



October 11, 2018

Hon. Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Kern River Gas Transmission Company
Docket No. RP19-_____
FERC Form No. 501-G

Dear Secretary Bose:

On July 18, 2018, the Federal Energy Regulatory Commission (FERC or Commission) issued a Final Rule in Docket No. RM18-11¹ to address the impacts of the federal Tax Cuts and Jobs Act of 2017 on the cost of service for interstate pipelines. Interstate pipelines are required to file a one-time informational report showing a calculation of the hypothetical impact of the federal income tax rate change on 2017 financial results (FERC Form No. 501-G). Pipelines were to choose one of four options: (1) take no action; (2) file a statement explaining why a rate adjustment is not needed; (3) file a Natural Gas Act limited Section 4 filing to reduce rates; or (4) make a commitment to file a general Section 4 rate case in the near future.

Purpose

In accordance with 18 C.F.R. § 260.402 of the Commission's regulations, Kern River Gas Transmission Company (Kern River) hereby submits for filing its FERC Form No. 501-G, including a Statement Of Kern River Gas Transmission Company Explaining Why No Rate Adjustment Is Necessary (Statement) attached hereto. Kern River also is filing concurrently, in a separate docket, a Stipulation and Agreement of Settlement designed to provide an 11% rate reduction in the form of a credit by reflecting a decrease in the federal corporate tax rate, consistent with the purpose of 18 C.F.R. § 154.404.

¹ Interstate and Intrastate Natural Gas Pipelines; Rate changes Relating to Federal Income Tax Rate, Order No. 849, Final Rule, 164 FERC ¶ 61,031 (2018).

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Materials Submitted

This filing is comprised of an eTariff.xml filing package containing:

- this transmittal letter;
- Form No. 501-G; and,
- Statement

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A copy of this filing has been served electronically on Kern River's shippers and other interested parties.

Respectfully submitted,

/s/ Laura Demman

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Vice President, General Counsel & Regulatory Affairs
KERN RIVER GAS TRANSMISSION COMPANY

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**KERN RIVER GAS TRANSMISSION) Docket No. RP19-___-000
COMPANY**

**STATEMENT OF
KERN RIVER GAS TRANSMISSION COMPANY
EXPLAINING WHY NO RATE ADJUSTMENT IS NECESSARY**

Pursuant to the procedures set forth in the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) Final Rule in Docket Nos. RM18-11-000, et al.¹ and the regulations promulgated therein,² Kern River Gas Transmission Company (“Kern River”) hereby submits its Statement Explaining Why No Rate Adjustment Is Necessary, including additional information not contained in Kern River’s FERC Form No. 501-G,³ which is being filed concurrently herewith.⁴

Kern River commends the Commission for the overall balanced approach taken, following passage of the Tax Cuts and Jobs Act (“TCJA”), to ensure pipelines’ rates are just and reasonable. Kern River particularly appreciates the Commission’s commitment to develop an understanding of each pipeline’s “unique and different circumstances.”

¹Interstate and Intrastate Natural Gas Pipelines; Rate Changes Relating to Federal Income Tax Rate, Order No. 849, Final Rule, 164 FERC ¶ 61,031 (2018) (“Final Rule”).

²18 C.F.R. § 260.402.

³ The One-time Report on Rate Effect of the TCJA is referred to interchangeably as “FERC Form No. 501- G” or “One-time Report.” Kern River’s FERC Form No. 501-G is reproduced herein as Exhibit “1.”

⁴ Concurrent herewith, Kern River is filing a Stipulation and Agreement (“Stipulation”) and Explanatory Statement pursuant to 18 C.F.R. § 385.602 and 18 C.F.R. § 385.207(a)(5), including tariff sheets to become effective upon approval by a Final Order. If approved by the Commission, the Stipulation would reduce the amount paid by maximum rate shippers by the “Indicated Cost of Service Reduction” of 11.0 percent set forth on page 1, line 30 of Kern River’s adjusted FERC Form No. 501-G, included as Appendix B of the Stipulation. The proposed Stipulation flows through the lower 21 percent federal corporate income tax rate in accordance with the purpose of 18 C.F.R. § 154.404. Further, if the Commission issues a Final Order approving the Stipulation, Kern River requests the Commission promptly issue a notice closing this proceeding.

Requiring pipelines to provide appropriate data in a structured format, but inviting the pipelines, who know the data and their financial position better than anyone else, to provide pipeline specific facts and circumstances and to propose necessary adjustments to properly accommodate their unique facts and circumstances, is an efficient and reasonable way to effectuate a new law such as the TCJA.

As shown herein, based on consideration of all the facts and circumstances related to Kern River's rates, there is no basis for concluding that Kern River's rates are unjust and unreasonable. Accordingly, Kern River respectfully requests the Commission to find that no rate adjustment is necessary. In support hereof, Kern River states as follows:

I.
EXECUTIVE SUMMARY

When the impact of the TCJA on Kern River is reflected on the FERC Form No. 501-G and necessary corrections are made to properly reflect Kern River's unique levelized rate structure,⁵ Kern River's return on equity *after tax reform* is 12.5 percent.⁶ Moreover, when the adjusted return on equity shown on the One-time Report is considered in light of the contract turn back and the revenue risk Kern River faces in its primary marketplace, no adjustment to Kern River's rates, as a result of the TCJA, is appropriate.

Historically, the vast majority of Kern River's capacity has been contracted under long-term maximum tariff rate service agreements. However, the market and contracting practices on Kern River have fundamentally changed. FERC Form No. 501-G, which

⁵ Kern River is fundamentally different from every other major interstate pipeline with traditional rate structures. The Commission certificated Kern River under the optional certificate regulations and authorized a levelized rate structure. *Kern River Gas Transmission Co.*, 60 FERC ¶ 61,123 (1992). Adjustments to the FERC Form No. 501-G are required to accommodate Kern River's levelized rates and to account for the 2017 Alternate Period Two settlement approved by the Commission.

⁶ Exhibit "2."

reflects a snapshot of conditions on Kern River as of December 31, 2017, does not reflect the current commercial environment or the large contract turn back that occurred May 1, 2018, a magnitude of turned-back capacity never experienced by Kern River and rare in the industry. Importantly, this contract turn back occurred even though the shippers had an option to extend their contract at a significant reduction to the Period One rate.⁷

Demand for Kern River's capacity to transport Rocky Mountain gas to Southern California has fallen in the last several years, which has resulted in a decline in the value of Kern River's capacity. Market declines in Southern California and the strong demand for low-cost Permian Basin gas have significantly decreased demand for Rocky Mountain gas on Kern River. The most significant impact of the unprecedented soft demand came to fruition May 1, 2018, when a large group of shippers did not recontract their capacity because the forward prices of Kern River's capacity did not support the dramatically lower tariff rate. As of May 1, 2018, following the turn back of capacity by the 2003 15-year Expansion shippers, Kern River had 648,092 Dth/day of long-term unsubscribed capacity to California, which represented approximately 30 percent of Kern River's long-term contracted capacity.

The confluence of poor market conditions for capacity on Kern River's pipeline and expiring long-term maximum tariff rate agreements on April 30, 2018, resulted in a materially different risk profile for Kern River in 2018 and going forward than existed in 2017. As of May 1, 2018, for the first time since the pipeline went into service in 1992, Kern River has a substantial quantity of capacity that is not subscribed under long-term firm contracts. Despite Kern River's extraordinary effort to incent long-term capacity

⁷ The 2003 Expansion 15-year shippers had multiple options to extend their contracts at significantly lower rates, including an option that represented a 57.2 percent reduction to the Period One rate.

holders to contract for Period Two service, there simply was no demand for long-term agreements at, or even close to, the much lower Period Two tariff rates. Consequently, after the turn back, Kern River sold most of the capacity under month-to-month index-based, volumetric agreements, which subjected Kern River revenue to the variability of market prices.⁸

This fundamental paradigm shift makes use of the FERC Form No. 2 (“Form 2”) data as of December 31, 2017, an unreasonable means to estimate Kern River’s return in 2018 and in the future. The reality is that Kern River is subject to far more revenue risk than the historical period reflected in FERC Form No. 501-G. Based on current and projected market conditions, any adjustment to Kern River’s rates would be unjust and unreasonable and would prompt Kern River to file a section 4 rate case to adjust billing units to reflect the impact of turned-back capacity.

II. BACKGROUND AND INTRODUCTION

A. Tax reform impact on pipeline rates.

On July 18, 2018, the Commission issued the Final Rule in response to the TCJA. The Final Rule requires interstate natural gas pipelines to file the One-time Report, which is designed to collect financial information to allow the Commission to evaluate the impact of the TCJA on the pipeline’s revenue requirement. The Commission recognized in the Final Rule that some pipelines should be exempt from the requirement to file the One-time Report. In addition to clarifying that pipelines may, on a case-by-case basis, request waivers of the filing requirements, the Commission provided automatic exemptions from

⁸ As shown in Exhibit “3,” during 2017, the period covered by the Form 2, the index price of Kern River capacity was below the 2003 Expansion 10-year Period Two rate 85 percent of the days.

filing the One-time Report to: (1) pipelines that file an uncontested, prepackaged settlement of their rates between March 26, 2018, the date the NOPR was published in the Federal Register, and the date their One-time Report would otherwise be due and (2) pipelines whose rates are being examined in a general rate case under NGA section 4 or a rate investigation under NGA section 5, as of the deadline for filing their One-time Report.⁹

The Final Rule recognizes that those pipelines filing a One-time Report will not necessarily be required to file the prospective reductions in rates indicated by the information contained in such report. It offers four options for a pipeline to address changes to its recovery of tax costs: (1) a limited NGA section 4 filing to reduce rates to reflect the decrease in the tax rate; (2) a commitment to file a general NGA section 4 rate case in the near future; (3) a statement explaining why an adjustment to rates is not needed; or (4) no action other than filing the One-time Report.¹⁰ The Final Rule states that if a pipeline does not choose either of the first two options, the Commission will consider, based on information in the One-time Report and other materials, “whether to issue an order to show cause under NGA section 5 requiring the pipeline either to reduce its rates to reflect the income tax reduction or explain why it should not be required to do so.”¹¹

B. Kern River does not have a traditional rate structure.

Kern River is unique among major interstate pipelines and has been from its beginning. Originally certificated in 1989 and placed in service in 1992, Kern River transports natural gas supplies from the Rocky Mountain area to its primary market in

⁹ Final Rule at P 159.

¹⁰ *Id.* at P 190.

¹¹ *Id.* at P 21.

Southern California where it serves gas and electric utilities and industrial customers, particularly the enhanced oil recovery and cogeneration markets in Kern County, California.¹² Kern River also has major delivery points in Utah and Nevada. Kern River was authorized to construct its facilities under the Commission's Optional Certificate procedures adopted in Order No. 436.¹³ Eligibility under the Optional Certificate procedures required Kern River, as a new service provider, to provide open access transportation and required it to assume the risks of the project. In the Original Certificate Order, the Commission authorized use of a levelized cost of service, which levelizes recovery of capital costs and operating costs, such as O&M and A&G costs, over a total of 25 years. The Commission authorized Kern River to charge separate levelized rates for three different periods: (1) the 15-year term of the firm shippers initial contracts ("Period One"); (2) the 10-year term from the expiration of those contracts to the end of Kern River's assumed 25-year depreciable life ("Period Two"); and (3) the period thereafter ("Period Three"). The levelized rates for Period One were designed to recover approximately 70 percent of Kern River's original investment, an amount equal to the portion of its invested capital funded through debt.¹⁴ The Period Two rates were designed to recover the remaining 30 percent of Kern River's invested capital. Period Two rates were designed on 100 percent equity capital structure since the capital funded through debt was paid off with Period One rates.¹⁵ The Commission said Period Three rates would recover operating expenses, taxes and a reasonable management fee. This unique levelized

¹² *Kern River Gas Transmission Co.*, 117 FERC ¶ 61,077, Opinion No. 486 (2006).

¹³ *Kern River Gas Transmission Co.*, 50 FERC ¶ 61, 069 (1990) ("Original Certificate Order").

¹⁴ Original Certificate Order, 50 FERC ¶ 61,144.

¹⁵ *Opinion No. 486* at P 106; *see also Aera Energy L.L.C. v. FERC*, 789 F.3d 184 (D.C. Cir. 2015), *Citing* Original Certificate Order.

structure remains in place today, although the lengths of Period One and Period Two, as well as the applicable depreciable lives, have been extended.¹⁶ Kern River is not aware of any other major interstate pipeline that has been authorized to charge levelized rates for multiple periods.

C. As of May 1, 2018, contract turn back represented approximately 30 percent of Kern River's long-term revenue.

Since the pipeline went into service in 1992, it has essentially been fully contracted. Exhibit "4" shows Kern River's long-term contract capacity since 2013, following completion of Kern River's most recent expansion project.¹⁷ Until recently, Kern River shippers entered into 10- or 15-year service agreements. The potential risk of Period One shippers not contracting for Period Two has always been present, but given the design of Kern River's levelized rates, which results in a Period Two rate that is significantly lower than the Period One rate, it was anticipated that the Period One shippers would recontract for Period Two service.¹⁸

As the Period Two notification deadline approached for the 2003 Expansion 15-year shippers, market conditions were such that the forward market prices for Kern River capacity in the initial years of Period Two was below the Period Two tariff rate.¹⁹ Kern River proactively initiated discussions with customers to address Period Two contracting issues in advance of shippers making the decision whether to recontract Period Two

¹⁶ *Kern River Gas Transmission Co.*, 92 FERC ¶ 61,061 (2000); *Kern River Gas Transmission Co.*, 158 FERC ¶ 61,078 (2017).

¹⁷ *Kern River Gas Transmission Co.*, Order Approving Certificate, 132 FERC ¶ 61,226 (2010). As a result of the Apex Expansion, Kern River's annualized design capacity increased to 2,166,575 Dth/day.

¹⁸ In the Original Certificate Order, the Commission authorized Kern River to collect 70 percent of its investment in Period One and 30 percent in Period Two. Original Certificate Order at 61,150.

¹⁹ Exhibit "5."

capacity, i.e., the “turn back” capacity.²⁰ Kern River proposed various alternatives to shippers to mitigate this recontracting risk and avoid the loss of a significant known and measurable revenue stream. Ultimately, Kern River and its customers reached agreement on one of the proposals, the “Alternate Period Two” rate proposal, which was filed as an uncontested settlement and approved by the Commission January 27, 2017.²¹ The Alternate Period Two settlement offered a rate lower than the 10- and 15-year Period Two rates set forth in Kern River’s tariff, and importantly, a rate more competitive with forward market prices.²² Even though the settlement was uncontested, only 35 percent of the capacity expiring April 30, 2018, was recontracted and 494,622 Dth/day was turned-back to Kern River leaving a total of 648,092 Dth/day capacity uncontracted, representing approximately 30 percent of the capacity utilized to establish Kern River’s current rates. Subsequent to the Alternate Period Two settlement, Kern River made proposals designed to encourage shippers to contract for Period Two by offering a rate option that was lower than the original Period Two and Alternate Period Two tariff rates. However, none of the subsequent proposals were accepted by Kern River’s customers.

III. STATEMENT

A. The Commission’s statutory obligation is to approve rates that are just and reasonable.

As recognized in the Final Rule, the Commission is not requiring that all interstate natural gas pipelines make a rate reduction based on FERC Form No. 501-G. A number of pipelines are expressly exempt from even filing the form; much less making whatever rate

²⁰ Kern River’s tariff required shippers to provide notice to Kern River of whether they will elect Period Two one year in advance of the commencement of Period Two service.

²¹ *Kern River Gas Transmission Co.*, 158 FERC ¶ 61,078 (2017).

²² *Id.* at P 2.

reduction would be suggested by the form. The Final Rule recognizes that those pipelines filing FERC Form No. 501-G are not necessarily required to reduce rates exactly as suggested by such form if they make a commitment to file a general NGA section 4 rate case in the near future, file a statement explaining why the suggested reduction to rates is not needed, or have their rates determined in a NGA section 5 proceeding. Providing these options comports with the Commission's statutory obligation to approve just and reasonable rates that are based on each pipeline's individual facts and circumstances.

B. Kern River's return on equity is not unjust and unreasonable based on its individual facts and circumstances.

The adjusted return on equity for calendar year 2017 is 9.8 percent.²³ This 9.8 percent return on equity, is *below* the 11.55 percent return on equity authorized for Kern River by the Commission in Kern River's last rate case.²⁴ Thus, the 2017 Form 2, which is the data used to produce the FERC Form No. 501-G calculation, demonstrates that Kern River under-recovered its return on equity in 2017. In fact, Exhibit "6" shows Kern River has not earned its authorized return of 11.55 percent in any of the last five years.

