

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application of) Application No. NG-0079
SourceGas Distribution LLC, Golden)
Colorado, seeking authority to)
reflect changed depreciation rates) ORDER DENYING APPLICATION
on its Nebraska Books of Account)
effective May 1, 2014, without)
impacting existing rates.)
) Entered: October 28, 2014

BY THE COMMISSION:

On May 1, 2014, SourceGas Distribution LLC (SourceGas), Golden, Colorado, filed an application seeking an order authorizing it to change depreciation rates on its Nebraska Books of Account, effective May 1, 2014. The Application included a depreciation rate study, a jurisdictional revenue deficiency analysis, and revenue requirement comparisons.

The Public Advocate's Petition for Formal Intervention was granted on May 20, 2014. Hearing on this matter was held on October 6, 2014, in a joint proceeding on Docket Nos. NG-0078 and NG-0079. Eric Nelsen and Steve Bruckner appeared on behalf of SourceGas; William Austin and Colin Mues appeared on behalf of the Public Advocate; and Joselyn Luedtke and Angela Melton appeared on behalf of Commission staff.

SourceGas asserts that the proposed change in its depreciation rates is one part of a three-part effort to address an anticipated \$4.5 million revenue deficiency for the year ending December 2014 while avoiding the costs of a general rate case. It is the company's position that should the Commission deny any of the three proposals set forth in this Application, Docket No. NG-0078 and NG-0072.1, SourceGas would be forced to file a general rate case. With respect to the present docket, the Public Advocate opposes modifying the depreciation rates outside of a general rate filing.

E V I D E N C E

Jerrad Hammer and Dane Watson filed direct testimony on behalf of SourceGas in support of the Application. Direct testimony was filed by William Dunkel and Donna Mullinax on behalf of the Public Advocate. SourceGas filed rebuttal testimony of Jerrad Hammer, Jason Pickett, and Dane Watson in response to the Public Advocate. All prefiled testimony was entered into the record. Additionally, each witness provided a summary of their testimony during the hearing and was made available for cross examination.

SourceGas and the Public Advocate stipulated for purposes of this proceeding to the appropriateness of the proposed depreciation rates and net salvage factors set forth in Exhibit 90.¹

Mr. Hammer testified that the proposed change in depreciation rates would lower SourceGas' depreciation expense on its books by 1.8 million, representing approximately 5% of SourceGas' revenue requirement.² According to Mr. Hammer, approval of the relief sought, "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."³ Finally, Mr. Hammer asserted that rates would remain just and reasonable as the decrease in depreciation expense is more than offset by increases in costs that ratepayers would face in a general rate case.⁴

Dane Watson testified that allowing the implementation of the proposed depreciation rates on May 1, 2014 will "redirect some of the customer payments between the various components of the cost of service, and, also, it will go toward reducing the amount that SourceGas has reported over and above the amount that was in base rates ... three years ago..."⁵ According to Mr. Watson, the Company has capitalized approximately \$57 million of capital since the last general rate case, and the depreciation booked on that additional capital is not reflected in the current rates.

Donna Mullinax testified on behalf of the Public Advocate in opposition to SourceGas' application. Ms. Mullinax contends that the Company overstated its anticipated revenue deficiency due to a variety of reasons including: the inherent difficulty in predicting future costs and sales elements; the premature inclusion of rate base projects not anticipated to be put into service until 2015; the failure to include any additional revenues generated from the 2015 projects; overstated labor costs; bonuses; and changes in cost allocations.⁶

William Dunkel, testifying on behalf of the Public Advocate, recommends that the new depreciation rates be booked when new rates are approved for SourceGas in the next general rate case.⁷ Mr. Dunkel contends that if permitted to reduce its depreciation rates, SourceGas would be booking less depreciation expense than that being recovered from ratepayers through current rates.⁸ Additionally, he states that the Company's accumulated depreciation reserve would be less than that actually recovered from ratepayers resulting in future net rate base being overstated in a future general rate case.⁹

¹ Trans. 17:13-18:23.

² See Trans 47:13-22.

³ Hammer Prefiled Rebuttal 3:23-26.

