

**BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION**

DOCKET NO. G-39, SUBS 46 and 47

EXHIBIT NO. KM-003

PREPARED REBUTTAL TESTIMONY OF

KERRI MILLER

ON BEHALF OF

CARDINAL PIPELINE COMPANY, LLC

June 27, 2022

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CARDINAL PIPELINE COMPANY, LLC**

INTRODUCTION

1 **Q. Please state your name, current position, and business address.**

2 A. My name is Kerri H. Miller. I am a Lead Regulatory Analyst for Cardinal
3 Operating Company, LLC, as Operator of Cardinal Pipeline Company, LLC
4 (“Cardinal”). My business address is 2800 Post Oak Boulevard, Houston, Texas
5 77056.

6 **Q. Are you the same Ms. Miller who submitted prepared direct testimony
7 (Exhibit No. KM-001) in this proceeding?**

8 A. Yes.

9 **Q. Are you sponsoring any Exhibits?**

10 A. Yes. I am sponsoring Exhibit No. KM-004, which was prepared by me or under my
11 direction and supervision. I will refer to this exhibit in my testimony.

12 **Q. Please provide a brief overview of the purpose and scope of your rebuttal
13 testimony.**

14 A. The purpose of my testimony is to respond to testimony filed by the North Carolina
15 Utility Commission Public Staff (“Public Staff”) witnesses Sonja R. Johnson and
16 Neha Patel on June 13, 2022 in this proceeding.

1 **Q. Please summarize Ms. Johnson's recommendations from her testimony.**

2 Ms. Johnson recommends certain accounting and ratemaking adjustments and
3 incorporates the adjustments recommended by other Public Staff witnesses from
4 the Public Staff's Energy and Economic Research Division.

5 Specifically, Ms. Johnson has made adjustments to reflect gas plant in
6 service, accumulated depreciation, and Accumulated Deferred Income Taxes for
7 actual entries recorded on Cardinal's books through March 31, 2022. In addition,
8 Ms. Johnson has made adjustments to Cardinal's filed depreciation expense by
9 reflecting various depreciation rate changes that were recommended by Public Staff
10 witness Ms. McCullar and applying those rates to the actual gas plant in service as
11 of March 31, 2022.

12 Further, Ms. Johnson has recommended an adjustment to Cardinal's filed
13 amortization of its Excess Deferred Income Taxes ("EDIT"). Her adjustment
14 utilizes the IRS-Approved Reverse South Georgia methodology for determining the
15 amortization period for the flowback to customers.

16 Ms. Johnson also incorporates the recommendations of Public Staff witness
17 Mr. Hinton regarding the overall cost of capital, capital structure, embedded cost
18 of long-term debt, and return on common equity. The rebuttal testimony of
19 Cardinal's expert witness Mr. David J. Haag will address those recommendations
20 on behalf of Cardinal.

1 As a result of Ms. Johnson’s adjustments, Public Staff recommends that
2 Cardinal’s revenue requirement be reduced by \$639,404 from the annualized
3 revenue of test year revenues produced by current rates.

4 **Q. Please summarize Ms. Patel’s recommendations from her testimony.**

5 A. Ms. Patel’s areas of investigation in this proceeding include: (1) review of
6 Cardinal’s billing determinants; (2) review of the zonal allocation of costs; (3)
7 evaluation of Cardinal’s allocation of the cost of service between Cardinal’s two
8 zones; (4) derivation of Cardinal’s rates; (5) evaluation of Cardinal’s integrity
9 management costs and its request to place certain pipeline integrity costs in a
10 deferred account for proposed future collection; and (6) evaluation of Cardinal’s
11 request for deferred treatment of certain cybersecurity expenses.

12 **Q. What concerns regarding the recommendations of Ms. Johnson and Ms. Patel**
13 **do you address in this rebuttal testimony?**

14 A. In this rebuttal testimony, I will address certain errors reflected in Ms. Johnson’s
15 testimony related to the calculation of total gas plant in service, depreciation
16 expense, working capital, and the amortization of excess deferred income taxes
17 (“EDIT”). Those errors result in the cost of service calculated by Public Staff being
18 understated and, along with an error reflected in Ms. Patel’s representation of the
19 appropriate amount of Zone 2 billing determinants which I address in my testimony,
20 result in Public Staff’s recommended rates for Cardinal derived by Ms. Patel being
21 understated.

GAS PLANT IN SERVICE

1 **Q. How has Ms. Johnson calculated her total gas plant in service?**

2 A. Ms. Johnson used plant in service on Cardinal’s books as of March 31, 2022 of
3 \$156,586,972, which includes (\$6,013) of Asset Retirement Obligations (“ARO”).

