

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)

REBUTTAL TESTIMONY AND EXHIBITS

OF

DANE A. WATSON, PE CDP

PARTNER,

ALLIANCE CONSULTING GROUP

ON BEHALF OF

SOURCEGAS DISTRIBUTION LLC

INDEX TO THE REBUTTAL TESTIMONY AND EXHIBITS
OF DANE A. WATSON, WITNESS FOR
SOURCEGAS DISTRIBUTION LLC

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EXHIBITS:

DAW-5 – AGA EEI NET SALVAGE SURVEY ACCOUNT 376

DAW-6 – AGA EEI NET SALVAGE SURVEY ACCOUNT 380

DAW-7 – AGA EEI NET SALVAGE SURVEY ACCOUNT 382

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REBUTTAL TESTIMONY OF DANE A. WATSON

I. POSITION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Dane A. Watson, and my business address is 1410 Avenue K, Suite 1105B, Plano, Texas 75074. I am a Partner of Alliance Consulting Group. Alliance Consulting Group provides consulting and expert services to the utility industry.

Q. ARE YOU THE SAME DANE A. WATSON WHO SUBMITTED PREFILED DIRECT TESTIMONY IN THIS CASE?

A. Yes. In connection with my Direct Testimony I also submitted prefiled Exhibits DAW-1 through DAW-4.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. I provide rebuttal testimony on behalf of SourceGas Distribution LLC’s (“SourceGas Distribution,” the “Company” or “SGD”) Nebraska Properties (“SGDNE”) natural gas operations depreciable assets as of fiscal year end December 31, 2013. I will rebut the Direct Testimony of William Dunkel on behalf of the Nebraska Public Advocate in this case regarding the timing of depreciation rate implementation. I also will rebut Mr. Dunkel’s proposed SGDNE depreciation rates and net salvage factors for Accounts 376, 380 and 382 presented and recommended in his Direct Testimony. I will demonstrate why Mr. Dunkel’s positions and recommended net salvage factors for depreciation rates should be denied by the Nebraska Public Service Commission (the “Commission”).

1 **II. TIMING OF DEPRECIATION RATE IMPLEMENTATION**

2 **Q. USING “MORTGAGE” ANALOGIES, MR. DUNKEL ASSERTS THAT THE**
3 **COMPANY’S PROPOSAL TO CHANGE DEPRECIATION RATES ON ITS**
4 **BOOKS OUTSIDE OF A GENERAL RATE CASE WILL EFFECTIVELY**
5 **RESULT IN “FUTURE OVERCHARGES TO THE RATEPAYERS” AND**
6 **“DOUBLE RECOVERY” FOR THE COMPANY (DUNKEL DIRECT**
7 **TESTIMONY, PAGE 5, LINES 3-12 AND PAGE 14, LINE 1 – PAGE 16, LINE**
8 **17). DO YOU AGREE WITH MR. DUNKEL’S ASSERTIONS?**

9 **A.** No. Although Mr. Dunkel’s “mortgage” examples and discussion may seem
10 appealing at first, there are a number of flaws that invalidate his argument.

- 11 • Mr. Dunkel only looks at one component of SourceGas Distribution’s
12 revenue requirement, depreciation expense, in isolation. He does not
13 consider that if depreciation expense is too high and operations and
14 maintenance (“O&M”) costs are too low in the original revenue
15 requirements, reducing depreciation expense to the appropriate level will
16 simply adjust the amount in recovery for each category to more
17 appropriate levels. Instead, Mr. Dunkel’s examples only focus on one
18 part – the reduction of depreciation expense.
- 19 • SourceGas Distribution and Mr. Dunkel concur that the Company’s
20 current depreciation rates are higher than appropriate and that
21 SourceGas Distribution is recording more depreciation expense each
22 period than is required to recover the Company’s investment over its
23 remaining life. I will address the differences between my recommended
24 depreciation rates and those of Mr. Dunkel later in my Rebuttal
25 Testimony.

- 1 • As addressed in the Rebuttal Testimony of Mr. Jerrad S. Hammer, the
2 combination of O&M and Administrative and General (“A&G”) expenses
3 and the Provision for Income Tax, for example, are more than those
4 expenses are reflected in the Company’s base rates approved in its last
5 general rate case.
- 6 • Simply by the nature of rate regulation, SourceGas Distribution has been
7 recording more depreciation expense on its books than customers have
8 been paying for years based on the original revenue requirement.
- 9 • In reality, even though he repeatedly states the thought as truth, Mr.
10 Dunkel does not know how much depreciation expense SourceGas
11 Distribution is recovering from customers. Base rates, after the revenue
12 requirement is approved by the Commission, do not differentiate between
13 depreciation expense, O&M and A&G expenses, taxes, or return.

14 **Q. PLEASE DISCUSS THE ISSUE THAT MR. DUNKEL ONLY ANALYZES ONE**
15 **COMPONENT IN ISOLATION.**

16 A. Mr. Dunkel’s “mortgage” examples clearly demonstrate the singular focus
17 provided by his discussion. In his mortgage examples, there is only one item:
18 modeling the recovery of depreciation expense. He even ignores the interest
19 component of the mortgage. Obviously, it would be a problem if the bank
20 reduced the amount it recorded for a mortgage while the mortgagee continued to
21 pay the same amount. But, as discussed in more detail by Mr. Hammer in his
22 Rebuttal Testimony, that is not SourceGas Distribution’s request and it is not the
23 way the revenue requirement for regulated utilities works.

