



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

June 13, 2022

Ms. A. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
Mail Service Center 4325
Raleigh, North Carolina 27699-4300

Re: Docket No. G-39, Sub 46 and G-39, Sub 47 – Cardinal Pipeline Company, LLC Depreciation Rate 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-captioned dockets, I transmit herewith for filing on behalf of the Public Staff the Direct Testimony and Exhibit of Sonja R. Johnson.

By copy of this letter, we are forwarding copies to all parties of record.

Sincerely,

/s/ Gina C. Holt
Staff Attorney
gina.holt@psncuc.nc.gov

Attachments

cc: Parties of Record

Executive Director (919) 733-2435	Communications (919) 733-2810	Economic Research (919) 733-2902	Legal (919) 733-6110	Transportation (919) 733-7766
Accounting (919) 733-4279	Consumer Services (919) 733-9277	Electric (919) 733-2267	Natural Gas (919) 733-4326	Water (919) 733-5610

4326 Mail Service Center • Raleigh, North Carolina 27699-4300 • Fax (919) 733-9565
An Equal Opportunity / Affirmative Action Employer

OFFICIAL COPY

JUN 13 2022

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-39, SUB 46
DOCKET NO. G-39, SUB 47

DOCKET NO. G-39, SUB 46

In the Matter of)
Cardinal Pipeline Company, LLC)
Depreciation Rate Study as of)
December 31, 2020)

DOCKET NO. G-39, SUB 47)

In the Matter of)
Application of Cardinal Pipeline)
Company, LLC, for an Adjustment in its)
Rates and Charges)
)
)

TESTIMONY OF
SONJA R. JOHNSON
ON BEHALF OF
THE PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

**DOCKET NO. G-39, SUB 46
DOCKET NO. G-39, SUB 47**

TESTIMONY OF SONJA R. JOHNSON

**ON BEHALF OF THE PUBLIC STAFF –
NORTH CAROLINA UTILITIES COMMISSION**

June 10, 2022

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **PRESENT POSITION.**

3 A. My name is Sonja R. Johnson. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Accounting Manager for Natural Gas and Transportation with the
6 Accounting Division of the Public Staff – North Carolina Utilities
7 Commission (Public Staff).

8 **Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

9 A. My qualifications and duties are included in Appendix A.

10 **Q. WHAT IS THE NATURE OF THE APPLICATION IN THIS RATE**
11 **CASE?**

12 A. Cardinal Pipeline Company, LLC (Cardinal or the Company) filed an
13 application with the Commission on March 15, 2022, in Docket No.
14 G-39, Sub 47, with a test period ended December 31, 2021, seeking
15 approval of: (1) an adjustment in its rates; (2) revised and updated

1 amortizations and recovery of certain regulatory assets accrued
2 since the Company's last general rate case; (3) the flowback of
3 certain regulatory liabilities arising from excess deferred income
4 taxes (EDIT) associated with the Tax Cuts and Jobs Act and state
5 income tax reductions; (4) authority to place certain pipeline integrity
6 management costs in a deferred account for proposed future
7 collection; (5) a request for deferred account treatment of
8 cybersecurity expenses; and (6) other updates and revisions to
9 Cardinal's rate schedules and service regulations.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. The purpose of my testimony is to present my recommended
12 accounting and ratemaking adjustments and to incorporate the
13 adjustments recommended by other Public Staff witnesses from the
14 Public Staff's Energy and Economic Research Divisions. The Public
15 Staff has made its adjustments based on its investigation of the
16 revenue, expenses, and rate base presented by the Company in
17 support of its request for an annual revenue requirement increase of
18 \$919,530 in this proceeding.

19 **Q. BRIEFLY EXPLAIN THE SCOPE OF YOUR INVESTIGATION**
20 **REGARDING THIS RATE INCREASE APPLICATION.**

21 A. My investigation included a review of the application, testimony,
22 exhibits, and other data filed by the Company, an examination of the

1 books and records for the test year, and a review of the Company's
2 G-1 Minimum Filing Requirements and its proposed accounting, end-
3 of-period, and after-period adjustments to test year revenue,
4 expenses, and rate base. The Public Staff has also conducted
5 extensive discovery in this matter, including the review of responses
6 provided by the Company in response to Public Staff data requests
7 and previously filed information, as well as participation in virtual
8 meetings with the Company.

9 **Q. PLEASE BRIEFLY DESCRIBE THE PUBLIC STAFF'S**
10 **PRESENTATION OF THE ISSUES IN THIS CASE.**

11 A. Each Public Staff witness will present testimony and exhibits
12 supporting his or her position and recommend any appropriate
13 adjustments to the Company's proposed rate base, cost of service,
14 and cost of capital. My exhibits incorporate adjustments from other
15 Public Staff witnesses, as well as the adjustments I recommend.

16 **Q. PLEASE GIVE A MORE DETAILED DESCRIPTION OF THE**
17 **ORGANIZATION OF YOUR EXHIBITS.**

18 A. Schedule 1 of Johnson Exhibit I presents a reconciliation of the
19 difference between the Company's requested revenue increase and
20 the Public Staff's recommended revenue decrease.

