

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)

PREFILED DIRECT TESTIMONY AND EXHIBIT OF

JERRAD S. HAMMER

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1 **I. QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jerrad S. Hammer. My business address is 600 12th Street, Suite 300,
4 Golden, Colorado 80401.

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

6 A. I am employed by SourceGas LLC ("SourceGas") as Director – Rates and
7 Regulatory. I am employed in this capacity for SourceGas Distribution LLC
8 ("SourceGas Distribution" or the "Company"), Rocky Mountain Natural Gas LLC
9 ("Rocky Mountain"), and SourceGas Arkansas Inc. ("SGA").

10 **Q. HOW LONG HAVE YOU BEEN EMPLOYED BY SOURCEGAS?**

11 A. I have been employed by SourceGas since April 2007.

12 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR – RATES AND
13 REGULATORY?**

14 A. As Director - Rates and Regulatory of SourceGas, my primary responsibility is to
15 oversee the preparation of regulatory commission filings in Nebraska, Arkansas,
16 Colorado and Wyoming. I also oversee and perform other analyses and studies in
17 connection with SourceGas's financial performance and in evaluating various
18 SourceGas projects. In addition, I oversee and perform analyses supporting
19 revenue requirements, cost allocation and rate design models.

20 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND
21 EDUCATIONAL BACKGROUND.**

22 A. Prior to working at SourceGas, I was a Senior Associate at Black & Veatch
23 Corporation from January 2002 through February 2007. While at Black & Veatch, I
24 was responsible for the preparation of numerous studies for natural gas and electric
25 utilities. Clients served include investor-owned utilities, publicly owned utilities and
26 their customers. The studies involved cost of service, cost allocation, rate design,

1 supply analysis, load forecasting, cost recovery mechanisms, and other economic
2 matters.

3 I began my employment at SourceGas as a Senior Analyst. In August 2008,
4 I was promoted to Manager – Regulatory. In January 2012, I was promoted to
5 Senior Manager – Regulatory. In September 2013, I was promoted to my current
6 position as Director – Rates and Regulatory.

7 I hold a Bachelor of Science Degree in Finance from Washburn University
8 and a Master of Business Administration Degree from the University of Missouri -
9 Columbia.

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

11 A. Yes, I have. In Nebraska, I filed testimony and appeared as a witness before the
12 Nebraska Public Service Commission (the “Commission”) on behalf of SourceGas
13 Distribution (i) in Docket No. FC-1327; (ii) in its 2009 and 2011 general rate cases,
14 Docket Nos. NG-0060 and NG-0067, respectively; and (iii) in Docket No. NG-0072
15 in support of the Company’s Application for an Infrastructure System Replacement
16 (“ISR”) Cost Recovery Charge. In addition, I have prefiled direct testimony in
17 Docket No. NG-0078, SourceGas Distribution’s Application for an order authorizing
18 it to put into effect a System Safety and Integrity Rider Tariff and a System Safety
19 and Integrity Rider Charge. I also expect to appear as a witness in Docket No. NG-
20 0072.1 at the hearing scheduled for July 30, 2014, in support of the Company’s
21 Application for an ISR Cost Recovery Charge.

22 In Wyoming, I filed testimony and appeared before the Public Service
23 Commission of Wyoming on behalf of SourceGas Distribution (i) regarding line
24 extension matters in Docket No. 30022-106-GT-07; (ii) in support of the Company’s
25 2010-2011 Wyoming rate case, Docket No. 30022-148-GR-10; (iii) in MGTC Inc.’s
26 Application for a General Rate Increase in Docket No. 30003-52-GR-11; (iv) in

1 support of the Company's earnings levels in Docket No. 30022-192-GI-12; and (v) in
2 support of the Company's application for a certificate of public convenience and
3 necessity to construct major utility facilities and implement certain tariff revisions to
4 optimize its Casper Division transmission and storage assets in Docket No. 30022-
5 219-GA-13.

6 In Colorado, I filed testimony before the Public Utilities Commission of the
7 State of Colorado on behalf of SourceGas Distribution in its 2008 and 2010 general
8 rate cases, Proceeding Nos. 08S-108G and 10AL-455G, respectively.

9 In Arkansas, I filed testimony before the Arkansas Public Service
10 Commission on behalf of SGA (i) in its 2013 general rate case, Docket No. 13-079-
11 U; and (ii) in support of its application for approval of a special rate contract with Big
12 River Steel LLC, Docket No. 14-014-P.