24 A more accurate mortgage example is this: You hold two mortgages with
25 the same bank. You pay both loans with one check to the bank. You decide to
26 extend the life of one loan (reducing the payments) while you pay more on the

1 second loan. The bank gets the same single check from you but more of the
2 payment is directed to one loan and less to the other.

3 This example reflects the fact that the revenue requirement of the
4 Company is made up of more than one component. After the revenue
5 requirement is set, the amount of each component varies over time. Simply
6 because depreciation expense (or O&M expense) later varies from what was set
7 in the original revenue requirement does not invalidate the base rates set using
8 that revenue requirement or the amount actually recorded on the Company's
9 books.

10 **Q. PLEASE DISCUSS THE CONCURRENCE BETWEEN THE COMPANY AND**
11 **MR. DUNKEL ON THE CURRENT LEVEL OF DEPRECIATION EXPENSE**
12 **BEING TOO HIGH.**

13 A. Both Mr. Dunkel and I recommend a reduction in depreciation expense from the
14 existing level. I discuss my disagreement with the level of Mr. Dunkel's
15 recommended reduction later in my Rebuttal Testimony. However, Mr. Dunkel
16 and I concur that the current level of depreciation expense is higher than
17 necessary to recover the cost of the SGDNE assets currently in service.

18 **Q. PLEASE ADDRESS THE REALITY THAT THE COMPANY IS RECORDING**
19 **MORE DEPRECIATION EXPENSE ON ITS BOOKS THAN SET THROUGH**
20 **THE COMPANY'S LAST GENERAL RATE CASE.**

21 A. Since the Commission established the Company's base rates in the last general
22 rate case (Docket No. NG-0067), SourceGas Distribution has made additional
23 investment in its SGDNE assets. As such, base rates were set using a lower
24 investment in calculating the original depreciation expense than what exists
25 today. The amount of depreciation expense was set in the Company's last
26 general rate case by multiplying the gross investment at that point in time by the

1 Commission-approved depreciation rate. That calculated depreciation expense
2 amount was included in the cost of service, which is a snapshot in time. Since
3 that point, investment has grown by roughly \$57 million (from roughly \$191
4 million to roughly \$248 million). All else equal, this investment growth increases
5 the recorded depreciation expense without a corresponding increase in the
6 amount customers contribute toward that expense, because the Company
7 records depreciation expense based on the current investment multiplied by the
8 approved depreciation rate. Since that first additional investment after the
9 calculation of depreciation expense embedded in the Company's base rates, the
10 amount of recorded depreciation expense has been higher than the amount
11 embedded in the base rates charged to customers. Under the concept Mr.
12 Dunkel put forward to argue against the Company's recommendation,
13 SourceGas Distribution should calculate the additional amount that it has been
14 recording over and above what customers have been paying and ask for
15 recovery. This is obviously not the way rate regulation works. However, that
16 "under-recovery" is no different in principle from the "over-recovery" Mr. Dunkel is
17 suggesting if new depreciation rates are approved for SourceGas Distribution in
18 this proceeding. This is a key point in understanding the fallacy of Mr. Dunkel's
19 argument.

20 **Q. WOULD YOU ELABORATE ON YOUR STATEMENT THAT MR. DUNKEL**
21 **CANNOT KNOW THE ACTUAL AMOUNT CUSTOMERS ARE PAYING IN**
22 **DEPRECIATION EXPENSE?**

23 **A.** Yes. As stated earlier, base rates do not differentiate between depreciation
24 expense, and other revenue requirement components. The revenue requirement
25 is set at a point in time based on all of those components and conditions change
26 after it is set. More than just one component, depreciation expense, needs to be

1 considered in understanding SourceGas Distribution's request in this proceeding.

2 **III. NET SALVAGE FACTORS FOR DEPRECIATION RATES**

3 **Q. HOW DOES MR. DUNKEL'S DEPRECIATION RATE RECOMMENDATION**
4 **DIFFER FROM YOUR PROPOSAL?**

5 A. Mr. Dunkel's recommended depreciation rates reduce depreciation expense by
6 over \$500,000 per year more than the approximately \$1.8 million decrease I
7 recommended. The difference is solely due to Mr. Dunkel changing the net
8 salvage factors necessary to be recovered over the remaining life of three (3)
9 accounts (376-Mains, 380-Services and 382-Meter Installations).

10 **Q. DO YOU AGREE WITH MR. DUNKEL'S RECOMMENDED NET SALVAGE**
11 **FACTORS?**

12 A. No. Not only are the factors dramatically lower than would be expected for
13 similar assets in the industry, they are so low that they are irrational when applied
14 to the assets in question.

15 **Q. WHAT IS NET SALVAGE?**

16 A. While discussed more fully in my Direct Testimony and Exhibits DAW-3 and
17 DAW-4, net salvage is the difference between the gross salvage (what the asset
18 was sold for at the end of its life as scrap) and the removal cost (cost to retire,
19 remove if applicable and dispose of the asset). Salvage and removal cost
20 percentages are calculated by dividing the current cost of salvage or removal by
21 the original installed cost of the asset. Some plant assets can experience
22 significant negative removal cost percentages due to the amount of removal cost
23 and the timing of the addition versus the retirement. For example, a Distribution
24 asset in FERC Account 376 Steel Mains with a current installed cost of \$500

1 (2013) would have had an installed cost of \$17.57¹ in 1948. A removal cost of
2 \$50 for the asset calculated (incorrectly) on current installed cost would only
3 have a negative 10 percent removal cost (\$50/\$500). However, a correct
4 removal cost calculation would show a negative 284 percent removal cost for that
5 asset (\$50/\$17.57). Inflation from the time of installation of the asset until the
6 time of its removal must be taken into account in the calculation of the removal
7 cost percentage because the depreciation rate, which includes the removal cost
8 percentage, will be applied to the original installed cost of assets.

