

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility	)	
Commission	)	
	)	
	)	
vs.	)	Docket No. R-2018-2647577
	)	
	)	
Columbia Gas of Pennsylvania, Inc.	)	
	)	
	)	

SUPPLEMENTAL TESTIMONY OF
NANCY J.D. KRAJOVIC
ON BEHALF OF
COLUMBIA GAS OF PENNSYLVANIA, INC.

April 20, 2018

I. Introduction

Q. Please state your name and business address.

A. Nancy J. D. Krajovic, Southpointe Industrial Park, 121 Champion Way, Suite 100,
Canonsburg, PA 15317

**Q. Are you the same Nancy J. D. Krajovic that submitted Direct testimony
in this proceeding?**

A. Yes.

Q. What is the purpose of your Supplemental testimony?

A. This Supplemental testimony presents Columbia Gas of Pennsylvania, Inc.'s
("Columbia" or the "Company") calculation of the effect of the Tax Cuts and Jobs
Act of 2017 ("TCJA") on Columbia's 2018 tax liability, and the Company's proposal
to return this amount to customers.

**Q. Did Columbia include the effects of the TCJA in calculating the revenue
requirement for the Fully Projected Future Test Year ("FPFTY")?**

A. Yes. Columbia witness Fischer (Columbia Statement No. 9) sponsors testimony
and exhibits regarding the Company's pro forma tax claims for the FPFTY.

**Q. Has the Pennsylvania Public Utility Commission ("Commission")
begun proceedings concerning the effects of the TCJA?**

A. Yes. The Commission initiated a proceeding at Docket No. M-2018-2641242 to
determine the effects of the TCJA on Pennsylvania utilities' tax liabilities for 2018
and future years, and the feasibility of reflecting such impacts on rates. In the

1 Commission's Order entered March 15, 2018, in that proceeding, the Commission
2 recognized that "some utilities may be in the midst of (or will file shortly) a Section
3 1308(d) general rate increase proceeding." Order at p. 4. The Commission further
4 stated: "At the same time, we expect the public utility and the parties in each such
5 proceeding to address the effect of the federal tax rate reduction on the justness
6 and reasonableness of the consumer rates charged during the time of the
7 suspension period." Order at p. 5.

8 **Q. Does Columbia project to be in an over-earning position for 2018?**

9 A. No. As shown on Columbia Exhibit No. 102, Schedule 3, page 3, Columbia's pro
10 forma calculation for the Future Test Year ending November 30, 2018, which
11 reflects a Federal Income tax rate of 21%, shows that Columbia is projected to earn
12 7.33% on its rate base, which is less than the 8.10% return on rate base that the
13 Company has proposed for the FPFTY.

14 **Q. Please explain Columbia's calculation of the benefits of reduced**
15 **income taxes resulting from the TCJA for 2018.**

16 A. Columbia last filed a base rate case in 2016 at Docket No. R-2016-2529660, using
17 a FPFTY ending December 31, 2017. That case was settled for an annual revenue
18 increase of \$35 Million. Exhibit NJDK-S1, page 1, column 4 begins with the
19 Company's pro forma cost of service from that case, as filed in rebuttal. Page 1,
20 column 6 shows the effect upon revenues and income taxes as a result of the \$35
21 Million increase. Those income taxes are calculated at a 35% federal income tax
22 rate, which was the tax rate in effect at the time of settlement of that case.

1 Columbia has taken the settlement results of that case and restated the revenue
2 requirement using the new tax rates under the TCJA. Columbia Exhibit NJDK-S2
3 shows the results of that restatement. Exhibit NJDK-S2, page 1, column 5
4 recalculates the impact of the new 21% tax rate under the TCJA. Column 8
5 recalculates the revenue requirement allowance. The result is a reduction to the
6 revenue requirement of \$23,882,681, shown in column 7, line 12. The estimated
7 amount to be returned to customers would be \$23,828,540, shown in column 7,
8 line 2, net of the effect of the reduced revenue requirement on late payment
9 charges. (Exhibit NJDK-S2, page 2 provides detail supporting the changes in
10 revenue and taxes summarized on page 1. Exhibit NJDK-S2, page 3 provides the
11 calculation of the revised revenue conversion factor utilized on page 2.)

12 This total will be referenced for the remainder of this supplemental
13 testimony and for the purpose of the proposed treatment of the \$23.8 million that
14 follows. At the point in time when the refund will be made to customers, the total
15 impact will be calculated based upon the actual revenues for service rendered from
16 January 1, 2018 through the date that new rates from this proceeding become
17 effective.

