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July 5, 2022

Ms. Shonta Dunston
Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street, Dobbs Building
Raleigh, North Carolina 27603

Re: Docket Nos. G-39, Sub 46 and G-39, Sub 47 - Cardinal Pipeline Company, LLC Depreciation Study as of December 31, 2020, and Application of Cardinal Pipeline Company, LLC for an Adjustment in its Rates and Charges

Dear Ms. Dunston:

In connection with the above referenced dockets, Cardinal Pipeline Company, LLC submits for filing the attached Settlement Testimony of Kerri Miller, David Haag and Steven R. Fall in the referenced proceeding.

Sincerely,

Cardinal Pipeline Company, LLC

By 

Robert W. Kaylor
Its Attorney
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**BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION**

DOCKET NO. G-39, SUBS 46 and 47

SETTLEMENT TESTIMONY OF

KERRI MILLER

ON BEHALF OF

CARDINAL PIPELINE COMPANY, LLC

July 5, 2022

**SETTLEMENT TESTIMONY OF
KERRI MILLER
ON BEHALF OF
CARDINAL PIPELINE COMPANY, LLC**

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) and prepared rebuttal testimony (Exhibit No. KM-003)
8 in this proceeding?**

9 A. Yes.

10 **Q. Please provide a brief overview of the purpose and scope of your settlement
11 testimony.**

12 A. My settlement testimony explains cost of service and rate design adjustments to
13 Cardinal’s filed case as reflected in the Settlement Agreement and Stipulation
14 (“Stipulation”) in this proceeding filed on July 5, 2022 by Cardinal, the Public Staff
15 – North Carolina Utilities Commission, and Piedmont Natural Gas Company
16 (collectively, “Stipulating Parties”). My settlement testimony also addresses certain
17 other components of the Stipulation.

1 **Q. Do you believe the Stipulation is in the public interest and otherwise just and**
2 **reasonable?**

3 A. Yes. The Stipulation was negotiated as a package and reflects compromises by the
4 Stipulating Parties representing diverse and, at times, competing interests. The
5 Stipulation results in economic benefits to Cardinal's customers through the cost
6 reductions agreed to by the Stipulating Parties. In addition, entering into this
7 Stipulation avoids costly litigation expenses and provides rate certainty for the
8 Stipulating Parties. The Stipulation constitutes a reasonable resolution of the issues
9 in this proceeding and is, therefore, in the public interest and otherwise just and
10 reasonable.

11 **Q. Please explain the adjustments to Cardinal's cost of service as agreed to in the**
12 **Stipulation, and the associated impact to revenue.**

13 A. The cost-of-service adjustments in the Stipulation represent a reduction of
14 \$1,124,271 from the cost of service included in Cardinal's general rate case
15 application filed on March 15, 2022.

16 The individual cost of service adjustments in the Stipulation can be
17 categorized as follows:

18 Rate Base

19 The Stipulating Parties agree to use gas plant in service, accumulated depreciation,
20 working capital, and accumulated deferred income taxes as of March 31, 2022. This
21 settlement modification results in a \$723,088 downward adjustment to Cardinal's
22 rate base.

1 Return on Rate Base

2 The Stipulating Parties agree to use a weighted overall rate of return of 7.34%
3 which is multiplied by the agreed-upon rate base to calculate the overall allowed
4 return. For further support underlying this calculation, please see the settlement
5 testimony of Mr. David J. Haag on behalf of Cardinal for details regarding the
6 agreed-upon capital structure and overall cost of capital.

7 Operating Expenses

8 The Stipulating Parties agree to the operating expense as supported in my direct
9 testimony, Exhibit No. KM-001, and the direct testimony of Public Staff witness
10 Ms. Sonja Johnson.

11 Deferred Pipeline Integrity Expenses under Docket No. G-39

12 The Stipulating Parties agree on a five-year annual amortization of \$82,411 for
13 certain pipeline assessment costs incurred in 2018 for services necessary to be
14 compliant with the United States Department of Transportation Pipeline and
15 Hazardous Materials Safety Administration, commencing with the effective date of
16 rates in this proceeding.