9 **Q. WHAT CAUSES NEGATIVE NET SALVAGE RATES?**

10 A. Negative net salvage rates occur when the cost to remove or retire assets is
11 greater than the salvage received for those assets. The activities related to
12 retiring assets (generally including cutting, capping, and purging of gas for the
13 abandonment of pipe, as well as fees and additional regulatory and
14 governmental requirements) are increasing across the country, in part due to the
15 increasing cost of labor and more stringent work rules. Performing these
16 activities today is more expensive than in the past and is definitely more
17 expensive than the retirement costs reflected in the existing depreciation rates.
18 Additionally, there has been very limited or no salvage recorded due to the
19 Company's practice of abandoning pipe in place. This practice, which is common
20 today in the industry, is expected to continue, so there will be little, if any, salvage
21 recorded for scrap pipe in the future.

22 **Q. WHY DO YOU BELIEVE MR. DUNKEL'S RECOMMENDED NET SALVAGE**
23 **FACTORS ARE IRRATIONAL WHEN APPLIED TO THE SGDNE ASSETS?**

24 A. The table below shows my proposed net salvage factors and those of Mr. Dunkel.

¹ Using the Handy-Whitman Bulletin No. 178, G-3, line 44, $\$17.571 = \$500 \times 29/825$.

Account	Company	Public Advocate
	Proposed Net Salvage %	Proposed Net Salvage %
376- Mains	-10%	0%
380-Services	-40%	-11%
382-Meter Installations	-10%	0%

1

2 The more negative the factor, the more removal cost that will be needed to retire
3 the assets from service. As discussed further in the individual account
4 discussions, a 0% net salvage for Mains and Meter Installations (and only -11%
5 for Services) is irrational. Most of SGDNE's pipe is buried and will not be
6 removed from the ground (the exception would be top of ground (TOG) pipe).
7 This would imply that there will be very little or no gross salvage for retired pipe
8 (the first number in the net salvage formula). With no gross salvage, Mr.
9 Dunkel's recommendation would allow for no cost to remove Mains or Meter
10 Installations from service. It is illogical to believe that the pipe can be (at
11 minimum) cut, capped, and purged at no or de minimis cost.

12 **Q. HOW CAN YOU KNOW THAT THE NET SALVAGE FACTORS MR. DUNKEL**
13 **RECOMMENDS ARE DRAMATICALLY LOWER THAN EXPECTED FOR**
14 **SIMILAR ASSETS ACROSS THE GAS UTILITY INDUSTRY?**

15 A. I make that statement both from the perspective of my decades of experience
16 conducting depreciation studies for gas utilities and from time-tested relevant
17 industry statistics.

18 **Q. HOW DOES YOUR EXPERIENCE AS A CONSULTANT REFLECT ON YOUR**
19 **KNOWLEDGE OF REASONABLE REMOVAL COST FACTORS?**

20 A I have analyzed the actual removal cost experienced by dozens of gas utilities

1 across the industry, viewed the results of many more, and have conducted time
2 and motion studies to determine the cost and work effort involved in removing
3 pipe from service. From my experience, it is expected that there will be a
4 significant level of work (and cost) required to remove pipe from service.

5 **Q. WHAT ARE THE TIME-TESTED RELEVANT INDUSTRY STATISTICS TO**
6 **WHICH YOU REFER?**

7 A. In 1998-1999, the American Gas Association and Edison Electric Institute (“AGA-
8 EEI”) published a survey of net depreciation parameters (the “AGA-EEI Survey”).
9 The AGA-EEI Study has withstood the test of time and remains very relevant to
10 the utility industry.

11 **Q. HOW IS THE AGA-EEI STUDY RELEVANT IN UNDERSTANDING THE NET**
12 **SALVAGE FACTORS FOR PIPE ACROSS THE INDUSTRY AND FOR THE**
13 **SGDNE ASSETS COVERED IN THIS PROCEEDING?**

14 A. The AGA-EEI Survey clearly reflects that a 0% net salvage factor for Mains or
15 Meter Installation and a -11% net salvage factor for Services are significantly
16 outside of expectations even fifteen years ago. Since that time, gas utilities have
17 seen higher and higher costs related to removing pipe from service due to things
18 like more stringent work rules and environmental regulations.

19 **Q. HOW DOES THE BASIS OF YOUR PROPOSED NET SALVAGE FACTORS**
20 **DIFFER FROM MR. DUNKEL’S POSTION?**

21 A Mr. Dunkel solely based his recommendation on the recent historical removal
22 cost recorded by SourceGas Distribution. I also acknowledge that the historical
23 indications at the Company are low. However, I base my recommendation also
24 on the fact that the Company is changing its net salvage practice and on my
25 experience with the expected net salvage factors for assets included in the
26 various accounts. My proposed net salvage factors are representative of

1 SourceGas Distribution's future expectations for recording removal cost for the
2 SGDNE assets. In other words, the Company's past practice is not
3 representative of the future removal cost that will be recorded on the Company's
4 books. SourceGas is implementing a new accounting system (PowerPlan) that
5 will separately identify and record removal cost. The future removal cost
6 recorded for the SGDNE assets will be more in line with the industry than they
7 have been in the past. Mr. Dunkel solely makes his recommendation on the non-
8 representative history for SourceGas Distribution.

