

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application        ) Application No. NG-0067  
of SourceGas Distribution LLC,         )  
Lakewood, Colorado, seeking         )  
approval of a general rate            ) INTERLOCUTORY ORDER RELEASING  
increase.                                ) ASSUMPTIONS FOR PURPOSES OF  
  ) CALCULATING PROPOSED RATES  
  )  
  ) Entered: May 1, 2012

BY THE COMMISSION:

On September 30, 2011, SourceGas Distribution LLC (SourceGas) filed an application seeking approval of a general rate increase. Pursuant to the planning conference order entered on November 8, 2012, the hearing officer released the staff list of disputed issues and the parties were asked to provide comment and corrections. Based upon the comments and corrections received, a revised list of issues was released on March 16, 2012. Hearing on this matter was held from March 19 through March 21, 2012.

Pursuant to the November 8, 2011 planning conference order, the Commission enters this interlocutory order releasing assumptions for the purpose of calculating rates.

**General Assumptions**

The list of assumptions refers back to the issues as presented in the revised list of issues released on March 16, 2012. To the extent that a specific item is not addressed, SourceGas should rely upon the value presented in its rebuttal case.

Items reflected in issues 10, 15, 17, 18, 23, and 24 were removed by SourceGas' rebuttal testimony and are therefore no longer at issue and should not be considered for purposes of calculating proposed rates. Further, any adjustments necessary as a result of their removal should be made including the adjustment to net utility plant by \$477,641 and the \$68,235 in accumulated reserve for depreciation and amortization (ARDA) reflected in the rebuttal testimony.

Issues 56 through 59 present general sufficiency of evidence issues and their resolution is implicit in the assumptions included with respect to other issues. Finally, issues 37 and 38 through 41 relate to the proposed customer adjustment, use per customer adjustment and energy efficiency riders. Due to the fact that determinations regarding these riders are not necessary for the calculation of proposed rates, the Commission will address the issues in the final order determining rates.

**Schedules to Be Filed**

In support of revised rates, and in addition to the information specified in the Rate Design section, SourceGas shall file the following in support of revised rates, reflecting the assumptions set forth in this order:

- Rate Base Calculation
- Calculation of Revenue Requirements
- Test Year Billing Determinants
- Calculation of Income Taxes as described in Taxes section below
- Calculation of Overall Rate of Return
- Revenue under Proposed Rates
- Summary of Estimated Refund and Interest Amounts
- Calculation of Monthly Interest on Estimate Refund Amounts
- Rates, Revenues and Estimated Refund Amounts by Rate Type as described in Rate Design section below

**Rate Case Expense and Assessment Riders**

Issues 7, 28, 29, and 42 through 44 all relate to rate case expense and the implementation of riders to collect amounts assessed by the Commission for rate case expenses, quarterly assessments, or case-specific assessments.

The uncollected rate case expenses from Docket No. NG-0060 totaling \$294,295.70 may be collected, amortized over a three (3) year period. Additionally, the unamortized portion of the current rate case expense updated to include actual costs through hearing expected to be incurred after the hearing in the amount of \$800,450 through March 23, 2012, should be amortized over a three (3) year period and should be subject to the short-term interest rate of 1.74 percent as proposed by SourceGas in its rebuttal and not included in rate base. The remaining current rate case expense should be recovered through base rates, amortized over a three (3) year period.

SourceGas, as permitted by *Neb. Rev. Stat. § 66-1841*, will be permitted to collect through a rider, rate case expenses assessed by the Commission, the quarterly assessments and any case-specific assessments imposed by the Commission.

**Construction Work in Progress (CWIP)**

Issues 8, 9, and 11 relate to CWIP. For purposes of calculating proposed rates, SourceGas should use the CWIP balance set forth in its rebuttal testimony in the amount of \$6,960,680.00. Additionally, SourceGas should include updated balances of ARDA in the amount of \$99,794,668 which includes adjustments related to changes in the CAAM and the inclusion of CWIP as set forth in its

rebuttal testimony. Also, it should include updated balances of accumulated deferred income tax balances in the amount of \$9,675,466 which includes adjustments related to changes in the CAAM and the inclusion of CWIP.