18 **Q. When does Columbia propose to return the \$23.8 million to customers?**

19 A. Columbia proposes to begin the refund period no later than three years after calendar
20 year 2018.

21 **Q. Why does Columbia propose to delay the start date for refunding the**
22 **\$23.8 million for up to three years?**

1 A. The TCJA results in several unintended adverse effects on the Company's and its
2 parent's financial metrics and their capital needs. A delayed start to the refund will
3 mitigate these adverse effects. This is particularly important in light of the
4 Company's infrastructure investment program.

5 **Q. Please explain.**

6 A. In 2008, Columbia initiated an aggressive infrastructure improvement program in
7 order to ensure safe and reliable service to our customers across Pennsylvania. Since
8 that time, the Company has invested over \$1.3 billion in new mains, services, meters
9 and regulating equipment to modernize the system. That activity has nearly
10 quadrupled our workforce in Pennsylvania (just under 2,000 in 2017) when
11 including both Company employees and our direct contractors. The capital-intensive
12 nature of the program obviously requires sufficient cash funding, which is generated
13 through utility revenues from operations, debt and/or equity. Columbia's debt is
14 financed through its parent, NiSource Inc.

15 Prior to the enactment of the TCJA, the then-existing federal tax and state
16 ratemaking provisions provided Columbia with a zero cost source of cash that was
17 utilized in its annual capital program. Since 2008, federal legislation has allowed
18 companies to deduct 50% to 100% bonus depreciation on capital investments. This
19 reduced Columbia's current federal income tax liability and provided the Company
20 with a source of zero cost capital to help fund its ongoing capital investments. The
21 Company then reduced its rate base for the amount of zero cost capital, which
22 provided a benefit to ratepayers. Bonus depreciation also created federal net

1 operating losses which are being carried forward.

2 The TCJA eliminated bonus depreciation for utilities effective January 1,
3 2018, which reduces the primary source of zero cost capital to the Company. This
4 means that once the Company utilizes the federal net operating loss, it will be a cash
5 taxpayer again for Federal income tax purposes. The TCJA also reduced the federal
6 corporate tax rate from 35% to 21%. This means that Columbia will receive less
7 deferred taxes on accelerated depreciation, further reducing new zero cost capital
8 available to the Company. The loss/reduction of these two sources of zero cost capital
9 (loss of bonus depreciation and reduced deferred tax benefit from lowered tax rate)
10 means that a greater portion of capital investment will need to be financed from
11 increased capital (debt and equity) issuances.

12 The reduction to the federal tax rate also means the Company will ultimately
13 pay less cash for taxes at the 21% rate than it would at the 35% rate. However, this
14 decrease in cash paid for taxes will not occur until the Company utilizes its federal
15 net operating loss. Meanwhile, when the Company reduces its gross conversion
16 factor to reflect the reduced federal tax rate, it will be collecting less cash due to the
17 reduced revenues from the lower gross conversion factor. This would result in
18 negative cash flow which could exacerbate the need for additional debt and equity
19 capital.

20 **Q. How will the need to raise additional capital adversely affect financial**
21 **metrics?**

22 **A.** Issuance of additional debt and equity will have impacts on the Company that will be

1 reflected in future rate requests. Specifically, the availability and cost of credit for
2 operations may be greatly affected by credit ratings. Each rating agency holds
3 NiSource accountable for meeting primary metrics, and changes in cash flow have a
4 material impact on these metrics. NiSource is committed to maintaining its current
5 credit ratings and a negative rating action could adversely affect the ability to access
6 capital at rates and on terms that are attractive. A negative rating action could also
7 adversely impact business relationships with suppliers and operating partners.
8 Taking a one notch downgrade in credit ratings would result in an increase in
9 NiSource new issue spreads. This would affect Columbia because, as noted by
10 Columbia witness Moul (Columbia Statement No. 8), the NiSource spread affects the
11 interest cost on Columbia debt.

12 Having the option to temporarily retain the 2018 value of the tax savings for a
13 limited period of time would support the Company's ability to avoid potential rating
14 downgrade and associated increase in cost of debt.

15 **Q. You stated that the refund period will begin no later than three years**
16 **after calendar year 2018. What will trigger the start of the refund**
17 **period?**

18 A. NiSource Inc. is currently rated by three major credit rating agencies, Moody's
19 Investors Services, Fitch Ratings, and S&P Global Ratings. While all three rating
20 agencies calculate credit worthiness in a different manner and leverage different
21 metrics to determine an issuer's credit rating, generally speaking, NiSource's ability
22 to achieve and sustain a 13% Funds From Operations to Total Debt metric for 2018

1 and 14%-15% for 2019 and 2020 should provide NiSource the ability to sustain its
2 current credit rating. Columbia's ability to retain the passback period for up to three
3 years helps to provide NiSource adequate time to plan for and execute financing
4 strategies which ensure it can achieve the required metric to sustain its current credit
5 rating from each individual agency. Columbia will begin the passback period when
6 NiSource has visibility into projected cash flows which project to achieve these
7 metrics, but no later than 2022.