1 Schedule 2 presents the Public Staff's adjusted North Carolina retail
2 original cost rate base. The adjustments made to the Company's
3 proposed level of rate base are summarized on Schedule 2-1 and
4 detailed on backup schedules.

5 Schedule 3 presents a statement of net operating income for return
6 (NOI) under present rates as adjusted by the Public Staff, as well as
7 a summary of the Public Staff's recommended adjustments to NOI.
8 The Public Staff's NOI adjustments are detailed on backup
9 schedules.

10 Schedule 4 presents the calculation of required NOI, based on the
11 rate base and cost of capital recommended by the Public Staff.

12 Schedule 5 presents the calculation of the required decrease in
13 operating revenue necessary to achieve the required NOI. This
14 revenue decrease is equal to the Public Staff's recommended
15 revenue decrease shown on Schedule 1, except for a small
16 difference due to rounding.

17 **Q. WHAT ADJUSTMENTS RECOMMENDED BY OTHER PUBLIC**
18 **STAFF WITNESSES DO YOUR EXHIBITS INCORPORATE?**

19 A. My exhibits reflect the following adjustments recommended by other
20 Public Staff witnesses:

1 (1) The recommendations of Public Staff witness Hinton
2 regarding the overall cost of capital, capital structure,
3 embedded cost of long-term debt, and return on common
4 equity; and

5 (2) The recommendation of Public Staff witness McCullar
6 regarding the Depreciation Rate Study, which included
7 adjustments to certain depreciation rates.

8 **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.**

9 A. The accounting and ratemaking issues that I will discuss relate to the
10 following items:

- 11 (a) Plant in Service
- 12 (b) Accumulated Depreciation
- 13 (c) Accumulated Deferred Income Taxes (ADIT)
- 14 (d) Depreciation Expense
- 15 (e) Excess Deferred Income Taxes (EDIT)

16
17 Additionally, I am presenting testimony regarding the Company's
18 proposals on deferred pipeline integrity costs and cybersecurity
19 costs.

20
21 **PLANT IN SERVICE, ACCUMULATED DEPRECIATION, AND**
22 **ACCUMULATED DEFERRED INCOME TAXES**

23 **Q. PLEASE EXPLAIN HOW PLANT IN SERVICE, ACCUMULATED**
24 **DEPRECIATION, AND ACCUMULATED DEFERRED INCOME**
25 **TAXES HAVE BEEN REFLECTED IN YOUR EXHIBITS.**

26 A. The Company filed an update in this case, which reflected plant in
27 service, accumulated depreciation, and ADIT for actual entries
28 recorded on the Company's books through March 31, 2022. I have

1 included these updates in my rate base and NOI schedules. Johnson
2 Exhibit I, Schedules 2 and 2-1 reflect the Public Staff's calculation of
3 and adjustments to plant in service, accumulated depreciation, and
4 accumulated deferred income taxes.

5 **DEPRECIATION EXPENSE**

6 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO DEPRECIATION**
7 **EXPENSE.**

8 A. I made adjustments to: (1) reflect various depreciation rate changes
9 that were recommended by Public Staff witness McCullar; and (2)
10 apply the rates to annualized amounts of depreciable plant based on
11 the actual plant in service as of March 31, 2022. Johnson Exhibit I,
12 Schedule 3 reflects the Public Staff's calculation of and adjustments
13 to depreciation expense.

14 **EXCESS DEFERRED INCOME TAXES**

15 **Q. PLEASE EXPLAIN THE PUBLIC STAFF'S ADJUSTMENT TO**
16 **EXCESS DEFERRED INCOME TAXES.**

17 A. Due to the reduction of the Federal Income Tax Rate from 35% to
18 21% as a result of the Tax Cuts and Jobs Act of 2017 (TCJA), and
19 the reduction of North Carolina's Corporate Income Tax Rate from 3%
20 to 2.5%, the Company has calculated a net regulatory liability for
21 excess deferred income taxes (EDIT) in the amount of \$13,737,017.

1 Cardinal has used the IRS-approved Reverse South Georgia Method
2 (RSGM) to determine the amortization period for the flowback to
3 customers. This methodology calculates an average remaining life
4 (ARL) by dividing the net depreciable plant by the annual depreciation
5 expense. The EDIT is then divided by the ARL to determine an annual
6 amortization amount. My adjustment was calculated utilizing an ARL
7 of 20.26, as opposed to the 26.69 utilized by the Company. The
8 difference was due to the adjusted depreciation expense as
9 discussed above. My adjustment is shown on Johnson Exhibit I,
10 Schedule 3-1.