13 II. OVERVIEW OF TESTIMONY AND EXHIBIT

14 **Q. WHAT AUTHORITY IS SOURCEGAS DISTRIBUTION SEEKING FROM THE**
15 **COMMISSION?**

16 A. SourceGas Distribution respectfully requests a decision of the Commission
17 authorizing the Company to change its depreciation rates on its Nebraska books of
18 account, effective May 1, 2014, as shown in the Depreciation Rate Study that the
19 Company filed in this docket on May 1, 2014, as Appendix 1 to the Application.

20 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY IN THIS PROCEEDING.**

21 A. My Direct Testimony presents a Jurisdictional revenue deficiency analysis that
22 reflects the impact of this Application and the Company's pending applications in
23 Docket Nos. NG-0072.1 and NG-0078, and addresses the impact that the requested
24 change to the Company's depreciation rates would have on SourceGas
25 Distribution's Jurisdictional cost of service in its next general rate case.

26 **Q. HOW IS YOUR DIRECT TESTIMONY PRESENTED IN THIS PROCEEDING?**

1 A. After this overview section, my Direct Testimony is divided into the following two
2 sections.

3 Section III – Jurisdictional Revenue Deficiency Analysis

4 Section IV – Impact of Approval of Depreciation Rate Study on
5 Jurisdictional Cost of Service in Next General Rate Case

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

8 A. Yes. I will present the following exhibit, which I prepared or compiled or caused to
9 be prepared or compiled under my supervision.

10 Exhibit JSH-1 – Jurisdictional Revenue Deficiency Analysis
11
12 SourceGas Distribution filed the Jurisdictional Revenue Deficiency Analysis in this
13 docket on May 1, 2014, as Appendix 2 to the Application. The Excel models
14 supporting Exhibit JSH-1 are the same models as have been provided previously as
15 electronic exhibits and workpapers.

16 **Q. WHO IS SPONSORING THE DEPRECIATION RATE STUDY THAT THE**
17 **COMPANY FILED IN THIS DOCKET ON MAY 1, 2014, AS APPENDIX 1 TO THE**
18 **APPLICATION?**

19 A. SourceGas engaged Alliance Consulting Group (“Alliance”) to conduct the
20 Depreciation Rate Study. Mr. Dane A. Watson, PE CDP, a Partner of Alliance,
21 sponsors the Depreciation Rate Study through his Direct Testimony filed in this docket.

22 **III. JURISDICTIONAL REVENUE DEFICIENCY ANALYSIS**

23 **Q. DO SOURCEGAS DISTRIBUTION’S EXISTING RATES GENERATE A**
24 **JURISDICTIONAL REVENUE DEFICIENCY COMPARED WITH ITS CURRENT**
25 **REVENUE REQUIREMENT?**

26 A. Yes. Under its existing rates, SourceGas Distribution experiences a jurisdictional
27 revenue deficiency compared with its current revenue requirement.

1 **Q. HAVE YOU PREPARED A JURISDICTIONAL REVENUE DEFICIENCY**
2 **ANALYSIS?**

3 A. Yes. Exhibit JSH-1, filed as Appendix 2 to the Application, consists of six tables
4 which show the Company's revenue deficiency for its Nebraska Jurisdictional
5 customers for calendar year 2014 (the "Test Year") at the rates currently authorized
6 by the Commission. As shown in Exhibit JSH-1, Table 1, Line 5, the Company has
7 calculated a revenue deficiency for calendar year 2014 from its Nebraska
8 Jurisdictional customers of approximately \$4.5 million. The revenue deficiency
9 calculations in Exhibit JSH-1 are based on: (i) the 9.60% return on equity approved
10 by the Commission in Docket No. NG-0067; (ii) the Company's current cost of debt
11 and current capital structure (which lowers the Commission-approved weighted cost
12 of capital to 7.30% from 7.67%, as shown in Exhibit JSH-1, Table 3); (iii) Test Year
13 rate base expenses and Jurisdictional revenues; (iv) the Commission-approved cost
14 of service study allocations from Docket No. NG-0067; and (v) no rate case
15 expenses.

16 Because of this significant revenue deficiency, the Company planned to file a
17 general rate case on or about April 1, 2014. Rate cases are costly, resource
18 intensive and time consuming endeavors. The approximately \$4.5 million revenue
19 deficiency shown in Exhibit JSH-1 does not include rate case expense or any
20 potential increase in the authorized return on equity. In Docket No. NG-0067, the
21 Commission approved the Company's total rate case expense of \$800,450,
22 amortized over three years at \$266,817 per year. Including the Company's rate
23 case expense, therefore, would increase the revenue deficiency to more than \$4.75
24 million, at the Company's currently authorized return on equity of 9.60%. In
25 addition, the Company collected from its Jurisdictional customers through the State
26 Regulatory Assessment Surcharge approximately \$560,000 of rate case expense in

1 Docket No. NG-0067 for the charges of the Public Advocate and his consultants and
2 the Commission's consultants. Reflecting that additional cost, the total amount that
3 the Company would be requesting Jurisdictional customers to pay for through a
4 general rate case proceeding would have been more than \$5.25 million in the first
5 year of new rates.

