the Company's adjustments compared with the total dollars that were already included in the 2013 Base Year Amounts.

Table 2: Summary of Labor and Pro-Forma Labor Adjustments

Description	Base Year Base Labor	Base Labor Adjustment	Total Test Year Base Labor	Test Year New Labor	Total Test Year Labor
Wages	11,632,235	348,970	11,981,205	765,023	12,746,228
Benefits	3,349,014	100,470	3,449,485	232,761	3,682,246
Payroll Taxes	923,681	27,710	951,391	60,748	1,012,139
Total	15,904,930	477,151	16,382,081	1,058,532	17,440,613

As shown in Table 2, the Company's Labor Adjustment consisted of two components. The first component was a 3% increase to the base year labor level ($477,151 / $15,904,930) to reflect the known and measurable salary changes from 2013 to 2014. The second component reflected the planned addition of 59 employees to fill new positions. The $1,058,532 shown in Table 2 above for new labor represents the portion of these new employees' expenses that would be allocated to Nebraska. This represents a 6.46% increase over the Total Test Year Base Labor expense for existing employees ($1,058,532 / $16,382,081), not the 122% increase stated in Ms. Mullinax's Direct Testimony.

Second, Ms. Mullinax incorrectly states on page 23, line 14 – page 24, line 4 of her Direct Testimony that "the Company needs to hire 106 employees in 2014" to reach its forecasted level of operating expenses. The Company performed its labor adjustment in two steps. In the first step, the Company took the actual labor costs for 2013 (which included the actual headcount during that year) and reflected known and measurable wage, benefit, and payroll tax changes for those employees for the 2014 Test Year used in the Jurisdictional revenue deficiency analysis. In the second step, the Company included any new labor positions that the Company had planned to add in 2014, which was the 59 new positions. This two-step process is important because it assures that any vacancies that existed for any period of time in 2013 also existed in the Company's Test Year calculations. Therefore, the level of attrition that the Company experienced in 2013 due to having vacant positions created the same level of attrition in the Company's 2014 Test Year forecasts.

Q. PLEASE RESPOND TO THE "CONCLUSION" SECTION PRESENTED ON PAGES 25-27 OF MS. MULLINAX'S DIRECT TESTIMONY.

A. My response addresses, in order, each of the points that Ms. Mullinax makes in the "Conclusion" section presented on pages 25-27 of her Direct Testimony.

The Company did not present its Jurisdictional revenue deficiency analysis to "justify its need" for changing its depreciation rates. This proceeding is not a general rate case and the Company did not intend it to be transformed into a general rate case through Ms. Mullinax's review of the Company's Jurisdictional revenue deficiency analysis. The facts that the Company has demonstrated through its Jurisdictional revenue deficiency analysis are that: (i) the Company is earning less than its authorized return; (ii) the Commission's approval of the Company's applications in Docket Nos. NG-0072.1, NG-0078 and NG-0079 would not cause the Company to earn more than its authorized return; and (iii) the Commission's approval of the three applications would allow the Company to avoid its planned general rate case at this time.

As to the nine (9) numbered "potential issues" presented on pages 26-27 of Ms. Mullinax's Direct Testimony, my responses are as follows:

1. Ms. Mullinax's observation that "companies are rarely authorized all that they request in a general rate case" is almost a truism, but it is meaningless in the context of whether the Commission should approve the Company's Application in this proceeding.

2. The authorized returns on equity for a utility in the District of Columbia and another utility in the State of California are much less relevant to SourceGas Distribution and the Company's operations in Nebraska than are the authorized returns on equity from the commissions regulating SourceGas Distribution. In my Rebuttal Testimony, I present authorized return on equity data points from the commissions regulating SourceGas Distribution that are higher than

the Company's currently authorized return on equity in Nebraska of 9.60%.

3. Ms. Mullinax incorrectly refers to the Test Year for the Jurisdictional revenue deficiency analysis presented in my Exhibit JSH-1 as "a Future Test year." The Company did not use a "future test year." As such, Ms. Mullinax's discussion about the pros and cons of a "future test year" is a red herring. Ms. Mullinax also is wrong that the use of a future test year "occurred in SourceGas's last general rate case."