11 **DEFERRED TREATMENT OF PIPELINE INTEGRITY EXPENSES**

12 **Q. PLEASE EXPLAIN YOUR RECOMMENDATION REGARDING**
13 **THE CONTINUATION OF DEFERRED TREATMENT OF CERTAIN**
14 **PIPELINE INTEGRITY EXPENSES.**

15 A. In Docket No. G-39, Sub 38, Cardinal received approval to defer
16 certain pipeline integrity operations and maintenance (O&M)
17 expenses. Cardinal was allowed to defer pipeline assessment costs
18 paid for services provided by independent contractors and outside
19 consultants that were necessary for compliance with the United
20 States Department of Transportation Pipeline and Hazardous
21 Materials Safety Administration (PHMSA) regulations and to ensure

1 the safety and integrity of the Cardinal pipeline. Authorization to defer
2 the pipeline integrity costs remained in effect through the effective
3 date of rates in Cardinal's most recent general rate case, which was
4 consistent with prior Commission orders. Cardinal did not defer
5 internal payroll costs or other internal O&M expenses. The Public
6 Staff has carefully reviewed the Company's request for continuation
7 of deferral of certain pipeline integrity O&M expenses and concludes
8 that the proposal is reasonable and appropriate and should be
9 approved and implemented.

10 **DEFERRED TREATMENT OF CYBERSECURITY EXPENSES**

11 **Q. PLEASE EXPLAIN YOUR RECOMMENDATION REGARDING A**
12 **NEW MECHANISM TO ADDRESS CERTAIN COSTS CARDINAL**
13 **WILL INCUR IN RESPONSE TO A FEDERAL MANDATE.**

14 A. As set forth in the testimony of Company witness Kerri H. Miller,
15 Cardinal has proposed deferred treatment of cybersecurity O&M
16 expenses anticipated to be incurred to be compliant with Federal
17 mandates, because the O&M for the test year does not include these
18 expenses. Cardinal is proposing to place the actual costs incurred in
19 the future in a deferred account (regulatory asset) for proposed
20 recovery through amortization beginning in future rate cases.
21 Cardinal anticipates that the O&M costs will be between
22 approximately \$175,000 and \$1,200,000. Cardinal states, however,

1 that these amounts are preliminary cost estimates, and the Company
2 might be required to implement additional cybersecurity mitigation
3 measures.

4 The Public Staff has determined that since these costs are not
5 measurable at this time to any degree of certainty, and thus cannot
6 currently be evaluated as to whether their final amount would even
7 justify deferral, it would be premature to consider approval of deferral
8 in this rate case. Therefore, the Public Staff recommends instead that
9 if Cardinal still wishes to defer these costs when they are actually
10 incurred and are measurable, it should, within six months of the
11 implementation of the new cybersecurity mitigation measures or in
12 the Company's next general rate case following the implementation,
13 whichever comes first, apply for authorization to defer and amortize
14 the cybersecurity-related costs. Additionally, I recommend that
15 amortization of these costs begin, if approved, immediately upon the
16 incurrence of the costs (unless the Commission finds, in its
17 discretion, that the costs are too significant to begin amortization
18 before future rates are approved. The Public Staff also recommends
19 that the Commission find that in order to be deferred, the costs must
20 meet the two-prong test (extraordinariness and magnitude)
21 sometimes applied by the Commission in its evaluation of deferral
22 requests, or such other criteria that the Commission may find

1 appropriate and reasonable at that point in time (for example, as
2 evidenced in its order in Docket No. G-5, Sub 565 dated October 28,
3 2016, which dealt with Pipeline Integrity Management Operating and
4 Maintenance expenses that were extraordinary in the sense that they
5 were associated with the incorporation of a major investment into
6 Public Service Company of North Carolina's (PSNC) rate structure,
7 and denial of deferral would have resulted in the appearance of
8 PSNC not having a reasonable opportunity to earn the return on
9 equity (ROE) approved in its most recent general rate case).

10

CONCLUSION

11 **Q. WHAT IS THE PUBLIC STAFF'S RECOMMENDATION**
12 **REGARDING THE COMPANY'S REVENUE REQUIREMENT IN**
13 **THIS PROCEEDING?**

14 A. The Public Staff recommends that the Company's revenue
15 requirement be reduced by \$639,404 from the annualized level of
16 test year revenues produced by current rates.

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

18 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

SONJA R. JOHNSON

I am a graduate of North Carolina State University with a Bachelor of Science and Master of Science degree in Accounting. I was initially an employee of the Public Staff from December 2002 until May 2004 and rejoined the Public Staff in January 2006. I became the Accounting Division's Manager for Natural Gas and Transportation in May 2022.

As an Accounting Manager, I am responsible for the performance and supervision of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings.

Since initially joining the Public Staff in December 2002, I have filed testimony or affidavits in several water and sewer general rate cases. I have also filed testimony in applications for certificates of public convenience and necessity to construct water and sewer systems and noncontiguous extension of existing systems. My experience also includes filing affidavits

in several fuel clause rate cases and Renewable Energy and Energy Efficiency Portfolio Standard (REPS) cost recovery cases for the utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, and Virginia Electric and Power Company d/b/a Dominion North Carolina Power.

While away from the Public Staff, I was employed by Clifton Gunderson, LLP. My duties included the performance of cost report audits of nursing homes, hospitals, federally qualified health centers, intermediate care facilities for the mentally handicapped, residential treatment centers and health centers.