These actual results are in stark contrast to the return on equity portrayed when Kern River mechanically completes the FERC Form No. 501-G, without regard to whether the required adjustments to the filed Form 2 data apply to Kern River's individual facts and circumstances. Consistent with the Commission's specific instructions, Exhibit "1" is the FERC Form No. 501-G, applying actual 2017 Form 2 data, adjusted for an imputed capital structure with a 57 percent equity ratio and a corporate income tax rate of 21 percent.

²³ Exhibit "6."

²⁴ *Kern River Gas Transmission Co.*, 126 FERC ¶ 61,034 at P 30 (2009).

Exhibit “1” shows Kern River’s estimated 2017 return on equity to be 21.4 percent.²⁵ Although 21.4 percent is the result of strictly following the Commission’s instructions, it is misleading, as it does not reasonably reflect Kern River’s unique facts and circumstances. Specifically, it does not reflect the inherent differences in the levelized rate structure the Commission authorized for Kern River or the prior period adjustments required to appropriately reflect the Alternate Period Two settlement approved by the Commission. Both of these adjustments are required to properly use the 2017 Form 2 data for the purpose of developing a cost and revenue study to determine whether to initiate a NGA section 5 investigation. Neither of the adjustments would be typical for a pipeline with a traditional rate design, because both adjustments are uniquely associated with Kern River’s levelized rate design, which has been consistently affirmed since it was ordered by the Commission in the Original Certificate Order.

C. Adjustments are required for FERC Form No. 501-G to accurately reflect Kern River’s levelized rates.

In the Final Rule, the Commission said the One-time Report is an informational filing that serves two purposes: (1) to help determine whether to initiate NGA section 5 investigations of pipelines’ rates and (2) as support for limited NGA section 4 filings pipelines may choose to make.²⁶ In regard to the first purpose, the Commission said the FERC Form No. 501-G was designed in a “manner that will produce an estimated return on equity that is as accurate as possible.”²⁷ The Commission desires to use the One-time Report as a screening tool to analyze the impact of tax reform in an expedited manner. The

²⁵ Returns with tax reform assume a calculation of the amortization of the excess deferred income taxes using the Reverse South Georgia Method as Kern River’s tax accounting system does not have the information necessary to utilize the Average Rate Assumption Method.

²⁶ Final Rule at P 111.

²⁷ *Id.*

Commission provided specific instructions for pipelines to follow to help ensure uniformity. Presumably, standardization allows the Commission to analyze the data consistently and more efficiently. Such a disciplined approach makes sense for traditional pipelines, but the standardization does not work when applied to a nontraditional pipeline, like Kern River with levelized rates. As described above, Kern River’s rate structure is not like other interstate pipelines. Simply transferring the Form 2 data into the One-time Report, which is used for the purpose of evaluating cost of service, produces inaccurate results because of the manner in which Kern River is required to calculate its levelized rates. Kern River’s Form 2 data must therefore be adjusted in order to be accurately used for review of Kern River’s rates. Specifically, Kern River identifies two types of adjustments that must be made in order to provide a reasonably accurate estimate of Kern River’s return on equity before and after the TCJA.²⁸ Each adjustment, individually and collectively, has a material effect on Kern River’s return on equity.

i. Unique Levelization Methodology

The Commission found in the Final Rule that it was appropriate for the FERC Form No. 501-G to use the imputed capital structure instead of the capital structure used in the pipelines’ Form 2, “when it appears that the capital structure in the Form 2 [] does not comply with Commission policy.”²⁹ Kern River’s 100 percent equity capital structure complies with Commission policy. Therefore, use of an imputed capital structure is not required or appropriate. The One-time Report was designed to accommodate traditional pipelines, not Kern River’s levelized rate structure, for which the Commission has

²⁸ In the Final Rule, the FERC said, “FERC Form No. 501-G is intended to provide a rough estimate of the pipelines’ return on equity.” *Id.*

²⁹ *Id.* at P 111.

repeatedly authorized a 100 percent equity capital structure.³⁰ When Kern River attempts to insert 100 percent equity into the form, it automatically imputes a 57 percent equity ratio. Forcing Kern River to impute a 57 percent equity capital structure results in an inaccurate and unreliable estimated return on equity, contrary to the desire expressed by the Commission in the Final Rule.³¹

The levelized rate design methodology approved under the optional expedited certificate regulations authorized in the Original Certificate Order requires Kern River to recover 70 percent of its invested capital in Period One, which was financed by debt and to recover the remaining 30 percent of its invested capital in Period Two, which was financed entirely by equity.³² Kern River's 100 percent equity capital structure may be unusual, but 100 percent equity capital structure has been the policy of the Commission since the Original Certificate Order. The Commission consistently affirmed the use of 100 percent equity. In Opinion No. 486-D the Commission found:

The Commission ordinarily would not approve the use of a 100 percent equity capital structure. However, as previously discussed, the Commission's August 1992 Order in the optional expedited certificate proceeding granted Kern River's request to clarify that its Period Two rates could be designed using a 100 percent capital structure. That holding followed from the fact that the Period One rates are intended to permit Kern River to pay off its entire debt.³³

The Commission unambiguously found: "[A] 100 percent equity capital structure is an integral part of the overall rate design approved by the Commission in the Optional Expedited Certificate."³⁴

³⁰ *Kern River Gas Transmission Co.*, 133 FERC ¶ 61,162 (2010).

³¹ Final Rule at P 111.

³² *Id.* at P 161.

³³ *Kern River Gas Transmission Co.*, 133 FERC ¶ 61,162 at P 161 (2010) ("Opinion 486-D").

³⁴ *Id.*

The single caveat the Commission has placed on Kern River's rates being designed using a 100 percent equity capital structure is in regard to refinancing of debt. The Commission said if Kern River refinances its debt, 100 percent equity would not be appropriate.³⁵ Kern River has *not* refinanced its debt. Kern River fully satisfied, discharged and canceled its outstanding debt in accordance with applicable debt instruments May 8, 2017. Kern River's actual capital structure is 100 percent equity.

The FERC Form No. 501-G forced imputation of 57 percent equity capital structure violates the rate design principles approved in Kern River's original certificate proceeding, is contrary to unambiguous Commission precedent, and conflicts with the 2015 order of the United States Court of Appeals for the District of Columbia Circuit where the Commission successfully supported the Opinion No. 486 series of orders in which the Commission found Kern River's Period Two rates were to be designed based on a 100 percent equity capital structure.³⁶ Moreover, imputation of a 57 percent equity ratio is inconsistent with the Final Rule.³⁷

Estimating a return on equity for Kern River also requires use of an average rate base in accordance with its Commission-approved levelization methodology. FERC Form No. 501-G requires use of 2017 Form 2 data, which reflects an end of period balance, i.e., a balance as of December 31, 2017.³⁸ In accordance with the Commission's instructions, Kern River used this end of period balance to produce the FERC Form No. 501-G set forth in Exhibit "1." However, in order to produce an estimated return on equity that is consistent

³⁵ Opinion No. 486-F at P 151.

³⁶ Opinion No. 486-D at PP 161, 195. *See also* Opinion No. 486-E at P 151 and Opinion No. 486-F at P 151; *Aera Energy LLC v. FERC*, 789 F.3d 184, 190 (D.C. Cir. 2015).

³⁷ *Id.* at P 111 (Commission would use an imputed capital structure "when it appears the capital structure reported in Form 2 *does not* comply with the Commission Policy").

³⁸ Exhibit "1," page 3, line 25, column C (actuals) and column E (with adjusted tax allowance).

with Kern River's levelized rate models (and Commission precedent), the rate base line must be modified to reflect an average rate base.³⁹ In Docket No. RP04-274, the Administrative Law Judge found that Kern River had carried its burden of proving its levelized cost-of-service/ratemaking methodology, including use of average rate base, produced just and reasonable rates.⁴⁰ The Commission affirmed the Initial Decision in Opinion No. 486.⁴¹ Exhibit "2" is the Adjusted FERC Form No. 501-G with actual 2017 Form 2 data, adjusted to reflect Kern River's average rate base and 100 percent equity.

For the foregoing reasons, Kern River requests the Commission to accept Kern River's adjustments to the FERC Form No. 501-G to properly reflect Kern River's 2017 Form 2 capital structure of 100 percent equity and average rate base. As shown in Exhibit "2," replacing the imputed capital structure with Kern River's actual 100 percent equity capital structure, along with the use of the average rate base, reduces Kern River's estimated return by 8.1 percent, from 21.4 percent to 13.3 percent.⁴²

ii. Prior Period Adjustments

Kern River's FERC Form No. 501-G, which is based on the 2017 Form 2 data, includes accounting changes not related to Kern River's 2017 cost of service and therefore skews the calculated return on equity. Accounting adjustments are necessary to remove rate refunds and depreciation changes booked in 2017 as a result of a rate settlement, but that relate to prior years' activity.

³⁹ Average rate base of \$984.4 million (Exhibit "2," page 3, line 27, column D) is the average of the December 31, 2016, and December 31, 2017, rate base balances, after adjustment for tax allowance. The December 31, 2016, rate base balance is set forth in Exhibit "7."

⁴⁰ *Kern River Gas Transmission Co.*, 114 FERC ¶ 63,031 at P 253 (2006) ("Initial Decision").

⁴¹ *Kern River Gas Transmission Co.*, 117 FERC ¶ 61,077 at P 37 (2006).

⁴² Exhibit "2," page 3, line 28, column E.

On January 27, 2017, the Commission approved the Alternate Period Two settlement filed by Kern River to establish an alternative set of reduced rates for eligible shippers⁴³ that elect Alternate Period Two service, pursuant to the terms of the stipulation.⁴⁴ The Alternate Period Two settlement provided a lower rate option to customers, attempted to improve the likelihood of recontracting expiring capacity and extended recovery of Kern River's rate base. The reduction in rates was accomplished by extending the levelized depreciation term to 25 years. The lower rate started on the date any electing shipper commenced Period Two service, notwithstanding whether that date had already occurred. For instance, the 2002 Expansion 10-year shipper that elected Alternate Period Two service received the lower rate on the settlement's effective date, and received a refund for the difference between the shipper's current Period Two rate and the lower Alternate Period Two rate back to May 1, 2012, the date the 2002 Expansion 10-year shipper commenced Period Two service. Additionally, the settlement required Kern River to adjust, as of the beginning of Period Two, depreciation rates to reflect the longer, 25-year depreciation rate. Similar to the rate adjustment described above, depreciation also had to be adjusted back to the date each electing shipper stepped down to Period Two. These adjustments were required to ensure all shippers were treated the same, regardless of whether a shipper elected Alternate Period Two service.

Kern River reported in the Form 2, that the 2017 income statement includes \$4.8 million of refunds required by the Commission-approved Stipulation and Agreement,⁴⁵ including \$3.0 million refunded for prior periods to shippers that elected the new lower

⁴³ Kern River FERC Gas Tariff Section 30.1 (d).

⁴⁴ *Kern River Gas Transmission Co.*, 158 FERC ¶ 61,078 (2017).

⁴⁵ FERC Form 2, Notes to Financial Statements, p. 122.13.

rates at step down to Period Two prior to 2017.⁴⁶ In addition, the December 31, 2017 Form 2 includes adjustments for levelized depreciation for the Alternate Period Two contracts extending from 10- or 15-year periods to a 25-year period and a change in the book depreciation rates beginning March 1, 2017.⁴⁷ These changes caused a reduction of Kern River's regulatory liability for levelized depreciation on utility plant of \$16.0 million, including \$13.7 million for levelized depreciation prior to 2017.⁴⁸ This reduction in the regulatory liability was reported as a regulatory credit.⁴⁹ Exhibit "2" is the FERC Form No. 501-G with actual 2017 Form 2 data, adjusted to remove the impact of the rate refund and depreciation adjustments associated with periods prior to 2017.⁵⁰ The depreciation and refund amounts related to 2017 were not adjusted. As shown in Exhibit "2," these adjustments reduce Kern River's estimated return on equity by 0.8 percent.

In summary, when the adjustments necessary to reflect Kern River's unique levelized rate structure and the prior period adjustments are made to the FERC Form No. 501-G, Kern River's hypothetical return on equity is, 12.5 percent, not 21.4 percent. Exhibit "2" presents each adjustment in the FERC Form No. 501-G format. These adjustments are summarized in Table 1.

⁴⁶ Exhibit "8," page 1.

⁴⁷ *Id.* at pp. 122.10-122.11.

⁴⁸ Exhibit "8," page 2.

⁴⁹ *Id.*

⁵⁰ Exhibit "2," page 3, column F.

Table 1: Return on Equity Adjustments

ROE per FERC Form No. 501-G (Includes Tax Reform and 57% Equity)	21.4%
Impact of Levelized Rate Design	-8.1%
Removal of Alternate Period Two Prior Period Adjustments	<u>-0.8%</u>
Adjusted ROE (Includes Tax Reform)	12.5%

While the adjusted FERC Form No. 501-G return of 12.5 percent is above Kern River’s authorized return of 11.55 percent, it must be considered in the context of the volatility and contracting risk that Kern River is now exposed to, which is not fully reflected in Kern River’s 2017 Form 2. The adjusted return on equity of 12.5 percent provides a better starting point for the Commission to decide whether a NGA section 5 investigation is appropriate.

D. FERC Form No. 501-G does not reflect the change in circumstances on Kern River.

FERC Form No. 501-G relies entirely on the financial data provided by Kern River in its 2017 Form 2 for the 12 months ending December 31, 2017. The Form 2 reports past performance for the 2017 calendar year.⁵¹ Form 2 data is historical in nature and, by definition, does not reflect activity subsequent to the end of the period reported. A tool designed to report historical data should not be used as the sole means to evaluate the reasonableness of current rates, particularly in times of significant change. This is precisely the problem with only using Form 2 data as the basis for evaluating whether a NGA section 5 investigation should be initiated. In short, given the significant market and contract

⁵¹ *Revisions to Forms, Statements & Reporting Requirements for Nat. Gas Pipelines*, 122 FERC ¶ 61,521 (2008).

changes on Kern River, the 2017 Form 2 is already outdated. Specifically, Kern River's 2017 Form 2 data does not take into account: (1) the revenue impact of 2018 capacity turned-back and not recontracted on a long-term basis or at tariff rates, (2) the significant competition Kern River faces for delivering natural gas to Southern California, and (3) the lower market value of Kern River capacity from the Rocky Mountains to California. The fact that prevailing market conditions prevented Kern River from reselling unsubscribed capacity of 648,092 Dth/day for a rate and term anywhere near the historical terms reflected in the Form 2 revenue, precludes a finding based on 2017 Form 2 information that Kern River's current rates are unjust and unreasonable, with or without the effect of tax reform.

i. 2017 Form 2 Data Does Not Reflect 2018 Contract Turn Back

In 2018, 494,622 Dth/day of capacity, representing approximately 23 percent of Kern River's design capacity was relinquished and not recontracted on a long-term basis. Prior to being turned-back, the capacity had been under long-term firm agreements at maximum tariff rates. This turn back capacity, together with the capacity available because of smaller turn backs in previous years, left Kern River with 648,092 Dth/day of long-term unsubscribed capacity available May 1, 2018. As shown in Exhibit "4," Kern River's contracted long-term firm capacity decreased from 94.4 percent of design capacity in 2017 to 70.1 percent in 2018. Although Kern River pursued extraordinary steps to resell the capacity under long-term firm contracts, market conditions and prevailing market prices, which were significantly less than the applicable tariff rate in the near term, made it impossible to recontract all of the available capacity. Notwithstanding these efforts, including the uncontested Alternate Period Two rate settlement,⁵² Kern River was only

⁵² *Kern River Gas Transmission Co.*, 158 FERC 61,078 (2017).

able to sell 35 percent of the 2003 Expansion 15-year capacity subject to turn back on May 1, 2018, under long-term firm contracts.⁵³ Instead, in an effort to maximize the value of the turned-back capacity, Kern River resorted to selling the turned-back capacity through short-term, volumetric, index-based contracts. By their nature as short-term, volumetric, index-based agreements, these contracts fail to provide Kern River the contract duration and revenue level characteristics realized from the long-term firm, maximum tariff rate agreements that were in place prior to May 1, 2018, i.e., throughout the period reported in Kern River's Form 2. These short-term, volumetric, index-based contracts represent a substantial departure from the manner in which capacity has traditionally been marketed and sold on Kern River. The decreased interest in long-term firm, maximum tariff rate capacity reflects a trend that is expected to continue in the future and is certain to be a main component of Kern River's next NGA section 4 rate case. Contract turn back will have a material impact on the known and measurable revenue level and billing determinants included in the cost of service.