4. The Company's projected rate base is not overstated. The Company is not "earning a return on and a return of the $1,459,563" of 2015 SSIR Projects "that is a year beyond the future test year." This proceeding is not a general rate case for the purpose of setting base rates, and the $1,459,563 is not included in the development of the SSIR Charges calculated in my Exhibit JSH-1 in Docket No. NG-0078.

5. The Eligible System Safety and Integrity Costs of Projects are projected using the best available information at the time the SSIR Charges are calculated. Projections may be more than or less than the actual Eligible System Safety and Integrity Costs, but the evidence in this proceeding and in Docket No. NG-0078 demonstrates through the Company's Jurisdictional revenue deficiency analysis that it is earning less than its authorized return.

6. Contrary to Ms. Mullinax's assertion, my Exhibit JSH-1 (Appendix 2 to the Application), Table 5, Schedule D, shows that the Company included $221,279 of "load growth" Construction Work in Progress (CWIP) Revenue in its Jurisdictional revenue deficiency analysis.

7. Ms. Mullinax misrepresents and misanalyses the Company's labor costs in her Direct Testimony. Table 2 above shows a 6.46% increase over the Total Test Year Base Labor expense for existing employees, not the 122% increase stated in Ms. Mullinax's Direct Testimony. Ms. Mullinax's analysis also fails to reflect that the level of attrition that the Company experienced in 2013 due to having vacant positions created the same level of attrition in the Company's 2014 Test Year forecasts.

8. Ms. Mullinax's position that the Company should not be allowed to recover prudently-incurred and known and measurable expenses associated with its Short-Term Incentive Plan is contrary to general ratemaking principles and contrary to Commission precedent on this matter.

9. As Ms. Mullinax admits, "there is no indication" that the Company is "over-recovering among its various jurisdictions" or that its customers in Nebraska are "receiving a disproportionate share of the costs." On the other hand, Ms. Mullinax fails to acknowledge that all else being equal, increasing the Direct Capital Rate reduces the Company's

Jurisdictional revenue deficiency because the reduction in expense exceeds the revenue requirement impact of the increased capital costs.

Q. DOES THIS CONCLUDE YOUR PREFILED REBUTTAL TESTIMONY?

A. Yes. I respectfully request that the Commission authorize the Company to change its depreciation rates on its Nebraska books of account, effective May 1, 2014, as shown in the Depreciation Rate Study that the Company filed in this docket on May 1, 2014, as Appendix 1 to the Application. I will conclude by offering into evidence Exhibits JSH-2, JSH-3 and JSH-4.

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 CHANGED DEPRECIATION RATES ON ITS NEBRASKA BOOKS OF ACCOUNT EFFECTIVE MAY 1, 2014, WITHOUT IMPACTING EXISTING RATES	)	DOCKET NO. NG-0079

State of Colorado	)	Affidavit Adopting Rebuttal Testimony and Exhibits
County of Jefferson	)	

Jerrad S. Hammer being first duly sworn on oath, states that he is the Jerrad S. Hammer whose Rebuttal Testimony and Exhibits in the above-captioned docket accompanies this Affidavit.

Jerrad S. Hammer further states that such Rebuttal Testimony is a true and accurate statement of his answers to the questions contained therein, and that he does adopt those answers as his sworn Testimony in this proceeding. Jerrad S. Hammer further states that such Exhibits that accompanies his Rebuttal Testimony is true and accurate.

Jerrad Hammer
Jerrad S. Hammer

SUBSCRIBED AND SWORN TO before me, the undersigned Notary Public, this 11th day of September, 2014.