QUALIFICATIONS AND EXPERIENCE

SONJA R. JOHNSON

I am a graduate of North Carolina State University with a Bachelor of Science and Master of Science degree in Accounting. I was initially an employee of the Public Staff from December 2002 until May 2004 and rejoined the Public Staff in January 2006. I became the Accounting Division's Manager for Natural Gas and Transportation in May 2022.

As an Accounting Manager, I am responsible for the performance and supervision of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings.

Since initially joining the Public Staff in December 2002, I have filed testimony or affidavits in several water and sewer general rate cases. I have also filed testimony in applications for certificates of public convenience and necessity to construct water and sewer systems and noncontiguous extension of existing systems. My experience also includes filing affidavits

in several fuel clause rate cases and Renewable Energy and Energy Efficiency Portfolio Standard (REPS) cost recovery cases for the utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, and Virginia Electric and Power Company d/b/a Dominion North Carolina Power.

While away from the Public Staff, I was employed by Clifton Gunderson, LLP. My duties included the performance of cost report audits of nursing homes, hospitals, federally qualified health centers, intermediate care facilities for the mentally handicapped, residential treatment centers and health centers.

CARDINAL PIPELINE COMPANY, LLC
Docket No. G-39, Sub 47
**RECONCILIATION OF GROSS REVENUE INCREASE REQUESTED BY
THE COMPANY TO THE PUBLIC STAFF AMOUNT**
For The Test Year Ended December 31, 2021

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Decrease in revenue requirement filed by the Company	\$919,530
2	Additonal revenue requirement decrease per rounding and NCUC method	0
3	Adjusted revenue requirement filed by the Company	\$919,530
Gross revenue impact of Public Staff adjustments:		
4	Change in return on equity from 11.04% to 9.48%	(601,561)
5	Change in equity ratio from 59.23% to 51.96%	(417,449)
6	Change in debt cost from 5.25% to 4.06%	(326,789)
7	Rounding error in LT debt rate and ROE in company exhibits	0
8	Plant in service updates and related items @ March 31, 2022	(52,741)
9	Adjustment to amortize EDIT (reverse south georgia adjustment)	(163,597)
10	Adjustment for updated working capital	(964)
11	Adjustment for updated ADIT	12,625
12	Rounding errors	(8,458)
13	Total Public Staff adjustments (Sum of L4 thru L14)	(1,558,934)
14	Public Staff Recommended decrease (L3 + L15)	(\$639,404)

CARDINAL PIPELINE COMPANY, LLC
Docket No. G-39, Sub 47
COMPUTATION OF COST OF SERVICE
For The Test Year Ended December 31, 2021

Docket No. G-39, Subs 46 and 47
Johnson Exhibit I
Schedule 1a

Line No.	Item	After Public Staff Adjustments (a)	Rate Increase (Decrease) (b)	After Rate Adjustment (c)
<u>Operating Revenues</u>				
1	Transportation of gas	\$11,719,365	(\$639,404)	\$11,079,961
2	Other operating revenues	0		0
3	Total operating revenues (L1 + L2)	<u>11,719,365</u>	<u>(639,404)</u>	<u>11,079,961</u>
<u>Operating Expenses</u>				
4	Operating and maintenance	2,377,586		2,377,586
5	Depreciation	4,057,012		4,057,012
6	Pipeline integrity deferral	82,411		82,411
7	General taxes	540,251	(831)	539,420
8	Income taxes	974,451	(146,712)	827,739
8	EDIT Amortization	(678,052)		(678,052)
9	Total operating expenses (Sum of L4 thru L8)	<u>7,353,659</u>	<u>(147,543)</u>	<u>7,206,115</u>
10	Net operating income for a return (L3 - L9)	<u>\$4,365,706</u>	<u>(\$491,861)</u>	<u>\$3,873,846</u>
<u>Rate Base</u>				
11	Plant in service	\$156,586,972		\$156,586,972
12	Accumulated depreciation	(74,320,707)		(74,320,707)
13	Net plant in service (L11 + L12)	<u>82,266,265</u>	0	<u>82,266,265</u>
14	Working capital	334,821		334,821
15	Accumulated deferred income taxes	(26,264,333)		(26,264,333)
16	Original cost rate base (Sum of L13 thru L15)	<u>\$56,336,753</u>	<u>\$0</u>	<u>\$56,336,753</u>

CARDINAL PIPELINE COMPANY, LLC
Docket No. G-39, Sub 47
CALCULATION OF GROSS REVENUE EFFECT FACTORS
For The Test Year Ended December 31, 2021

Docket No. G-39, Subs 46 and 47
Johnson Exhibit I
Schedule 1b

Line No.	Item	Capital Structure [1] (a)	Cost Rates [2] (b)	Retention Factors (c)	Gross Revenue Effect (d)
Rate Base Factor:					
1	Long-term debt	48.04%	4.06%	0.9987000 [3]	0.019530 [5]
2	Short-term debt	0.00%	0.00%	0.9987000 [3]	0.000000 [5]
3	Common equity	51.96%	9.48%	0.7692487 [4]	0.064034 [5]
4	Total (Sum of L1 thru L3)	100.00%			0.083564
 Net Income Factor:					
				Per Company	Per Public Staff
5	Total revenue			1.0000000	1.0000000
6	Uncollectibles			0.0000000 [6]	0.0000000 [6]
7	Balance (L5 - L6)			1.0000000	1.0000000
8	Regulatory fee (L7 x .0013%)			0.0000000	0.0013000
9	Balance (L7 - L8)			1.0000000	0.9987000
10	State income tax (L9 x 2.5%)			0.0250000	0.0249675
11	Balance (L9 - L10)			0.9750000	0.9737325
12	Federal income tax (L11 x 21%)			0.2047500	0.2044838
13	Retention (Gross up) factor (L11 - L12)			0.7702500	0.7692487