4 **Q. Is it appropriate to include ARO’s in the calculation of total gas plant in
5 service?**

6 A. No. Consistent with Commission policy, Cardinal collects its ARO through a
7 negative salvage rate.¹ Therefore, since Cardinal is recovering its ARO in the form
8 of a negative salvage rate on its transmission plant, all other ARO costs recorded
9 on Cardinal’s books should be removed from the design of Cardinal’s rates. When
10 Cardinal’s gas plant in service is adjusted to remove ARO costs, the March 31,
11 2022 balance is \$156,592,986.

12 **Q. Has Ms. Johnson agreed that ARO should have been removed from the
13 calculation of total gas plant in service for ratemaking purposes?**

14 A. Yes. In response to a Cardinal discovery request, CPC-Staff-5.4 attached hereto in
15 Exhibit KM-004, Public Staff agrees that it is appropriate to remove ARO capital
16 for ratemaking purposes in the calculation of total Gas Plant In-Service.

¹ FIN 47 – Order Approving Deferred Accounting in Docket G-5, Sub 474. (PSNC)

DEPRECIATION EXPENSE

1 **Q. Please explain how Ms. Johnson calculates depreciation expense in this**
2 **proceeding.**

3 A. According to Ms. Johnson's testimony on Page 7, she calculated depreciation
4 expense by applying the various depreciation rates recommended by Public Staff
5 witness Ms. McCullar to the actual plant in service as of March 31, 2022.

6 **Q. Do you agree with Ms. Johnson's approach to calculating depreciation and**
7 **negative salvage expense?**

8 A. Yes, as described on Page 7 of Ms. Johnson's testimony, she indicates that Public
9 Staff has applied the recommended depreciation and negative salvage rates
10 proposed by Public Staff witness Ms. McCullar to the actual depreciable plant in
11 service as of March 31, 2022. However, Exhibit I, Schedule 3 referenced by Ms.
12 Johnson as support for Public Staff's calculation of and adjustments to depreciation
13 expense shows that Ms. Johnson has applied the recommended depreciation and
14 negative salvage rates to depreciable plant in service as of December 31, 2021, and
15 not as of March 31, 2022.

16 **Q. Has Ms. Johnson calculated a revised depreciation expense since the**
17 **publishing of her direct testimony?**

18 A. Yes. In response to a Cardinal discovery request, CPC-Staff-5.5 attached hereto in
19 Exhibit KM-004, Ms. Johnson calculates a revised depreciation expense of
20 \$4,060,636 after removing ARO amounts from gas plant in service.

1 **Q. Do you agree with the calculation of Ms. Johnson's revised depreciation**
2 **expense in CPC-Staff-5.5?**

3 A. No. Cardinal has determined that Ms. Johnson incorrectly included *fully*
4 *depreciated* general plant for Account No. 390, Structures and Improvements, in
5 her calculation of depreciation expense in her response to CPC-Staff-5.5.

6 **Q. What do you believe is the appropriate level of depreciation and negative**
7 **salvage expense using the depreciation and negative salvage rates proposed**
8 **Ms. McCullar?**

9 A. Using the actual *depreciable* gas plant in service as of March 31, 2022, I believe
10 the depreciation and negative salvage expense should total \$4,060,108. Please see
11 Exhibit No. KM-004 for supporting calculations.

WORKING CAPITAL

12 **Q. Do you agree with Ms. Johnson's calculation of and adjustment to working**
13 **capital shown on Exhibit I, Schedule 2?**

14 A. No. Cardinal provided updated working capital balances as of March 31, 2022 in
15 response to a Public Staff discovery request, Public Staff 5-4, which when taking
16 the 13-month average balance from March 2021 to March 2022, Public Staff's
17 working capital as shown on Exhibit I, Schedule 2, is \$334,821. However, in review
18 of workpapers provided by Public Staff in response to a Cardinal discovery request,
19 CPC-Staff-3.1 attached hereto in Exhibit KM-004, shows that Public Staff's 13-

1 month average for working capital should be \$357,899, which Cardinal contends is
2 the appropriate amount to include in rate base.

3 **Q. Has Ms. Johnson acknowledged that the working capital on Exhibit I,**
4 **Schedule 2, should have been \$357,899?**

5 A. Yes. In response to a Cardinal discovery request, CPC-Staff-5.2 attached hereto in
6 Exhibit KM-004, Public Staff agrees that its 13-month average for working capital
7 should be \$357,899.

AMORTIZATION OF EDIT

8 **Q. Describe Public Staff’s calculation of the amortization of the Excess Deferred**
9 **Income Taxes (“EDIT”) on Exhibit I, Schedule 3-1.**

10 A. Public Staff agrees with Cardinal’s use of the IRS-approved Reverse South Georgia
11 Method to calculate the annual amortization of the EDIT regulatory liabilities
12 determined by Cardinal totaling \$13,737,017. In determining the amortization
13 period, Public Staff has divided total depreciation expense into net depreciable
14 plant and calculates an average remaining life (amortization period) of 20.26 years.

