

In the Matter of the Application of :
Cobra Pipeline Company, Ltd. : Case No. 16-1725-PL-AIR
To Amend Its Rates and Charges :

In the Matter of the Application of :
Cobra Pipeline Company, LTD : Case No.18-1579-PL-AEM
For an Emergency Increase in its :
Rates and Charges :

DIRECT TESTIMONY OF JESSICA CAROTHERS

COBRA PIPELINE COMPANY, LTD EXHIBIT #

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jessica Carothers and my business address is 8635 East Avenue, Mentor
4 Ohio 44060.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Cobra Pipeline Company, LTD (“Cobra”). My title is Accounting
7 Manager. I function as Cobra’s General Manager.

8 **Q. WHAT ARE YOUR RESPONSIBILITIES?**

9 A. First, I oversee day-to-day company operations. I am also responsible for overseeing any
10 legal issues that arise and ensuring that the company’s accounting is correct, including
11 account receivables.

12 **Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?**

13 A. I began my professional career, in 2004, by working in retail banking at Lake National
14 Bank. I worked for Lake National Bank for four (4) years. In 2008, I was hired by Cobra
15 to be its Accounting Manager. I began operating as Cobra’s General Manager in 2014.

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES**
17 **COMMISSION OF OHIO (“PUCO” OR “COMMISSION”) BEFORE?**

18 A. Yes. I have testified, on behalf of Cobra in Case No. 16-1725-PL-AIR (“2016 Rate
19 Case”). I have also testified on behalf of Orwell-Trumbull Pipeline Company, LLC

1 (“OTP”)¹ in the following cases before the PUCO: (1) Case No. 14-1654-GA-CSS; (2)
2 Case No. 15-0637-GA-CSS; and (3) Case No. 15-0475-GA-CSS.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

4 A. The purpose of my testimony is to provide the company’s history and to support Cobra’s
5 Application for an Emergency Rate Case (“Application”) in Case No. 18-1579-PL-AEM
6 (“Emergency Rate Case”). Specifically, my testimony will support Cobra’s Application
7 by: (1) justifying Cobra’s need for an emergency rate increase; (2) demonstrating that
8 Cobra’s emergency rate does not allow for the recovery for the investment in or the
9 return of investment for Cobra’s owners; (3) defending certain operating expenses
10 included in Cobra’s 2018 Income Statement; and (4) establishing a permanent rate for
11 Cobra via the consolidated 2016 Rate Case.

12 **COMPANY HISTORY**

13 **Q. ARE YOU FAMILIAR WITH THE HISTORY OF COBRA?**

14 A. I am.

15 **Q. WOULD YOU PLEASE PROVIDE A BRIEF HISTORY OF COBRA?**

16 A. Cobra’s pipelines consist of more than two-hundred (200) miles of pipeline that Cobra
17 purchased from Columbia Gas Transmission Company (“TCO”) in 2005. Cobra’s
18 pipeline system consists of three (3) different sections. The three (3) different sections of
19 Cobra’s pipeline system are called: (1) Churchtown (“CT”); (2) Holmesville (“HV”); and

¹ OTP and Cobra were affiliate companies until OTP was placed into receivership by the Cuyahoga County Court of Common Pleas on November 21, 2017.

1 (3) North Trumbull (“NT”). CT provides transportation services to Noble and
2 Washington counties, Ohio. HV provides transportation services in Holmes and Wayne
3 counties, Ohio. NT provides transportation services in Ashtabula, Columbiana, Geauga,
4 Mahoning, and Trumbull counties, Ohio.

5 Cobra filed an application to become a pipeline company with the Public Utilities
6 Commission of Ohio (“PUCO” or “Commission”) on December 19, 2005 (“Initial
7 Application”). Cobra’s application was docketed as Case No. 05-1558-PL-ATA (“ATA
8 Case”). This Commission approved Cobra’s Initial Application in an Entry dated June
9 27, 2007. Cobra’s tariff (“Tariff”) was filed in the ATA Case on June 29, 2007.