[1] Exhibit I, Schedule 4, Column (a).
 [2] Exhibit I, Schedule 4, Column (f).
 [3] Line 9.
 [4] Line 13.
 [5] Column (a) x column (b).
 [6] Cardinal does not have uncollectibles.

CARDINAL PIPELINE COMPANY, LLC
Docket No. G-39, Sub 47
ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2021

Docket No. G-39, Subs 46 and 47
Johnson Exhibit I
Schedule 2

Line No.	Item	Under Present Rates					
		Per Company After Pro Forma Adjustment [1] (a)	Correct Company Misclassification (b)	Plant Update @ March 31, 2022 (b)	Working Capital Update [4] (c)	ADIT Update [4] (c)	After Public Staff Adjustments [5] (d)
1	Plant in service	\$156,513,852	\$0	\$73,120 [2]			\$156,586,972
2	Accumulated depreciation	(72,552,544)	(\$803,313)	(\$964,850) [3]			(74,320,707)
3	Net plant in service (Sum of L1 thru L3)	83,961,308	(803,313)	(891,730)	0	0	\$82,266,265
4	Allowance for working capital	346,360	0	0	(11,539)		334,821
5	Accumulated deferred income taxes	(26,746,459)	331,039	0		151,087	(26,264,333)
6	Original cost rate base (Sum of L3 thru L5)	<u>\$57,561,209</u>	<u>(\$472,274)</u>	<u>(\$891,730)</u>	<u>(\$11,539)</u>	<u>\$151,087</u>	<u>\$56,336,753</u>
	Revenue requirement effect			(\$74,517)	(\$964)	\$12,625	

- [1] Miller Exhibit (KM-002), Schedule 8, Page 1 of 3, Column (d), Line 13 thru Line 17.
[2] Exhibit I, Schedule 2-1, column (a), line 3.
[3] Exhibit I, Schedule 2-1, column (a), line 8.
[4] Per Company Update @ March 31, 2022.
[5] Sum of columns (a) through (c).

Cardinal Pipeline Company, LLC
 Docket No. G-39, Sub 47
SUPPORT FOR UPDATED PLANT IN SERVICE AND RATE BASE
 For The Test Year Ended December 31, 2021

Docket No. G-39, Subs 46 and 47
 Johnson Exhibit I
 Schedule 2-1

Line No.	Item	Amount	
		(a)	
	<u>Plant in Service:</u>		
1	Plant in service update @ March 31, 2022	\$156,586,972	[1]
2	Less plant in service per Company application as of December 31, 2021	156,513,852	[2]
3	Public Staff's adjustment to plant in service (L1 - L2)	\$73,120	
	<u>Accumulated Depreciation:</u>		
4	Accumulated depreciation per books March 31, 2022	(\$74,375,309)	[1]
5	Less accumulated reserve removal of ARO	54,602	[1]
6	Accumulated Depreciation per Public Staff (SUM L4 thru L7)	(\$74,320,707)	
7	Accumulated depreciation per Company filing	(73,355,857)	[3]
8	Public Staff's adjustment to accumulated depreciation (L8 -L9)	(\$964,850)	
	<u>Depreciation Expense:</u>		
9	Per Public Staff at March 31, 2022	4,057,012	[1]
10	Per Company application	4,048,466	[4]
11	Adjustment to depreciation expense (L11 - L12)	\$8,546	
	<u>Property Taxes:</u>		
12	Net Plant in Service adjustment @ March 31, 2022	73,120	[5]
13	2022 average North Carolina property tax rate	0.008095	[6]
14	Property taxes (L14 x L15)	\$592	

- [1] Per Company update @ March 31, 2022, with correction of misclassifications..
- [2] Miller Exhibit (KM-002), Schedule 8, Page 1 of 3, Column (d), Line 13 + Column (e), Line 13..
- [3] Miller Exhibit (KM-002), Schedule 8, Page 1 of 3, Column (d), Line 14.
- [4] Miller Exhibit (KM-002), Schedule 8, Page 1 of 3, Column (d), Line 4 + Column (e), Line 4.
- [5] Line 3.
- [6] Company's actual property tax rate per DR 18-2.