Elaine D. Hegler
Notary Public

My commission expires: November 17, 2014

Address of Notary:
600 12th Street, Suite 300
Golden, CO 80401

Line No.	[A] Description	[B] NG-0067 Jurisdictional	[C] NG-0079 Jurisdictional Test Year	[D] NG-0079 Jurisdictional Test Year With Depreciation Reduction	[E] Proposals in NG-0072.1, NG-0078, and NG-0079	[F] Change From NG-0067	[G] Change From NG-0067	[H] Change from NG-0067
						[C] - [B]	[D] - [B]	[E] - [B]
1	Test Year							
2	Return	$ 5,348,593	$ 6,944,766	$ 6,944,766	$ 6,944,766	$ 1,596,173	1,596,173	$ 1,596,173
3	O&M Expense	10,984,586	13,611,413	13,611,413	13,611,413	2,626,827	2,626,827	2,626,827
4	A&G Expense	8,699,950	7,867,114	7,867,114	7,867,114	(832,836)	(832,836)	(832,836)
5	Other Taxes	2,094,233	2,102,606	2,102,606	2,102,606	8,372	8,372	8,372
6	Depreciation	6,476,885	7,777,205	6,159,566	6,159,566	1,300,320	(317,319)	(317,319)
7	Provision for Income Tax	2,204,966	3,138,458	3,138,458	3,138,458	933,492	933,492	933,492
8	Total Revenue Requirement _/1	$ 35,809,213	$ 41,441,561	$ 39,823,922	$ 39,823,922	$ 5,632,349	$ 4,014,709	$ 4,014,709
9	Other Revenues	(2,020,218)	(2,311,311)	(2,311,311)	(2,311,311)	(291,093)	(291,093)	(291,093)
10	Net Cost of Service	$ 33,788,995	$ 39,130,250	$ 37,512,611	$ 37,512,611	$ 5,341,255	$ 3,723,616	$ 3,723,616
11								
12	Pro-Forma Jurisdictional Revenue	$ 33,788,995	$ 34,662,948	$ 34,662,948	$ 36,568,674	$ 873,953	$ 873,953	$ 2,779,679
13								
14	Revenue Deficiency	$ (0)	$ (4,467,302)	$ (2,849,663)	$ (943,937)	$ (4,467,302)	$ (2,849,663)	$ (943,937)

_/1 The calculated revenue requirement and revenue deficiencies do not include any potential increase in ROE from the current Commission authorized level of 9.60% and exclude all potential rate case expenses. In the Company's last General Rate Case, Docket No. NG-0067, the Company spent $800,450 on rate case expense, which was approved for amortization over three years for an annual revenue requirement and revenue deficiency impact of $266,817. In addition, the Company charged Jurisdictional customers approximately $560,000 of Public Advocate related expenses and Commission consultant expenses through the State Regulatory Assessment surcharge.

SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER- DOCKET NO. NG-0078
AND
DEPRECIATION RATE STUDY APPLICATION- DOCKET NO. NG-0079
RESPONSE TO NEBRASKA COMMISSION STAFF
FIRST SET OF INFORMATION REQUESTS

DATE OF REQUEST: **July 14, 2014**

DATE RESPONSE DUE: **July 24, 2014**

REQUESTOR: **Nebraska Commission Staff**

ANSWERED BY: **Jerrad S. Hammer**

DATE RESPONDED: **July 24, 2014 (Supplemented August 22, 2014 and September 10, 2014)**

SUBJECT: **Realized Rates of Return**

STAFF DATA REQUEST NO. 1-1:

Please provide calculations for SourceGas' realized rates of return on SourceGas' Nebraska jurisdictional rate base, stated on a rolling 13-month average basis, for months ending December 2012 through and including the latest month for which such data and information are available. In responding, please provide underlying data used

RESPONSE:

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

A summary of the requested information is provided in Attachment Staff 1-1A. The Company only calculates certain rate base items (for instance ADIT) on a quarterly basis so monthly rate base information is not available. The analysis in Attachment Staff 1-1A was prepared on a quarterly basis from December 31, 2012 through March 31, 2014, the last period for which rate base information is currently available. The Company will supplement this response with information through June 30, 2014 when it becomes available. The analysis included in Attachment Staff 1-1A also does not factor in the impact of weather on the earnings levels presented in the attachment. In order to simplify the analysis, the Company used the Capital Structure and Cost of Debt that was presented in the earnings analysis in Exhibit JSH-2 of the SSIR Filing (Docket No. NG-0078) and Exhibit JSH-1 of the Depreciation Study Filing (Docket No. NG-0079). In addition, the Company used Commission-approved cost of service study allocations from Docket No. NG-0067 and did not include the amortization of Rate Case expense from that Docket in the analysis.