10 **EMERGENCY RATE CASE**

11 **Q. THANK YOU. LET’S TALK ABOUT THIS EMERGENCY RATE CASE.**
12 **PLEASE EXPLAIN TO ME WHAT THE PURPOSE OF AN EMERGENCY**
13 **RATE CASE.**

14 A. My understanding is that a public utility can file an Emergency Rate Case, such as this
15 one, when its revenues are no longer meeting its operating expenses.

16 **Q. PLEASE EXPLAIN HOW COBRA EARNS REVNUUE.**

17 A. Cobra is a pipeline company that ships natural gas. Cobra earns money by shipping that
18 natural gas through its three systems.

19 **Q. HOW MUCH REVENUE HAS COBRA PROJECTED THAT IT WILL EARN IN**
20 **2018?**

1 A. Cobra projected that it would earn \$1,596.837.40 in revenue during 2018. This
2 information was provided to the Commission in Cobra's 2018 Pro Rata Income
3 Statement ("2018 Income Statement") that was attached to its Application as Exhibit A.

4 **Q. WHAT ARE COBRA'S CURRENT RATES?**

5 A. Cobra has two different rates approved by this Commission. First, this Commission
6 approved Cobra to charge \$0.50 per Dth for interruptible service. Cobra is also approved
7 to charge the following for firm service:

8 (a) a Demand Charge of \$0.50 per Dth multiplied by the Minimum Daily Quantity
9 ("MDQ") multiplied by the number of days in a month; and

10 (b) a commodity charge of \$.010 per Dth.

11 Cobra also is permitted to charge \$0.25 per Dth for processing and compression.

12 These rates are listed in Cobra's Tariff. They were approved by this Commission in that
13 ATA Case.

14 **Q. PLEASE EXPLAIN THE \$0.25 PER DTH CHARGE FOR PROCESSING AND**
15 **COMPRESSION.**

16 A. Cobra's CT system is connected to Columbia Gas ("TCO"). Natural gas transported
17 from Cobra to TCO must be compressed, which increases the pressure level of the gas, in
18 order to be delivered to TCO.

19 **Q. HOW DOES THIS \$0.25 PER DTH CHARGE IMPACT COBRA'S REVENUES**
20 **IN 2018?**

1 A. Cobra earned minimal revenue from this \$0.25 per Dth charge in 2018. Specifically,
2 Cobra's 2018 Income Statement shows that Cobra expects to earn only \$14,289.55 in
3 2018. Cobra expects this revenue stream to remain nominal until TCO ends it's shut in
4 of Cobra's CT system.

5 **Q. TCO HAS SHUT IN COBRA'S CT SYSTEM?**

6 A. Yes. However, I will not providing further testimony regarding TCO's shut in of Cobra's
7 CT system. Instead, Carolyn Coatoam will be discussing this matter in her testimony.

8 **Q. DOES COBRA HAVE ANY FIRM CUSTOMERS?**

9 A. Yes, Cobra currently has some customers that receive firm service. However, Cobra
10 believes that any customer that currently receives firm service will move to interruptible
11 service if Cobra is granted a rate increase.

12 **Q. WHICH CUSTOMERS CURRENTLY RECEIVE FIRM SERVICE?**

13 A. Northeast Ohio Natural Gas Corp ("NEO") receives firm service on NT, HV, and CT
14 systems.

15 **Q. BUT COBRA BELIEVES THAT IF THERE IS A RATE INCREASE THEN**
16 **THESE CUSTOMERS WILL MOVE TO INTERRUPTABLE SERVICE?**

17 A. Correct.

18 **Q. WHY?**

1 A. Cobra believes that its firm services customers will seek to minimize their transportations
2 costs in order to maximize their competitiveness in the market.

3 **Q. HOW DOES COBRA GENERATE REVENUE FROM INTERRUPTABLE**
4 **SERVICE?**

5 A. Generating revenue from interruptible service is a simple math equation. Cobra's total
6 revenue equals the number of Dth Shipped multiplied by the \$0.50 Dth rate.