CARDINAL PIPELINE COMPANY, LLC
Docket No. G-39, Sub 47
NET OPERATING INCOME FOR A RETURN
For The Test Year Ended December 31, 2021

Docket No. G-39, Subs 46 and 47
Johnson Exhibit I
Schedule 3

Line No.	Item	Public Staff Adjustments				Public Staff Adjustments			
		After Company Pro Forma Adjustments [1] (a)	Correct Misclassification of Company Adjustments (b)	Plant Update @ March 31 2022 (c)	Amortize EDIT (d)	Interest Synchronization (e)	After Public Staff Adjustments [7] (f)	Rate Decrease (g)	After Rate Decrease (h)
Operating Revenues									
1	Transportation of gas	\$11,719,365	\$0				\$11,719,365		\$11,079,961
2	Other operating revenues	\$0	0				-		-
3	Total operating revenues (L1 + L2)	<u>11 719 365</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11 719 365</u>	<u>(639 404)</u>	<u>11 079 961</u>
Operating Expenses									
4	Operating and maintenance	\$2,360,976	16,610				2,377,586		2,377,586
5	Depreciation	\$3,856,754	191,712	8,546 [2]			4,057,012		4,057,012
6	Regulatory debit (credit)	\$0	0				-		-
7	General taxes	\$523,228	16,431	592 [3]			540,251	(895)	539,356
8	Income taxes	989,760	(73,738)	(2,099) [4]		37,538 [4]	974,451	(146,697)	827,754
9	EDIT Amortization	(528,451)	13,783		(163,384) [5]		(678,052)		(678,052)
10	Pipeline Integrity Deferral	0	82,411				82,411		82,411
11	Accretion Expense	0	0						
12	Total operating expenses (Sum of L4 thru L8)	<u>7,202,267</u>	<u>247,209</u>	<u>7,038</u>	<u>(125,847)</u>	<u>22,990</u>	<u>7,353,659</u>	<u>(147,592)</u>	<u>7,206,067</u>
13	Net operating income for a return (L3 - L9)	<u>\$4 517 098</u>	<u>(\$247 209)</u>	<u>(\$7 038)</u>	<u>\$125 847</u>	<u>(\$22 990)</u>	<u>\$4 365 706</u>	<u>(\$491 812)</u>	<u>\$3 873 895</u>
	Revenue requirement effect		(\$321,365)	(\$9,150)	\$163,597	(\$29,886)			

[1] Miller Exhibit (KM-002), Schedule 8, p. 1, column (d).
[2] Exhibit I, Schedule 2-2, column (a), line 11.
[3] Exhibit I, Schedule 2-2, column (a), line 14.
[4] Sum of lines 3 thru 8, times composite tax rate.
[5] Exhibit I, Schedule 3-1, line 13.
[6] Exhibit I, Schedule 3-4, line 6.
[7] Company's proforma adjusted operating revenues X 0.14%
[7] Exhibit I, Schedule 3-2, line 4.

CARDINAL PIPELINE COMPANY, LLC
 Docket No. G-39, Sub 47
NET OPERATING INCOME FOR A RETURN PER COMPANY
 For The Test Year Ended December 31, 2021

Docket No. G-39, Subs 46 and 47
 Johnson Exhibit I
 Schedule 3a

Line No.	Item	COMPANY PRO FORMA ADJUSTMENTS							Total Company Pro Forma Adjustments (i)	After Company Pro Forma Adjustments (j)	
		Per Company Books (a)	Include Decreased Normalized Revenues (b)	Decreased O&M Expenses (c)	ARO Depreciation Expense (d)	Removal of Regulatory Debit/Credit (e)	EDIT Amortization (f)	Removal of Accretion Expense (g)			Company Interest Synchronization (h)
Operating Revenues											
1	Transportation of gas	\$11,786,686	(\$67,321) [2]							(\$67,321)	\$11,719,365
2	Other operating revenues									\$0	-
3	Total operating revenues (L1 + L2)	<u>11,786,686</u>	<u>(67,321)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(67,321)</u>	<u>11,719,365</u>
Operating Expenses											
4	Operating and maintenance	2,391,583		(30,607) [4]						(\$30,607)	2,360,976
5	Depreciation	3,846,736			10,018 [5]					\$10,018	3,856,754
6	Regulatory debit (credit)	40,565				(40,565) [6]				(\$40,565)	-
7	General taxes	523,228								\$0	523,228
8	EDIT Amortization	(713,556)					185,105 [7]			\$185,105	(528,451)
9	Pipeline Integrity Deferral	0								\$0	-
10	Accretion expense (ARO)	37,546						(37,546) [8]		(\$37,546)	-
11	Income taxes	971,861	(15,467) [3]	7,032 [3]	(2,302) [3]	9,320	(42,528) [3]	8,626 [3]	53,218 [9]	\$17,899	989,760
12	Total operating expenses (Sum of L4 thru L9)	<u>7,097,963</u>	<u>(15,467)</u>	<u>(23,575)</u>	<u>7,716</u>	<u>(31,245)</u>	<u>142,577</u>	<u>(28,920)</u>	<u>53,218</u>	<u>104,304</u>	<u>7,202,267</u>
13	Net operating income for a return (L3 - L10)	<u>\$4,688,723</u>	<u>(\$51,854)</u>	<u>\$23,575</u>	<u>(\$7,716)</u>	<u>\$31,245</u>	<u>(\$142,577)</u>	<u>\$28,920</u>	<u>(\$53,218)</u>	<u>(\$171,625)</u>	<u>\$4,517,098</u>