In addition to the analysis requested in this data request, the Company also prepared an analysis on a quarterly basis from December 31, 2012 through March 31, 2014, the last period for which rate base information in currently available, using weather normalized revenues and period ending rate base. A summary of this analysis is provided as Attachment Staff 1-1B. This analysis presents more of a "rate case view" of the Company's Nebraska Jurisdictional Operations and is what the SourceGas management team reviews and analyzes when developing its planned rate case filings. This analysis incorporates all of the underlying principles that have been used in the past when developing and filing rate cases in Nebraska, including period ending rate base. This analysis incorporates the same Capital Structure and Cost of Debt that was included in the Attachment Staff 1-1A analysis. This analysis also uses the

SOURCEGAS DISTRIBUTION LLC
SYSTEM SAFETY AND INTEGRITY RIDER- DOCKET NO. NG-0078
AND
DEPRECIATION RATE STUDY APPLICATION- DOCKET NO. NG-0079
RESPONSE TO NEBRASKA COMMISSION STAFF
FIRST SET OF INFORMATION REQUESTS

Commission-approved cost of service study allocations from Docket No. NG-0067 and excludes the impact of any rate case expense.

The detailed files which contain the underlying calculations that feed the summaries in Attachment Staff 1-1A and Attachment Staff 1-1B are being provided electronically on a CD to the Commission Staff, the Public Advocate, and their respective consultants.

SUPPLEMENTAL RESPONSE:

SourceGas is supplementing this response to include the calculations described in the original response through June 30, 2014. Please see Supplemental Attachments Staff 1-1A and 1-1B for this information. In addition SourceGas is providing the detailed files for this analysis.

SECOND SUPPLEMENTAL RESPONSE:

SourceGas is further supplementing this response to include the calculations described in the original response through July 31, 2014. Please see Second Supplemental Attachments Staff 1-1A and 1-1B for this information. In addition SourceGas is providing the detailed files for this analysis.

ATTACHMENTS:

Attachment Staff 1-1A
Attachment Staff 1-1B
CD: Detailed Files for Attachments Staff 1-1A and 1-1B

SUPPLEMENTAL ATTACHMENTS:

Supplemental Attachment Staff 1-1A
Supplemental Attachment Staff 1-1B
Detailed Files for Supplemental Attachments Staff 1-1A and 1-1B

SECOND SUPPLEMENTAL ATTACHMENTS:

Second Supplemental Attachment Staff 1-1A
Second Supplemental Attachment Staff 1-1B
Detailed Files for Second Supplemental Attachments Staff 1-1A and 1-1B

SourceGas Distribution LLC - Nebraska
Summary of Realized Earnings using Average Rate Base

Docket No. NG-0078 and NG-0079
Second Supplemental Attachment Staffff 1-1A

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
Line No.	Description	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014	6/30/2014	7/31/2014
1	Jurisdictional Revenues	31,815,774	32,367,826	33,878,257	33,952,694	34,707,094	35,557,767	35,337,414	35,380,619
2	Return	5,530,575	5,556,766	5,658,344	5,786,156	5,906,730	6,002,354	6,153,327	6,207,341
3	Expenses _/1	21,920,532	21,853,683	21,940,601	22,012,161	22,042,067	22,073,591	22,663,855	22,805,217
4	Depreciation	6,477,015	6,552,266	6,667,889	6,802,242	6,908,766	7,042,303	7,130,585	7,175,633
5	Provision for Income Tax	2,499,360	2,511,197	2,557,102	2,614,862	2,669,351	2,712,565	2,780,793	2,805,203
6	Total Revenue Requirement	36,427,482	36,473,912	36,823,937	37,215,421	37,526,914	37,830,814	38,728,560	38,993,394
7	Other Revenues	(1,971,793)	(1,969,398)	(2,020,697)	(2,027,176)	(2,047,236)	(2,062,887)	(2,064,374)	(2,097,020)
8	Net Cost of Service	34,455,689	34,504,514	34,803,240	35,188,245	35,479,678	35,767,926	36,664,186	36,896,373
9	Deficiency / (Excess)	2,639,915	2,136,688	924,983	1,235,551	772,584	210,159	1,326,772	1,515,754
10	Operating Earnings	5,390,020	5,931,275	7,290,463	7,165,467	7,803,497	8,504,760	7,607,348	7,496,790
11	Interest Expense	(1,646,623)	(1,654,420)	(1,684,663)	(1,722,717)	(1,758,616)	(1,787,086)	(1,832,035)	(1,848,117)
12	Taxable Income	3,743,397	4,276,855	5,605,800	5,442,750	6,044,881	6,717,674	5,775,313	5,648,673
13	Income Taxes _/2	1,465,712	1,674,585	2,194,929	2,131,087	2,366,849	2,630,279	2,261,301	2,211,715
14	Net Operating Earnings	3,924,308	4,256,689	5,095,534	5,034,380	5,436,648	5,874,482	5,346,047	5,285,075
15	Average Rate Base	75,777,928	76,136,783	77,528,571	79,279,809	80,931,874	82,242,073	84,310,646	85,050,735
16	Return on Rate Base	5.18%	5.59%	6.57%	6.35%	6.72%	7.14%	6.34%	6.21%
17	Return on Equity	5.63%	6.40%	8.24%	7.82%	8.52%	9.30%	7.80%	7.56%