7 **Q. HOW MANY DTHS WERE SHIPPED THROUGH COBRA'S SYSTEMS IN**
8 **2018?**

9 A. Cobra was forced to make a forecast of the volumes that it expected to deliver because
10 2018 is not finished yet. Cobra included its projected revenues for September through
11 December, 2018 in Exhibit B to its Application.

12 **EXHIBIT B SHOWS COBRA'S REVENUES AT \$2,013,366.23 AND NOT THE**
13 **\$1,596,837.40 LISTED ON COBRA'S EXHIBIT A. CAN YOU EXPLAIN THIS?**

14 A. Yes, please direct your attention to the portion of Exhibit B that is highlighted in green.
15 This section of Exhibit B reflects the portion of 2018 that Cobra collected \$0.95 per Dth
16 under its Bond before this Commission issued an Order, dated April 11, 2018 in the 2016
17 Rate Case ("April Order"), instructing Cobra to return to the \$.050 per Dth rate. Cobra's
18 2018 Income Statement removes the revenue difference in the portions entitled "Adjust
19 for 2018 billings not paid" and "Adjust for 2018 billings paid."

1 **Q. THANK YOU. YOU ALSO STATED THAT COBRA PROJECTED THE**
2 **VOLUME OF NATURAL GAS IT WOULD DELIEVER FROM SEPTEMBER**
3 **THROUGH DECEMBER 2018. HOW ACCURATE WERE COBRA’S**
4 **PROJECTIONS?**

5 A. Cobra believes that its projections were accurate. Cobra provided Staff with an update
6 regarding its projections as part of its response to DR #4.² Below is a breakdown of
7 Cobra’s projected revenues versus actual revenues for this time period:

8 September Actual: \$92,124.05

9 September Projected: \$93,473.80 (-\$1,349.75 off September Actual)

10 October Actual: \$118,851.60

11 September Projected: \$106,788.45 (\$12,063.15 off October Actual)

12 November Actual: \$166, 634.10

13 November Projected: \$130,056.95 (\$36,577.15 off November Actual)

14 **Q. WHY WERE NOVEMBER’S PROJECTED AND ACTUAL VOLUMES SO**
15 **DIFFERENT?**

16 A. One of the variables in making projections on volumes delivered on a pipeline company’s
17 system is based upon the weather. November, 2018 was colder than anticipated. Colder
18 weather means that more natural gas is required to heat homes, factories, and other

² Cobra’s response to DR #4 is attached as Exhibit JC-1.

1 buildings. This increase in demand lead to an increase in the volume of natural gas
2 shipped through a pipeline company's systems.

3 **Q. HOW MANY TOTAL DTHS HAVE BEEN DELIVERED ON COBRA'S**
4 **SYSTEMS IN 2018?**

5 A. Cobra has delivered 2,232,117 Dths from January 1, 2018 through November 30, 2018.
6 This information was also provided to the Commission's Staff in DR #4.

7 **Q. HOW MANY DTHS DOES COBRA EXPECT TO DELIEVER IN DECEMBER,**
8 **2018?**

9 A. Cobra projects to deliver 262,942 Dths in December, 2018.

10 **Q. MEANING THAT COBRA EXPECTS TO DELIVER 2,495,059 DTHS IN 2018?**

11 A. Correct.

12 **Q. WHAT ARE COBRA'S TOTAL EXPENSES IN 2018?**

13 A. Cobra stated in the 2018 Income Statement that it expects to spend \$2,629,811.12 in
14 2018. However, this number needs to be adjusted.

15 **Q. WHAT LINE ITEM DOES COBRA NEED TO ADJUST?**

16 A. Cobra realizes that it should not have included the "Depreciation Expense" line item for
17 the purposes of this Emergency Rate Case.

18 **Q. WHY SHOULD THIS LINE ITEM NOT BE INCLUDED?**

1 A. The “Depreciation Expense” line item should not be included because this is an
2 accounting mechanism used to recover the company’s investment in its systems and is
3 therefore not an operating expense.