The contract turn back that occurred May 1, 2018, reflects a material change in circumstances to the period ending December 31, 2017. These changed circumstances make achieving, let alone exceeding, the authorized return more difficult, even with the help of the lower corporate income tax rate. The inability to sell approximately 650,000 Dth/day of unsubscribed capacity under traditional long-term firm agreements at maximum tariff rates has exposed approximately 30 percent of Kern River's capacity and associated revenue to the volatility of market prices. Therefore, whether Kern River will achieve its authorized rate of return will largely depend on the daily index price spread for natural gas

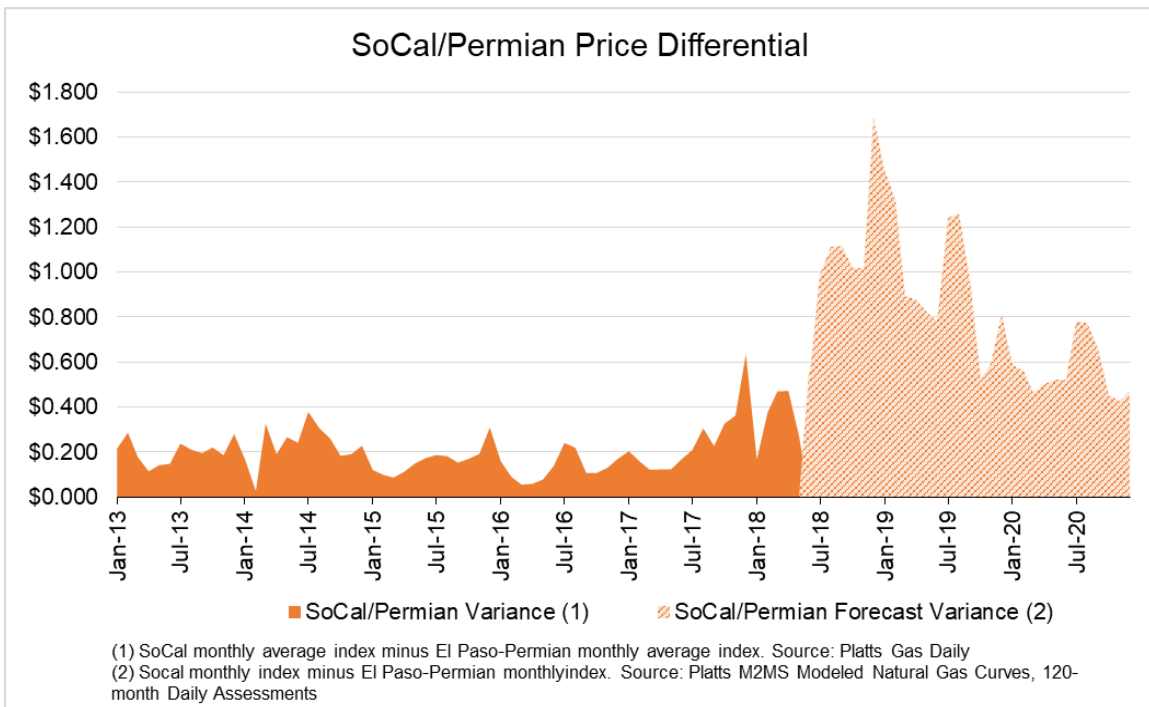
⁵³ As shown in Exhibit "9," 272,000 Dth/day of 766,622 Dth/day of the 2003 Expansion 15-year capacity was contracted for Period Two at the applicable Period Two tariff rate.

between the Rockies and Southern California. Even if the volatility and daily price spreads allow Kern River to achieve its authorized return in any one year, it does not mean the authorized return will be achieved every year. The material changes in the market represent a significant revenue risk for Kern River that is not reflected in the One-time Report.

ii. 2017 Form 2 Data Does Not Reflect Current Southern California Market Dynamics

In addition to the 2017 Form 2 data not reflecting the substantial capacity turn back referenced above, such data masks the significant change in Southern California market dynamics that impacted the value of Kern River capacity. The most significant change is the availability of natural gas from the Permian Basin. Pipelines such as El Paso and Transwestern have transported natural gas from the Permian Basin to Southern California for decades. However, the recent resurgence in the Permian Basin, driven by improved technology and production techniques, has caused a fundamental paradigm shift.

Chart 1: SoCal/Permian Price Differential



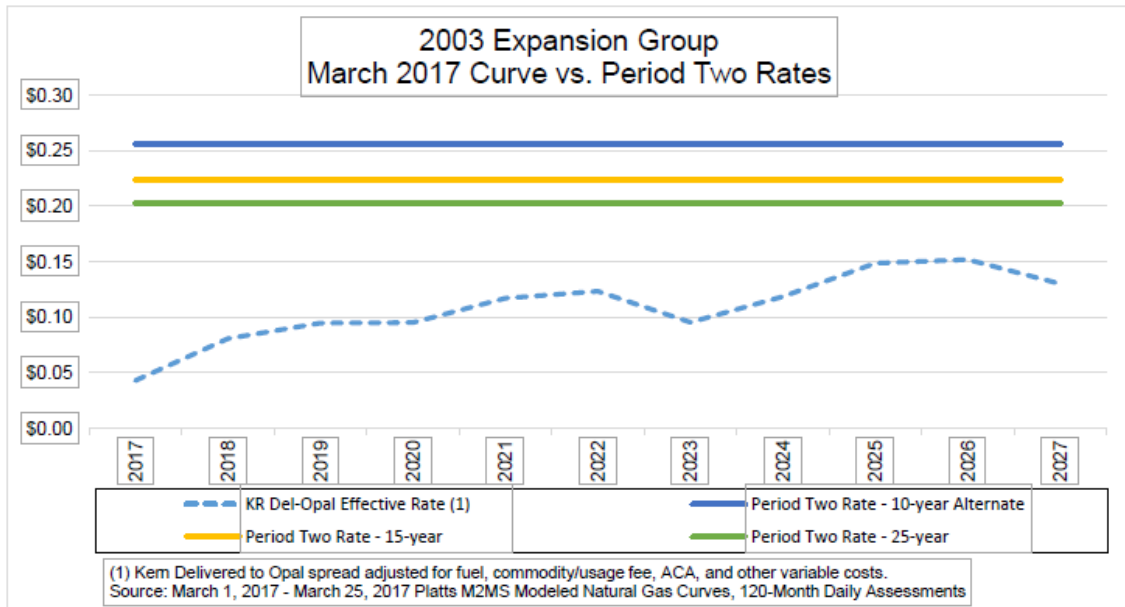
As shown in Chart 1, the significant Permian Basin production increase is a recent dynamic. However, by the spring of 2018, production forecasts for the Permian Basin increased significantly. Wood Mackenzie reports the rig count in the Permian Basin increased by 115 rigs in 2017, four times greater than in any other basin. As of September 14, 2018, the Permian Basin rig count is 483 of a total 1281 in the United States. This dramatic increase in production, combined with insufficient pipeline takeaway capacity, has significantly reduced natural gas prices in the Permian Basin.

Given that there is excess interstate pipeline capacity available to serve Southern California, these market conditions provide the pipelines transporting natural gas from the Permian Basin to California a pricing advantage relative to pipelines such as Kern River that transport natural gas from the Rocky Mountains to Southern California. Although it is a benefit for shippers in Southern California to have access to multiple supply basins, under current market dynamics, where shippers have an economic incentive to purchase Permian supplies, the value of Kern River capacity out of the Rockies is negatively impacted. The market value of Kern River capacity is generally reflected by the difference in the price of natural gas at the Opal receipt point in Wyoming and the Kern River delivery point in Southern California. The significant level of production in the Permian Basin and the dearth of pipeline take away capacity allows shippers to purchase Permian Basin gas delivered to Southern California on El Paso and Transwestern for significantly less than the same shipper can purchase gas delivered to Southern California from the Rockies. Exhibit “10” shows the variance in spreads between the Permian and Rockies since 2013 and paints a clear picture of why, under current market conditions, shippers in Southern California have a strong incentive to purchase gas in the Permian rather than the Rockies.

The relatively low-cost Permian Basin supplies significantly affect the value of Kern River capacity.

Chart 2 below shows the market value of Kern River capacity relative to the tariff rates available to the 2003 Expansion 15-year shippers at the time elections for Period Two service were being made (one year prior to expiration of the contracts). These prevailing market conditions caused many of the 2003 Expansion 15-year shippers to choose not to contract for Period Two service.

Chart 2: 2003 Expansion Group/March 2017 Curve vs. Period Two Rates



In addition, because of the lower prices in the Permian relative to the Rockies, shippers in Southern California that make a choice on the margin generally look to purchase their supplies from the Permian Basin and secondarily from the Rockies. These conditions have materially affected Kern River’s ability to sell long-term firm capacity at maximum tariff rates. Kern River’s Form 2 data, and therefore the FERC Form No. 501-G data, fail to reflect this fundamental change in circumstances because, prior to May 1, 2018,

Kern River's revenues reflected the long-term maximum tariff rates of the 2003 Expansion 15-year shippers. Therefore, the revenue impact related to turn back capacity came to fruition beginning in May 2018, after Kern River filed its 2017 Form 2 with the Commission. Failure to appreciate and reflect such a material change in circumstances would produce inaccurate and unreliable results.

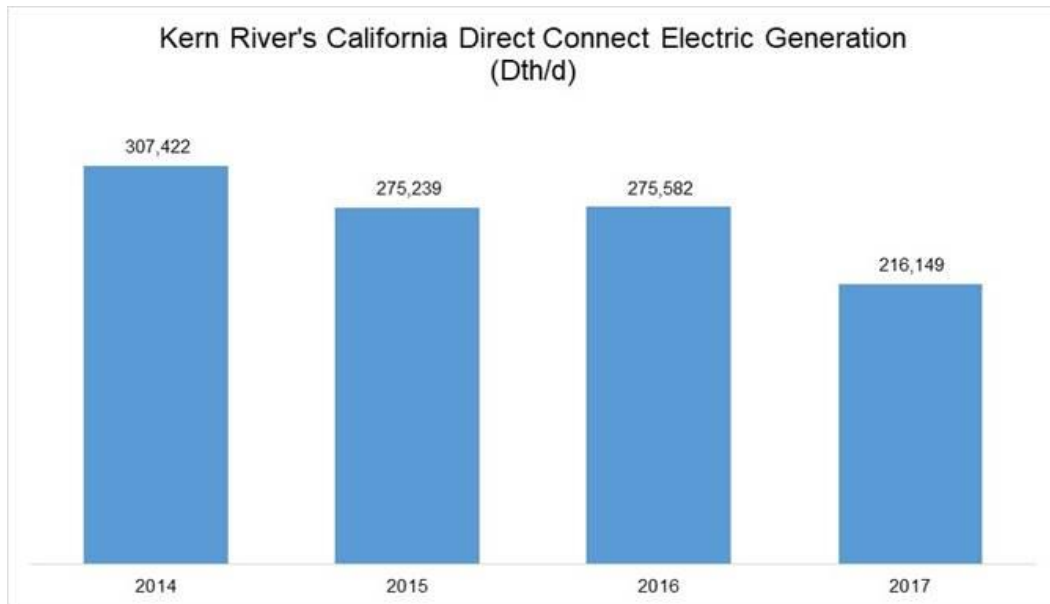
iii. 2017 Form 2 Data Does Not Reflect the Lower Demand for Natural Gas in California

Until 2017, the vast majority of Kern River capacity was contracted under long-term firm, maximum tariff rate agreements. When these agreements were entered into, demand for long-term capacity on Kern River's pipeline was far greater than it is currently. In addition to the significant change in circumstances demonstrated above, the ongoing decline in demand for natural gas in Southern California is placing additional pressure on Kern River's ability to sell long-term capacity at rates that will cover its cost of service.

Daily average demand for capacity on Kern River's pipeline is lower than it has ever been.⁵⁴ As shown in Chart 3, Kern River's service to direct connect electric generators in its primary market of California has declined nearly 30 percent over the last four years (2014-2017).

⁵⁴ A discussion of Kern River's efforts to recontract this expiring capacity is below in section III.C.iii.

Chart 3: Kern River’s California Direct Connect Electric Generation



Furthermore, as reported in the 2018 California Gas Report, demand for natural gas in Kern River’s primary market has decreased and is projected to shrink at a rate of 0.74 percent per year for the next 17 years, due to conservation and the development of renewable energy to meet state mandates.⁵⁵ Data reported by the California Independent System Operator (“CAISO”), the entity responsible for maintaining the balance between supply and demand for electricity throughout most of California, indicates that thermal generation in California has declined 10.6 percent per year since 2013. From 2013 to 2017, renewable generation within CAISO has grown 13.8 percent per year offsetting demand for natural gas in California by an average of 116,462 Dth/day year-over-year. In 2018 alone, renewables are projected to offset thermal electric generation by an incremental 1,060 MW per day over 2017 renewable generation levels; a 16.8 percent increase, equivalent to 163,902 Dth/day that will no longer be needed in the California market.⁵⁶

⁵⁵ *California Gas and Electric Utilities, 2018 California Gas Report*, page 64. The California Gas Report is prepared in compliance with California Public Utilities Commission Decision No. 95-01-039.

⁵⁶ Dekatherm equivalence value assumes a utilization rate of 100 percent and a heat rate of 7.6 MMBtu/MWh.

The ongoing decline in California natural gas demand, by itself, is not the reason Kern River has failed to earn its authorized rate of return of 11.55 percent in any of the last five years,⁵⁷ but it has contributed to it and it has certainly made selling capacity to California, Kern River's primary market, increasingly more challenging.

E. There is no basis to adjust Kern River rates solely on a change in the corporate tax rate.

As the Commission is well aware, a pipeline's costs and revenues vary from year to year, and the actual return on equity in any given year that results from these variations is rarely, if ever, the exact return on equity authorized by the Commission. The Commission's rationale for generally not requiring a change in rates to reflect one item of cost or revenue for one year is based on the understanding that costs and revenues vary from year to year and may result in under-recovery or over-recovery of the pipeline's authorized return in any given year.⁵⁸ The 12.5 percent adjusted return on equity for 2017 produced from applying the lower federal income tax rate to Kern River's adjusted 2017 costs and revenues is not a sustainable return. The financial impact of the turn back is real and will have a real impact on Kern River's next rate case.

Moreover, even assuming the adjusted FERC Form No. 501-G return on equity of 12.5 percent is a reasonable estimate of Kern River's return, finding a 12.5 percent return on equity to be unjust and unreasonable would be contrary to the Commission's precedent.⁵⁹ After reflecting the impact of the TCJA, the Commission recently instituted NGA section 5 proceedings against pipelines having calculated returns on equity ranging

⁵⁷ *Supra* Section III. B.

⁵⁸ Final Rule at P 11.

⁵⁹ Exhibit "11."

from 20.2 percent to 30.9 percent.⁶⁰ Under this Commission standard, there is no basis for the Commission to determine that a 12.5 percent return on equity is sufficient to support a NGA section 5 proceeding with respect to Kern River.

If the Commission fails to take into account Kern River's unique facts and circumstances and initiates a NGA section 5 proceeding, Kern River will file a general NGA section 4 rate case that would involve many highly complex and contentious issues, including cost allocation, interim capital expenditures and rate design changes necessary to reflect contract turn back. Kern River's levelized rate structure does not allow for simple rate calculations. The varying length of the terms of contracts and unique levelized cost of service for each of the various shipper groups must be considered in order to properly allocate costs and avoid under-recovery or over-recovery. Kern River's last NGA section 4 rate case proceeding took nearly 10 years to complete.

Kern River has avoided filing a general NGA section 4 rate case through cost reductions and the reductions in rates achieved by extending the depreciation period in the Alternate Period Two Rate Settlement recently approved by the Commission.⁶¹ A Commission decision finding existing rates are not unjust and unreasonable, notwithstanding the corporate tax rate reduction, would allow Kern River to continue to defer a rate increase despite significant turn back and market pressures.

⁶⁰ Since enactment of the Tax Cuts and Jobs Act, the Commission has instituted NGA section 5 investigations in two instances. In *Midwestern Gas Transmission Co.*, 162 FERC ¶ 61,219 (2018), the Commission initiated the NGA section 5 investigation based on 20.20 percent return on equity after adjusting for the lower federal income tax rate, and in *Dominion Energy Overthrust Pipeline, LLC*, 162 FERC ¶ 61,218 (2018), the Commission initiated the NGA section 5 investigation based on 30.9 percent return on equity after reflecting the impact of the Revised Policy Statement on Treatment of Income Taxes, 162 FERC ¶ 61, 227 (2018).

⁶¹ *Kern River Gas Transmission Co.*, 158 FERC ¶ 61,078 (2017).

**IV.
CONCLUSION**

WHEREFORE, Kern River respectfully requests the Commission to find that, based on all the facts and circumstances related to Kern River's costs and revenues, there is no basis for concluding that Kern River's rates are unjust and unreasonable, and, accordingly, no rate adjustment is necessary.