9 **Q. IS THE GOAL OF SETTING DEPRECIATION RATES TO REFLECT THE PAST**
10 **OR TO PROJECT THE EXPECTATIONS FOR THE REMAINING LIFE OF THE**
11 **ASSETS?**

12 A. The goal of setting depreciation rates is to project future expectations. The
13 remaining life depreciation rate calculations used both in my study and Mr.
14 Dunkel's calculations apply the concept of recovering the remaining investment
15 (including required removal cost) over the remaining life of the assets. As such,
16 the removal cost that will occur at the end of the life of the assets currently in
17 service is what needs to be recovered. My proposal will recover the removal cost
18 expected for the SGDNE assets while Mr. Dunkel's proposal will recover nothing
19 for Mains and Meter Installations and very little for Services.

20 **Q. HOW DOES SOURCEGAS DISTRIBUTION CHARGE REMOVAL COST**
21 **UNDER ITS CURRENT ACCOUNTING SYSTEM?**

22 A. The Company's Response to Information Request PA-24 (Exhibit WDA-4 to Mr.
23 Dunkel's Direct Testimony) states that currently the removal cost and additions
24 are tracked together in Account 107, Construction Work in Progress ("CWIP").
25 There is no separation between removal cost and the new addition. Only if
26 Company personnel specifically segregated the cost of removal have those

1 charges been transferred to the depreciation reserve as removal cost expense.

2 **Q. DOES THAT MEAN REMOVAL COST HAS BEEN UNDERCHARGED AS YOU**
3 **STATE IN THE DEPRECIATION STUDY?**

4 A. No. In retrospect, I should have said that removal costs have not been
5 separately identified and recorded. The total cost of the project is captured in
6 CWIP. If removal cost has not been specifically identified by the Company, all
7 charges have been booked as a new addition. This will have no impact on rate
8 base, but will have an impact on the historical analysis of what cost is recorded
9 as removal cost. Because less has been allocated as removal cost in the past,
10 the historical indications would be lower than for others in the gas utility industry.
11 With the Company's change in its accounting system to PowerPlan and the
12 capture of removal activities as removal cost, the removal cost booked in the
13 future will be more in line with the rest of the industry.

14 **Q. HOW DOES YOUR EXPERIENCE AS A CONSULTANT ENHANCE YOUR**
15 **KNOWLEDGE OF REMOVAL COST ON A GOING FORWARD BASIS?**

16 A As a consultant for the past 10 years, I have performed over 100 depreciation
17 studies and seen the impact of accounting conversions. The total cost of a
18 project will not change, but the costs between the new addition and the removal
19 of the old asset will be more clearly segregated. The removal cost will properly
20 be charged to removal cost in Account 108, not plant in service in Account 101
21 after the project is closed. My work as a consultant has allowed me to have
22 firsthand knowledge of the policies and practices of a variety of companies in this
23 particular area. SourceGas Distribution is making changes to its accounting
24 process due to enhanced tracking capabilities within PowerPlan that will allow
25 the clear segregation of removal cost in projects.

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ACCOUNT 376 - MAINS

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Q. FROM YOUR EXPERIENCE AS BOTH A CONSULTANT AND A PROPERTY ACCOUNTING MANAGER, IS THE ZERO PERCENT (0%) NET SALVAGE FACTOR RECOMMENDED BY MR. DUNKEL REALISTIC FOR MAINS?

A. No. I believe not reflecting removal cost for Mains is not rational. There are specific activities (with their associated costs) necessary to retire Mains.

Q. DID YOU ASK FOR FEEDBACK FROM THE COMPANY ON THE ACTIVITIES AND COST NECESSARY TO RETIRE A MAIN?

A. Yes. Based on feedback from the Company, in order to retire a pipeline it can take a three-person crew two days at \$55.00 per hour to accomplish this task. This can include digging out both ends of the Main and cutting off, purging and capping the Main. Above-ground appurtenances need to be dug up and cut off below ground and capped, and material needs to be hauled off for disposal. This will require additional materials and the use of a backhoe to dig the trench. As SourceGas Distribution segregates the cost to retire SGDNE assets and records the removal cost expense, a 0% net salvage is not appropriate. Adoption of Mr. Dunkel's proposed net salvage factor would create intergeneration inequities and create the kind of problems he cautions against in his Direct Testimony.

Q. IS THE REFLECTION OF REMOVAL COST ALSO SUPPORTED BY THE AGA-EEI SURVEY?

A. Yes. On a total industry basis, the average net salvage factor for this account is -31.85% (see my Exhibit DAW-5). Although my initial proposal of a -10 percent net salvage factor is less than the industry average, it is a conservative step in the right direction until actual SGDNE information is available.

ACCOUNT 380 - SERVICES

1

2 **Q. FROM YOUR EXPERIENCE AS BOTH A CONSULTANT AND A PROPERTY**
 3 **ACCOUNTING MANAGER, IS THE NEGATIVE ELEVEN PERCENT (-11%)**
 4 **NET SALVAGE FACTOR RECOMMENDED BY MR. DUNKEL REALISTIC**
 5 **FOR SERVICES?**

6 A. No. I believe reflecting such a small removal cost for Services is not rational.
 7 There are specific activities (with their associated costs) necessary to retire
 8 Services that cost more than reflected in Mr. Dunkel's recommended net salvage
 9 factor.

10 **Q. DID YOU ASK FOR FEEDBACK FROM THE COMPANY ON THE ACTIVITIES**
 11 **AND COST NECESSARY TO RETIRE A SERVICE?**

12 A. Yes. Based on feedback from the Company, in order to retire a Service it can
 13 take a two-person crew two hours at \$55.00 per hour to accomplish this task.
 14 This can include digging out both ends of the Service and cutting off, purging and
 15 capping the Service. The tap, meter loop and riser need to be cut off and
 16 removed.