4 **Q. WHAT ARE COBRA’S EXPENSES AFTER REMOVING THIS LINE ITEM?**

5 A. Cobra’s operating expenses total \$2,164,979.35 when this line item is removed.

6 **Q. AFTER REMOVING THIS LINE ITEM AND UPDATING THE MONTHLY**
7 **VOLUMES COBRA SHIPPED IN 2018, WHAT DO YOU BELIEVE COBRA’S**
8 **EMERGENCY RATE SHOULD BE?**

9 A. \$0.87 per MCF.

10 **Q. PLEASE EXPLAIN HOW YOU GOT TO THIS RATE.**

11 A. It is the same simple math equation that I discussed earlier. Cobra needs to earn
12 \$2,164,979.35 in order to break even. If Cobra is going to deliver 2,495,059 Dths of
13 natural gas in 2018 then it must charge \$0.87 per Dth to cover its expenses.

14 **DOES THIS PROPOSED EMERGENCY RATE INCLUDE PREVIOUSLY**
15 **ASSESSED PERSONAL PROPERTY TAXES THAT COBRA OWES?**

16 A. No, previously assessed personal property taxes (“PAPPT”) owed by Cobra were not
17 listed as a line item in Cobra’s 2018 Income Statement and, therefore, were not
18 considered within this calculation for an emergency rate.

19 **Q. DOES THIS PROPOSED EMERGENCY RATE INCLUDE DISTRIBUTIONS TO**
20 **COBRA’S OWNERS?**

1 A. No, Cobra's proposed emergency rate does not include either a rate of return for its
2 owners, nor does it contain the owner's recoupment of their investments in Cobra once
3 the "Depreciation Expense" line item is removed.

4 **Q. DOES COBRA EVENTUALLY INTEND TO PAY THE PREVIOUSLY**
5 **ASSESSED PERSONAL PROPERTY TAXES, PROVIDE ITS OWNERS A RATE**
6 **OF RETURN, AND RETURN THE OWNER'S INVESTMENT IN COBRA?**

7 A. Yes, eventually. However, it is my understanding that for the purpose of an Emergency
8 Rate Case that a utility is only allowed to seek a rate that covers its current operating
9 expenses. The other items must be handled after the emergency rate has been
10 determined.

11 **Q. HOW DOES COBRA HOPE TO ACCOMPLISH THIS?**

12 A. It is Cobra's hope that this can be achieved through the 2016 Rate Case that has been
13 consolidated with this matter. However, if that can't be accomplished then Cobra will be
14 forced to file yet another rate case.

15 **Q. ARE THERE ANY OPERATING EXPENSES THAT COBRA EXPECTS STAFF**
16 **OR THE INTERVENER'S TO CHALLENGE?**

17 A. Cobra expects the entities owned by Hearthstone Utilities, Inc. ("Hearthstone")³ to object
18 to anything and everything that allows Cobra to continue its existence. However, Cobra
19 believes that Staff will be more measured and practical in its approach. Cobra expects

³ Hearthstone currently owns a collection of public utilities that were previously owned by Cobra's owner Richard M. Osborne. These entities have been engaged in multiple litigations since Mr. Osborne was removed as the CEO of these entities.

1 inquires and/or challenges from Staff on the following line items: (1) Salaries and Wages;
2 (2) Admin Benefits; (3) Other Taxes – Payroll Taxes; (4) Regulatory – Safety; (5)
3 Professional Services – Legal; (6) PP Tax Estimate & True Up; and (7) Real Estate Taxes
4 – CT (Wash).

5 **Q. WHICH OF THESE ITEMS ARE YOU PREPARED TO DISCUSS.**

6 A. I will be addressing the following line items: (1) Salaries and Wages; (2) Admin Benefits;
7 (3) Other Taxes – Payroll Taxes; (4) Regulatory – Safety; and (5) Professional Services –
8 Legal. Carolyn Coatoam will be addressing PP Tax Estimate & True Up and Real Estate
9 Taxes – CT (Wash) line items.

10 **Q. START WITH THE SALARIES AND WAGES LINE ITEM. WHY DO YOU**
11 **BELIEVE STAFF WILL QUESTION THIS LINE ITEM?**

12 A. Actually, the (1) Salaries and Wages, (2) Admin Benefits, (3) Other Taxes – Payroll
13 Taxes line items can all be discussed as one.