Respectfully submitted,

KERN RIVER GAS TRANSMISSION
COMPANY

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Dated: October 11, 2018

**FERC Form No. 501-G
 One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

Cost of Service

Pipeline Company Name: **Kern River Gas Transmission Company**

Line No.	(A) Description	(B) Form 2 Reference	(C) Calendar Year 2017 Actuals	(D) Net Amort. of Excess/ Deficient ADIT	(E) With Adjusted Tax Allowance
3	CID	C000962			
4	Is the Pipeline a separate income taxpaying entity? Does it conduct business, realize net income or loss, pay income taxes and distribute profits to shareholders?		Yes		
Cost of Service - Non Fuel					
Operating, Maintenance and Administrative & General					
5	Total Production & Gathering	P. 317; L. 30, C. (b)	\$ -		\$ -
6	Total Products Extraction	P. 318; L. 58, C. (b)	-		-
7	Total Natural Gas Storage	P. 322; L. 177, C. (b)	-		-
8	(Less) UG Compressor Station Fuel & Power	P. 320; L. 106, C. (b)	-		-
9	(Less) Other Compressor Station Fuel & Power	P. 321; LL. 131 & 132, C. (b)	-		-
10	(Less) LNG Compressor Station Fuel & Power	P. 322; LL. 157 & 158, C. (b)	-		-
11	Net Storage Costs	L. 7 minus LL. 8-10	-		-
12	Total Transmission	P. 323; L. 201, C. (b)	63,650,901		63,650,901
13	(Less) Gas for Compressor Station Fuel	P. 323; L. 184, C. (b)	41,134,489		41,134,489
14	(Less) Other Fuel & Power for Compressor Stns. (if included in true-up or tracking mechanism)	P. 323; L. 185, C. (b)	687,745		687,745
15	Net Transmission Costs	L. 12 minus LL. 13-14	21,828,667		21,828,667
16	Administrative & General	P. 325; L. 270, C. (b)	18,644,936		18,644,936
17	Total Operating, Maintenance and Admin. & Gen.	Sum of LL. 4, 5, 10, 14, 15	\$ 40,473,603		\$ 40,473,603
18	Depreciation, Depletion, and Amortization	Form 2 - P. 337; L. 12, C. (h) Form 2A - P. 114; LL. 6-8, C. (c)	66,122,810		66,122,810
19	Amort. of Plant Acq. Adj. If 'yes' to P. 2; L. 5 of Form 501-G then 0, else P. 114; L. 9, C. (c)		-		-
Credits to Cost of Service					
20	Regulatory Debits (if incl. in a § 4 rate filing)	P. 114; L. 12, C. (c)	49,944,681		49,944,681
21	(Less) Regulatory Credits (if incl. in a § 4 rate filing)	P. 114; L. 13, C. (c)	35,125,743		35,125,743
22	Other Taxes	P. 114; L. 14, C. (c)	12,897,704		12,897,704
Return					
23	Long Term Debt	P. 2; L. 27 of Form 501-G	20,216,690		20,335,091
24	Preferred Stock (or equivalent)	P. 2; L. 28 of Form 501-G	-		-
25	Common Equity	P. 2; L. 29 of Form 501-G	56,545,613		56,876,776
26	Total Return		76,762,303		77,211,866
Allowance for Income Taxes					
27	Federal Income Tax Rate	P. 5; L. 3 of Form 501-G	35.00%		21.00%
28	Weighted Average State Income Tax Rate	P. 5; L. 4 of Form 501-G	5.27%		5.27%
29	Composite Income Tax Rate	P. 5; LL. 3-6 of Form 501-G	38.43%		25.16%
30	Income Tax Allowance on Equity Return	[(L. 24+L. 25)*(L. 29/(1-L. 29))]	35,287,228		19,124,405
31	(Less) Net Amort. of Excess(+) and/or Deficient(-) ADIT (Year 1 amortization)		-	5,506,995	5,506,995
32	Total Income Tax Allowance	L. 30 minus L. 31	35,287,228		13,617,410
33	Total Cost of Service - Non Fuel	Sum of LL. 17-20, 22, 26, 32 less L. 21	\$ 246,362,586		\$ 225,142,331
34	Indicated Cost of Service Reduction	1 minus [L. 33, C. (E) divided by L. 33, C. (C)]			8.6%

**FERC Form No. 501-G
One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

Rate Base

Kern River Gas Transmission Company

Line No.	(A) Description	(B) Form 2 Reference	(C) Calendar Year 2017 Actuals	(D) Excess/ Deficient ADIT Adjustment	(E) With Adjusted Tax Allowance
Rate Base					
1	Gas Plant in Service	P. 110; L. 2, C. (c)	\$ 2,878,462,045		\$ 2,878,462,045
2	Accumulated Depreciation	P. 110; L. 5, C. (c)	1,332,265,996		1,332,265,996
3	Acquisition Adjustment	P. 200; L. 12, C. (b)	-		-
4	(Less) Amort. of Plant Acquisition Adjustment	P. 200; L. 32, C. (b)	-		-
5	No Has the pipeline received permission to include Acq. Adjustment(s) in Rate Base? If no, provide amounts as a reduction to Rate Base.				
6	FERC Order Cite				
7	Net Acquisition Adjustment	If L. 5 is yes, then zero; else L. 3 minus L. 4	-		-
8	Net Plant	L. 1 minus L. 2 minus L. 7	1,546,196,049		1,546,196,049
Gas Stored Underground					
9	Base Gas - Account No. 117.1	P. 220; L. 5, C. (b)	-		-
10	System Balancing - Account No. 117.2	P. 220; L. 5, C. (c)	-		-
Working Capital					
11	Prepayments	P. 111; L. 54, C. (c)	1,289,626		1,289,626
12	Materials and Supplies	P. 111; L. 45, C. (c)	11,097,449		11,097,449
ADIT and Regulatory Assets and Liabilities					
13	Accumulated Deferred Income Taxes (IT)	P. 235; L. 3, C. (k)(see footnote)	152,057,936		152,057,936
14	(Less) Accum. Deferred IT - Other Property	P. 275; L. 3, C. (k)(see footnote)	338,186,264		338,186,264
15	(Less) Accum. Deferred IT - Other	P. 277; L. 3, C. (k)(see footnote)	34,814,062		34,814,062
16	Other Regulatory Assets	P. 232; L. 40, C. (g)	145,029,870	-	145,029,870
17	(Less) Other Regulatory Liabilities	P. 278; L. 45, C. (g)	542,359,429	-	536,852,434
18	Rate Base	Sum of LL. 8 - 13 minus LL. 14-15 plus L. 16 minus L. 17	\$ 940,311,175		\$ 945,818,170

The Commission will apply Opinion No. 414, et al. in reviewing data submitted on page 4. Opinion No. 414, et al. requires that the pipeline's, or the parent's debt if using the parent's capital, must be issued in its name, be publicly traded, and be rated by a rating agency. The pipeline or parent must have a proper capital structure, which for purposes of FERC Form No. 501-G must have an equity ratio less than 65%.

Opinion No. 414, 80 FERC ¶ 61,157 (1997); reh'g denied, Opinion No. 414-A, 84 FERC ¶ 61,084 (1998).

Employing the data provided on Page 4 for capital structure and the component costs of Long Term Debt and Preferred Stock, the Pipeline's cost of capital for purposes of FERC Form No. 501-G will be based upon Case 4 - FERC Hypothetical Capital Structure and Cost of new Corporate Debt.

Summary of Page 4 Capital Structure and Capital Component Costs	Case 1	Case 2	Case 3	Case 4
	Balance Sheet & Income Statement	Page 218a	Parent's SEC Form 10K	Hypothetical
19) 1) Is the debt issued in the entity's name and traded?	No	No	No	
20) 2) Is the debt rated by a rating agency?	No	No	No	
21) 3) Is the equity ratio less than 65%?	No	No	No	
22) Each of the three above questions must be answered yes as the basis for using the capital structure and individual capital component cost.	Not using Case 1 per Opinion No. 414 et al	Not using Case 2 per Opinion No. 414 et al	Not using Case 3 per Opinion No. 414 et al	Using Case 4

		<u>Capitalization Ratio</u>	<u>Component Cost</u>	<u>Wtd. Cost of Capital</u>
23	Long Term Debt	P. 4 of Form 501-G 43.00%	5.00%	2.15%
24	Preferred Stock (or equivalent)	P. 4 of Form 501-G 0.00%	0.00%	0.00%
25	Common Equity	P. 4 of Form 501-G <u>57.00%</u>	<u>10.55%</u>	<u>6.01%</u>
26	Total Return	Sum of LL. 23 - 25 100.00%		<u>8.16%</u>
27	Return - Long Term Debt	L. 18 times L. 23, C. (E) \$	20,216,690	\$ 20,335,091
28	Return - Preferred Stock (or equivalent)	L. 18 times L. 24, C. (E)	-	-
29	Return - Common Equity	L. 18 times L. 25, C. (E)	56,545,613	56,876,776
30	Total Return	Sum of LL. 27 - 29	\$ 76,762,303	\$ 77,211,866

FERC Form No. 501-G
One-time Report on Rate Effect of the Tax Cuts and Jobs Act

Return on Equity
Pre Tax Cut and Pro Forma Post Tax Cut
Kern River Gas Transmission Company

Line No.	(A) Description	(B) Form 2 Reference	(C) Calendar Year 2017 Actuals	(D) With Adjusted Tax Allowance	(E) Rate Moratorium Option 12% ROE Test
Operating Revenue					Indicated Cost of Service Reduction of 8.6%
1	Total Operating Revenues	P. 301; L. 21, C. (h)	\$ 301,620,227	\$ 301,620,227	
2	(Less) Sales for Resale (Acct. Nos. 480-484)	P. 301; L. 4, C. (h)	-	-	
3	(Less) Commercial & Industrial Sales	P. 301; L. 2, C. (h)	-	-	
4	(Less) Gas Sales & Other Adj. from Acct. No. 495	P. 308; L. 10, C. (b)	-	-	
5	(Less) Fuel Related Revenues Incl. in Total Revenues per Pipeline		-	-	
6	Total Adjusted Revenue	L. 1 minus sum of LL. 2-5	\$ 301,620,227	\$ 301,620,227	\$ 275,640,397
7	<input checked="" type="checkbox"/> Yes	Enter 'Yes' or 'No' - Does the Pipeline track or true-up fuel retention?			
8	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Does the Pipeline have stated fuel rates?			
Calculation of Return On Equity - Pre Tax Cut and Pro Forma Post Tax Cut					
9	Total Operating, Maintenance and Admin. & Gen.	P. 1; L. 17 of 501-G	\$ 40,473,603	\$ 40,473,603	\$ 40,473,603
10	Depreciation, Depletion, and Amortization	P. 1; L. 18 of 501-G	66,122,810	66,122,810	66,122,810
11	Amort. of Plant Acq. Adj.	P. 1; L. 19 of 501-G	-	-	-
12	Regulatory Debits (if incl. in a § 4 rate filing)	P. 1; L. 20 of 501-G	49,944,681	49,944,681	49,944,681
13	(Less) Regulatory Credits (if incl. in a § 4 rate filing)	P. 1; L. 21 of 501-G	35,125,743	35,125,743	35,125,743
14	Other Taxes	P. 1; L. 22 of 501-G	12,897,704	12,897,704	12,897,704
15	Non-Fuel Operating Cost Excl. Interest and Taxes	Sum of LL. 9-12 minus L. 13 plus L. 14	134,313,055	134,313,055	134,313,055
16	Operating Income	L. 6 minus L. 15	\$ 167,307,172	\$ 167,307,172	\$ 141,327,342
17	Interest Expense	P. 1; L. 23, C. (C) of 501-G	20,216,690	20,335,091	20,335,091
18	Income Before Income Taxes	L. 16 minus L. 17	\$ 147,090,482	\$ 146,972,081	\$ 120,992,251
Allowance for Income Taxes					
19	Composite Income Tax Rate	P. 1; L. 29 of 501-G	38.43%	25.16%	25.16%
20	Income Taxes	L. 18 times L. 19	\$ 56,520,253	\$ 36,983,026	\$ 30,445,643
21	(Less) Net Amort. of Excess(+) and/or Deficient(-) ADIT	P. 1; L. 31 of 501-G	-	5,506,995	5,506,995
22	Total Income Tax Allowance	L. 20 minus L. 21	56,520,253	31,476,030	24,938,648
23	Net Income	L. 18 minus L. 22	\$ 90,570,229	\$ 115,496,051	\$ 96,053,604
24	(Less) Preferred Dividends	P. 1; L. 24, C. (C) of 501-G	-	-	-
25	Rate Base	P. 2; L. 18 of 501-G	\$ 940,311,175	\$ 945,818,170	\$ 945,818,170
26	Total Estimated ROE (excluding fuel)	[L. 23 - L. 24] / [L. 25 * P. 2; L. 25 C. (C) of 501-G]	16.9%	21.4%	17.8%

**FERC Form No. 501-G
One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

**Capital Structure and Component Costs
Kern River Gas Transmission Company**

Line No.	(A) Description	(B) Form 2 Reference	(C) Capitalization	(D) Capitalization Ratio	(E) Capital Component Cost Rate	(F) Weighted Cost of Capital
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The Commission will use your responses on the following four cases to evaluate your capital structure and capital component costs for Form No. 501-G: Case 1, balance sheet and income statement; Case 2, Page 218a of Form No. 2; Case 3, the parent's financial statements as filed in its SEC Form 10-K; or Case 4, a hypothetical capital structure and capital component costs.

Case 1. Cost of Capital based upon amounts obtained from the Balance Sheet and Income Statement.

Cost of Debt and Preferred Stock						
1	Interest	P. 116; LL. 62-68, C. (c)	\$ 6,473,218	= 0		
2	Long-Term Debt	P. 112; L. 24, C. (c)	\$ -			
3	Preferred Dividends	P. 120a; L. 68, C. (b)	\$ -	= 0		
4	Preferred Stock (or equivalent)	P. 112; L. 3, C. (c)	\$ -			
5	Common Equity	P. 112; L. 15, C. (c)	\$ 968,638,133			
6	Cost of Capital					
7	Long-Term Debt	L. 3	\$ -	0.00%	0.00%	0.00%
8	Preferred Stock (or equivalent)	L. 5	\$ -	0.00%	0.00%	0.00%
9	Common Equity	L. 6 minus L. 5	\$ 968,638,133	100.00%	10.55%	10.55%
10	Totals		\$ 968,638,133	100.00%		10.55%
11	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 3 above issued in the pipeline's name and publicly traded?				
12	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all the debt listed on L. 3 above rated by a rating agency?				

Case 2. Cost of Capital based upon amounts obtained from Page 218a of the FERC Form No. 2.

	P. 218a	Column (b)	Column (c)	Column (d)		
14	Long-Term Debt	L. 3	\$ -	0.00%	0.00%	
15	Preferred Stock (or equivalent)	L. 4	\$ -	0.00%	0.00%	
16	Common Equity	L. 5	\$ 968,022,353	100.00%	10.55%	
17	Totals		\$ 968,022,353	100.00%	10.55%	
18	<input type="checkbox"/> Yes	Are the Values on P. 218a from the books and records of Kern River Gas Transmission Company?				
19	If no, provide the name and stock symbol of the company for the source of the Page 218a amounts.					
20	Ticker	Company Name				
21	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 15 above issued in the pipeline's name, or, that of the entity on L. 21? and publicly traded?				
22	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 15 above rated by a rating agency?				

Case 3. Cost of Capital based upon Parent's Capital Structure and costs for Long Term Debt and Preferred Stock.

24	Long-Term Debt	SEC - 10K	\$ -	0.00%	0.00%	0.00%
25	Preferred Stock (or equivalent)	SEC - 10K	\$ -	0.00%	0.00%	0.00%
26	Common Equity	SEC - 10K	\$ -	0.00%	10.55%	0.00%
27	Totals		\$ -	0.00%		0.00%
28	Provide the stock symbol(s), the name of the parent company(s), a hyperlink to the parent's SEC Form 10-K, and the associated year:					
29	Ticker(s)	Company Name(s)				
30	Year	10K Hyperlink(s)				
31	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 24 above publicly traded?				
32	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 24 above rated by a rating agency?				

Case 4. Cost of Capital based upon FERC Hypothetical Capital Structure and Cost of new Corporate Debt.