8 **Q. What does the Company propose to do with the \$23.8 million during the**
9 **delayed period for beginning the refund?**

10 A. Columbia proposes to hold the amount in reserve on its balance sheet and for
11 ratemaking purposes, and include the balance as a credit to rate base in this case.
12 Exhibit NJDK-S3 provides a calculation of the revised revenue requirement in this
13 case resulting from the credit of the \$23.8 million, offset by a deferred tax asset debit
14 of \$6.9 million to rate base for a net credit to rate base of \$16.9 million, to rate base.
15 For tax purposes, the \$23.8 million will result in a book vs. tax timing difference
16 because the reduction to revenue that occurs when creating the reserve is taxable for
17 income tax purposes resulting in a deferred tax asset of \$6.9 million. Therefore, the
18 initial reduction to rate base will be \$16.9 million ($\$16.9 = \$23.8 - \6.9). The deferred
19 tax asset will reverse as the refunds are made. Exhibit NJDK-S4 shows the
20 development of the rate base reduction on line 3 and the impact on the revenue
21 requirement on line 7, which ties to the difference column shown on Exhibit NJDK-
22 S3 .

1 **Q. Through what mechanism does the Company propose refunding the tax**
2 **liability incurred by Columbia from January 1, 2018 until the date final**
3 **approved base rates are effective in this case?**

4 A. The Company proposes to use a Federal Tax Adjustment Credit ("FTAC"), a
5 mechanism similar to its current STAS – State Tax Adjustment Surcharge, which
6 applies a percentage adjustment to billed distribution revenues. Exhibit NJDK-S5 to
7 my testimony is a draft of the FTAC.

8 **Q. How long would the FTAC be applied to customers' bills?**

9 A. The Company proposes that the FTAC be applied for one year from its effective date.

10 **Q. How does the Company propose to address any over/under passback of**
11 **the credit?**

12 A. As outlined in the draft tariff language in Exhibit NJDK-S5, the Company proposes
13 to calculate, within 60 days following the end of the refund period, any over/under
14 passback at the end of the period of refund. That balance will be recorded on the
15 Company's accounting records as a regulatory asset or liability and will be included
16 as a component of the revenue requirement in the Company's next base rate
17 proceeding after the conclusion of the period of refund.

18 **Q. Will interest be included in the reconciliation of the over/under**
19 **passback?**

20 A. Yes. The Company proposes to record interest based on the prime rate of interest for
21 commercial banking, not to exceed the legal rate of interest, in effect on the last day

1 of the month the over/under passback occurs, as reported in a publicly available
2 source.

3 **Q. Why wouldn't the Company apply the FTAC for additional periods to**
4 **address any over/under passback?**

5 A. Given that the value of the numerator is a known number, it is not likely that any
6 over/under passback will be a significant percentage. The Company proposes
7 limiting the period that the FTAC will appear on the bill and avoiding multiple
8 recalculations of a small factor for the purpose of bill simplicity and clarity.

9 **Q. How will the FTAC appear on the customer's bill?**

10 A. It will appear as a separate line item as the STAS does when the STAS rate is other
11 than zero. In the event the Company is billing a STAS at the same time the FTAC is
12 being applied the Company proposes to combine the two rates for billing purposes
13 and include a bill message identifying the two factors individually.

14 **Q. Why is the Company proposing this combination of the STAS and the**
15 **FTAC?**

16 A. The Company is making this proposal to avoid the cost associated with adding
17 another bill component to its billing system when that component will be used for
18 only one year.