14 **Q. THEN PLEASE EXPLAIN WHY COBRA BELIEVES THAT STAFF WOULD**
15 **CHALLENGE THESE LINE ITEMS.**

16 A. Cobra has seen an increase in these expenses in 2018 when compared to previous years.

17 **Q. WHY HAS COBRA SEEN AN INCREASE IN EXPENSES FOR THESE LINE**
18 **ITEMS?**

19 A. Traditionally, Cobra and OTP have split the expenses associated with these line items.
20 OTP assumed 37% of total expenses while Cobra assumed 63%. This arraignment was

1 terminated when OTP entered into receivership and the Receiver was unwilling to
2 continue this, and other, arraignments. Carolyn Coatoam testified to these facts during
3 the 2016 Rate Case.

4 Cobra's 2018 Income Statement shows that Cobra expects to spend \$499,722.67 in salary
5 and wages in 2018,⁴ while Cobra spent \$476,487.82 in 2017 and \$451,736.37 in 2016.⁵

6 This increase has occurred even though Cobra has mostly been understaffed for 2018.
7 Cobra has actually lost three (3) operators of its pipelines this year and has been forced to
8 contract with UPL to ensure that its pipelines are properly operated.

9 This increase is also true of Cobra's payroll tax expenses and its expenses associated with
10 administrative benefits. Cobra estimated that it would spend \$67,000.89 on
11 administrative benefits in 2018 compared to \$55,197.17 in 2017 and \$43,709.51 in 2016.
12 Similarly, Cobra expects to spend \$44,125.69 in payroll taxes during 2018 while it spent
13 \$37,907.53 in 2017 and \$38,078.88 in 2016.

14 **Q. IN TOTAL, HOW MUCH HAS COBRA'S BEEN FORCED TO INCREASE ITS**
15 **EXPESNES ASSOCIATED WITH EMPLOYEES' SALARIES AND BENEFITS?**

16 A. In total, Cobra projects to spend \$610,849.25 in 2018, while it spent \$569,592.52 in 2017
17 and \$533,524.76 in 2016. This means Cobra has been forced to increase its expenses
18 associated with salaries and benefits \$41,256.73 from 2017 and \$77,324.49 from 2016.

19 **Q. DOES COBRA BELIEVE THESE INCREASES IN EXPENSES ARE JUSTIFIED?**

⁴ See Exhibit A to Cobra's Application in this Emergency Rate Case.

⁵ See Exhibit H to Cobra's Application in this Emergency Rate Case.

1 A. Yes it does. Cobra has to pay its employees. In fact, I testified in the 2016 Rate Case
2 that Cobra needs additional employees to properly operate. I am not alone in this belief.
3 Specifically, I am referring to the Schumaker & Company (“Schumaker”). This
4 Commission ordered Cobra to go through a Management Audit in the 2016 Order. That
5 Management Audit was conducted in 2016 and 2017, and the auditor, Schumaker, also
6 believed that Cobra should hire additional employees and states as such in its report
7 (“Schumaker Report”).

8 **Q. NEXT, PLEASE DISCUSS THE REGULATORY – SAFETY LINE ITEM?**

9 A. Cobra is a pipeline company under R.C. §4905.03(f) and as such it this Commission has
10 the authority to regulate the safety and maintenance of Cobra’s pipelines. As part of its
11 duties in regulating pipeline safety, Cobra has received letters of probable non-
12 compliance (“PNC”) from this Commission. Cobra has worked diligently to ensure these
13 letters, and the concerns contained within those letters, receive the attention they deserve.
14 By doing so, Cobra has addressed nearly all of the concerns this Commission has
15 presented to it in the PNCs.⁶

16 **Q. DOES COBRA BELIEVE THAT THESE EXPESNES WERE JUSTIFIED?**

17 A. Yes, Cobra shares this Commission’s goal to maintain pipeline safety. Cobra simply
18 seeks the recovery of the expenses associated with maintaining pipeline safety. In this
19 Case, UTI has charged Cobra \$29,125.69 as of August 31, 2018 and Cobra anticipates the