⁴ See Hammer Prefiled Rebuttal 4:6-23

⁵ Trans. 188:1-6.

⁶ See Direct Testimony of Donna Mullinax 26:2-27:14.

⁷ Direct Testimony of William Dunkel 27:5-7.

⁸ Dunkel 4:4-5.

⁹ Dunkel 17:7-13.

F I N D I N G S A N D O P I N I O N

Pursuant to the State Natural Gas Regulation Act, *Neb. Rev. Stat.* § 66-1804(a) (Reissue 2008), the Commission has "full power, authority and jurisdiction to regulate natural gas public utilities and may do all things necessary and convenient for the exercise of such power, authority, and jurisdiction." The Legislature expressly intended that the powers granted to the Commission by the Act be "liberally construed."

As a result of the plenary power conveyed by this section, the Commission possesses great flexibility in carrying out its statutory obligations. Ultimately, the Commission must balance the interests of rate payers with that of the utility. *Neb. Rev. Stat.* §§ 66-1825(3) states:

The commission, in the exercise of its power and duty to determine just and reasonable rates for natural gas public utilities, shall give due consideration to the public need for adequate, efficient, and reasonable natural gas service and to the need of the jurisdictional utility for revenue sufficient to enable it to meet the cost of furnishing the service, including adequate provisions for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property.

SourceGas contends that a reduction in the previously approved depreciation rates would lower the depreciation expense and further reduce SourceGas' projected revenue deficiency without a rate impact.

The company's current rates were approved by the Commission in Docket No. NG-0067 on May 22, 2012.¹⁰ In establishing those rates, the Commission reviewed all of the elements of SourceGas' cost of service, including depreciation. However, the present Application seeks to change one element of the cost of service without the benefit of a complete review conducted during a general rate filing.

Any proposal to adjust a single component of a regulated rate in isolation, often referred to as "single-issue ratemaking", should be carefully considered to ensure that the integrity of the regulated rate is maintained. The benefits of allowing an adjustment must outweigh any potential impacts on ratepayers.

¹⁰ *In the Matter of SourceGas Distribution, L.L.C.*, Application No. NG-0067, Order Granting Application, In Part (May 22, 2012). [Hereafter "NG-0067 Order"]

SourceGas asserts that granting this Application, in conjunction with the Applications in Dockets NG-0072.1 and NG-0078, benefit ratepayers by delaying the filing of a general rate case and avoiding the associated costs. However, although the depreciation expense would be lowered, the ratepayers do not experience a corresponding reduction in rates, leading to the question of whether the current rates would remain just and reasonable.

SourceGas argues that regardless of the decrease in depreciation expense, the current rates would remain just and reasonable in the context of the increases in cost elements reflected in their revenue deficiency analysis. Specifically, Mr. Hammer testifies,

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. ...[R]atepayers 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.¹¹

SourceGas' request that the Commission conduct a more comprehensive review of SourceGas' cost of service in order to reach a finding that the rates remain just and reasonable demonstrates that the proposed change requires the type of analysis that should be accomplished in a general rate case.

The Commission appreciates SourceGas' efforts to reduce regulatory costs to rate payers associated with general rate cases. However, a change in the depreciation schedules used to establish a rate without a broader analysis of other cost of service elements undermines the Commission's ability to strike the proper balance between the ratepayers' need for safe and reliable natural gas service at just and reasonable rates with the utility's right to a reasonable opportunity to earn a reasonable rate of return.

Therefore, for the reasons set forth herein, the Commission finds that SourceGas' request to adjust its depreciation rates outside of a general rate case should be denied.

¹¹ Hammer Prefiled Rebuttal 4:11-17.

O R D E R

IT IS THEREFORE ORDERED that the application of SourceGas to modify its depreciation rates on its Nebraska Books of Account effective May 1, 2014 is denied for the reasons set forth herein.

MADE AND ENTERED at Lincoln, Nebraska this 28th day of October, 2014.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Bruce Boyke
Tim Schram

Red Johnson

Shall Wap

Frank E. Landis
Chairman

ATTEST:

Steve Merasith
Executive Director

//s//Frank E. Landis