17 The total estimated cost to abandon a service line is \$295, and \$960 to
 18 install a service line. For a Service that could have cost only \$254² or less 35
 19 years ago, the \$295 in retirement cost is over a -100% net salvage factor.³
 20 Although my initial proposal of a -40 percent net salvage factor is less than that
 21 indicated above, it is a conservative step in the right direction until actual
 22 SourceGas Distribution information is available. Adoption of Mr. Dunkel's

² Trending the 2013 dollars back to 1978 using the Handy Whitman index, the retirement amount would be $254 = 960 * (144/544)$. Handy Whitman, Bulletin No. 178, G3, line 50.

³ To compute the net salvage factor, one would divide the removal cost of \$295 by the retirement value of \$254, yielding -116%.

1 proposed net salvage factor would create intergeneration inequities and create
2 the kind of problems he cautions against in his Direct Testimony.

3 **Q. IS THE REFLECTION OF REMOVAL COST ALSO SUPPORTED BY THE**
4 **AGA-EEI SURVEY?**

5 A. Yes. On a total industry basis, the average net salvage factor for this account is
6 -66.65% (see my Exhibit DAW-6). Although my initial proposal of a -40 percent
7 net salvage factor is less than the industry average, it is a conservative step in
8 the right direction until actual SGDNE information is available.

9 **ACCOUNT 382 - METER INSTALLATIONS**

10 **Q. FROM YOUR EXPERIENCE AS BOTH A CONSULTANT AND A PROPERTY**
11 **ACCOUNTING MANAGER, IS THE ZERO PERCENT (0%) NET SALVAGE**
12 **FACTOR RECOMMENDED BY MR. DUNKEL REALISTIC FOR METER**
13 **INSTALLATIONS?**

14 A. No. I believe reflecting 0% removal cost for Meter Installations is not rational.
15 There are specific activities (with their associated costs) necessary to retire
16 Meter Installations.

17 **Q. DID YOU ASK FOR FEEDBACK FROM THE COMPANY ON THE ACTIVITIES**
18 **AND COST NECESSARY TO RETIRE A METER INSTALLATION?**

19 A. Yes. Operations personnel estimate that it could take a service technician
20 several hours at \$55.00 per hour to retire a meter installation.

21 **Q. HOW DO YOU INTERPRET THIS INFORMATION FROM A REMOVAL COST**
22 **PERSPECTIVE?**

23 A. Mr. Dunkel's recommended zero percent net salvage factor is less than the
24 amount necessary to recover the removal cost of these assets. Adoption of Mr.
25 Dunkel's proposed net salvage factor would create intergeneration inequities and
26 create the kind of problems he cautions against in his Direct Testimony. My

1 recommendation is a conservative step in the right direction until actual SGDNE
2 information is available, and it is much more appropriate than Mr. Dunkel's 0%
3 net salvage factor.

4 **Q. IS THE REFLECTION OF REMOVAL COST ALSO SUPPORTED BY THE**
5 **AGA-EEI SURVEY?**

6 A. Yes. On a total industry basis, the average net salvage factor for this account is
7 -44.74% (see my Exhibit DAW-7). Although my initial proposal of a -40 percent
8 net salvage factor is slightly less than the industry average, it is a conservative
9 step in the right direction until actual SGDNE information is available.

10 **IV. CONCLUSION**

11 **Q. MR. WATSON, DO YOU HAVE ANY CONCLUDING REMARKS?**

12 A. Yes. The Company's SGDNE depreciation rates should be set at my
13 recommended amounts and incorporate my net salvage factor
14 recommendations. The depreciation study for SGDNE depreciable property as
15 of December 31, 2013 describes the extensive analysis performed and the
16 resulting rates that are now appropriate for the Company's SGDNE property.

17 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

18 A. Yes, it does. I will conclude by offering into evidence Exhibits DAW-5, DAW-6,
19 and DAW-7.

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IN THE MATTER OF THE APPLICATION OF)
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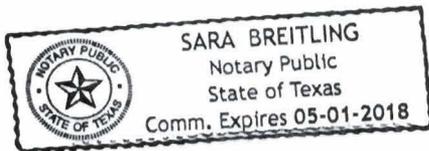
State of Texas) Affidavit Adopting Rebuttal
County of Collin) Testimony and Exhibits

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

Dane A. Watson 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 Rebuttal Testimony in this proceeding. Dane A. Watson further states that such exhibits that accompany his Rebuttal Testimony are true and accurate.

Dane A. Watson
Dane A. Watson

9th SUBSCRIBED AND SWORN TO before me, the undersigned Notary Public, this day of September, 2014.