⁶ The Commission’s own Staff admitted as such during the 2016 Rate Case. Specifically, Staff called Peter A. Chace as its sole witness to testify on pipeline safety. During his testimony, Mr. Chance stated that the only remaining concern the Commission had regarding Cobra’s pipeline safety was being addressed by Cobra’s management through its retention of an outside contractor, Utility Technologies International Corporation (“UTI”). See Mr. Chace’s Testimony at Transcript Vol. 2, P.312 – 314.

1 final bill \$44,125.69 for 2018. Mr. Chace stated, during the 2016 Rate Case, that he
2 believes Cobra should be allowed to recover these expenses.⁷

3 **Q. FINALLY, PLEASE EXPLAIN THE PROFESSIONAL SERVICES – LEGAL**
4 **LINE ITEM?**

5 A. 2018 has been a very expensive year for Cobra in regards to legal fees.

6 **Q. WHY IS THAT?**

7 A. Honestly, the 2016 Rate Case and this Emergency Rate Case have cost Cobra a lot of
8 money.

9 **Q. PLEASE ELABORATE.**

10 A. Cobra did not originally seek to be involved in a rate case. In fact, Cobra was originally
11 forced into the 2016 Rate Case by this Commission's 2016 Order. During the evidentiary
12 hearing, Cobra submitted evidence that it had spent over \$150,000 in expenses associated
13 with the 2016 Rate Case.⁸ The evidentiary hearing in the 2016 Rate Case took place on
14 September 10, 2018 and September, 11, 2018. Cobra's 2018 Income Statement accounts
15 for another \$66,590.00 between September 1, 2018 and December 31, 2018 in legal fees.
16 Most of which are associated with either: (1) this Emergency Rate Case; or (2) the
17 evidentiary hearing and the post-hearing briefs in the 2016 Rate Case.

⁷ See Mr. Chance's Direct Testimony in the 2016 Rate Case at P.6, Lines 20-22.

⁸ See Exhibit K and Exhibit L of my direct testimony in the 2016 Rate Case.

1 **Q. DOES THIS MEAN THAT ALL OF COBRA’S LEGAL FEES ASSOCIATED**
2 **WITH THE 2016 RATE CASE AND THIS EMERGENCY RATE CASE ARE**
3 **INCLUDED IN THE PROFESSIONAL SERVICES – LEGAL LINE ITEM?**

4 A. No, the 2016 Rate Case has dragged on for over two (2) years. The 2018 Income
5 Statement only reflects the legal fees that Cobra incurred during 2018 and not 2016 and
6 2017. Similarly, this Emergency Rate Case will not be concluded in 2018. The
7 evidentiary hearing isn’t scheduled to take place until January 10, 2019 and then there
8 will be the post-hearing briefs that will need to be filed.

9 **Q. DOES COBRA BELIEVE THAT THESE EXPENSES ARE JUSTIFIED?**

10 A. Yes. Cobra needs legal representation and must pay its lawyers to receive their service.
11 This Commission ordered Cobra to file the 2016 Rate Case. Staff recommended that
12 Cobra be allowed to recover its legal fees during the 2016 Rate Case. Cobra believes that
13 it should receive the same treatment for its expenses in this Emergency Rate Case. In
14 addition, Cobra does not anticipate its future legal expenses to decrease any time soon
15 due to: (1) the possibility of yet another rate case in 2019; (2) Hearststone’s eagerness to
16 engage in litigation with any entity owned by Richard M. Osborne; and (3) possible
17 litigation before the Ohio Supreme Court regarding retroactive rate making.

18 **Q. WHY WOULD COBRA BE FORCED TO FILE ANOTHER RATE CASE IN**
19 **2019?**

20 A. It is my understanding that emergency rate cases, such as this one, do not allow for the
21 recovery of a utility’s investment or for a rate of return for the utility’s owners. If this is

1 correct, and the Commission does not address these items through the consolidated 2016
2 Rate Case, then Cobra is required to file a rate case to address these issues.