17 In addition, Stipulating Parties have agreed to the continued deferral of
18 certain future pipeline integrity expenses as described in the direct testimony of
19 Public Staff witnesses Ms. Neha Patel and Ms. Sonja Johnson.

20 Depreciation Expense

21 The Stipulating Parties agree to calculate depreciation expense using the updated
22 gas plant in service as of March 31, 2022, and applying the associated depreciation

1 and negative salvage rates presented in the direct testimony of Public Staff witness
2 Ms. Roxie McCullar. Please see the settlement testimony of Mr. Steven Fall on
3 behalf of Cardinal for additional details supporting the agreed-upon depreciation
4 and negative salvage rates.

5 Income Taxes

6 The Stipulating Parties agree to a composite tax rate of 22.975% which is
7 comprised of the Federal Corporate Income Tax of 21% and North Carolina
8 Corporate State Income Tax Rate of 2.5%. For further support of these tax rates,
9 please see the direct testimony of Cardinal witness Mr. Michael Cousino, Exhibit
10 No. MC-001.

11 Excess Deferred Income Taxes (“EDIT”) and Associated Amortization

12 The Stipulating Parties agree that the unamortized balance of EDIT is \$13,737,017,
13 which is comprised of two regulatory liabilities: 1) EDIT as a result of the decrease
14 in the Federal Corporate Income Tax Rate from the Tax Cut and Jobs Act of 2017,
15 and 2) EDIT as a result of the decrease in the North Carolina State Corporate
16 Income Tax Rate from 3% to 2.5% for taxable year beginning on or after January
17 1, 2019. This EDIT balance is further supported by the direct testimony of Cardinal
18 witness Michael Cousino, Exhibit No. MC-001. In addition, the Stipulating Parties
19 agree to use the Reverse South Georgia method for the flowback of EDIT and have
20 agreed on an annual amortization of (\$518,652) over 26.49 years.

21 Furthermore, the Stipulating Parties agree to include language within the
22 Stipulation to protect Cardinal if it is found to have flowed back EDIT reserves

1 faster than the average rate assumption method (ARAM) or an approved alternative
2 method (South Georgia) and to be in violation of the depreciation normalization
3 requirements of Section 203(e) of the Tax Reform Act of 1986.

4 **Q. Please explain the Stipulation with regards to Rate Design.**

5 A. The Stipulating Parties agree on total annual billing determinants reflected in
6 Statement I-2 of Exhibit KM-002 submitted with my direct testimony. In addition,
7 the Stipulating Parties agree that the methods employed by Cardinal in determining
8 the cost of service applicable to each zone and the specific rates shall be the
9 methods employed on Exhibit KM-002, Statement I of my direct testimony.

10 **Q. Please explain how the remaining unamortized balance of EDIT from G-39,
11 Sub 38 will be treated.**

12 A. The Stipulating Parties agree that in order to accomplish the complete flow back of
13 the EDIT addressed by Paragraph 5 of the Joint Stipulation approved by the July
14 27, 2017 Order in Docket No. G-39, Sub 38, Cardinal will, within 30 days of the
15 effective date of rates in this proceeding, refund to its shippers the applicable
16 amount of unamortized EDIT balance in accordance with Exhibit C to the
17 Stipulation, which is supported by my direct testimony, Exhibit No. KM-001 at
18 page 18. If the effective date of rates in this proceeding is on or after September 1,
19 2022, Cardinal will establish a regulatory asset for the applicable amount of over-
20 amortized EDIT, as shown on Exhibit C to the Stipulation, and defer collection,
21 without carrying costs, to Cardinal's next general rate proceeding.

1 **Q. Are there any other aspects of this Stipulation that you would like to address?**

2 A. Yes. The Stipulating Parties have agreed that the effective date of settlement rates
3 will be on the first day of the first month following a Commission Order approving
4 the settlement rates. Additionally, Cardinal has agreed to file a general rate case on
5 or before March 15, 2027.