19 **Q. Does this complete your Prepared Supplemental Testimony?**

20 A. Yes, it does.

Columbia Gas of Pennsylvania, Inc.
Statement of Income at Present and Proposed Rates
FTY = Future Test Year TME 11/30/16, FFRY = Fully Forecasted Rate Year Period Ended December 31, 2017

Line No.	Description	FTY		FFRY			FFRY @ Proposed Rates
		Reference	Test Year	Reference	Test Year	Adjustments	
		(1)	(2)	(3)	(4)	(5)	(6)
			\$		\$	\$	\$
1	Operation Revenues						
2	Base Rate Revenues (Incl. Transportation)	Exhibit 103	339,373,296	Exhibit 103	341,131,183	31,915,475	373,046,658
3	Fuel Revenues	Exhibit 103	123,733,897	Exhibit 103	124,134,259	0	124,134,259
4	Rider USP	Exhibit 103	21,610,640	Exhibit 103	21,659,275	2,949,483	24,608,758
5	Gas Procurement Charge	Exhibit 103	2,381,154	Exhibit 103	2,387,896	0	2,387,896
6	Merchant Function Charge	Exhibit 103	1,100,490	Exhibit 103	1,103,635	0	1,103,635
7	Rider CC	Exhibit 103	46,601	Exhibit 103	46,784	0	46,784
8	Total Sales and Transportation Revenue				490,463,032	34,864,958	525,327,990
9	Off System Sales Revenue	Exhibit 103	0	Exhibit 103	0	0	0
10	Late Payment Fees	Exhibit 103	1,188,391	Exhibit 103	1,193,787	84,861	1,278,648
11	Other Operating Revenues (Excl. Transportation)	Exhibit 103	<u>553,226</u>	Exhibit 103	<u>553,226</u>	<u>0</u>	<u>553,226</u>
12	Total Operating Revenues		489,987,695		492,210,045	34,949,819	527,159,864
			0				
13	Operating Revenue Deductions						
14	Gas Supply Expense	Exhibit 103	123,733,897	Exhibit 103	124,134,259	0	124,134,259
15	Off System Sales Expense	Exhibit 103	0	Exhibit 103	0	0	0
16	Gas Used in Company Operations		0		0	0	0
17	Operating and Maintenance Expense	Exhibit 104, Sch 1, Pg 2, Col 3	175,074,772	Exhibit 104, Sch 1, Pg 2, Col 6	181,245,805	446,508	181,692,313
18	Depreciation and Amortization	Exhibit 105	49,710,699	Exhibit 105	57,391,343	0	57,391,343
19	Net Salvage Amortized	Exhibit 105	4,501,669	Exhibit 105	4,518,788	0	4,518,788
20	Taxes Other Than Income Taxes	Exhibit 106	<u>2,952,664</u>	Exhibit 106	<u>3,059,032</u>	<u>0</u>	<u>3,059,032</u>
21	Total Operating Revenue Deductions		355,973,701		370,349,227	446,508	370,795,735
22	Operating Income Before Income Taxes		134,013,994		121,860,818	34,503,311	156,364,129
23	Income Taxes	Exhibit 107	39,075,002	Exhibit 107	32,329,674	13,803,266	46,132,940
24	Investment Tax Credit	Exhibit 107	<u>(360,240)</u>	Exhibit 107	<u>(331,551)</u>	<u>0</u>	<u>(331,551)</u>
25	Operating Income		95,299,232		89,862,695	20,700,045	110,562,740
26	Rate Base	Exhibit 108	1,289,103,631	Exhibit 108	1,494,091,075	0	1,494,091,075
27	% Rate of Return Earned on Rate Base		7.39%		6.01%		7.40%

Columbia Gas of Pennsylvania, Inc.
Statement of Income at Present and Proposed Rates
FTY = Future Test Year TME 11/30/16, FFRY = Fully Forecasted Rate Year Period Ended December 31, 2017