3 **THE CONSOLIDATED 2016 RATE CASE.**

4 **Q. IS THIS WHY COBRA FILED A MOTION TO CONSOLIDATE THIS**
5 **EMERGENCY RATE CASE AND THE 2016 RATE CASE?**

6 A. Yes, Cobra does not want to file a third rate case. However, Cobra will file such a rate
7 case if it proves necessary.

8 **Q. HOW WOULD COBRA PREFER THAT THE COMMISSION HANDLE THIS**
9 **MATTER?**

10 A. Cobra hopes that this Commission will determine an emergency rate and then use the
11 2016 Rate Case to settle the other items necessary to establish a permanent rate.

12 **Q. HOW WOULD THE COMMISSION DO THIS?**

13 A. The Commission would accept Cobra's proposition to not limit itself to the 2015 test year
14 that was established in the 2016 Rate Case ("Test Year").

15 **Q. HOW WOULD THIS ALLOW THE COMMISSION TO SET A PERMANENT**
16 **RATE?**

17 A. It would allow this Commission to use the emergency rate as a baseline for Cobra's
18 operating expenses and then make a determination on other disputed items using the most
19 recent financial information about the company.

1 **Q. WOULDNT' THIS INFORMATION NEED TO BE REQUESTED BY STAFF?**

2 A. No. This information has already been provided to the Commission (and its Staff) as
3 exhibits and/or evidence in either this Emergency Rate Case or the 2016 Rate Case. In an
4 attempt to show good faith with the Commission and to expedite these proceedings,
5 Cobra is also attaching its entire general ledger to the Commission as Exhibit JC -2. This
6 will allow the Commission the ability to examine Cobra's entire financial history.

7 **Q. WHAT ISSUES WOULD STILL NEED TO BE ADDRESSED?**

8 A. Cobra believes that the Commission would need to make determinations on: (1) statutory
9 process of a rate case for a pipeline company; (2) the rate of return Cobra's owners are
10 entitled to receive; and (3) Cobra's ability to recover the investment made in its systems;
11 and (4) PAPPT.

12 **Q. WHICH TOPICS ARE YOU PREPARED TO DISCUSS TODAY?**

13 A. I plan on discussing the following topics: (1) the rate of return Cobra's owners are
14 entitled to receive; and (2) Cobra's ability to recover the investment made in its systems.
15 Carolyn Coatoam will discuss: (1) PAPPT; and (2) Cobra's ability to recover the
16 investment made in its systems. Cobra's attorneys will address the proper legal process
17 for a pipeline company's rate case in Cobra's post-hearing briefs.

18 **Q. PLEASE DISCUSS COBRA'S POSITION ON THE RATE OF RETURN COBRA**
19 **BELIEVES ITS OWNERS SHOULD RECEIVE.**

1 A. Cobra disagrees with Staff's position regarding the rate of return that Cobra's owners are
2 entitled to receive, including the assertion that smaller, privately held companies do not
3 have a higher risk profile from larger companies and publicly traded companies.
4 However, Cobra no longer wishes to argue this point and is willing to accept the midpoint
5 rate of return this Commission's Staff selected in its Staff Report in the 2016 Rate Case
6 ("Staff Report"). That rate was 9.09%.

7 **Q. IF COBRA ACCEPTS THE RATE OF RETURN AT 9.09% FOR ITS OWNERS**
8 **INVESTMENT THEN HOW MUCH WILL COBRA'S OWNERS RECEIVE**
9 **ANNUALLY?**

10 A. The Staff created workpapers to back up its Staff Report ("Workpapers"). According to
11 Schedule A1 of Staff's Workpapers, Cobra's owners should be entitled to receive
12 \$401,861.50 annually at the 9.09% rate of return.