### **Miscellaneous Rate Base Issues**

The following assumptions should be made with respect to the remaining rate base issues for purposes of calculating proposed rates:

- Issue 1: SourceGas Distribution LLC (SourceGas) should include in rate base costs associated with the call center in the amount of \$975,980.
- Issue 2: SAP billing system costs in the amount of \$4,774,997 should be included in rate base.
- Issue 3: SourceGas may include one additional year of depreciation for the Peace Billing System, to be amortized over three (3) years. The Peace Billing System should be removed from the rate base of the Nebraska retail jurisdiction in the amount of \$1,354,126. During the three year amortization period, Source Gas will be allowed to recover interest on the average balance of the unamortized balance, calculated at the short term interest rate of 1.74 percent. SourceGas should amortize Nebraska allocated costs in the amount of \$2,450,891 over (3) years.
- Issue 4: SourceGas should include in rate base the actual per books thirteen month average as of January 31, 2012, of \$2,212,701 for customer deposits.
- Issue 5: SourceGas should include in rate base the actual per books thirteen month average as of January 31, 2012, including both refundable and non-refundable customer advances.
- Issue 6: With respect to working capital allowance, SourceGas, as proposed in its rebuttal testimony, should remove prepaid expenses from rate base and in order to recover its interest expense associated with prepaid expenses, apply its short-term debt interest rate for the twelve months ended January 31, 2012, 1.74 percent to prepaid expenses resulting in a total working capital sought of \$483,200 including a per books thirteen month average ending January 31, 2012, for materials and supplies.

### **Cost Allocation**

Generally with respect to Issues 13, 14 and 33 through 36, SourceGas should utilize amounts allocated based upon its cost of service study (CCOSS) and cost allocation manual (CAAM) as updated in its rebuttal testimony, unless otherwise stated herein. Specifically, with respect to Issues 13 and 14, SourceGas should use the labor costs and shared resource costs as reflected in rebuttal testimony for purposes of calculating proposed rates.

### **Weather Normalization**

Issue 32 relates to SourceGas' weather normalization period. SourceGas should utilize the proposed twelve (12) year weather normalization period for purposes of calculating proposed rates.

### **Taxes**

Issues 30, 31, 60, and 61 relate to taxes. SourceGas should include in its cost of service \$1,617,615 in ad valorem taxes as reflected in rebuttal testimony. The company should use the payroll tax expense in the amount of \$979,151 reflected in its rebuttal testimony for purposes of calculating proposed rates. Additionally, SourceGas should utilize the corporate tax rates set forth in federal and Nebraska tax tables based upon Nebraska revenues ensuring that all interest and other appropriate deductions have been taken. SourceGas must provide a schedule showing the calculation of taxable income and the application of the federal and state corporate income tax rates.

### **Miscellaneous Cost of Service Issues**

SourceGas should assume the following with respect to cost of service issues for purposes of calculating proposed rates:

- Issue 12: SourceGas should use operating revenues including adjustments as reflected in its rebuttal testimony for purposes of calculating proposed rates.
- Issue 16: SourceGas should include \$684,815 in variable compensation paid pursuant to the company's STIP plan for purposes of calculating proposed rates.
- Issue 19: SourceGas should include costs in the amount of \$78,567 for the addition of one new position related to pipeline integrity as reflected in the rebuttal testimony.

- Issue 20: SourceGas should include in its cost of service expenses related to its SAP billing system including \$990,814 in operating expenses and \$477,500 in depreciation expenses.
- Issue 21: SourceGas should include in its cost of service expenses related to its call center including \$1,203,582 in operating expenses and \$92,578 in depreciation expenses.
- Issue 22: SourceGas may include expenses for outside services in the amount of \$893,837 representing actual amounts as of January 31, 2012, as outlined in SourceGas' rebuttal testimony.
- Issue 25: SourceGas may include \$18,321 in Energy Association dues.
- Issue 26: SourceGas may include \$11,000 in Chamber of Commerce dues.
- Issue 27: SourceGas should include a customer deposits interest expense based upon the actual per books 13 month average as of January 31, 2012, of \$2,212,701, with the interest amount on the customer deposit balance of \$7,523.18 as reflected in rebuttal testimony.

### **Rate of Return**

Issues 45-52 relate to capital structure and rate of return. It is not necessary to separately address each issue, therefore only the conclusions necessary for calculation of rates are included herein. SourceGas should assume a capital structure of 48.84 percent long-term debt and 51.16 of percent common equity. The company should assume a cost of debt in the amount of 5.642 percent and a cost of equity in the amount of 9.6 percent.

### **Billing Determinants**

Issues 62 through 65 relate to billing determinants. SourceGas should utilize updated billing determinants reflected in its rebuttal testimony for purposes of calculating proposed rates.