Line No.	Description	Reference	PUC 1-003 Attachment C Per Settlement Case No. R-2016-2529660 (4) \$	TCJA Tax Rate Adjustments (5)	PUC 1-003 Attachment B Supplemental (6) \$	TCJA Revenue Requirement Adjustments (7) \$	PUC 1-003 Attachment B Supplemental After TCJA (8) \$
1	Operation Revenues						
2	Base Rate Revenues (Incl. Transportation)	Exhibit 103	373,046,658	84,861	373,131,519	(23,828,540)	349,302,979
3	Fuel Revenues	Exhibit 103	124,134,259	0	124,134,259	0	124,134,259
4	Rider USP	Exhibit 103	24,608,758	0	24,608,758	0	24,608,758
5	Gas Procurement Charge	Exhibit 103	2,387,896	0	2,387,896	0	2,387,896
6	Merchant Function Charge	Exhibit 103	1,103,635	0	1,103,635	0	1,103,635
7	Rider CC	Exhibit 103	46,784	0	46,784	0	46,784
8	Total Sales and Transportation Revenue		525,327,990	84,861	525,412,851	(23,828,540)	501,584,311
9	Off System Sales Revenue	Exhibit 103	0	0	0	0	0
10	Late Payment Fees	Exhibit 103	1,278,648	(84,861)	1,193,787	(54,141)	1,139,646
11	Other Operating Revenues (Excl. Transportation)	Exhibit 103	<u>553,226</u>	<u>0</u>	<u>553,226</u>	<u>0</u>	<u>553,226</u>
12	Total Operating Revenues		527,159,864	<u>0</u>	527,159,864	<u>(23,882,681)</u>	503,277,183
13	Operating Revenue Deductions						
14	Gas Supply Expense	Exhibit 103	124,134,259	0	124,134,259	0	124,134,259
15	Off System Sales Expense	Exhibit 103	0	0	0	0	0
16	Gas Used in Company Operations		0	0	0	0	0
17	Operating and Maintenance Expense	Exhibit 104, Sch 1, Pg 2, Col	181,692,313	0	181,692,313	(305,117)	181,387,196
18	Depreciation and Amortization	Exhibit 105	57,391,343	0	57,391,343	0	57,391,343
19	Net Salvage Amortized	Exhibit 105	4,518,788	0	4,518,788	0	4,518,788
20	Taxes Other Than Income Taxes	Exhibit 106	<u>3,059,032</u>	<u>0</u>	<u>3,059,032</u>	<u>0</u>	<u>3,059,032</u>
21	Total Operating Revenue Deductions		370,795,735	0	370,795,735	(305,117)	370,490,618
22	Operating Income Before Income Taxes		156,364,129	0	156,364,129	(23,577,564)	132,786,565
23	Income Taxes	Exhibit 107	46,132,940	(17,323,480)	28,809,460	(6,253,824)	22,555,636
24	Investment Tax Credit	Exhibit 107	<u>(331,551)</u>	<u>0</u>	<u>(331,551)</u>	<u>0</u>	<u>(331,551)</u>
25	Operating Income		110,562,740	17,323,480	127,886,220	(17,323,740)	110,562,480
26	Rate Base	Exhibit 108	1,494,091,075	0	1,494,091,075	0	1,494,091,075
27	% Rate of Return Earned on Rate Base		7.40%		8.56%		7.40%

Columbia Gas of Pennsylvania, Inc.
Verification of Revenue Decrease as a Result of the 2017 Federal Tax Cuts and Jobs Act (TCJA)