Sara Breitling
Notary Public

My commission expires: 5/1/18

Address of Notary:
1201 E 14th St
Plano TX

Account 376- Mains
 1998-1999 AGA/EEI Gas Survey

Region	Company Name	Net Salvage %	Depreciable Plant Base (Thousands)	Net Salv % x Depreciable	
North Atlantic	Baltimore Gas & Electric Co.				
	376.10	(5.00)	252,941	(12,647.05)	
	376.20	(5.00)	38,805	(1,940.25)	
	Brooklyn Union Gas Company				
	376.00	(2.50)	397,918	(9,947.95)	
	376.04	-	43,257	-	
	376.31	(2.50)	43,190	(1,079.75)	
	Citizens Gas Div- Chesapeake			6,514	-
	Columbia Gas of Maryland, Inc.	(35.00)	29,009	(10,153.15)	
	Columbia Gas of New York, Inc.	(24.00)	26,629	(6,390.96)	
	Columbia Gas of Penna, Inc.	-	263,239	-	
	Consolidated Edison Co. of NY				
	376.10	(60.00)	546,794	(328,076.40)	
	376.20	(100.00)	25,449	(25,449.00)	
	376.40	-	572,243	-	
	Delaware Div- Chesapeake Util.			12,984	-
	Delmarva Power & Light Company	(20.00)	54,865	(10,973.00)	
	Equitable Gas Co. - PA	(1.00)	251,854	(2,518.54)	
	Equitable Gas Co. - WV	-	17,717	-	
	Long Island Lighting Company				
	376.00	(20.00)	183,544	(36,708.80)	
	376.20	(15.00)	5,316	(797.40)	
	376.40	(20.00)	251,981	(50,396.20)	
	Orange & Rockland Utilities	(40.00)	97,807	(39,122.80)	
	Peco Energy Company				
	376.10	-	296,464	-	
	376.20	-	22,098	-	
	376.30	-	158,005	-	
	Pike County Light and Power Co.	-	485	-	
	UGI Corporation				
	376.10	-	143,851	-	
	376.20	-	5,682	-	
	376.30	-	93,163	-	
	376.50	-	485	-	
	Washington Gas Light Co. - MD				
	376.10	(30.00)	1,175	(352.50)	
	376.20	(30.00)	95,552	(28,665.60)	
	376.30	(30.00)	3	(0.90)	
	376.40	(30.00)	167,412	(50,223.60)	
	376.50	-	-	-	
	South Atlantic	Columbia Gas of Kentucky, Inc	(12.00)	81,684	(9,802.08)
		Commonwealth Gas Services	(19.00)	108,048	(20,529.12)
Florida Gas Div - Chesapeake				-	
376.01		(30.00)	2,745	(823.50)	
376.02		(30.00)	9,560	(2,868.00)	
Washington Gas Light Co. - DC					
376.10		(65.00)	7,068	(4,594.20)	
376.20		(65.00)	58,518	(38,036.70)	
376.30		-	-	-	
376.40		(65.00)	60,614	(39,399.10)	
376.50		(65.00)	84	(54.60)	
Washington Gas Light Co. - VA					
376.10		(25.00)	741	(185.25)	
376.20		(25.00)	94,960	(23,740.00)	
376.30		-	-	-	
376.40		(25.00)	208,620	(52,155.00)	
376.50	-	-	-		

Account 376- Mains
 1998-1999 AGA/EEI Gas Survey

Region	Company Name	Net Salvage %	Depreciable Plant Base (Thousands)	Net Salv % x Depreciable
North Central	Central Illinois Light Company	(30.00)	79,003	(23,700.90)
	Cincinnati Gas & Electric Co.			
	376.10	(57.00)	28,098	(16,015.86)
	376.20	(57.00)	232,787	(132,688.59)
	376.30	(57.00)	16,945	(9,658.65)
	Columbia Gas of Ohio, Inc	(25.00)	549,624	(137,406.00)
	Consumers Power Company			
	376.00	(90.00)	116	(104.40)
	376.10	(90.00)	4,270	(3,843.00)
	376.20	(90.00)	327,136	(294,422.40)
	376.30	(90.00)	10,309	(9,278.10)
	376.40	(90.00)	17	(15.30)
	376.50	(90.00)	358,672	(322,804.80)
	Dayton Power & Light Co.			
	376.00	(7.00)	125,668	(8,796.76)
	376.80	-	-	-
	Indiana Gas Company			
	Iowa-Illinois Gas & Electric Co.			
	376.00	(15.00)	120,918	(18,137.70)
	376.01	(15.00)	2,552	(382.80)
	Michigan Consolidated Gas Co.			
	376.01	-	2,870	-
	376.02	(120.00)	6,176	(7,411.20)
	376.04	(55.00)	263,201	(144,760.55)
	376.05	(45.00)	156,287	(70,329.15)
	376.06	(30.00)	46,802	(14,040.60)
	376.09	(5.00)	309	(15.45)
	Montana-Dakota Utilities Co.	(40.00)	72,022	(28,808.80)
	North Shore Gas Company			
	376.10	-	113,436	-
	376.30	-	3,164	-
	Northern Illinois Gas Company	(33.00)	1,285,061	(424,070.13)
	Northern Indiana Public Svc Co	(50.00)	316,401	(158,200.50)
	Northern States Power Company			
	376.01	(30.00)	71,534	(21,460.20)
	376.02	(15.00)	149,739	(22,460.85)
	Peoples Gas Light & Coke Co.			
	376.11	-	69	-
	376.12	-	28,272	-
	376.13	-	57,617	-
	376.14	-	59,828	-
	376.15	-	36,222	-
	376.16	-	388,321	-
	376.20	-	3,531	-
	376.30	-	17,283	-
	Wisconsin Gas Company			
	376.10	(15.00)	151,188	(22,678.20)
	376.20	(15.00)	155	(23.25)
	376.30	(15.00)	89	(13.35)
	376.40	(15.00)	62,024	(9,303.60)
376.50	(15.00)	2,157	(323.55)	
Wisconsin Natural Gas Company	(23.00)	186,109	(42,805.07)	
Wisconsin Public Service Corp	(10.00)	118,357	(11,835.70)	
South Central	Arkla (Arkansas/Texarkana, TX)			
	376.10	(65.00)	194,678	(126,540.70)
	376.30	(65.00)	3,886	(2,525.90)
	Arkla (Kansas)			
376.10	-	-	-	