33	Long-Term Debt			43.00%	5.00%	2.15%
34	Preferred Stock			0.00%	0.00%	0.00%
35	Common Equity			57.00%	10.55%	6.01%
36	Totals			100.00%		8.16%

FERC Form No. 501-G
One-time Report on Rate Effect of the Tax Cuts and Jobs Act
Current Composite Income Tax Rate
Kern River Gas Transmission Company

Line No.	(A) Description	(B) Form 2 Reference	(C) Weighting	(D) Marginal Tax Rates	(E) Weighted Average Tax Rates
1	Based on the response to Line 4 on Page 1 of Form No. 501-G, Kern River Gas Transmission Company				
2	is a C Corp subject to the 35% tax rate for 2017. Please fill out lines 6 and 9.				
3	Federal Income Tax Rate (FIT) - Calendar Year 2017:				35.00%
4	State Income Tax Rate (SIT) - Calendar Year 2017:				5.27%
5	Composite Tax Rate - Calendar Year 2017:				38.43%
6	Provide the percentage of federal income tax deductible for state income taxes. = (p)				0.00%
7	Composite Tax Rate equals				
8	[FIT Rate * (1 - SIT Rate) / (1 - SIT Rate * FIT Rate * p)] + [SIT Rate * (1 - FIT Rate * p) / (1 - SIT Rate * FIT Rate * p)]				
<u>Tax Rates for C Corps.</u>					
9	Provide the sum of weighted state tax rate(s)	sum of all rows from P. 263b.; C. (q)			5.27%
<u>Tax Rates for Pass Through Entities */</u>					
Federal Income Tax Rates					
10	Subchapter C	per Pipeline's parents' owners	0.0%	0.0%	0.00%
11	Individuals	per Pipeline's parents' owners	0.0%	0.0%	0.00%
12	Mutual Funds	per Pipeline's parents' owners	0.0%	0.0%	0.00%
13	Pensions, IRAs, Keogh Plans	per Pipeline's parents' owners	0.0%	0.0%	0.00%
14	UBTI Entities	per Pipeline's parents' owners	0.0%	0.0%	0.00%
15	Non-Taxpaying Entities	per Pipeline's parents' owners	0.0%	0.0%	0.00%
16	Weighted Average Rate		<u>0.00%</u>		<u>0.00%</u>
State and Local Income Tax Rates					
17	Subchapter C	per Pipeline's parents' owners	0.0%	0.0%	0.00%
18	Individuals	per Pipeline's parents' owners	0.0%	0.0%	0.00%
19	Mutual Funds	per Pipeline's parents' owners	0.0%	0.0%	0.00%
20	Pensions, IRAs, Keogh Plans	per Pipeline's parents' owners	0.0%	0.0%	0.00%
21	UBTI Entities	per Pipeline's parents' owners	0.0%	0.0%	0.00%
22	Non-Taxpaying Entities	per Pipeline's parents' owners	0.0%	0.0%	0.00%
23	Weighted Average Rate		<u>0.00%</u>		<u>0.00%</u>
24	Provide the date when the marginal tax rates were determined.			mm/dd/yyyy	

*/ Income tax rates and weighting must be consistent with the Commission's *Policy Statement on Income Tax Allowances*, 111 FERC ¶ 61,139 (2005), and the Commission's *Order on Initial Decision and on Certain Remanded Cost Issues*, 113 FERC ¶ 61,277 (2005).

FERC Form No. 501-G - Hypothetical
One-time Report on Rate Effect of the Tax Cuts and Jobs Act

Cost of Service

Pipeline Company Name **Kern River Gas Transmission Company**

Line No.	(A) Description	(B) Calendar Year 2017 Actuals	(C) With Adjusted Tax Allowance	(D) Adjustments to reflect Kern River's approved rate design	(E) 2017 Adjusted Return	(F) Alternate Period Two Settlement Prior Period Adjustments	(G) 2017 Adjusted Return
Cost of Service - Non Fuel							
Operating, Maintenance and Administrative & General							
1	Total Production & Gathering	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Total Products Extraction	-	-	-	-	-	-
3	Total Natural Gas Storage	-	-	-	-	-	-
4	(Less) UG Compressor Station Fuel & Power	-	-	-	-	-	-
5	(Less) Other Compressor Station Fuel & Power	-	-	-	-	-	-
6	(Less) LNG Compressor Station Fuel & Power	-	-	-	-	-	-
7	Net Storage Costs	-	-	-	-	-	-
8	Total Transmission	63,650,901	63,650,901	-	63,650,901	-	63,650,901
9	(Less) Gas for Compressor Station Fuel	41,134,489	41,134,489	-	41,134,489	-	41,134,489
10	(Less) Other Fuel & Power for Compressor Stns. (if included in true-up or tracking mechanism)	687,745	687,745	-	687,745	-	687,745
11	Net Transmission Costs	21,828,667	21,828,667	-	21,828,667	-	21,828,667
12	Administrative & General	18,644,936	18,644,936	-	18,644,936	-	18,644,936
13	Total Operating, Maintenance and Admin. & Gen.	\$ 40,473,603	\$ 40,473,603	\$ -	\$ 40,473,603	\$ -	\$ 40,473,603
14	Depreciation, Depletion, and Amortization	66,122,810	66,122,810	-	66,122,810	-	66,122,810
15	Amort. of Plant Acq. Adj. If 'yes' to P. 2; L. 5 of Form 501-G	-	-	-	-	-	-
Credits to Cost of Service							
16	Regulatory Debits (if incl. in a § 4 rate filing)	49,944,681	49,944,681	-	49,944,681	13,663,279	63,607,960
17	(Less) Regulatory Credits (if incl. in a § 4 rate filing)	35,125,743	35,125,743	-	35,125,743	-	35,125,743
18	Other Taxes	12,897,704	12,897,704	-	12,897,704	-	12,897,704
Return							
19	Long Term Debt	20,216,690	20,335,091	(20,335,091)	-	-	-
20	Preferred Stock (or equivalent)	-	-	-	-	-	-
21	Common Equity	56,545,613	56,876,776	46,975,842	103,852,618	-	103,852,618
22	Total Return	76,762,303	77,211,866	26,640,751	103,852,618	-	103,852,618
Allowance for Income Taxes							
23	Federal Income Tax Rate	35.00%	21.00%	0.00%	21.00%	0.00%	21.00%
24	Weighted Average State Income Tax Rate	5.27%	5.27%	0.00%	5.27%	0.00%	5.27%
25	Composite Income Tax Rate	38.43%	25.16%	0.00%	25.16%	0.00%	25.16%
26	Income Tax Allowance on Equity Return	35,287,228	19,124,405	15,795,288	34,919,693	-	34,919,693
27	(Less) Net Amort. of Excess(+) and/or Deficient(-) AD	-	5,506,995	-	5,506,995	-	5,506,995
28	Total Income Tax Allowance	35,287,228	13,617,410	15,795,288	29,412,697	-	29,412,697
29	Total Cost of Service - Non Fuel	\$ 246,362,586	\$ 225,142,331	\$ 42,436,039	\$ 267,578,370	\$ 13,663,279	\$ 281,241,649

**FERC Form No. 501-G - Hypothetical
One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

Rate Base

Kern River Gas Transmission Company							
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Line No.	Description	Calendar Year 2017 Actuals	With Adjusted Tax Allowance	Adjustments to reflect Kern River's approved rate design	2017 Adjusted Return	Alternate Period Two Settlement Prior Period Adjustments	2017 Adjusted Return
Rate Base							
1	Gas Plant in Service	\$ 2,878,462,045	\$ 2,878,462,045	\$ -	\$ 2,878,462,045	\$ -	\$ 2,878,462,045
	Accumulated Depreciation	1,332,265,996	1,332,265,996	-	1,332,265,996	-	1,332,265,996
3	Acquisition Adjustment	-	-	-	-	-	-
4	(Less) Amort. of Plant Acquisition Adjustment	-	-	-	-	-	-
5	No Has the pipeline received permission to include Acq. Adjustment(s) in Rate Base? If no, provide amounts as a reduction to Rate Base.						
6	FERC Order Cite						
7	Net Acquisition Adjustment	-	-	-	-	-	-
8	Net Plant	1,546,196,049	1,546,196,049	-	1,546,196,049	-	1,546,196,049
Gas Stored Underground							
9	Base Gas - Account No. 117.1	-	-	-	-	-	-
10	System Balancing - Account No. 117.2	-	-	-	-	-	-
Working Capital							
11	Prepayments	1,289,626	1,289,626	-	1,289,626	-	1,289,626
12	Materials and Supplies	11,097,449	11,097,449	-	11,097,449	-	11,097,449
ADIT and Regulatory Assets and Liabilities							
13	Accumulated Deferred Income Taxes (IT)	152,057,936	152,057,936	-	152,057,936	-	152,057,936
14	(Less) Accum. Deferred IT - Other Property	338,186,264	338,186,264	-	338,186,264	-	338,186,264
15	(Less) Accum. Deferred IT - Other	34,814,062	34,814,062	-	34,814,062	-	34,814,062
16	Other Regulatory Assets	145,029,870	145,029,870	-	145,029,870	-	145,029,870
17	(Less) Other Regulatory Liabilities	542,359,429	536,852,434	-	536,852,434	-	536,852,434
18	Rate Base	\$ 940,311,175	\$ 945,818,170	\$ -	\$ 945,818,170	\$ -	\$ 945,818,170
Return based upon FERC Hypothetical Capital Structure							
		<u>Capitalization Ratio</u>	<u>Wtd. Cost of Capital</u>	<u>Capitalization Ratio</u>	<u>Wtd. Cost of Capital</u>	<u>Wtd. Cost of Capital</u>	<u>Wtd. Cost of Capital</u>
23	Long Term Debt	43.00%	2.15%	0.00%	0.00%	0.00%	0.00%
24	Preferred Stock (or equivalent)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
25	Common Equity	57.00%	6.01%	100.00%	10.55%	10.55%	10.55%
26	Total Return	100.00%	8.16%	100.00%	10.55%	10.55%	10.55%
27	Return - Long Term Debt		\$ 20,335,091		\$ -	\$ -	\$ -
28	Return - Preferred Stock (or equivalent)		-		-	-	-
29	Return - Common Equity		56,876,776		103,852,618	-	103,852,618
30	Total Return		\$ 77,211,866		\$ 103,852,618	\$ -	\$ 103,852,618

**FERC Form No. 501-G - Hypothetical
One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

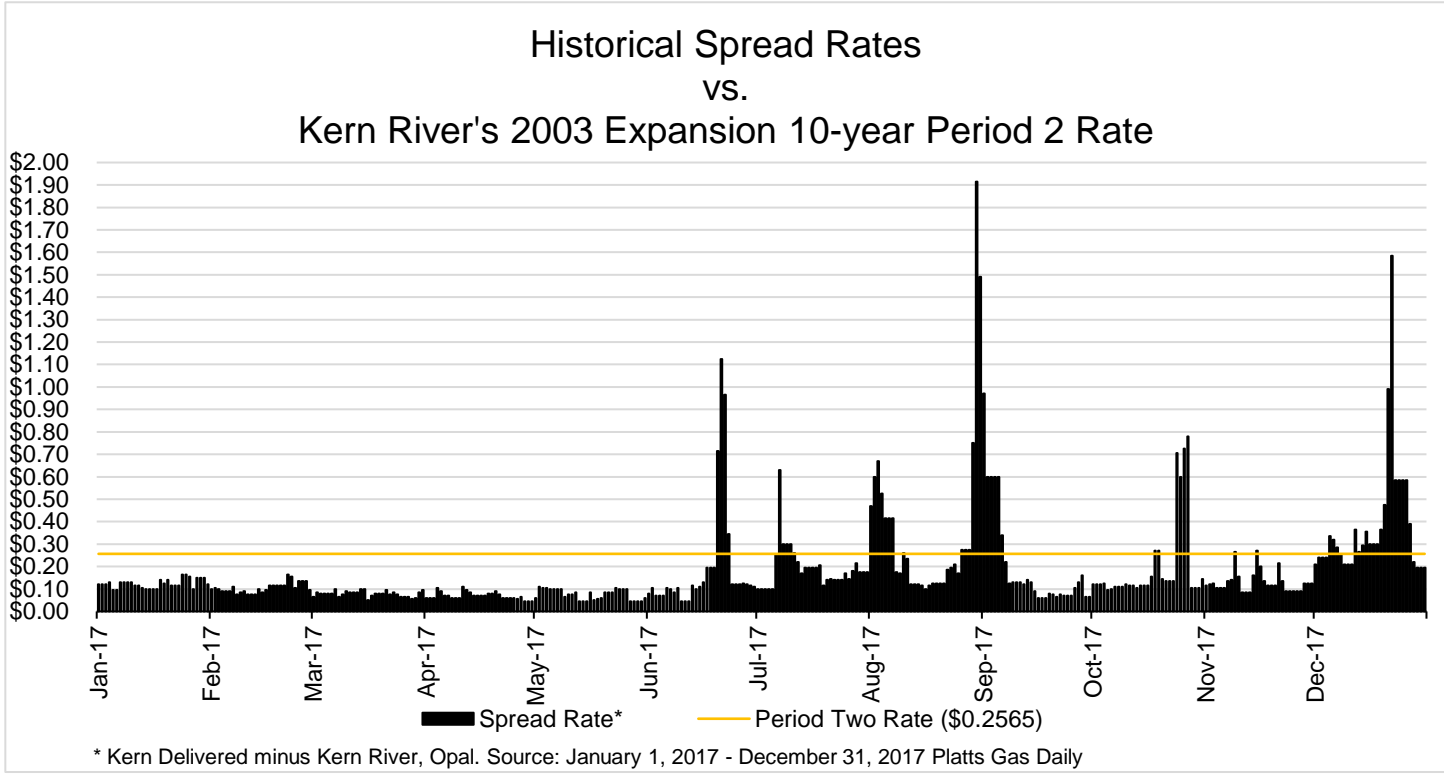
**Return on Equity
Pre Tax Cut and Pro Forma Post Tax Cut
Kern River Gas Transmission Company**

Line No.	(A) Description	(B) Calendar Year 2017 Actuals	(C) With Adjusted Tax Allowance	(D) Adjustments to reflect Kern River's approved rate design	(E) 2017 Adjusted Return	(F) Alternate Period Two Settlement Prior Period Adjustments	(G) 2017 Adjusted Return
Operating Revenue							
1	Total Operating Revenues	\$ 301,620,227	\$ 301,620,227	\$ -	\$ 301,620,227	3,009,460	\$ 304,629,687
2	(Less) Sales for Resale (Acct. Nos. 480-484)	-	-	-	-	-	-
3	(Less) Commercial & Industrial Sales	-	-	-	-	-	-
4	(Less) Gas Sales & Other Adj. from Acct. No. 495	-	-	-	-	-	-
5	(Less) Fuel Related Revenues Incl. in Total Revenue	-	-	-	-	-	-
6	Total Adjusted Revenue	\$ 301,620,227	\$ 301,620,227	\$ -	\$ 301,620,227	\$ 3,009,460	\$ 304,629,687
Calculation of Return On Equity - Pre Tax Cut and Pro Forma Post Tax Cut							
9	Total Operating, Maintenance and Admin. & Gen.	\$ 40,473,603	\$ 40,473,603	\$ -	\$ 40,473,603	\$ -	\$ 40,473,603
10	Depreciation, Depletion, and Amortization	66,122,810	66,122,810	-	66,122,810	-	66,122,810
11	Amort. of Plant Acq. Adj.	-	-	-	-	-	-
12	Regulatory Debits (if incl. in a § 4 rate filing)	49,944,681	49,944,681	-	49,944,681	13,663,279	63,607,960
13	(Less) Regulatory Credits (if incl. in a § 4 rate filing)	35,125,743	35,125,743	-	35,125,743	-	35,125,743
14	Other Taxes	12,897,704	12,897,704	-	12,897,704	-	12,897,704
15	Non-Fuel Operating Cost Excl. Interest and Taxes	134,313,055	134,313,055	-	134,313,055	13,663,279	147,976,334
16	Operating Income	\$ 167,307,172	\$ 167,307,172	\$ -	\$ 167,307,172	\$ (10,653,819)	\$ 156,653,353
17	Interest Expense	20,216,690	20,335,091	(20,335,091)	-	-	-
18	Income Before Income Taxes	\$ 147,090,482	\$ 146,972,081	\$ 20,335,091	\$ 167,307,172	\$ (10,653,819)	\$ 156,653,353
Allowance for Income Taxes							
19	Composite Income Tax Rate	38.43%	25.16%	25.16%	25.16%	25.16%	25.16%
20	Income Taxes	\$ 56,520,253	\$ 36,983,026	\$ 5,116,980	\$ 42,100,006	\$ (2,680,852)	\$ 39,419,153
21	(Less) Net Amort. of Excess(+) and/or Deficient(-) AD	-	5,506,995	-	5,506,995	-	5,506,995
22	Total Income Tax Allowance	56,520,253	31,476,030	5,116,980	36,593,010	(2,680,852)	33,912,158
23	Net Income	\$ 90,570,229	\$ 115,496,051	\$ 15,218,111	\$ 130,714,162	\$ (7,972,966)	\$ 122,741,195
24	(Less) Preferred Dividends	-	-	-	-	-	-
25	Rate Base	\$ 940,311,175	\$ 945,818,170	\$ -	\$ 945,818,170	\$ -	\$ 945,818,170
26	Beginning Period Rate Base			1,022,951,831	1,022,951,831		1,022,951,831
27	Average Equity Rate Base			984,385,001	984,385,001		984,385,001
28	Total Estimated ROE (excluding fuel)	16.9%	21.4%	-8.1%	13.3%	-0.8%	12.5%