Cost of Service - Total Base Revenue Excess due to TCJA

Line No.	Description	PUC 1-003 Attachment C Per Settlement Case No. R-2016-2529660 (3)	PUC 1-003 Attachment B Supplemental (3)	Difference	PUC 1-003 Attachment B Supplemental After TCJA (3)	Difference	References (4)
	<u>Change in Revenue Requirement Factor</u>						
1	Operating Income Before Income Taxes	156,364,129	156,364,129	-	132,786,565	(23,577,564)	Exhibit NJDK-S2 Page 1, Line 22, Column 4
2	Rate Base	1,494,091,075	1,494,091,075	0	1,494,091,075	0	Exhibit NJDK-S2 Page 1, Line 26, Column 4
3	Cost of Debt	2.40%	2.40%	0.00%	2.40%	0.00%	Exhibit NJDK-S2 Page 3, Line 23, Column 3
4	Less: Interest Expense	35,858,186	35,858,186	0	35,858,186	0	Line 2 x Line 3
5	Less: Other Flow Through Adjustments	(6,146,920)	(6,146,920)	0	(6,146,920)	0	Exhibit No. 107 Page 16, Lines 5, 6, 7, 8, 10 &
6	Less: Deferred Adjustments	160,018,840	160,018,840	0	160,018,840	0	Exhibit No. 107 Page 16, Line 28
7	Less: PA Bonus Depreciation Adj.	(76,385,438)	(76,385,438)	0	(76,385,438)	0	Exhibit No. 107 Page 17, Line 4
8	CNIT Taxable Income	43,019,461	43,019,461	0	19,441,897	(23,577,564)	Line 1 - Lines 4 through 8
9	Less: Net Operating Loss Deduction	12,905,838	12,905,838	0	5,832,569	(7,073,269)	Line 8 x 30%
10	Adjusted Taxable Income	30,113,623	30,113,623	0	13,609,328	(16,504,295)	Line 9 + Line 10
11	CNIT Payable at 9.99%	3,008,351	3,008,351	0	1,359,572	(1,648,779)	Line 10 x 9.99%
12	Deferred Tax on Inventory Adj	(25,167)	(25,167)	0	(25,167)	0	Exhibit No. 107 Page 17, Line 10
13	Deferred Tax on Customer Advances	(69,461)	(69,461)	0	(69,461)	0	Exhibit No. 107 Page 17, Line 13
14	Pennsylvania Corporate Income Tax Expense	2,913,723	2,913,723	0	1,264,944	(1,648,779)	Lines 11 through 13
15	Taxable Income	(36,374,328)	(36,374,328)	0	(58,303,113)	(21,928,785)	Line 1 - Lines 4, 5, 6, and 11
16	Federal Income Tax Payable	(12,731,015)	(7,638,609)	5,092,406	(12,243,654)	(4,605,045)	Line 15 x Federal Income Tax Rate
17	Federal Income Tax Deferred	56,006,594	33,603,956	(22,402,638)	33,603,956	0	Line 6 x Federal Income Tax Rate
18	Flow Back Of Excess Deferred Taxes	(89,482)	(89,482)	0	(89,482)	0	Exhibit No. 107 Page 16, Line 33
19	Effect of CNIT Deferred Tax on FIT Flowback of Excess Deferred Taxes - 2017 TCJA Effect	33,120	0	(33,120)	0	0	Exhibit No. 107 Page 16, Line 33a
20	on CNIT Deferred Tax on FIT	0	19,872	19,872	19,872	0	Exhibit No. 107 Page 16, Line 34
21	Net Federal Income Tax Expense	43,219,217	25,895,737	(17,323,480)	21,290,692	(4,605,045)	Lines 16 through 20
22	State Income Tax Expense	2,913,723	2,913,723	0	1,264,944	(1,648,779)	Line 14
23	Total Income Tax Expense	46,132,940	28,809,460	(17,323,480)	22,555,636	(6,253,824)	Line 21 + Line 22
24	Revenue Requirement					(23,828,540)	Exhibit NJDK-S2 Page 1, Line 2, Column 7
25	Late Payments Percentage					0.00227209	Exhibit NJDK-S2 Page 3, Line 4, Column 3
26	Late Payment Change					(54,141)	Exhibit NJDK-S2 Page 1, Line 9, Column 7
27	Additional Revenue Requirement					(23,828,540)	Exhibit NJDK-S2 Page 1, Line 2, Column 7
28	Late Payment Change					(54,141)	Exhibit NJDK-S2 Page 1, Line 9, Column 7
29	Total Revenue Requirement					(23,882,681)	
30	Gross Conversion Factor					0.01277569	Exhibit NJDK-S2 Page 3, Line 3, Column 3
31	Revenue Gross-up for Uncollectible Accounts					(305,118)	
32	Income Before Income Tax					(23,577,563)	Line 29 - Line 31
33	State Income Tax					(1,648,779)	Line 22
34	Income Before Federal Income Tax					(21,928,784)	Line 32 - Line 33
35	Federal Income Tax					(4,605,045)	Line 34 * 21%
36	Operating Income					(17,323,739)	Line 34 - Line 35
37	Gross Conversion Factor					1.37863069	Exhibit NJDK-S2 Page 3, Line 11, Column 3
38	Revenue Requirement					(23,882,681)	Exhibit NJDK-S2 Page 1, Line 12, Column 7
39	Less: Late Payment Revenue					(54,141)	Exhibit NJDK-S2 Page 1, Line 9, Column 7
40	Revenue Passback					(23,828,540)	Exhibit NJDK-S2 Page 1, Line 2, Column 7

Impact of 2017 Tax Cuts and Jobs Act on Authorized Revenue Requirement from Case No. R-2016-2529660

Columbia Gas of Pennsylvania, Inc.
Gross Revenue Conversion Factor, Effective Statutory Tax Rate & Cost of Capital

Line No.	Description	Approved Case No. R-2016-2529660 Factor / Rate (1)	Change in Factor / Rate (2)	TCJA Factor / Rate 2017 Tax Reform (3 = 1 + 2)
1	<u>Calculation of Gross Revenue Conversion Factor</u>			
2	Operating Revenue	100.000000%		100.000000%
3	Less: Uncollectibles	1.277569%		1.277569%
4	Plus: Late Payments	<u>0.243400%</u>		<u>0.227209%</u>
5	Income Before State Taxes	98.965831%		98.949641%
6	State Income Tax Effect Tax Rate	9.99%	9.99%	7.207955%
7	Less: State Income Tax	7.845981%		7.132246%
8	Income Before Federal Taxes	91.119850%		91.817395%
9	Less: Federal Tax	35%	21%	<u>19.281653%</u>
10	Adjusted Operating Income	59.227903%		72.535742%
11	Gross Revenue Conversion Factor (1 / Ln 10)	<u>1.68839339</u>		<u>1.37863069</u>
12	Change in Gross Revenue Conversion Factor		<u>(0.309763)</u>	
13	<u>Effective Statutory Tax Rate</u>	<u>Prior Rate Calc.</u>		<u>Current Rate Calc.</u>
14	Statutory Rate - State	9.99% 0.099900	9.99%	0.099900
15	Statutory Rate - Federal	35% 0.350000	21%	0.210000
16	Statutory Rate - Federal less Benefit of State (Ln 15 x (1-Ln 14))	<u>0.315035</u>		<u>0.189021</u>
17	Effective Statutory Tax Rate (Ln 14 + Ln 16)	<u>0.414935</u>		<u>0.288921</u>
18	Decrease in Effective Statutory Tax Rate		<u>(0.126014)</u>	
19	<u>Case No. R-2016-2529660 - Cost of Debt</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
20		(1)	(2)	(3 = 1 * 2)
21	Long Term Debt	43.91%	5.26%	2.31%
22	Short Term Debt	3.78%	2.33%	0.09%
23	Total Cost of Debt			<u>2.40%</u>