6 **Q. What is your overall conclusion regarding the Stipulation?**

7 A. As I have stated previously, the Stipulation constitutes a reasonable resolution of
8 the issues in this proceeding. Therefore, Cardinal submits that the Stipulation is in
9 the public interest and otherwise just and reasonable.

10 **Q. Does this conclude your prepared Settlement Testimony?**

11 A. Yes, it does.

**BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION**

DOCKET NO. G-39, SUBS 46 and 47

SETTLEMENT TESTIMONY OF

DAVID J. HAAG

ON BEHALF OF

CARDINAL PIPELINE COMPANY, LLC

July 5, 2022

**SETTLEMENT TESTIMONY OF
DAVID J. HAAG
ON BEHALF OF
CARDINAL PIPELINE COMPANY, LLC**

1 **Q.1 Please state your name and employer.**

2 A. My name is David J. Haag. I am President and Chief Executive Officer of Brown,
3 Williams, Moorhead & Quinn, Inc., a nationally recognized energy consulting firm
4 based in the Washington, D.C. area.

5 **Q.2 Did you previously file testimony in this proceeding?**

6 A. Yes. I filed prepared direct testimony (Exhibit No. DH-001) along with four
7 supporting exhibits (Exhibit Nos. DH-002 through DH-005) and prepared rebuttal
8 testimony (Exhibit No. DH-006) on behalf of Cardinal Pipeline Company, LLC
9 (“Cardinal”) in this proceeding. In my direct and rebuttal testimonies, I
10 recommended that Cardinal should reflect an after-tax rate of return on equity
11 (“ROE”) of 11.04%, based on a calculated range of 8.15% to 15.13%, and a cost of
12 debt of 5.25% for its cost of capital in this proceeding. With regards to an
13 appropriate capital structure, given that Cardinal will be financed entirely by equity
14 from its corporate parents, I recommended that Cardinal utilize an imputed capital
15 structure of 60% equity and 40% debt for rate-making purposes.

16 **Q.3 What is the purpose of your settlement testimony?**

17 A. I am herewith providing settlement testimony on behalf of Cardinal. The purpose
18 of this settlement testimony is to explain my support for the Settlement Agreement
19 and Stipulation (“Stipulation”) filed in this proceeding on July 5, 2022 by Cardinal,
20 the Public Staff - North Carolina Utilities Commission (“Public Staff), and
21 Piedmont Natural Gas Company, Inc. (collectively, “Stipulating Parties”). My

1 testimony addresses the agreed-upon ROE, capital structure, and cost of debt set
2 forth in the Stipulation.

3 **Q.4 Do you support Cardinal's decision to agree to the stipulated ROE,**
4 **hypothetical capital structure, and imputed cost of debt set forth in the**
5 **Stipulation?**

6 A. Yes, I do. I recognize that the Stipulation represents the outcome of negotiations
7 among the Stipulating Parties regarding many otherwise contested issues. I
8 understand that Cardinal has determined that the terms of the Stipulation, including
9 the agreed-to ROE, hypothetical capital structure, and imputed cost of debt
10 represent a reasonable resolution of the issues in this proceeding and strikes a fair
11 balance between the interests of the various Stipulating Parties. I understand and
12 respect that determination.

13 Further, entering into this Stipulation eliminates the need for any further
14 testimony, discovery, hearing and briefing of the matters resolved. The avoidance
15 of litigation and resultant better use of resources of participants, including the
16 Commission, is a valuable outcome, benefiting the participants, the Commission
17 and the public interest.

18 **Q.5 Are you familiar with the terms of the Stipulation as it relates to Cardinal's**
19 **overall cost of capital?**

20 A. Yes. I understand that the Stipulating Parties have agreed to an ROE of 9.55%, a
21 hypothetical capital structure comprised of 48.04% long term debt and 51.96%
22 common equity, and an imputed cost of debt of 4.96%.