	KRDLV	OPAL	Spread Rate*	Period Two Rate (\$0.2565)
1/1/2017	\$3.8400	\$3.7200	\$0.1200	\$0.2565
1/2/2017	\$3.8400	\$3.7200	\$0.1200	\$0.2565
1/3/2017	\$3.8400	\$3.7200	\$0.1200	\$0.2565
1/4/2017	\$3.5100	\$3.3800	\$0.1300	\$0.2565
1/5/2017	\$3.4750	\$3.3800	\$0.0950	\$0.2565
1/6/2017	\$3.3600	\$3.2650	\$0.0950	\$0.2565
1/7/2017	\$3.2900	\$3.1600	\$0.1300	\$0.2565
1/8/2017	\$3.2900	\$3.1600	\$0.1300	\$0.2565
1/9/2017	\$3.2900	\$3.1600	\$0.1300	\$0.2565
1/10/2017	\$3.0800	\$2.9500	\$0.1300	\$0.2565
1/11/2017	\$3.2350	\$3.1200	\$0.1150	\$0.2565
1/12/2017	\$3.3200	\$3.2050	\$0.1150	\$0.2565
1/13/2017	\$3.4300	\$3.3250	\$0.1050	\$0.2565
1/14/2017	\$3.4350	\$3.3350	\$0.1000	\$0.2565
1/15/2017	\$3.4350	\$3.3350	\$0.1000	\$0.2565
1/16/2017	\$3.4350	\$3.3350	\$0.1000	\$0.2565
1/17/2017	\$3.4350	\$3.3350	\$0.1000	\$0.2565
1/18/2017	\$3.4200	\$3.2800	\$0.1400	\$0.2565
1/19/2017	\$3.2900	\$3.1650	\$0.1250	\$0.2565
1/20/2017	\$3.2100	\$3.0700	\$0.1400	\$0.2565
1/21/2017	\$3.1600	\$3.0450	\$0.1150	\$0.2565
1/22/2017	\$3.1600	\$3.0450	\$0.1150	\$0.2565
1/23/2017	\$3.1600	\$3.0450	\$0.1150	\$0.2565
1/24/2017	\$3.3100	\$3.1450	\$0.1650	\$0.2565
1/25/2017	\$3.4200	\$3.2550	\$0.1650	\$0.2565
1/26/2017	\$3.4500	\$3.2950	\$0.1550	\$0.2565
1/27/2017	\$3.4800	\$3.3800	\$0.1000	\$0.2565
1/28/2017	\$3.2450	\$3.0950	\$0.1500	\$0.2565
1/29/2017	\$3.2450	\$3.0950	\$0.1500	\$0.2565
1/30/2017	\$3.2450	\$3.0950	\$0.1500	\$0.2565
1/31/2017	\$3.0900	\$2.9700	\$0.1200	\$0.2565
2/1/2017	\$2.9800	\$2.8800	\$0.1000	\$0.2565
2/2/2017	\$3.0400	\$2.9350	\$0.1050	\$0.2565
2/3/2017	\$2.9500	\$2.8500	\$0.1000	\$0.2565
2/4/2017	\$2.8350	\$2.7450	\$0.0900	\$0.2565
2/5/2017	\$2.8350	\$2.7450	\$0.0900	\$0.2565
2/6/2017	\$2.8350	\$2.7450	\$0.0900	\$0.2565
2/7/2017	\$2.7950	\$2.6850	\$0.1100	\$0.2565

Rate greater than \$0.2565
of days 56

Rate less than or equal to \$0.1000	Rate less than or equal to \$0.2000	Rate less than or equal to \$0.3000	Rate less than or equal to \$0.4000	Rate less than or equal to \$0.5000	Rate less than or equal to \$0.5833
147	292	327	335	340	341



2/8/2017	\$2.9350	\$2.8600	\$0.0750	\$0.2565
2/9/2017	\$2.8650	\$2.7800	\$0.0850	\$0.2565
2/10/2017	\$2.9500	\$2.8600	\$0.0900	\$0.2565
2/11/2017	\$2.7700	\$2.6950	\$0.0750	\$0.2565
2/12/2017	\$2.7700	\$2.6950	\$0.0750	\$0.2565
2/13/2017	\$2.7700	\$2.6950	\$0.0750	\$0.2565
2/14/2017	\$2.8000	\$2.7000	\$0.1000	\$0.2565
2/15/2017	\$2.7500	\$2.6650	\$0.0850	\$0.2565
2/16/2017	\$2.8000	\$2.7050	\$0.0950	\$0.2565
2/17/2017	\$2.6950	\$2.5800	\$0.1150	\$0.2565
2/18/2017	\$2.5800	\$2.4650	\$0.1150	\$0.2565
2/19/2017	\$2.5800	\$2.4650	\$0.1150	\$0.2565
2/20/2017	\$2.5800	\$2.4650	\$0.1150	\$0.2565
2/21/2017	\$2.5800	\$2.4650	\$0.1150	\$0.2565
2/22/2017	\$2.5400	\$2.3750	\$0.1650	\$0.2565
2/23/2017	\$2.4800	\$2.3250	\$0.1550	\$0.2565
2/24/2017	\$2.5050	\$2.4000	\$0.1050	\$0.2565
2/25/2017	\$2.4850	\$2.3500	\$0.1350	\$0.2565
2/26/2017	\$2.4850	\$2.3500	\$0.1350	\$0.2565
2/27/2017	\$2.4850	\$2.3500	\$0.1350	\$0.2565
2/28/2017	\$2.4100	\$2.3150	\$0.0950	\$0.2565
3/1/2017	\$2.4650	\$2.4000	\$0.0650	\$0.2565
3/2/2017	\$2.5350	\$2.4500	\$0.0850	\$0.2565
3/3/2017	\$2.4850	\$2.4050	\$0.0800	\$0.2565
3/4/2017	\$2.4900	\$2.4100	\$0.0800	\$0.2565
3/5/2017	\$2.4900	\$2.4100	\$0.0800	\$0.2565
3/6/2017	\$2.4900	\$2.4100	\$0.0800	\$0.2565
3/7/2017	\$2.6000	\$2.5000	\$0.1000	\$0.2565
3/8/2017	\$2.4750	\$2.4100	\$0.0650	\$0.2565
3/9/2017	\$2.6000	\$2.5250	\$0.0750	\$0.2565
3/10/2017	\$2.6700	\$2.5800	\$0.0900	\$0.2565
3/11/2017	\$2.7300	\$2.6450	\$0.0850	\$0.2565
3/12/2017	\$2.7300	\$2.6450	\$0.0850	\$0.2565
3/13/2017	\$2.7300	\$2.6450	\$0.0850	\$0.2565
3/14/2017	\$2.7900	\$2.6900	\$0.1000	\$0.2565
3/15/2017	\$2.7700	\$2.6700	\$0.1000	\$0.2565
3/16/2017	\$2.6500	\$2.6000	\$0.0500	\$0.2565
3/17/2017	\$2.5200	\$2.4500	\$0.0700	\$0.2565
3/18/2017	\$2.5250	\$2.4450	\$0.0800	\$0.2565
3/19/2017	\$2.5250	\$2.4450	\$0.0800	\$0.2565
3/20/2017	\$2.5250	\$2.4450	\$0.0800	\$0.2565
3/21/2017	\$2.6900	\$2.5950	\$0.0950	\$0.2565
3/22/2017	\$2.7700	\$2.6950	\$0.0750	\$0.2565
3/23/2017	\$2.7000	\$2.6150	\$0.0850	\$0.2565

3/24/2017	\$2.6600	\$2.5850	\$0.0750	\$0.2565
3/25/2017	\$2.6400	\$2.5750	\$0.0650	\$0.2565
3/26/2017	\$2.6400	\$2.5750	\$0.0650	\$0.2565
3/27/2017	\$2.6400	\$2.5750	\$0.0650	\$0.2565
3/28/2017	\$2.6900	\$2.6350	\$0.0550	\$0.2565
3/29/2017	\$2.6400	\$2.5800	\$0.0600	\$0.2565
3/30/2017	\$2.7150	\$2.6300	\$0.0850	\$0.2565
3/31/2017	\$2.7200	\$2.6250	\$0.0950	\$0.2565
4/1/2017	\$2.7200	\$2.6600	\$0.0600	\$0.2565
4/2/2017	\$2.7200	\$2.6600	\$0.0600	\$0.2565
4/3/2017	\$2.7200	\$2.6600	\$0.0600	\$0.2565
4/4/2017	\$2.8250	\$2.7200	\$0.1050	\$0.2565
4/5/2017	\$2.8700	\$2.7800	\$0.0900	\$0.2565
4/6/2017	\$2.9900	\$2.9200	\$0.0700	\$0.2565
4/7/2017	\$2.9200	\$2.8500	\$0.0700	\$0.2565
4/8/2017	\$2.8550	\$2.7950	\$0.0600	\$0.2565
4/9/2017	\$2.8550	\$2.7950	\$0.0600	\$0.2565
4/10/2017	\$2.8550	\$2.7950	\$0.0600	\$0.2565
4/11/2017	\$2.9100	\$2.8000	\$0.1100	\$0.2565
4/12/2017	\$2.8500	\$2.7550	\$0.0950	\$0.2565
4/13/2017	\$2.8450	\$2.7600	\$0.0850	\$0.2565
4/14/2017	\$2.8100	\$2.7400	\$0.0700	\$0.2565
4/15/2017	\$2.8100	\$2.7400	\$0.0700	\$0.2565
4/16/2017	\$2.8100	\$2.7400	\$0.0700	\$0.2565
4/17/2017	\$2.8100	\$2.7400	\$0.0700	\$0.2565
4/18/2017	\$2.8450	\$2.7650	\$0.0800	\$0.2565
4/19/2017	\$2.8250	\$2.7450	\$0.0800	\$0.2565
4/20/2017	\$2.8650	\$2.7750	\$0.0900	\$0.2565
4/21/2017	\$2.8500	\$2.7750	\$0.0750	\$0.2565
4/22/2017	\$2.7500	\$2.6900	\$0.0600	\$0.2565
4/23/2017	\$2.7500	\$2.6900	\$0.0600	\$0.2565
4/24/2017	\$2.7500	\$2.6900	\$0.0600	\$0.2565
4/25/2017	\$2.7050	\$2.6450	\$0.0600	\$0.2565
4/26/2017	\$2.6850	\$2.6300	\$0.0550	\$0.2565
4/27/2017	\$2.7550	\$2.6900	\$0.0650	\$0.2565
4/28/2017	\$2.7550	\$2.7100	\$0.0450	\$0.2565
4/29/2017	\$2.7550	\$2.7100	\$0.0450	\$0.2565
4/30/2017	\$2.7550	\$2.7100	\$0.0450	\$0.2565
5/1/2017	\$2.8300	\$2.7700	\$0.0600	\$0.2565
5/2/2017	\$2.8600	\$2.7500	\$0.1100	\$0.2565
5/3/2017	\$2.7900	\$2.6850	\$0.1050	\$0.2565
5/4/2017	\$2.8300	\$2.7250	\$0.1050	\$0.2565
5/5/2017	\$2.8550	\$2.7550	\$0.1000	\$0.2565
5/6/2017	\$2.7950	\$2.6950	\$0.1000	\$0.2565

5/7/2017	\$2.7950	\$2.6950	\$0.1000	\$0.2565
5/8/2017	\$2.7950	\$2.6950	\$0.1000	\$0.2565
5/9/2017	\$2.7500	\$2.6850	\$0.0650	\$0.2565
5/10/2017	\$2.7950	\$2.7200	\$0.0750	\$0.2565
5/11/2017	\$2.8850	\$2.8100	\$0.0750	\$0.2565
5/12/2017	\$2.9600	\$2.8750	\$0.0850	\$0.2565
5/13/2017	\$2.9350	\$2.8900	\$0.0450	\$0.2565
5/14/2017	\$2.9350	\$2.8900	\$0.0450	\$0.2565
5/15/2017	\$2.9350	\$2.8900	\$0.0450	\$0.2565
5/16/2017	\$2.9800	\$2.8950	\$0.0850	\$0.2565
5/17/2017	\$2.8600	\$2.8100	\$0.0500	\$0.2565
5/18/2017	\$2.8300	\$2.7750	\$0.0550	\$0.2565
5/19/2017	\$2.8000	\$2.7400	\$0.0600	\$0.2565
5/20/2017	\$2.8500	\$2.7650	\$0.0850	\$0.2565
5/21/2017	\$2.8500	\$2.7650	\$0.0850	\$0.2565
5/22/2017	\$2.8500	\$2.7650	\$0.0850	\$0.2565
5/23/2017	\$2.9850	\$2.8800	\$0.1050	\$0.2565
5/24/2017	\$3.0000	\$2.9000	\$0.1000	\$0.2565
5/25/2017	\$2.9050	\$2.8050	\$0.1000	\$0.2565
5/26/2017	\$2.9350	\$2.8350	\$0.1000	\$0.2565
5/27/2017	\$2.8000	\$2.7550	\$0.0450	\$0.2565
5/28/2017	\$2.8000	\$2.7550	\$0.0450	\$0.2565
5/29/2017	\$2.8000	\$2.7550	\$0.0450	\$0.2565
5/30/2017	\$2.8000	\$2.7550	\$0.0450	\$0.2565
5/31/2017	\$2.7750	\$2.7150	\$0.0600	\$0.2565
6/1/2017	\$2.7600	\$2.6800	\$0.0800	\$0.2565
6/2/2017	\$2.6300	\$2.5250	\$0.1050	\$0.2565
6/3/2017	\$2.4850	\$2.4150	\$0.0700	\$0.2565
6/4/2017	\$2.4850	\$2.4150	\$0.0700	\$0.2565
6/5/2017	\$2.4850	\$2.4150	\$0.0700	\$0.2565
6/6/2017	\$2.7150	\$2.6100	\$0.1050	\$0.2565
6/7/2017	\$2.7900	\$2.6900	\$0.1000	\$0.2565
6/8/2017	\$2.8300	\$2.7450	\$0.0850	\$0.2565
6/9/2017	\$2.7350	\$2.6300	\$0.1050	\$0.2565
6/10/2017	\$2.5600	\$2.5150	\$0.0450	\$0.2565
6/11/2017	\$2.5600	\$2.5150	\$0.0450	\$0.2565
6/12/2017	\$2.5600	\$2.5150	\$0.0450	\$0.2565
6/13/2017	\$2.7200	\$2.6050	\$0.1150	\$0.2565
6/14/2017	\$2.5950	\$2.4950	\$0.1000	\$0.2565
6/15/2017	\$2.7050	\$2.5950	\$0.1100	\$0.2565
6/16/2017	\$2.7950	\$2.6650	\$0.1300	\$0.2565
6/17/2017	\$2.9000	\$2.7050	\$0.1950	\$0.2565
6/18/2017	\$2.9000	\$2.7050	\$0.1950	\$0.2565
6/19/2017	\$2.9000	\$2.7050	\$0.1950	\$0.2565