Account 376- Mains
 1998-1999 AGA/EEI Gas Survey

Region	Company Name	Net Salvage %	Depreciable Plant Base (Thousands)	Net Salv % x Depreciable
	376.30	-	-	-
	Arkla (Louisiana/East Texas)			
	376.10	-	78,292	-
	376.22	-	1,576	-
	376.30	-	2,570	-
	Arkla (Oklahoma)			
	376.10	(100.00)	51,152	(51,152.00)
	376.30	(100.00)	-	-
Plateau				
	Public Service Company of Colo	(4.00)	272,809	(10,912.36)
Pacific Coast				
	San Diego Gas & Electric Co.	(80.00)	346,992	(277,593.60)
	Southern California Gas Co.	(50.00)	1,842,948	(921,474.00)
	Washington Natural Gas Company	(30.00)	200,950	(60,285.00)
Canada				
	Canadian W. Nat. Gas Co., Ltd.	(75.00)	185,318	(138,988.50)
	NW Utilities, Edmonton	(35.00)	250,525	(87,683.75)
	Total		13,941,955	(4,440,583)
	Total Net Salvage %			-31.85%
	Total Excluding Canadian Companies		13,506,112	(4,213,910)
	Net Salvage % Excluding Canadian Companies			-31.20%

Account 380- Services
 1998-1999 AGA/EEI Gas Survey

Region	Company Name	Net Salvage %	Depreciable Plant Base (Thousands)	Net Salv % x Depreciable
North Atlantic				
	Baltimore Gas & Electric Co.	(50.0)	163,621	(81,810.50)
	Brooklyn Union Gas Company			
	380.10	-	128,777	-
	380.23	-	210,911	-
	Citizens Gas Div - Chesapeake	-	3,348	-
	Columbia Gas of Maryland, Inc	(100.0)	14,184	(14,184.00)
	Columbia Gas of New York, Inc	(70.0)	18,531	(12,971.70)
	Columbia Gas of Penna, Inc	-	113,954	-
	Commonwealth Gas Company	(80.0)	120,765	(96,612.00)
	Consolidated Edison Co. of NY	(30.0)	750,422	(225,126.60)
	Delaware Div - Chesapeake Util	-	6,305	-
	Delmarva Power & Light Company			
	380.10	(25.0)	8,735	(2,183.75)
	380.20	(25.0)	28,488	(7,122.00)
	Equitable Gas Co. - PA	(10.3)	137,799	(14,193.30)
	Equitable Gas Co. - WV	-	4,279	-
	Long Island Lighting Company	(10.0)	326,357	(32,635.70)
	Orange & Rockland Utilities	(80.0)	70,250	(56,200.00)
	Peco Energy Company			
	380.10	-	36,672	-
	380.20	-	279,639	-
	Pike County Light and Power Co	-	243	-
	UGI Corporation	-	162,085	-
	Washington Gas Light Co. - MD			
	380.10	(45.0)	31,557	(14,200.65)
	380.20	(45.0)	165,809	(74,614.05)
	380.30	(45.0)	7,927	(3,567.15)
South Atlantic				
	Columbia Gas of Kentucky, Inc	(280.0)	35,466	(99,304.80)
	Commonwealth Gas Services	(50.0)	54,536	(27,268.00)
	Florida Gas Div- Chesapeake			
	380.01	(25.0)	1,577	(394.25)
	380.02	(52.0)	987	(513.24)
	Washington Gas Light Co. - DC			
	380.10	(65.0)	17,479	(11,361.35)
	380.20	(65.0)	105,329	(68,463.85)
	380.30	(65.0)	3,909	(2,540.85)
	Washington Gas Light Co. - VA			
	380.10	(45.0)	29,113	(13,100.85)
	380.20	(45.0)	170,501	(76,725.45)
	380.30	(45.0)	5,517	(2,482.65)
North Central				
	Central Illinois Light Company	(90.0)	74,988	(67,489.20)
	Cincinnati Gas & Electric Co.			
	380.10	(45.0)	14,799	(6,659.55)
	380.20	(45.0)	16,569	(7,456.05)
	380.30	(45.0)	83,770	(37,696.50)
	Columbia Gas of Ohio, Inc.	(170.0)	274,126	(466,014.20)
	Consumers Power Company			
	380.10	(180.0)	235	(423.00)
	380.20	(180.0)	151,014	(271,825.20)
	380.40	(180.0)	28,621	(51,517.80)