15 **Q. Do you agree with Public Staff’s approach to calculating the amortization**
16 **period of the EDIT regulatory liabilities?**

17 A. Cardinal agrees that the Reverse South Georgia method is appropriate in this
18 proceeding for calculating the amortization of EDIT; however, Public Staff has

1 incorrectly included negative salvage expense in its calculation of the average
2 remaining life, and therefore has understated the amortization period.

3 **Q. Why is it appropriate to remove negative salvage expense in the calculation of**
4 **the amortization period of the EDIT regulatory liabilities?**

5 A. Negative salvage expense represents the pre-collection of dollars to be used for the
6 ultimate terminal decommissioning of a pipeline’s assets. Unlike depreciation, it
7 has no bearing on the rate of loss in service value not restored by current
8 maintenance. Nor does it reflect the rate of wear and tear, decay, action of the
9 elements, inadequacy, obsolescence, changes in the art, or changes in demand and
10 requirements of public authorities that would dictate the average remaining life of
11 an asset. Therefore, in determining the average remaining life, only depreciation
12 expense should be used in the Reverse South Georgia.

13 **Q. What are the ramifications for understating the amortization period of EDIT**
14 **in rates?**

15 A. I have been advised that, if Cardinal, while under IRS audit, is found to have flowed
16 back excess deferred income reserves faster than the average rate assumption
17 method (ARAM) or an approved alternative method, such as the Reverse South
18 Georgia used in this proceeding, it would be considered in violation of the
19 depreciation normalization requirements of Section 203(e) of the Tax Reform Act
20 of 1986. I also have been advised that the effect of this violation would cause public
21 utility property as defined by IRC Section 168(c) to no longer qualify for

1 accelerated depreciation (MACRS) and force the use of straight-line depreciation,
2 for federal income tax purposes, over the regulatory life of the affected property.
3 The impact to Cardinal would be the loss of the most tax advantaged method of
4 depreciation for determining its taxable income.

5 **Q. What amortization period does Cardinal propose to use for EDIT in this**
6 **proceeding?**

7 A. The depreciation rates recommended by Public Staff witness Ms. McCullar are
8 roughly identical to the depreciation rates filed by Cardinal in this proceeding.
9 Therefore, Cardinal continues to contend that the appropriate average remaining
10 life is 26.69 years, as calculated by Ms. Miller, which properly excludes negative
11 salvage expense.

12 **BILLING DETERMINANTS AND RECOMMENDED RATES**

13 **Q. Do you agree with Ms. Patel's recommended rates shown on Exhibit B of her**
14 **testimony?**

15 A. I do not. First, Ms. Patel's representation of the Zone 2 annual Demand billing
16 determinants in Dekatherms ("Dths") is incorrect. Zone 2 determinants are
17 comprised of the Transportation Contract Quantities for two service agreements
18 between Piedmont Natural Gas Company, Inc. and Cardinal; and two service
19 agreements between Public Service Company of North Carolina, Inc. and Cardinal
20 that total 332,270 Mcf per day. Using a conversion factor of 1,035 British Thermal
21 Units per standard cubic foot of natural gas, the total Zone 2 billing determinants,

1 in Dths, is 343,900 Dths per day. Therefore, the appropriate annual billing
2 determinants for calculating monthly demand rates for Zone 2 is 343,900 x 12
3 months = 4,126,800 Dths.

4 **Q. Has Ms. Patel acknowledged that the appropriate annual billing determinants**
5 **for Zone 2 is 4,126,800 Dths?**

6 A. Yes. In response to a Cardinal discovery request, CPC-Staff-5.7 attached hereto in
7 Exhibit KM-004, Public Staff acknowledges that the annual Zone 2 billing
8 determinants should be 4,126,800 Dths.

9 **Q. Please continue.**

10 A. Overall, Cardinal does not agree with Ms. Patel's proposed rates, not solely because
11 of the determinants discrepancy discussed above, but also because Ms. Patel's rates
12 rely on recommendations to adjust certain cost items by Public Staff witnesses
13 Hinton, Johnson, and McCullar. While the depreciation rates recommended by
14 Public Staff witness Ms. McCullar are roughly identical to the depreciation rates
15 filed by Cardinal in this proceeding, I have shown herein that there are certain errors
16 related to Ms. Johnson's recommendations and Cardinal's expert witness Mr.
17 David J. Haag has presented Cardinal's objections to the recommendations of
18 Public Staff witness Mr. Hinton.

19 **Q. Does Cardinal still assert that the rates proposed by Cardinal in this**
20 **proceeding are just and reasonable?**

1 A. Yes. Based on Cardinal's expert witness David Haag's rebuttal testimony in Exhibit
2 No. DH-006, and in light of the errors described herein, including Public Staff's
3 acknowledgement of most of such errors, Cardinal continues to believe that its as-
4 filed rates are just and reasonable and should be approved as such in this
5 proceeding.

6 **Q. Does this conclude your prepared Rebuttal Testimony?**

7 A. Yes, it does.