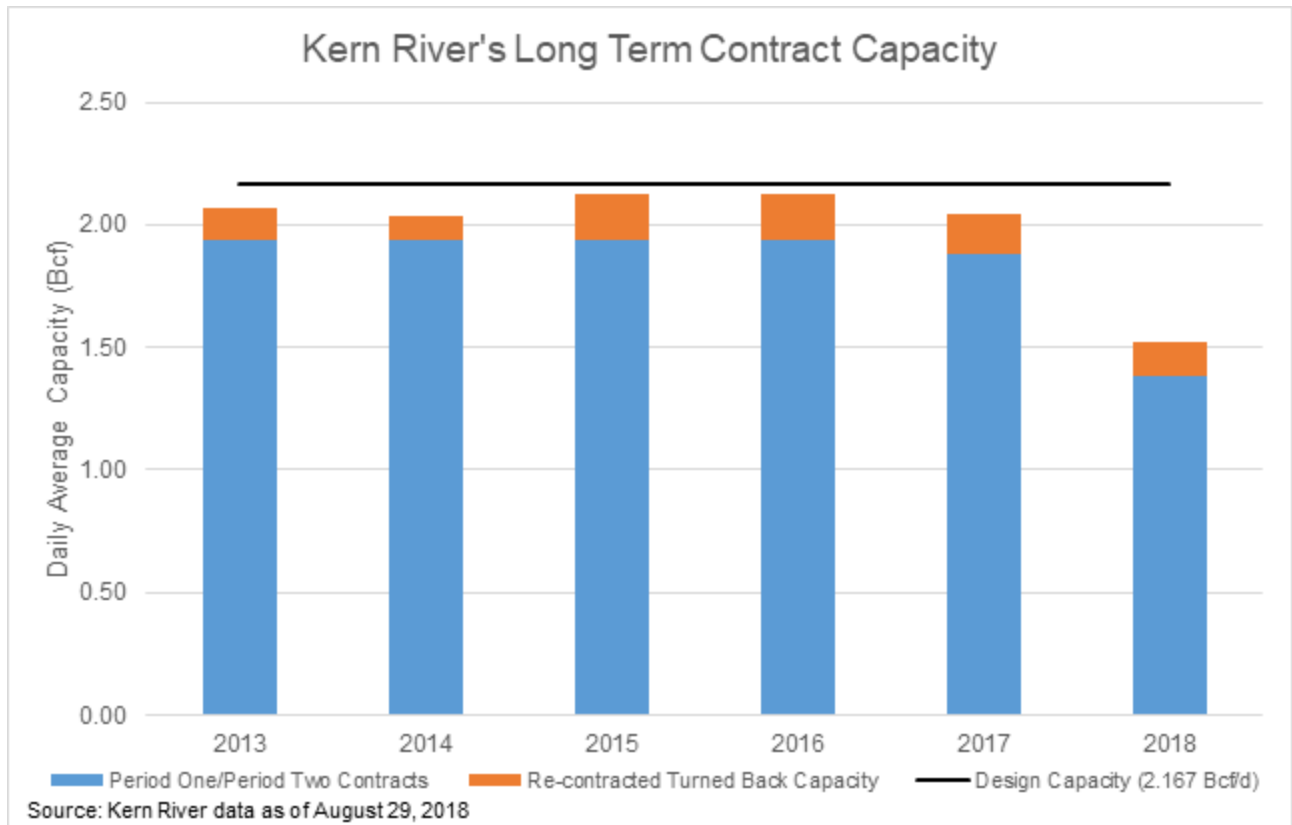
6/20/2017	\$3.4100	\$2.6950	\$0.7150	\$0.2565
6/21/2017	\$3.7750	\$2.6500	\$1.1250	\$0.2565
6/22/2017	\$3.6300	\$2.6650	\$0.9650	\$0.2565
6/23/2017	\$2.9450	\$2.6000	\$0.3450	\$0.2565
6/24/2017	\$2.6650	\$2.5450	\$0.1200	\$0.2565
6/25/2017	\$2.6650	\$2.5450	\$0.1200	\$0.2565
6/26/2017	\$2.6650	\$2.5450	\$0.1200	\$0.2565
6/27/2017	\$2.7700	\$2.6450	\$0.1250	\$0.2565
6/28/2017	\$2.7350	\$2.6150	\$0.1200	\$0.2565
6/29/2017	\$2.7400	\$2.6250	\$0.1150	\$0.2565
6/30/2017	\$2.7100	\$2.6000	\$0.1100	\$0.2565
7/1/2017	\$2.5300	\$2.4300	\$0.1000	\$0.2565
7/2/2017	\$2.5300	\$2.4300	\$0.1000	\$0.2565
7/3/2017	\$2.5300	\$2.4300	\$0.1000	\$0.2565
7/4/2017	\$2.5300	\$2.4300	\$0.1000	\$0.2565
7/5/2017	\$2.5300	\$2.4300	\$0.1000	\$0.2565
7/6/2017	\$2.8850	\$2.6300	\$0.2550	\$0.2565
7/7/2017	\$3.2850	\$2.6550	\$0.6300	\$0.2565
7/8/2017	\$2.8750	\$2.5750	\$0.3000	\$0.2565
7/9/2017	\$2.8750	\$2.5750	\$0.3000	\$0.2565
7/10/2017	\$2.8750	\$2.5750	\$0.3000	\$0.2565
7/11/2017	\$2.8650	\$2.6050	\$0.2600	\$0.2565
7/12/2017	\$2.8800	\$2.6600	\$0.2200	\$0.2565
7/13/2017	\$2.8850	\$2.7150	\$0.1700	\$0.2565
7/14/2017	\$2.8000	\$2.6050	\$0.1950	\$0.2565
7/15/2017	\$2.7750	\$2.5800	\$0.1950	\$0.2565
7/16/2017	\$2.7750	\$2.5800	\$0.1950	\$0.2565
7/17/2017	\$2.7750	\$2.5800	\$0.1950	\$0.2565
7/18/2017	\$2.8850	\$2.6800	\$0.2050	\$0.2565
7/19/2017	\$2.8700	\$2.7550	\$0.1150	\$0.2565
7/20/2017	\$2.8450	\$2.7050	\$0.1400	\$0.2565
7/21/2017	\$2.9050	\$2.7600	\$0.1450	\$0.2565
7/22/2017	\$2.8300	\$2.6900	\$0.1400	\$0.2565
7/23/2017	\$2.8300	\$2.6900	\$0.1400	\$0.2565
7/24/2017	\$2.8300	\$2.6900	\$0.1400	\$0.2565
7/25/2017	\$2.8300	\$2.6600	\$0.1700	\$0.2565
7/26/2017	\$2.8350	\$2.6900	\$0.1450	\$0.2565
7/27/2017	\$2.8550	\$2.6750	\$0.1800	\$0.2565
7/28/2017	\$2.9200	\$2.7050	\$0.2150	\$0.2565
7/29/2017	\$2.8300	\$2.6550	\$0.1750	\$0.2565
7/30/2017	\$2.8300	\$2.6550	\$0.1750	\$0.2565
7/31/2017	\$2.8300	\$2.6550	\$0.1750	\$0.2565
8/1/2017	\$3.1400	\$2.6700	\$0.4700	\$0.2565
8/2/2017	\$3.1850	\$2.5850	\$0.6000	\$0.2565

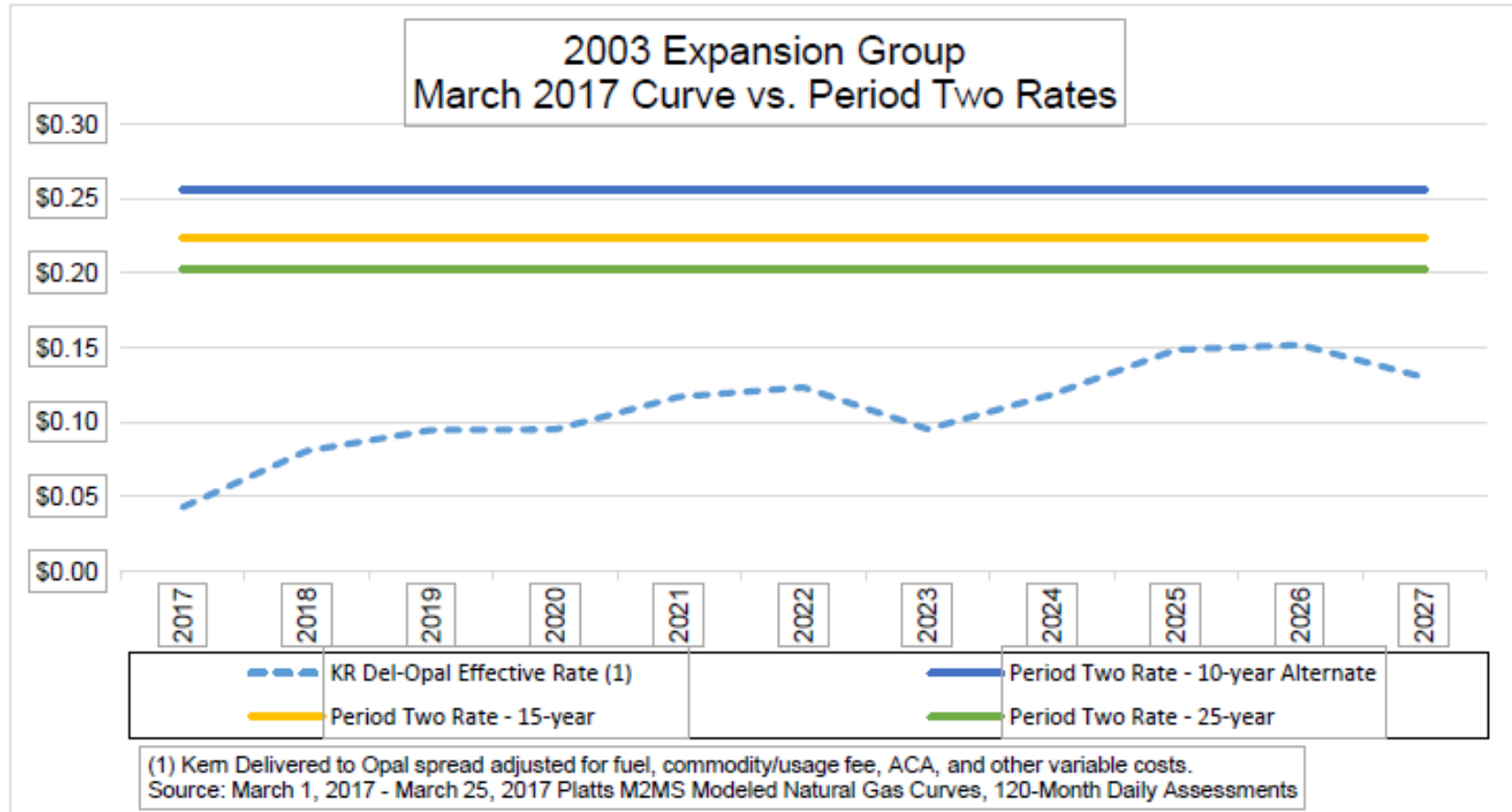
8/3/2017	\$3.2600	\$2.5900	\$0.6700	\$0.2565
8/4/2017	\$3.0600	\$2.5350	\$0.5250	\$0.2565
8/5/2017	\$2.8750	\$2.4600	\$0.4150	\$0.2565
8/6/2017	\$2.8750	\$2.4600	\$0.4150	\$0.2565
8/7/2017	\$2.8750	\$2.4600	\$0.4150	\$0.2565
8/8/2017	\$2.6350	\$2.4600	\$0.1750	\$0.2565
8/9/2017	\$2.6500	\$2.4800	\$0.1700	\$0.2565
8/10/2017	\$2.8750	\$2.6150	\$0.2600	\$0.2565
8/11/2017	\$2.8850	\$2.6500	\$0.2350	\$0.2565
8/12/2017	\$2.7400	\$2.6200	\$0.1200	\$0.2565
8/13/2017	\$2.7400	\$2.6200	\$0.1200	\$0.2565
8/14/2017	\$2.7400	\$2.6200	\$0.1200	\$0.2565
8/15/2017	\$2.7700	\$2.6550	\$0.1150	\$0.2565
8/16/2017	\$2.6850	\$2.5850	\$0.1000	\$0.2565
8/17/2017	\$2.6650	\$2.5500	\$0.1150	\$0.2565
8/18/2017	\$2.6950	\$2.5700	\$0.1250	\$0.2565
8/19/2017	\$2.7100	\$2.5850	\$0.1250	\$0.2565
8/20/2017	\$2.7100	\$2.5850	\$0.1250	\$0.2565
8/21/2017	\$2.7100	\$2.5850	\$0.1250	\$0.2565
8/22/2017	\$2.7600	\$2.5750	\$0.1850	\$0.2565
8/23/2017	\$2.9250	\$2.7300	\$0.1950	\$0.2565
8/24/2017	\$2.8950	\$2.6850	\$0.2100	\$0.2565
8/25/2017	\$2.8950	\$2.7250	\$0.1700	\$0.2565
8/26/2017	\$2.9500	\$2.6750	\$0.2750	\$0.2565
8/27/2017	\$2.9500	\$2.6750	\$0.2750	\$0.2565
8/28/2017	\$2.9500	\$2.6750	\$0.2750	\$0.2565
8/29/2017	\$3.5700	\$2.8200	\$0.7500	\$0.2565
8/30/2017	\$4.6550	\$2.7400	\$1.9150	\$0.2565
8/31/2017	\$4.1600	\$2.6700	\$1.4900	\$0.2565
9/1/2017	\$3.6700	\$2.7000	\$0.9700	\$0.2565
9/2/2017	\$3.3100	\$2.7100	\$0.6000	\$0.2565
9/3/2017	\$3.3100	\$2.7100	\$0.6000	\$0.2565
9/4/2017	\$3.3100	\$2.7100	\$0.6000	\$0.2565
9/5/2017	\$3.3100	\$2.7100	\$0.6000	\$0.2565
9/6/2017	\$2.9800	\$2.6400	\$0.3400	\$0.2565
9/7/2017	\$2.9200	\$2.7000	\$0.2200	\$0.2565
9/8/2017	\$2.8400	\$2.7150	\$0.1250	\$0.2565
9/9/2017	\$2.7150	\$2.5850	\$0.1300	\$0.2565
9/10/2017	\$2.7150	\$2.5850	\$0.1300	\$0.2565
9/11/2017	\$2.7150	\$2.5850	\$0.1300	\$0.2565
9/12/2017	\$2.7750	\$2.6550	\$0.1200	\$0.2565
9/13/2017	\$2.8650	\$2.7250	\$0.1400	\$0.2565
9/14/2017	\$2.8950	\$2.7650	\$0.1300	\$0.2565
9/15/2017	\$2.8050	\$2.7150	\$0.0900	\$0.2565

9/16/2017	\$2.6350	\$2.5750	\$0.0600	\$0.2565
9/17/2017	\$2.6350	\$2.5750	\$0.0600	\$0.2565
9/18/2017	\$2.6350	\$2.5750	\$0.0600	\$0.2565
9/19/2017	\$2.8150	\$2.7350	\$0.0800	\$0.2565
9/20/2017	\$2.7750	\$2.7000	\$0.0750	\$0.2565
9/21/2017	\$2.7250	\$2.6600	\$0.0650	\$0.2565
9/22/2017	\$2.6800	\$2.6050	\$0.0750	\$0.2565
9/23/2017	\$2.5700	\$2.5000	\$0.0700	\$0.2565
9/24/2017	\$2.5700	\$2.5000	\$0.0700	\$0.2565
9/25/2017	\$2.5700	\$2.5000	\$0.0700	\$0.2565
9/26/2017	\$2.6650	\$2.5600	\$0.1050	\$0.2565
9/27/2017	\$2.6550	\$2.5250	\$0.1300	\$0.2565
9/28/2017	\$2.6500	\$2.4900	\$0.1600	\$0.2565
9/29/2017	\$2.5200	\$2.4550	\$0.0650	\$0.2565
9/30/2017	\$2.5200	\$2.4550	\$0.0650	\$0.2565
10/1/2017	\$2.4950	\$2.3750	\$0.1200	\$0.2565
10/2/2017	\$2.4950	\$2.3750	\$0.1200	\$0.2565
10/3/2017	\$2.5550	\$2.4350	\$0.1200	\$0.2565
10/4/2017	\$2.4850	\$2.3600	\$0.1250	\$0.2565
10/5/2017	\$2.5750	\$2.4800	\$0.0950	\$0.2565
10/6/2017	\$2.6850	\$2.5850	\$0.1000	\$0.2565
10/7/2017	\$2.6400	\$2.5300	\$0.1100	\$0.2565
10/8/2017	\$2.6400	\$2.5300	\$0.1100	\$0.2565
10/9/2017	\$2.6400	\$2.5300	\$0.1100	\$0.2565
10/10/2017	\$2.6000	\$2.4800	\$0.1200	\$0.2565
10/11/2017	\$2.6150	\$2.5000	\$0.1150	\$0.2565
10/12/2017	\$2.6950	\$2.5800	\$0.1150	\$0.2565
10/13/2017	\$2.6950	\$2.5900	\$0.1050	\$0.2565
10/14/2017	\$2.7200	\$2.6050	\$0.1150	\$0.2565
10/15/2017	\$2.7200	\$2.6050	\$0.1150	\$0.2565
10/16/2017	\$2.7200	\$2.6050	\$0.1150	\$0.2565
10/17/2017	\$2.7650	\$2.6100	\$0.1550	\$0.2565
10/18/2017	\$2.9600	\$2.6900	\$0.2700	\$0.2565
10/19/2017	\$2.8400	\$2.5700	\$0.2700	\$0.2565
10/20/2017	\$2.7150	\$2.5700	\$0.1450	\$0.2565
10/21/2017	\$2.6850	\$2.5500	\$0.1350	\$0.2565
10/22/2017	\$2.6850	\$2.5500	\$0.1350	\$0.2565
10/23/2017	\$2.6850	\$2.5500	\$0.1350	\$0.2565
10/24/2017	\$3.5150	\$2.8100	\$0.7050	\$0.2565
10/25/2017	\$3.3350	\$2.7350	\$0.6000	\$0.2565
10/26/2017	\$3.4400	\$2.7150	\$0.7250	\$0.2565
10/27/2017	\$3.4900	\$2.7100	\$0.7800	\$0.2565
10/28/2017	\$2.6400	\$2.5350	\$0.1050	\$0.2565
10/29/2017	\$2.6400	\$2.5350	\$0.1050	\$0.2565