Account 380- Services 1998-1999 AGA/EEI Gas Survey

Region	Company Name	Net Salvage %	Depreciable Plant Base (Thousands)	Net Salv % x Depreciable	
		380.50	(190.0)	291,107	(553,103.30)
	Dayton Power & Light Co.	(230.0)	47,784		(109,903.20)
	Indiana Gas Company	-	210,226		
	Iowa-Illinois Gas & Elec Co.	(90.0)	68,159		(61,343.10)
	Michigan Consolidated Gas Co.				
		380.02	(999.9)	2,022	(20,217.98)
		380.04	(150.0)	47,447	(71,170.50)
		380.05	(80.0)	190,376	(152,300.80)
		380.06	(100.0)	28	(28.00)
		380.08	(175.0)	28,944	(50,652.00)
		380.14	-	124	-
		380.15	-	4,585	-
	Montana-Dakota Utilities Co.	(140.0)	28,164		(39,429.60)
	North Shore Gas Company	-	79,918		-
	Northern Illinois Gas Company	(95.0)	651,737		(619,150.15)
	Northern Indiana Public Svc Co	(75.0)	297,854		(223,390.50)
	Northern States Power Company				
		380.01	(50.0)	17,388	(8,694.00)
		380.02	(50.0)	151,567	(75,783.50)
	Peoples Gas Light & Coke Co.				
		380.01	-	103,352	-
		380.02	-	3,811	-
		380.03	-	392,368	-
	Wisconsin Gas Company	(70.0)	146,185		(102,329.50)
	Wisconsin Natural Gas Company	(75.0)	105,332		(78,999.00)
	Wisconsin Public Service Corp.	(61.0)	74,963		(45,727.43)
South Central					
	Arkla (Arkansas/Texarkana, TX)	(200.0)	119,326		(238,652.00)
	Arkla (Kansas)	-	-		-
	Arkla (Louisiana/East Texas)				-
		380.00	-	45,795	-
		380.22	-	608	-
	Arkla (Oklahoma)	(200.0)	19,634		(39,268.00)
Plateau					
	Public Service Company of Colo	(5.0)	130,670		(6,533.50)
Pacific Coast					
	San Diego Gas & Electric Co.	(160.0)	191,806		(306,889.60)
	Southern California Gas Co.	(75.0)	1,340,778		(1,005,583.50)
	Washington Natural Gas Company	(50.0)	154,789		(77,394.50)
Canada					
	Canadian W. Nat. Gas Co., Ltd.	(150.0)	98,112		(147,168.00)
	NW Utilities, Edmonton	(100.0)	161,740		(161,740.00)
	Total		9,065,893		(6,042,110)
	Total Net Salvage %				-66.65%
	Total Excluding Canadian Companies		8,806,041		(5,733,202)
	Net Salvage % Excluding Canadian Companies				-65.11%

Account 382- Meter Installations 1998-1999 AGA/EEI Gas Survey

Region	Company Name	Net Salvage %	Depreciable Plant Base (Thousands)	Net Salv % x Depreciable
North Atlantic				
	Baltimore Gas & Electric Co.	(60.00)	45,576	(27,345.60)
	Brooklyn Union Gas Company	-	17,590	-
	Citizens Gas Div- Chesapeake	-	737	-
	Columbia Gas of Maryland, Inc	(30.00)	1,318	(395.40)
	Columbia Gas of New York, Inc	(10.00)	2,407	(240.70)
	Columbia Gas of Penna, Inc	-	11,446	-
	Commonwealth Gas Company			-
	382.00	(20.00)	14,992	(2,998.40)
	382.41	-	452	-
	Consolidated Edison Co. of NY	-	49,563	-
	Delaware Div- Chesapeake Util	-	1,066	-
	Equitable Gas Co. - PA	-	6,182	-
	Equitable Gas Co. - WV	-	334	-
	Long Island Lighting Company	-	16,417	-
	Orange & Rockland Utilities			-
	382.00	-	15,693	-
	382.10	-	49	-
	Peco Energy Company	-	65,105	-
	Pike County Light and Power Co	-	23	-
	UGI Corporation	-	15,903	-
	Washington Gas Light Co. - MD	(50.00)	34,012	(17,006.00)
South Atlantic				
	Columbia Gas of Kentucky, Inc	-	4,190	-
	Commonwealth Gas Services	(4.00)	8,619	(344.76)
	Florida Gas Div- Chesapeake	(5.00)	631	(31.55)
	Washington Gas Light Co. - DC	(100.00)	18,767	(18,767.00)
	Washington Gas Light Co. - VA	(45.00)	33,589	(15,115.05)
North Central				
	Cincinnati Gas & Electric Co.	1.00	11,057	110.57
	Columbia Gas of Ohio, Inc	(40.00)	37,733	(15,093.20)
	Consumers Power Company	(85.00)	108,128	(91,908.80)
	Dayton Power & Light Co.	-	2,059	-
	Indiana Gas Company	-	31,416	-
	Michigan Consolidated Gas Co.			-
	382.10	(20.00)	97,788	(19,557.60)
	382.11	-	13,127	-
	North Shore Gas Company			-
	382.00	-	12,563	-
	382.10	-	378	-
	Northern Illinois Gas Company	(95.00)	91,511	(86,935.45)
	Northern Indiana Public Svc CO	(175.00)	51,750	(90,562.50)
	Peoples Gas Light & Coke Co			-
	382.00	-	62,908	-
	382.10	-	4,933	-
	Wisconsin Gas Company	(35.00)	44,164	(15,457.40)
	Wisconsin Natural Gas Company	(38.00)	30,970	(11,768.60)
South Central				
	Arkla (Arkansas/Texarkana, TX)			-
	382.01	-	10,414	-
	382.02	-	9,191	-
	Arkla (Kansas)			-
	Arkla (Louisiana/East Texas)			-

Account 382- Meter Installations 1998-1999 AGA/EEI Gas Survey

Region	Company Name	Net Salvage %	Depreciable Plant Base (Thousands)	Net Salv % x Depreciable
		382.01	-	3,707
		382.02	-	3,802
	Arkla (Oklahoma)			-
		382.01	-	2,571
		382.02	-	2,188
Plateau				-
	Public Service Company of Colo	-	28,588	-
Pacific Coast				
	San Diego Gas & Electric Co.	(15.00)	43,109	(6,466.35)
	Southern California Gas Co.	(90.00)	184,702	(166,231.80)
	Washington Natural Gas Company	-	11,353	-
Canada				
	Canadian W. Nat. Gas Co., Ltd.	(10.00)	44,204	(4,420.40)
	NW Utilities, Edmonton			-
		382.10	(100.00)	71,385
		382.20	-	6,040
	Total		1,386,400	(661,921)
	Total Net Salvage %			-47.74%
	Total Excluding Canadian Companies		1,308,975	(590,536)
	Net Salvage % Excluding Canadian Companies			-45.11%