[1] Miller Exhibit (KM-002), Schedule 8, Page 1 of 3, Column (B), Line 1 thru Line 10.
 [2] Miller Exhibit (KM-002), Schedule 8, Page 1 of 3, Column (C), Line 1.
 [3] Sum of lines 3 thru 9, times composite tax rate.
 [4] Miller Exhibit (KM-002), Schedule 8, Page 1 of 3, Column (C), Line 3.
 [5] Miller Exhibit (KM-002), Schedule 8, Page 1 of 3, Column (C), Line 4.
 [6] Miller Exhibit (KM-002), Schedule 8, Page 1 of 3, Column (C), Line 5.
 [7] Miller Exhibit (KM-002), Schedule 8, Page 1 of 3, Column (C), Line 8.
 [9] Exhibit I, Schedule 3b, line 6.
 [10] Sum of columns (b) thru (h).
 [11] Sum of columns (a) thru (j).

CARDINAL PIPELINE COMPANY, LLC
Docket No. G-39, Sub 47
COMPANY INTEREST SYNCHRONIZATION ADJUSTMENT
For The Test Year Ended December 31, 2021

Docket No. G-39, Subs 46 and 47
Johnson Exhibit I
Schedule 3b

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Interest expense assigned per book tax computation	\$1,430,503 [1]
2	Interest expense assigned to rate base per Miller Exhibit, Statement H-3	<u>1,198,868 [2]</u>
3	Difference in interest expense tax deduction (L2 - L1)	<u>(231,635)</u>
4	Adjustment to state income taxes (L3 x 2.5%)	<u>5,791</u>
5	Adjustment to federal income taxes (L3 - L4 x 21%)	<u>47,427</u>
6	Total adjustment to income taxes (L4 + L5)	<u><u>\$53,218</u></u>

[1] Miller Exhibit (KM-002), Statement H-3 of Item 4, column (B), line 3.

[2] Miller Exhibit (KM-002), Schedule 8, Page 2 of 3, Column (G), Line 1

Cardinal Pipeline Company
Docket No. G-39, Sub 47
Computation of Income Taxes Per Company Filing
For The Test Year Ended December 31, 2021

Line No.	Line No.	Item	Per Books	[1] Company Adjustments	Before Rate Increase	Proposed Increase	After Proposed Increase
1	1	Revenue	\$11,786,686	(\$67,321)	\$11,719,365	\$919,530	\$12,638,895
2	2	Operating and maintenance	2,391,583	(\$13,997)	2,377,586		2,377,586
3	3	Depreciation	3,846,736	201,730	4,048,466		4,048,466
4	4	Regulatory debit	40,565	(40,565)	-		-
		EDIT Amortization	(713,556)	198,888	(514,668)		(514,668)
		Pipeline Integrity Deferral	-	82,411	82,411		82,411
5	5	Accretion expense	37,546	(37,546)	-		-
6	6	General taxes	523,228	16,431	539,659		539,659
7	7	Income before interest & taxes	5,660,584	(474,673)	5,185,911	919,530	6,105,441
8	8	Other income/expense	-	0	-	0	-
9	9	Interest expense	(1,430,503)	231,635	(1,198,868)		(1,198,868)
10	10	Book state taxable income	4,230,081	(243,038)	3,987,043	919,530	4,906,573
11	11	State taxes @ 2.5%	105,752	(6,076)	99,676	22,988	122,664
12	12	Book federal taxable income	4,124,329	(236,962)	3,887,367	896,542	4,783,909
13	13	Federal taxes @ 21%	866,109	(49,762)	816,347	188,274	1,004,621
14	14	Total income taxes	971,861	(\$55,838)	916,023	\$211,262	\$1,127,285
15	15	Other income tax adjustment (L7)		-			
16	16	Composite income tax rate		22.975%			
17	17	Other adjustment to income taxes		\$0			

[1] Miller Exhibit (KM-002), Schedule 8.

CARDINAL PIPELINE COMPANY, LLC
Docket No. G-39, Sub 47
AMORTIZE EDIT - REVERSE SOUTH GEORGIA
For The Test Year Ended December 31, 2021

Docket No. G-39, Subs 46 and 47
Johnson Exhibit I
Schedule 3-1

Line No.	Item	Amount
1	Regulatory Liability - Principle Balance	10,527,845 [1]
2	Tax Gross Up	3,209,172
3	Total Regulatory Liability - Income Tax Rate Reduction 1/	<u>13,737,017 [2]</u>
	<u>Average Remaining Life (ARL)</u>	
4	Depreciable Plant	156,513,852 [3]
5	Less Accumulated Depreciation Reserve	<u>(74,320,707) [4]</u>
6	Total Net Depreciable Plant	82,193,145 [5]
7	Depreciation Expense	4,057,012 [6]
8	Total ARL (Years)	20.26 [7]
9	PrincipAL Amortization	(519,649) [8]
10	Gross Up Amount	<u>(158,403) [9]</u>
11	Total RSG Amortization per Public Staff	(678,052) [10]
12	Total RSG Amortization per Company	<u>514,668 [11]</u>
13	Public Staff adjustment	<u><u>(163,384) [12]</u></u>

[1] Exhibit (KM-002), Statement H-3(a) Column (B).