6 Through discussions with the Public Advocate and Commission Staff, the
7 Company explored creative solutions to avoid having to file the planned general rate
8 case at this time. This Application, the Company's application filed in accordance
9 with Sections 66-1865 and 66-1866 of the State Natural Gas Regulation Act (Docket
10 No. NG-0072.1) and its application for an order authorizing it to put into effect a
11 System Safety and Integrity Rider Tariff and a System Safety and Integrity Rider
12 Charge (Docket No. NG-0078) are the three essential components of the creative
13 solution that, if approved together, will enable the Company to not file its planned
14 general rate case at this time.

15 **Q. IF THE COMMISSION APPROVES THIS APPLICATION AND THE**
16 **APPLICATIONS THAT IT IS CONSIDERING IN DOCKET NOS. NG-0072.1 AND**
17 **NG-0078, WOULD THE COMPANY STILL HAVE A JURISDICTIONAL REVENUE**
18 **DEFICIENCY COMPARED WITH ITS CURRENT REVENUE REQUIREMENT?**

19 **A.** Yes. Exhibit JSH-1 incorporates into the jurisdictional revenue deficiency
20 calculation the Company's revenue proposals in Docket Nos. NG-0072.1 and NG-
21 0078 and a reduction in depreciation expense in Docket No. NG-0079.

22 As shown on Line 8 of Exhibit JSH-1, Table 1, even if the Commission
23 approves the Company's applications in Docket Nos. NG-0072.1 and NG-0078, the
24 Company still would have a Test Year revenue deficiency for its Jurisdictional
25 customers of approximately \$2.56 million at the currently authorized 9.60% return
26 on equity and prior to reflecting rate case expenses. The approximately \$2.56

1 million revenue deficiency is substantial – it represents approximately 6.55% of the
2 Company’s Jurisdictional net cost of service (\$2,561,576 divided by the \$39,130,250
3 shown on Line 3 of Exhibit JSH-1, Table 1). The Company would have to address
4 this revenue deficiency in a general rate case filing, with the attendant expense.

5 As shown on Line 10 of Exhibit JSH-1, Table 1, even if the Commission
6 approves this Application and the Company’s applications in both Docket Nos. NG-
7 0072.1 and Docket No. NG-0078, SourceGas Distribution still would have a Test
8 Year revenue deficiency for its Jurisdictional customers of approximately \$0.94
9 million at the currently authorized 9.60% return on equity and prior to reflecting rate
10 case expenses. This analysis demonstrates that the Commission’s approval of this
11 Application and the Company’s applications in Docket Nos. NG-0072.1 and NG-
12 0078 would not cause the Company to exceed its authorized rate of return. At the
13 same time, the Commission’s approval of the three applications will reduce the
14 Company’s revenue deficiency to a level that will allow the Company to avoid its
15 planned general rate case at this time. The Company believes this is a benefit for
16 customers.

17 **Q. PLEASE BRIEFLY DESCRIBE TABLES 2-6 OF EXHIBIT JSH-1.**

18 A. Exhibit JSH-1, Table 2, consists of Schedules A through E and contains the detailed
19 calculation of the Nebraska Total State and Jurisdictional revenue requirement for
20 the Test Year. Schedule A is the revenue requirement summary schedule, and
21 does not factor into the calculation of rate case expense or any potential increase in
22 the Company’s currently authorized return on equity. Schedule B shows the
23 derivation of rate base used in the revenue requirement calculation. Schedule C
24 shows the operating expenses used in the revenue requirement calculation.
25 Schedule D shows the calculation of depreciation and amortization expense used in

1 the revenue requirement calculation. Schedule E shows the calculation of income
2 taxes used in the revenue requirement calculation.

3 Exhibit JSH-1, Table 3, consists of Schedules A through C and contains the
4 detailed calculation of the weighted cost of capital used by the Company in the
5 revenue requirement calculation. Schedule A shows that the overall weighted cost
6 of capital for the Company, using the current SourceGas capital structure and cost
7 of debt and the Commission-approved return on equity of 9.60%, is 7.30%.
8 Schedule B shows the detailed calculation of the Company's current weighted
9 average cost of debt. Schedule C shows the derivation of the capital structure that
10 the Company used in the revenue requirement analysis.