1 **Q.6 What is your position regarding the agreed-upon ROE set forth in the**
2 **Stipulation?**

3 A. Although the agreed-upon ROE set forth in the Stipulation is at the lower end of
4 my recommended range, it is nevertheless within the range of the analytical results
5 that I presented and supported in my direct and rebuttal testimony. As discussed in
6 my direct and rebuttal testimonies, from a mathematical perspective, both Public
7 Staff witness Mr. Hinton and I have calculated our recommended rates of return on
8 equity primarily through the use of a discounted cash flow model, albeit with a
9 number of differences in the way we have structured and utilized the model.
10 Therefore, it remains my position that in a fully litigated proceeding, an ROE at the
11 median of my calculated range of returns of 8.15% to 15.13%, i.e., 11.04%, is
12 reasonable. Nonetheless, I recognize the benefits associated with the decision to
13 enter into the Stipulation and as such, it is my view that the 9.55% agreed-upon
14 ROE is a reasonable resolution of this otherwise contentious issue.

15 **Q.7 What is your position regarding the agreed-upon hypothetical capital**
16 **structure and imputed 4.96% debt cost set forth in the Stipulation?**

17 A. As I discuss in my direct and rebuttal testimonies, Cardinal is 100% equity financed
18 by its owners, and no longer has any long-term debt. Under these circumstances,
19 an imputed capital structure and debt cost is appropriate for use in determining just
20 and reasonable rates. There are a number of different approaches to developing
21 those factors. Therefore, it remains my position that in a fully litigated proceeding,
22 my recommended hypothetical capital structure of 60% equity and 40% debt, based
23 on Cardinal's filed actual capital structure in its last rate case, and recommended

1 imputed debt cost of 5.25%, based on the average of the debt cost of the core proxy
2 group entities I used to determine my recommended ROE, is reasonable. However,
3 the agreed-upon hypothetical capital structure of 51.96% equity and 48.04% debt
4 and imputed 4.96% debt cost set forth in the Stipulation is within the range of the
5 actual capital structures and debt costs of the core and expanded proxy groups I
6 used to determine my recommended ROE. I recognize the benefits associated with
7 the decision to enter into the Stipulation and as such, it is my view that the agreed-
8 upon hypothetical capital structure of 51.96% equity and 48.04% debt set forth in
9 the Stipulation is a reasonable resolution of these otherwise contentious issues.
10 Similarly, the agreed upon 4.96% cost of debt is a reasonable compromise between
11 the cost of debt that I have calculated using the core proxy group of 5.25% and the
12 cost of debt advocated by Mr. Hinton of 4.06%.

13 **Q.8 Does this conclude your Settlement Testimony?**

14 A. Yes, it does.

**BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION**

DOCKET NO. G-39, SUBS 46 and 47

SETTLEMENT TESTIMONY OF

STEVEN R. FALL

ON BEHALF OF

CARDINAL PIPELINE COMPANY, LLC

July 5, 2022

**SETTLEMENT TESTIMONY OF
STEVEN R. FALL
ON BEHALF OF
CARDINAL PIPELINE COMPANY, LLC**

1 **Q.1 Please state your name and employer.**

2 A. My name is Steven R. Fall. I am a Vice President employed with the firm of Brown,
3 Williams, Moorhead & Quinn, Inc., an energy consulting firm providing thorough
4 analytical expertise and litigation support on behalf of clients across a wide range
5 of energy issues.