[2] Sum of L1 + L2

[3] Exhibit (KM-002), Statement C, Column (B), the sum of depreciable intangible plant and transmission pl

[4] Company March 31, 2022 updated Statement D.

[5] Sum of L4 + L5

[6] Exhibit I, Schedule 2-2, column (a), line 11.

[7] Sum of L6/L7

[8] Sum of L1/L8

[9] Sum of L2/L8

[10] Sum of L3/L8

[11] Sum of L11 + L12

CARDINAL PIPELINE COMPANY, LLC
Docket No. G-39, Sub 47
PUBLIC STAFF INTEREST SYNCHRONIZATION ADJUSTMENT
For The Test Year Ended December 31, 2021

Docket No. G-39, Subs 46 and 47
Johnson Exhibit I
Schedule 3-2

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Interest expense assigned to rate base per Company	\$1,198,868 [1]
2	Interest expense assigned to rate base per Public Staff	<u>1,098,806</u> [2]
3	Difference in interest expense tax deduction (L2 - L1)	<u>(100,062)</u>
4	Adjustment to state income taxes (L3 x 2.5%)	<u>2,502</u>
5	Adjustment to federal income taxes (L3 - L4 x 21%)	<u>20,488</u>
6	Total adjustment to income taxes (L4 + L5)	<u><u>\$22,990</u></u>

[1] Miller Exhibit (KM-002), Schedule 8, Page 2 of 3, Column G, Line 1
[2] Exhibit I, Schedule 4, Column (h), Line 1 + Line 2.

CARDINAL PIPELINE COMPANY, LLC
 Docket No. G-39, Sub 47
RETURN ON EQUITY AND ORIGINAL COST RATE BASE
 For The Test Year Ended December 31, 2021

Line No.	Item	Before Settlement Increase					After Settlement Increase				
		Capitalization Ratios [1]	Original Cost Rate Base	Embedded Cost/Return %	Weighted Cost/Return %	Net Operating Income	Embedded Cost/Return % [1]	Weighted Cost/Return %	Net Operating Income		
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)		
1	Long-term debt	48.04%	\$27,064,176 [2]	4.06% [1]	1.95% [5]	\$1,098,806 [7]	4.06%	1.95% [10]	\$1,098,806 [12]		
2	Short-term debt	0.00%	0 [2]	0.00% [1]	0.00% [5]	0 [7]	0.00%	0.00% [10]	\$0 [12]		
3	Common equity	<u>51.96%</u>	<u>29,272,577 [2]</u>	11.16% [4]	<u>5.80% [5]</u>	<u>3,266,901 [8]</u>	9.48%	<u>4.93% [10]</u>	<u>\$2,775,040 [12]</u>		
4	Totals (Sum of L1 thru L3)	<u>100.00%</u>	<u>\$56,336,753 [3]</u>		<u>7.75% [6]</u>	<u>\$4,365,706 [9]</u>		<u>6.88% [11]</u>	<u>\$3,873,846 [13]</u>		

[1] Per Public Staff Witness [Hinton](#).
 [2] Column (a) x Column (b), Line 4.
 [3] Exhibit II, Schedule 2, Column (c), Line 9.
 [4] Column (e) / Column (b).
 [5] Column (a) x Column (c).
 [6] Column (e), Line 4 / Column (b), Line 4.
 [7] Column (b) x Column (c).

[8] Column (e), Line 4 - Line 1 - Line 2.
 [9] Exhibit II, Schedule 3, Column (d), Line 11.
 [10] Column (a) x Column (f).
 [11] Column (h), Line 4 / Column (b), Line 4.
 [12] Column (b) x Column (f).
 [13] Sum of Line 1 thru L3.

CARDINAL PIPELINE COMPANY, LLC
Docket No. G-39, Sub 47
CALCULATION OF INCREASE (DECREASE) IN
REVENUE REQUIREMENT
For The Test Year Ended December 31, 2021

Docket No. G-39, Subs 46 and 47
Johnson Exhibit I
Schedule 5

<u>Line</u> <u>No.</u>	<u>Item</u>	<u>Amount</u>
1	Common equity portion of rate base	\$29,272,577 [1]
2	Rate of return required on common equity	<u>9.48%</u> [2]
3	Income required for return on common equity (L1 x L2)	2,775,040
4	Less: income available	<u>3,266,901</u> [3]
5	Income increase (decrease) (L3 - L4)	(491,860)
6	Retention factor	<u>0.7692487</u> [4]
7	Gross revenue increase (decrease) (L5 / L6)	<u><u>(\$639,404)</u></u>

[1] Exhibit I, Schedule 4, Column (b), Line 3.
[2] Provided by Public Staff Witness Hinton.
[3] Exhibit I, Schedule 4, Column (e), Line 3.
[4] Exhibit I, Schedule 1b, Column (d), Line 13.