11 Exhibit JSH-1, Table 4, shows the revenue requirement and net cost of
12 service as determined by the class cost of service model. All of the allocation
13 factors used in the class cost of service model were approved by the Commission in
14 Docket No. NG-0067. My workpapers contain the detailed class cost of service
15 schedules supporting Exhibit JSH-1, Table 4.

16 Exhibit JSH-1, Table 5, consists of Schedules A through D and contains the
17 calculation of the total Jurisdictional Test Year revenues used in the development of
18 the revenue deficiency presented in Exhibit JSH-1, Table 1. Schedule A shows the
19 development of the unadjusted Jurisdictional base year revenues (twelve months
20 ended December 31, 2013) using the currently authorized Commission rates.
21 Schedule B shows the development of Test Year revenues using the currently
22 authorized Commission rates. The only adjustments to the base year that are
23 reflected in Schedule B are an adjustment for weather normalization and an
24 adjustment to reflect a full year impact of the Company's Pipeline Replacement
25 Charge. Schedule C summarizes the two adjustments to the base year revenues
26 the Company made when calculating the Test Year revenues. Schedule D shows

1 the calculation of other operating revenues the Company used in the development
2 of the revenue deficiency.

3 Exhibit JSH-1, Table 6, shows the impact of the Company's proposed
4 depreciation rates in this docket for both Nebraska Total State and for Jurisdictional
5 customers. Lines 1 through 7 of Table 6 show the impact of the change in
6 depreciation rates based on plant in service as of December 31, 2013, and Lines 8
7 through 14 of Table 6 show the impact for the projected December 31, 2014 plant
8 balances.

9 **IV. IMPACT OF APPROVAL OF DEPRECIATION RATE STUDY ON**
10 **JURISDICTIONAL COST OF SERVICE IN NEXT GENERAL RATE CASE**

11 **Q. THROUGH THE APPLICATION, IS SOURCEGAS DISTRIBUTION SEEKING TO**
12 **CHANGE ANY OF ITS EXISTING RATES FOR SERVICE CURRENTLY**
13 **CHARGED TO JURISDICTIONAL CUSTOMERS?**

14 A. No. The rates would remain the same as those approved in the last rate case.

15 **Q. WOULD THE PROPOSED CHANGES IN DEPRECIATION RATES, IF**
16 **APPROVED, IMPACT SOURCEGAS DISTRIBUTION'S JURISDICTIONAL COST**
17 **OF SERVICE IN ITS NEXT GENERAL RATE CASE?**

18 A. Yes. The proposed changes, if approved, would impact directly three elements of
19 SourceGas Distribution's cost of service for ratemaking purposes at the time that
20 SourceGas Distribution files its next request for a general increase in rates for its
21 Jurisdictional Residential and Commercial customer classes. Those three elements
22 are SourceGas Distribution's depreciation expense, accumulated reserve for
23 depreciation and amortization, and accumulated deferred income taxes ("ADIT").
24 This is because the change in depreciation rates would generate a lower annual
25 depreciation expense that would need to be collected from Jurisdictional customers.
26 The Company's proposal to lower the depreciation rates effective May 1, 2014

1 would result in less accumulated depreciation in its next general rate case filing.
2 This lower amount of accumulated depreciation, however, would be partially offset
3 by a higher amount of ADIT, because there would be a greater difference between
4 the book and tax depreciation on Nebraska assets as a result of the change in
5 depreciation rates, and would be more than offset by lower depreciation expense.

6 The Company has prepared the Jurisdictional Revenue Deficiency Analysis
7 (Exhibit JSH-1, which is Appendix 2 to the Application), which establishes that the
8 prospective change in depreciation rates requested through this Application will not
9 cause SourceGas Distribution to exceed its currently authorized overall rate of
10 return of 7.67%.

11 **Q. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?**

12 A. Yes. I respectfully request that the Commission authorize the Company to change
13 its depreciation rates on its Nebraska books of account, effective May 1, 2014, as
14 shown in the Depreciation Rate Study that the Company filed in this docket on May
15 1, 2014, as Appendix 1 to the Application. I will conclude by offering into evidence
16 Exhibit JSH-1.

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 Prefiled Direct
Testimony and Exhibit

County of Jefferson)

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

Jerrad S. Hammer further states that such Prefiled Direct 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 Exhibit that accompanies his Prefiled Direct Testimony is true and accurate.

Jerrad S. Hammer
Jerrad S. Hammer

SUBSCRIBED AND SWORN TO before me, the undersigned Notary Public, this
10th day of July, 2014.



Elaine D. Hegler
Notary Public

My commission expires: November 17, 2014

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