13 **Q. COBRA'S OWNERS WOULD ACCEPT THIS \$401,861.50 FIGURE AS THEIR**
14 **ANNUAL RETURN ON THEIR INVESTMENT?**

15 A. Yes, but only if doing so brings about a quick resolution to this Emergency Rate Case
16 and the 2016 Rate Case.

17 **Q. NEXT, YOU SAID THAT YOU INTENDED TO COMMENT ON COBRA'S**
18 **ABILITY TO RECOVER ITS INVESTMENT?**

19 A. Correct. Cobra currently lists its total plant in service as \$4,247,839.54. This
20 information can be found in Cobra's Balance Sheet provided as Exhibit D to Cobra's
21 Application. Staff's Workpapers list Cobra's total plant in service as \$4,420,916.

1 Cobra's figure is smaller than the number found in Staff's Workpapers because three (3)
2 years have passed since the Test Year that Staff's Workpapers are based upon. Cobra
3 would like to continue to depreciate these assets at the same rate that Columbia Gas
4 ("TCO") did when they owned these assets and as Cobra has done since it has owned
5 these assets. This depreciation rate was the line item that was removed during the
6 emergency rate discussion.

7 **Q. WHAT WAS THAT AMOUNT AGAIN?**

8 A. That amount was listed as the line item entitled "Depreciation Expense" in the 2018
9 Income Statement and equals \$464,831.77.

10 **Q. DOES COBRA BELIEVE THAT STAFF WILL CHALLENGE THIS AMOUNT?**

11 A. Cobra does. However, Carolyn Coatoam will be handling the testimony to explain why
12 such a challenge is improper.

13 **Q. HOW WILL THESE TWO NUMBERS BE INVOLVED IN DETERMINING A**
14 **PERMANENT RATE FOR COBRA?**

15 A. As the Staff Report states that the three components needed to determine a proper rate of
16 return rate are: (1) rate base; (2) rate of return; and (3) operating expenses. Cobra has
17 now: (1) demonstrated its current operating expenses: (2) accepted the Staff's proposed
18 rate of return; and (3) effectively, accepted Staff's proposed rate base. These numbers
19 should be added together and divided by the number of Dths Cobra anticipates shipping
20 in 2018.

1 **Q. HAS COBRA DONE THIS CALCULATION?**

2 A. Yes, Cobra has. Cobra's depreciation rate would be \$464,831.77. Cobra's return on its
3 investment would be \$401,861.50. Cobra's operating expenses total \$2,164,979.35.
4 These combined total \$3,031,672.62. Cobra believes that it will deliver 2,495,059 Dths
5 of natural gas in 2018. Therefore, Cobra believes that a permanent rate of \$1.22 per Dth
6 is appropriate.

7 **Q. DOES THIS PROPOSED PERMANENT RATE OF \$1.22 PER DTH INCLUDE**
8 **PAPPT?**

9 A. No, it does not.

10 **Q. DOES THIS MEAN THAT COBRA IS NO LONGER SEEKING RECOVERY OF**
11 **THE PAPPT?**

12 A. Cobra still believes that the PAPPT should be recovered as a regulatory asset. Cobra
13 proposed that this regulatory asset be collected as a rider and not be included a permanent
14 rate. Carolyn Coatoam will provide Cobra's testimony regarding PAPPT.

15 **Q. DOES THIS PROPOSED PERMANENT RATE OF \$1.22 PER DTH INCLUDE**
16 **ANY REFUND THAT COBRA MIGHT OWE?**

17 A. No, this proposed rate does not factor any refund that Cobra might owe. This number
18 was based purely on the Cobra's volumes, rate base, rate of return, and operating
19 expenses. As I stated earlier, Cobra's attorneys will address this matter in the post-
20 hearing briefs in this Emergency Rate Case and/or before the Ohio Supreme Court.

1 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2 A. Yes, it does. However, I reserve the right to further supplement my testimony.

EXHIBIT JC-1 TO TESTIMONY WITHHELD AND FILED UNDER SEAL

EXHIBIT JC-2 TO TESTIMONY WITHHELD AND FILED UNDER SEAL

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Summary: Testimony Public Copy of Jessica Carothers's Testimony filed in Cobra's Emergency Rate Case. electronically filed by Mr. Justin M Dortch on behalf of Cobra Pipeline Company, LTD