6 **Q.2 Did you previously file testimony in this proceeding?**

7 A. Yes. I filed prepared direct testimony (Exhibit No. CPC-0001) along with six
8 supporting exhibits (Exhibit Nos. CPC-0002 through CPC-0007) on behalf of
9 Cardinal Pipeline Company, LLC (“Cardinal”) in this proceeding. In my direct
10 testimony, I presented my recommendation regarding the proper and adequate
11 depreciation rates for Cardinal based on appropriate remaining life factors
12 applicable to the Cardinal natural gas pipeline system and an economic life. I also
13 recommended appropriate recovery rates for costs associated with annual plant
14 retirements between now and the 2050 truncation date. In addition, I recommended
15 recovery rates for the costs associated with the terminal decommissioning, removal,
16 and rehabilitation of the pipeline right of way upon the final abandonment of the
17 pipeline system based on the Terminal Decommissioning Study performed, as
18 submitted to the North Carolina Utilities Commission on October 26, 2021 in
19 Docket No. G-39, Sub 46, which I understand has been consolidated with
20 Cardinal’s March 15, 2022 general rate case in Docket No. G-39, Sub 47.

1 **Q.3 What is the purpose of your settlement testimony?**

2 A. I am herewith providing settlement testimony on behalf of Cardinal. The purpose
3 of this settlement testimony is to explain my support for the Settlement Agreement
4 and Stipulation (“Stipulation”) filed in this proceeding on July 5, 2022 by Cardinal,
5 the Public Staff - North Carolina Utilities Commission (“Public Staff”), and
6 Piedmont Natural Gas Company, Inc. (collectively, “Stipulating Parties”), which
7 resolves all issues between all of the Stipulating Parties in this general rate case
8 proceeding. My testimony addresses the agreed-upon depreciation rates, the
9 agreed-upon recovery rates for costs associated with annual plant retirements, and
10 the agreed-upon recovery rates for the costs associated with the terminal
11 decommissioning, removal, and rehabilitation of the pipeline right of way upon the
12 final abandonment of the pipeline system, i.e., negative salvage rates.

13 **Q.4 Are you familiar with the terms of the Stipulation as it relates to Cardinal’s**
14 **depreciation rates, recovery rates for costs associated with annual plant**
15 **retirements, and negative salvage rates?**

16 Yes. I understand that the Stipulating Parties have agreed to adopt the
17 recommended depreciation rates, recovery rates for costs associated with annual
18 plant retirements, and negative salvage rates as set forth in the direct testimony of
19 Public Staff witness Ms. Roxie McCullar submitted in this proceeding.

20 **Q.5 Do you support Cardinal’s decision to agree to the agreed-upon depreciation**
21 **rates, recovery rates for costs associated with annual plant retirements, and**
22 **negative salvage rates set forth in the Stipulation?**

23 A. Yes, I do. I recognize that the Stipulation represents the outcome of negotiations
24 among the Stipulating Parties regarding many otherwise contested issues. I
25 understand that Cardinal has determined that the terms of the Stipulation, including

1 the agreed-to depreciation rates, recovery rates for costs associated with annual
2 plant retirements, and negative salvage rates represent a reasonable resolution of
3 the issues in this proceeding. I understand and respect that determination.

4 **Q.6 What is your position regarding the agreed-upon depreciation rates, recovery**
5 **rates for costs associated with annual plant retirements, and negative salvage**
6 **rates set forth in the Stipulation?**

7 A. The agreed-upon depreciation rates, recovery rates for costs associated with annual
8 plant retirements, and negative salvage rates set forth in the Stipulation are
9 essentially equivalent to the results that I presented and supported in my direct
10 testimony. Ms. McCullar and I have calculated our recommended rates using
11 essentially the same approach, albeit with a difference in our view of how estimated
12 future additions should be reflected. It remains my position that in a fully litigated
13 proceeding, the depreciation rates, recovery rates for costs associated with annual
14 plant retirements, and negative salvage rates that I presented and supported in my
15 direct testimony are reasonable. Nonetheless, I recognize the benefits associated
16 with the decision to enter into the Stipulation and as such, it is my view that the use
17 of the agreed-upon depreciation rates, recovery rates for costs associated with
18 annual plant retirements, and negative salvage rates set forth in the Stipulation are
19 a reasonable resolution of this issue.

20 **Q.7 Does this conclude your Settlement Testimony?**

21 A. Yes, it does.