### **Rate Design**

Issues 53 through 55 relate to rate design. Based upon the assumptions set forth herein, SourceGas should provide four (4) rate design options as described below with a supporting schedule showing Rates, Revenues and Estimated Refund Amounts by Rate Type, including each rate class' percentage share of base revenue shown

for fixed charges, variable charges and total charges for each rate option. A summary for all options in one schedule would be acceptable, and a working copy in Excel format is required.

Rates calculated should include the following options:

1. A rate design that maintains parity among the ratepayer classes, fixed and variable components of rates as compared to the original rates in effect prior to filing the present case; that is, the proportional share of costs among the classes and distribution of costs recovered through fixed and variable rates would remain substantially the same as original rates.
2. A rate design that gradually shifts costs from option 1 immediately above toward cost-based rates as indicated by SourceGas' class cost of service study.
3. A rate design similar to option 2 immediately above but in alternative incremental shift.
4. A rate design that confines any customer class' increase to 1.25 times the system average, with the remaining increase collected from all classes in proportion of their revenue to total revenue.

The Commission finds that SourceGas shall file revised rates based upon the parameters set forth herein no later than **May 8, 2012**.

The Commission further finds that a technical conference should be scheduled for **May 10, 2012, at 10:00 a.m.** in the Niobrara Conference Room, 300 The Atrium, 1200 N Street, Lincoln for the purposes of discussing proposed rates. Interested parties wishing to participate by telephone should dial **888-820-1398, access code 4207969#**.

Hearing on the revised rates shall be held on **May 15, 2012, at 1:30 p.m.** in the Commission Hearing Room, 300 The Atrium, 1200 N Street, Lincoln, Nebraska.

If auxiliary aids or reasonable accommodations are needed for attendance at the meeting, please call the Commission at (402) 471-3101. For people with hearing/speech impairments, please call the Commission at (402) 471-0213 (TDD) or the Nebraska Relay System at (800) 833-7352 (TDD) or (800) 833-0920 (Voice). Advance notice of at least seven days is needed when requesting an interpreter.

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

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O R D E R

IT IS THEREFORE ORDERED by the Commission that SourceGas file rates consistent with this order and the assumptions outlined herein no later than **May 8, 2012**.


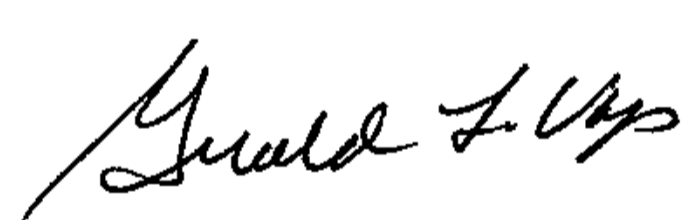
IT IS FURTHER ORDERED that a technical conference should be scheduled for **May 10, 2012, at 10:00 a.m.** in the Niobrara Conference Room, 300 The Atrium, 1200 N Street, Lincoln for the purposes of discussing proposed rates. Interested parties wishing to participate by telephone should dial **888-820-1398, access code 4207969#**.

IT IS FINALLY ORDERED that hearing on the revised rates shall be held on **May 15, 2012, at 1:30 p.m.** in the Commission Hearing Room, 300 The Atrium, 1200 N Street, Lincoln, Nebraska.

MADE AND ENTERED at Lincoln, Nebraska, this 1st day of May, 2012.

NEBRASKA PUBLIC SERVICE COMMISSION

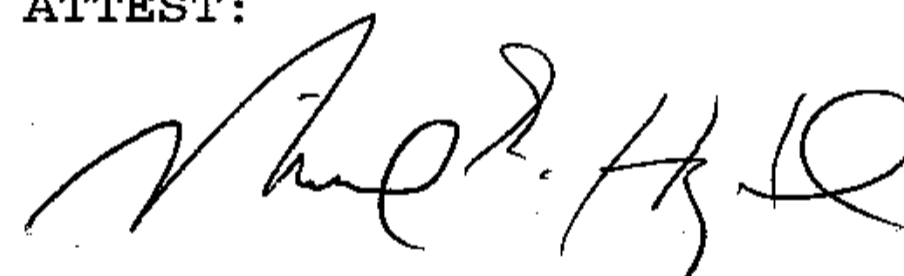
COMMISSIONERS CONCURRING:

Chairman



ATTEST:

  
Executive Director