Exhibit No. 102
Schedule 3
Page 3 of 6
Witness: K. K. Miller

Columbia Gas of Pennsylvania, Inc.
Statement of Income at Present and Proposed Rates
FTY = Future Test Year TME 11/30/18, FPFTY = Fully Projected Forecasted Test Year Period Ended December 31, 2019

AS FILED:

Line No.	Description	FTY		FPFTY			FPFTY @ Proposed Rates	FPFTY @ Proposed Rates	Difference
		Reference	Test Year	Reference	Test Year	Adjustments			
		(1)	(2)	(3)	(4)	(5)	(6)	(6)	
			\$		\$	\$	\$		
1	Operation Revenues								
2	Base Rate Revenues (Incl. Transportation)	Exhibit 103	373,978,562	Exhibit 103	377,099,600	42,473,752	419,573,352	421,299,103	(1,725,751)
3	Fuel Revenues	Exhibit 103	161,913,940	Exhibit 103	163,506,936	0	163,506,936	163,506,936	-
4	Rider USP	Exhibit 103	29,177,309	Exhibit 103	29,305,816	2,636,024	31,941,840	31,941,840	-
5	Gas Procurement Charge	Exhibit 103	2,556,203	Exhibit 103	2,581,692	0	2,581,692	2,581,692	-
6	Merchant Function Charge	Exhibit 103	1,209,223	Exhibit 103	1,216,174	0	1,216,174	1,216,174	-
7	Rider CC	Exhibit 103	46,714	Exhibit 103	47,177	0	47,177	47,177	-
8	Total Sales and Transportation Revenue				573,757,395	45,109,776	618,867,171	620,592,922	(1,725,751)
9	Off System Sales Revenue	Exhibit 103	0	Exhibit 103	0	0	0	-	-
10	Late Payment Fees	Exhibit 103	1,235,612	Exhibit 103	1,246,120	97,972	1,344,092	1,347,840	(3,748)
11	Other Operating Revenues (Excl. Transportation)	Exhibit 103	344,604	Exhibit 103	344,604	0	344,604	344,604	-
12	Total Operating Revenues		570,462,167		575,348,119	45,207,748	620,555,867	622,285,366	(1,729,499)
			0						
13	Operating Revenue Deductions								
14	Gas Supply Expense	Exhibit 103	161,913,940	Exhibit 103	163,506,936	0	163,506,936	163,506,936	-
15	Off System Sales Expense	Exhibit 103	0	Exhibit 103	0	0	0	-	-
16	Gas Used in Company Operations		0		0	0	0	-	-
17	Operating and Maintenance Expense	Exhibit 104, Sch 1, Pg 2, Col 3	190,657,070	Exhibit 104, Sch 1, Pg 2, Col 6	191,017,256	538,214	191,555,470	191,576,061	(20,590)
18	Depreciation and Amortization	Exhibit 105	63,942,330	Exhibit 105	72,557,195	0	72,557,195	72,557,195	-
19	Net Salvage Amortized	Exhibit 105	4,189,204	Exhibit 105	4,744,713	0	4,744,713	4,744,713	-
20	Taxes Other Than Income Taxes	Exhibit 106	3,384,408	Exhibit 106	3,456,803	0	3,456,803	3,456,803	-
21	Total Operating Revenue Deductions		424,086,952		435,282,902	538,214	435,821,116	435,841,707	(20,590)
22	Operating Income Before Income Taxes		146,375,215		140,065,217	44,669,534	184,734,751	186,443,660	(1,708,909)
23	Income Taxes	Exhibit 107	25,113,530	Exhibit 107	19,715,247	11,495,821	31,211,068	31,547,515	(336,447)
24	Investment Tax Credit	Exhibit 107	(301,500)	Exhibit 107	(299,568)	0	(299,568)	(299,568)	-
25	Operating Income		121,563,185		120,649,538	33,173,713	153,823,251	155,195,713	(1,372,462)
26	Rate Base	Exhibit 108	1,658,931,197	Exhibit 108	1,899,052,483	0	1,899,052,483	1,915,996,457	(16,943,974)
27	% Rate of Return Earned on Rate Base		7.33%		6.35%		8.10%	8.10%	-