_/1 Expenses include O&M, A&G, and Other Taxes

_/2 Income Tax Calculation
Income Tax (Federal and State) Calculated at the Follow 39.15%
Federal Tax Rate - 34.00%
State Tax Rate - 7.81%
Combined Rate = 34.00% + 7.81% - (34.00% x 7.81%) = 39.15%

SourceGas Distribution LLC - Nebraska
Summary of Weather Normalized Earnings using Period Ending Rate Base

Docket No. NG-0078 and NG-0079
Second Supplemental Attachment Stafff 1-1B

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
Line No.	Description	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014	6/30/2014	7/31/2014
1	Jurisdictional Revenues - Weather Normalized	33,179,659	33,196,913	33,644,488	33,725,192	34,306,178	34,711,498	34,769,939	34,810,513
2	Return	5,788,027	5,656,796	5,786,434	6,105,663	6,229,378	6,262,508	6,409,514	6,477,142
3	Expenses _/1	21,922,691	21,853,704	21,939,872	22,017,778	22,044,737	22,077,675	22,665,974	22,810,912
4	Depreciation	6,612,274	6,884,160	6,884,026	7,066,621	7,124,004	7,295,108	7,364,390	7,400,503
5	Provision for Income Tax	2,615,708	2,556,402	2,614,988	2,759,253	2,815,162	2,830,133	2,896,568	2,927,130
6	Total Revenue Requirement	36,938,700	36,951,061	37,225,319	37,949,314	38,213,280	38,465,424	39,336,446	39,615,687
7	Other Revenues	(1,975,396)	(1,980,720)	(2,026,720)	(2,036,732)	(2,053,856)	(2,067,920)	(2,069,130)	(2,100,971)
8	Net Cost of Service	34,963,304	34,970,341	35,198,599	35,912,582	36,159,424	36,397,505	37,267,316	37,514,716
9	Deficiency / (Excess)	1,783,645	1,773,428	1,554,111	2,187,390	1,853,246	1,686,007	2,497,377	2,704,202
10	Operating Earnings	6,620,090	6,439,770	6,847,311	6,677,526	7,191,293	7,406,634	6,808,706	6,700,070
11	Interest Expense	(1,723,274)	(1,684,203)	(1,722,800)	(1,817,844)	(1,854,678)	(1,864,542)	(1,908,310)	(1,928,445)
12	Taxable Income	4,896,816	4,755,567	5,124,511	4,859,682	5,336,615	5,542,092	4,900,396	4,771,625
13	Income Taxes _/2	1,917,329	1,862,023	2,006,482	1,902,789	2,089,530	2,169,984	1,918,730	1,868,311
14	Net Operating Earnings	4,702,761	4,577,747	4,840,829	4,774,737	5,101,763	5,236,650	4,889,975	4,831,759
15	Rate Base	79,305,441	77,507,367	79,283,620	83,657,582	85,352,672	85,806,605	87,820,830	88,747,443
16	Return on Rate Base	5.93%	5.91%	6.11%	5.71%	5.98%	6.10%	5.57%	5.44%
17	Return on Equity	7.04%	7.00%	7.37%	6.62%	7.13%	7.36%	6.36%	6.12%

_/1 Expenses include O&M, A&G, and Other Taxes

_/2 Income Tax Calculation
Income Tax (Federal and State) Calculated at the Fol 39.15%
Federal Tax Rate - 34.00%
State Tax Rate - 7.81%
Combined Rate = 34.00% + 7.81% - (34.00% x 7.81%) = 39.15%

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.

	Line #	FERC Account	FERC Account Description	Total Pro Forma Adjustments
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

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
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	302,704.28	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

	Base Labor			New Labor			
FERC	Wages	Benefits	Payroll Taxes	Wages	Benefits	Payroll Taxes	Total Amount
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		460,233.27
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**