Columbia Gas of Pennsylvania, Inc.
Rate Base Reduction from Tax Reform
For the 12 Months Ending December 31, 2017

Line No.	Description	Amount (1) \$
1	Rate Base reduction from tax reform tax change	(23,828,540)
2	Rate Base reduction from tax reform ADIT change	<u>6,884,566</u> 1/
3	Rate Base reduction from tax reform	(16,943,974)
4	Return on Rate Base	8.10% 2/
5	Operating Income	(1,372,462)
6	Offset to Income Tax (Interest on Rate Base)	<u>103,345</u> 3/
7	Net Operating Income	(1,269,117)
6	Revenue Conversion Factor	<u>1.36275815</u> 4/
7	Revenue Requirement	<u>(1,729,500)</u>

Notes:

1/ Rate Base reduction from tax reform ADIT change

Rate Base reduction from tax reform tax change		(23,828,540)
	100.000%	
State Effective Rate	9.99%	90.010%
Fed less State Effect	21%	<u>18.902%</u>
Fed + State Statutory Rate		<u>28.8921%</u>
Rate Base reduction from tax reform ADIT change		(6,884,566)

2/ Cost of Capital per Case No. R-2018-2647577

	Ratio	Cost	Effective Cost
Long Term Debt	44.42%	5.11%	2.27%
Short Term Debt	<u>3.24%</u>	<u>3.20%</u>	<u>0.10%</u>
Total Debt	47.66%		2.37%
Equity	52.34%	10.95%	5.73%
Total	100.00%		8.10%

3/ Offset to Income Tax (Interest on Rate Base)

Rate Base reduction from tax reform (Line 3)	(16,943,974)
Total Debt rate	<u>2.37%</u>
Interest Expense Reduction	(401,572)
Change to Pa Taxable Income	(401,572)
Change to Net Operating Loss Deduction @ 40%	<u>(160,629)</u>
PA Taxable Income	(240,943)
CNIT Payable at Base Rate of 9.99%	24,070
Change in Taxable Income	(377,502)
Change in Federal Income Tax @ 21%	79,275
Total Change in Income Tax	103,345

4/ Revenue Conversion Factor per Case No. R-2018-2647577

Operating Revenue	1.00000000
Less: Uncollectibles	0.01190535
Plus: Late Payments	0.00217186
Income Before State Taxes	0.99026651
State Income Tax Effect Tax Rate	0.06200175
Less: State Income Tax	0.06139826
Income Before Federal Taxes	0.92886825
Less: Federal Tax @ 21%	<u>0.19506233</u>
Adjusted Operating Income	0.73380592
Revenue Conversion Factor	1.36275815

Columbia Gas of Pennsylvania, Inc.

FEDERAL TAX ADJUSTMENT CREDIT (FTAC)

(C)

There shall be applied to the non-Purchased Gas Cost portion of charges for gas service under all of the Company's rate schedules contained in this Tariff unless otherwise specified below, a credit of (0.000%).

The FTAC represents the passback of the 2018 effects of the Tax Cuts and Jobs Act ("TCJA") to customers.

The credit will be calculated as follows:

$FTAC = TxR / TDRp$, where

TxR = The actual annual revenue associated with the 14% tax differential based on rates effective January 1, 2018 and the TCJA,

$TDRp$ = Projected total annual distribution revenues at expected effective rates for the period of refund.

Period of refund = approximately one year from the effective date of the credit.

Any over/under passback of the FTAC, calculated 60 days after the conclusion of the period of refund shall be reflected as a component, including interest, of the revenue requirement in the Company's next base rate proceeding filed after the conclusion of the period of refund.

Interest on any over/under passback of the FTAC shall be based on the prime rate of interest for commercial banking, not to exceed the legal rate of interest, in effect on the last day of the month the over/under passback occurs, as reported in the Wall Street Journal.

Any charges billed under Rate Schedules CDS, DGDS, EGDS or NCS or charges flexed in accordance with the Flexible Rate Provisions contained in Tariff Rule 20 shall not be subject to the Federal Tax Adjustment Credit.