10/30/2017	\$2.6400	\$2.5350	\$0.1050	\$0.2565
10/31/2017	\$2.8450	\$2.7000	\$0.1450	\$0.2565
11/1/2017	\$2.7050	\$2.5900	\$0.1150	\$0.2565
11/2/2017	\$2.6350	\$2.5150	\$0.1200	\$0.2565
11/3/2017	\$2.7350	\$2.6100	\$0.1250	\$0.2565
11/4/2017	\$2.7300	\$2.6250	\$0.1050	\$0.2565
11/5/2017	\$2.7300	\$2.6250	\$0.1050	\$0.2565
11/6/2017	\$2.7300	\$2.6250	\$0.1050	\$0.2565
11/7/2017	\$3.1100	\$2.9750	\$0.1350	\$0.2565
11/8/2017	\$3.0600	\$2.9200	\$0.1400	\$0.2565
11/9/2017	\$3.2300	\$2.9650	\$0.2650	\$0.2565
11/10/2017	\$3.1450	\$2.9900	\$0.1550	\$0.2565
11/11/2017	\$2.9100	\$2.8250	\$0.0850	\$0.2565
11/12/2017	\$2.9100	\$2.8250	\$0.0850	\$0.2565
11/13/2017	\$2.9100	\$2.8250	\$0.0850	\$0.2565
11/14/2017	\$3.0400	\$2.8800	\$0.1600	\$0.2565
11/15/2017	\$3.1050	\$2.8350	\$0.2700	\$0.2565
11/16/2017	\$3.0400	\$2.8400	\$0.2000	\$0.2565
11/17/2017	\$2.9400	\$2.8050	\$0.1350	\$0.2565
11/18/2017	\$2.8800	\$2.7650	\$0.1150	\$0.2565
11/19/2017	\$2.8800	\$2.7650	\$0.1150	\$0.2565
11/20/2017	\$2.8800	\$2.7650	\$0.1150	\$0.2565
11/21/2017	\$2.9900	\$2.7750	\$0.2150	\$0.2565
11/22/2017	\$2.8550	\$2.7200	\$0.1350	\$0.2565
11/23/2017	\$2.5650	\$2.4750	\$0.0900	\$0.2565
11/24/2017	\$2.5650	\$2.4750	\$0.0900	\$0.2565
11/25/2017	\$2.5650	\$2.4750	\$0.0900	\$0.2565
11/26/2017	\$2.5650	\$2.4750	\$0.0900	\$0.2565
11/27/2017	\$2.5650	\$2.4750	\$0.0900	\$0.2565
11/28/2017	\$2.7350	\$2.6100	\$0.1250	\$0.2565
11/29/2017	\$2.7450	\$2.6200	\$0.1250	\$0.2565
11/30/2017	\$2.8600	\$2.7350	\$0.1250	\$0.2565
12/1/2017	\$2.8600	\$2.6500	\$0.2100	\$0.2565
12/2/2017	\$2.7550	\$2.5150	\$0.2400	\$0.2565
12/3/2017	\$2.7550	\$2.5150	\$0.2400	\$0.2565
12/4/2017	\$2.7550	\$2.5150	\$0.2400	\$0.2565
12/5/2017	\$3.0200	\$2.6850	\$0.3350	\$0.2565
12/6/2017	\$3.0450	\$2.7250	\$0.3200	\$0.2565
12/7/2017	\$3.0700	\$2.7850	\$0.2850	\$0.2565
12/8/2017	\$2.8150	\$2.5600	\$0.2550	\$0.2565
12/9/2017	\$2.6650	\$2.4550	\$0.2100	\$0.2565
12/10/2017	\$2.6650	\$2.4550	\$0.2100	\$0.2565
12/11/2017	\$2.6650	\$2.4550	\$0.2100	\$0.2565
12/12/2017	\$2.9150	\$2.5500	\$0.3650	\$0.2565

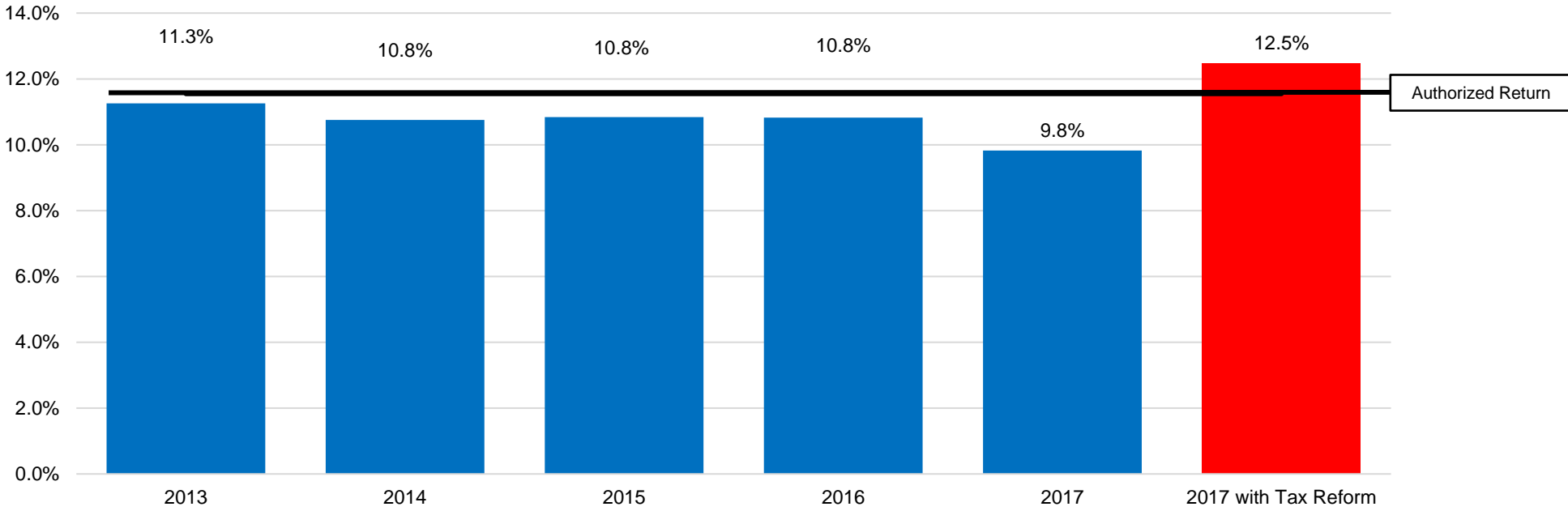
12/13/2017	\$2.8800	\$2.6150	\$0.2650	\$0.2565
12/14/2017	\$2.8500	\$2.5550	\$0.2950	\$0.2565
12/15/2017	\$2.9250	\$2.5700	\$0.3550	\$0.2565
12/16/2017	\$2.8450	\$2.5450	\$0.3000	\$0.2565
12/17/2017	\$2.8450	\$2.5450	\$0.3000	\$0.2565
12/18/2017	\$2.8450	\$2.5450	\$0.3000	\$0.2565
12/19/2017	\$3.0300	\$2.6650	\$0.3650	\$0.2565
12/20/2017	\$3.0650	\$2.5900	\$0.4750	\$0.2565
12/21/2017	\$3.6400	\$2.6500	\$0.9900	\$0.2565
12/22/2017	\$4.0550	\$2.4700	\$1.5850	\$0.2565
12/23/2017	\$3.0450	\$2.4600	\$0.5850	\$0.2565
12/24/2017	\$3.0450	\$2.4600	\$0.5850	\$0.2565
12/25/2017	\$3.0450	\$2.4600	\$0.5850	\$0.2565
12/26/2017	\$3.0450	\$2.4600	\$0.5850	\$0.2565
12/27/2017	\$2.9100	\$2.5200	\$0.3900	\$0.2565
12/28/2017	\$2.8300	\$2.6100	\$0.2200	\$0.2565
12/29/2017	\$3.0550	\$2.8600	\$0.1950	\$0.2565
12/30/2017	\$3.0550	\$2.8600	\$0.1950	\$0.2565
12/31/2017	\$3.0550	\$2.8600	\$0.1950	\$0.2565





**Kern River Gas Transmission Company
FERC Form 501-G Historical Adjusted Returns**

**Kern River Gas Transmission Company
Adjusted 501-G Returns**



Note: Returns reflect actual returns using the 501-G form and adjusting for actual equity, average rate base and reflecting the 2017 prior period adjustments in the appropriate periods

**Kern River Gas Transmission Company
2016 Cost of Service and Rate Base**

Exhibit "7"
Kern River's Statement
Re FERC Form 501-G
RP19- _____

		2016
		Form 501-G Reference
Cost of Service		
1	Operating Revenue	Pg 3 Col C Ln 1 \$ 340,405,039
2	Operating Revenue	342,084,386
3	Rate Refund Adjustment	(1,679,347)
4	Total Operating, Maintenance and Admin. & Gen.	Pg 3 Col C Ln 9 38,737,125
5	Depreciation, Depletion, and Amortization	Pg 3 Col C Ln 10 86,978,525
6	Amort. of Plant Acq. Adj. (consistent w/ rate base)	Pg 3 Col C Ln 11 -
7	Regulatory Debits (if incl. in a § 4 rate filing)	Pg 3 Col C Ln 12 57,261,823
8	(Less) Regulatory Credits (if incl. in a § 4 rate filing)	Pg 3 Col C Ln 13 (15,747,784)
9	Adjustment for Alternate Period two Turned back Depreciation to 25 Yr	(4,830,259)
10	Other Taxes	Pg 3 Col C Ln 14 14,125,937
11	Non-Fuel Operating Cost Excl. Interest and Taxes	Pg 3 Col C Ln 15 176,525,367
12	Operating Income	Pg 3 Col C Ln 16 \$ 163,879,673
13	Interest Expense	Pg 3 Col C Ln 17 10,308,625
14	Cost of Interest	Pg 2 Col E Ln 23 5.49%
15	Weighted Cost of Capital - Debt	Pg 2 Col E Ln 25 1.01%
16	Income Before Income Taxes	Pg 3 Col C Ln 18 \$ 153,571,048
17 Allowance for Income Taxes		
18	Composite Tax Rate	Pg 3 Col C Ln 19 38.43%
19	Income Taxes	Pg 3 Col C Ln 20 \$ 59,010,443
20	(Less) Amort. Of Excess ADIT (Regulatory Liability)	Pg 3 Col C Ln 21 -
21	Total Income Tax Allowance	Pg 3 Col C Ln 22 59,010,443
22	Net Income	Pg 3 Col C Ln 23 \$ 94,560,605
Rate Base		
23	Net Plant	Pg 2 Col C Ln 8 1,590,270,039
24	Working Capital	Pg 2 Col C Ln 11-12 12,091,294
25	Accumulated Deferred Income Taxes	Pg 2 Col C Ln 13 136,119,503
26	DIT adjustment for Alternate Period two Turned back Depreciation to 25 Yr	(5,250,183)
27	(Less) Accum. Deferred IT - Other Property	Pg 2 Col C Ln 14 (513,752,529)
28	(Less) Accum. Deferred IT - Other	Pg 2 Col C Ln 15 (26,763,481)
29	Other Regulatory Assets	Pg 2 Col C Ln 16 78,216,371
30	Adjustment for Alternate Period two Turned back Depreciation to 25 Yr	13,663,279
31	(Less) Other Regulatory Liabilities	Pg 2 Col C Ln 17 (261,642,462)
32	(Less) Amort. Of Excess ADIT (Regulatory Liability)	Pg 3 Col C Ln 21 -
32	Total Rate Base	Pg 2 Col C Ln 18 1,022,951,831

SHIPPER	Contract Number	Date Stepped Into P2	Effective Date Alternate P2	Days to Refund	Annualized Volume	Current P2 Rate (Non-Leap Year)	Current P2 Rate (Leap Year)	Final Rates		# Days in Year						Estimated Refund amount 2012	Estimated Refund amount 2013	Estimated Refund amount 2014	Estimated Refund amount 2015	Estimated Refund amount 2016	Estimated Refund amount 2017	Total Rate Refund
								Alternate P2 Rate (Non-Leap Year)	Alternate P2 Rate (Leap Year)	2012 LY	2013	2014	2015	2016 LY	2017							
ORIGINAL SYSTEM 15 YEAR - PERIOD TWO 10 YEAR																						
Chevron U.S.A. Inc.	20008	10/01/16	05/01/17	212	65,000	\$ 0.2193	\$ 0.2187	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 337,870	\$ 442,260	\$ 780,130
Nevada Cogeneration Associates #1	20010	10/01/16	05/01/17	212	13,455	\$ 0.2193	\$ 0.2187	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 69,939	\$ 91,548	\$ 161,487
RRI Energy Services, Inc. (87,975 Dth/d Apr-Oct)	20021	10/01/16	05/01/17	61	51,580	\$ 0.2193	\$ 0.2187	\$ 0.1626	\$ 0.1622	-	-	-	-	31	30	\$ -	\$ -	\$ -	\$ -	\$ 154,088	\$ 149,645	\$ 303,734
Shell Energy North America (US) L.P.	20006	10/01/16	05/01/17	212	37,933	\$ 0.2193	\$ 0.2187	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 197,176	\$ 258,096	\$ 455,272
Shell Energy North America (US) L.P.	20005	10/01/16	05/01/17	212	16,560	\$ 0.2193	\$ 0.2187	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 86,079	\$ 112,674	\$ 198,753
					184,528											\$ -	\$ -	\$ -	\$ -	\$ 845,152	\$ 1,054,224	\$ 1,899,376
Alternate Period Two Settlement Prior Period Adjustments																						
ORIGINAL SYSTEM 15 YEAR - PERIOD TWO 15 YEAR																						
Aera Energy LLC	20007	10/01/16	05/01/17	212	51,750	\$ 0.1846	\$ 0.1841	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 104,266	\$ 136,620	\$ 240,886
CRC Marketing, Inc.	20009	10/01/16	05/01/17	212	50,000	\$ 0.1846	\$ 0.1841	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 100,740	\$ 132,000	\$ 232,740
Nevada Cogeneration Associates #2	20011	10/01/16	05/01/17	212	13,455	\$ 0.1846	\$ 0.1841	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 27,109	\$ 35,521	\$ 62,630
Nevada Power Company d/b/a NV Energy	20012	10/01/16	05/01/17	212	10,350	\$ 0.1846	\$ 0.1841	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 20,853	\$ 27,324	\$ 48,177
Nevada Power Company d/b/a NV Energy	20013	10/01/16	05/01/17	212	11,075	\$ 0.1846	\$ 0.1841	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 22,314	\$ 29,238	\$ 51,552
Seneca Resources Corporation	20014	10/01/16	05/01/17	212	4,658	\$ 0.1846	\$ 0.1841	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 9,385	\$ 12,297	\$ 21,682
Southern California Gas Company	20015	10/01/16	05/01/17	212	10,350	\$ 0.1846	\$ 0.1841	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 20,853	\$ 27,324	\$ 48,177
Citadel (25,875 Dth/d Mar-Nov)	20019	10/01/16	05/01/17	122	19,495	\$ 0.1846	\$ 0.1841	\$ 0.1626	\$ 0.1622	-	-	-	-	61	61	\$ -	\$ -	\$ -	\$ -	\$ 34,566	\$ 34,724	\$ 69,291
Citadel	20017	10/01/16	05/01/17	212	56,925	\$ 0.1846	\$ 0.1841	\$ 0.1626	\$ 0.1622	-	-	-	-	92	120	\$ -	\$ -	\$ -	\$ -	\$ 114,692	\$ 150,282	\$ 264,974
					228,058											\$ -	\$ -	\$ -	\$ -	\$ 454,779	\$ 585,331	\$ 1,040,110
2002 EXPANSION 10 YEAR																						
Southern California Gas Company	20000	05/01/12	05/01/17	1,826	35,000	\$ 0.2224	\$ 0.2218	\$ 0.1976	\$ 0.1971	245	365	365	365	366	120	\$ 211,803	\$ 316,820	\$ 316,820	\$ 316,820	\$ 316,407	\$ 104,160	\$ 1,582,830
2003 EXPANSION 10 YEAR																						
Southern California Gas Company	20001	05/01/13	05/01/17	1,461	8,159	\$ 0.2238	\$ 0.2232	\$ 0.2027	\$ 0.2021	-	245	365	365	366	120	\$ -	\$ 42,178	\$ 62,837	\$ 62,837	\$ 63,009	\$ 20,659	\$ 251,518
Total Rate Refund																\$ 211,803	\$ 358,998	\$ 379,657	\$ 379,657	\$ 1,679,347	\$ 1,764,373	\$ 4,773,833
Referenced in FERC Form 2																						
Total less 2017 \$ 3,009,460																						

⁽¹⁾ Prior period adjustment noted on 2017 FERC Form 2 page 122.13

**Kern River Gas Transmission Company
2017 Alternate Period Two Depreciation Adjustment Support**

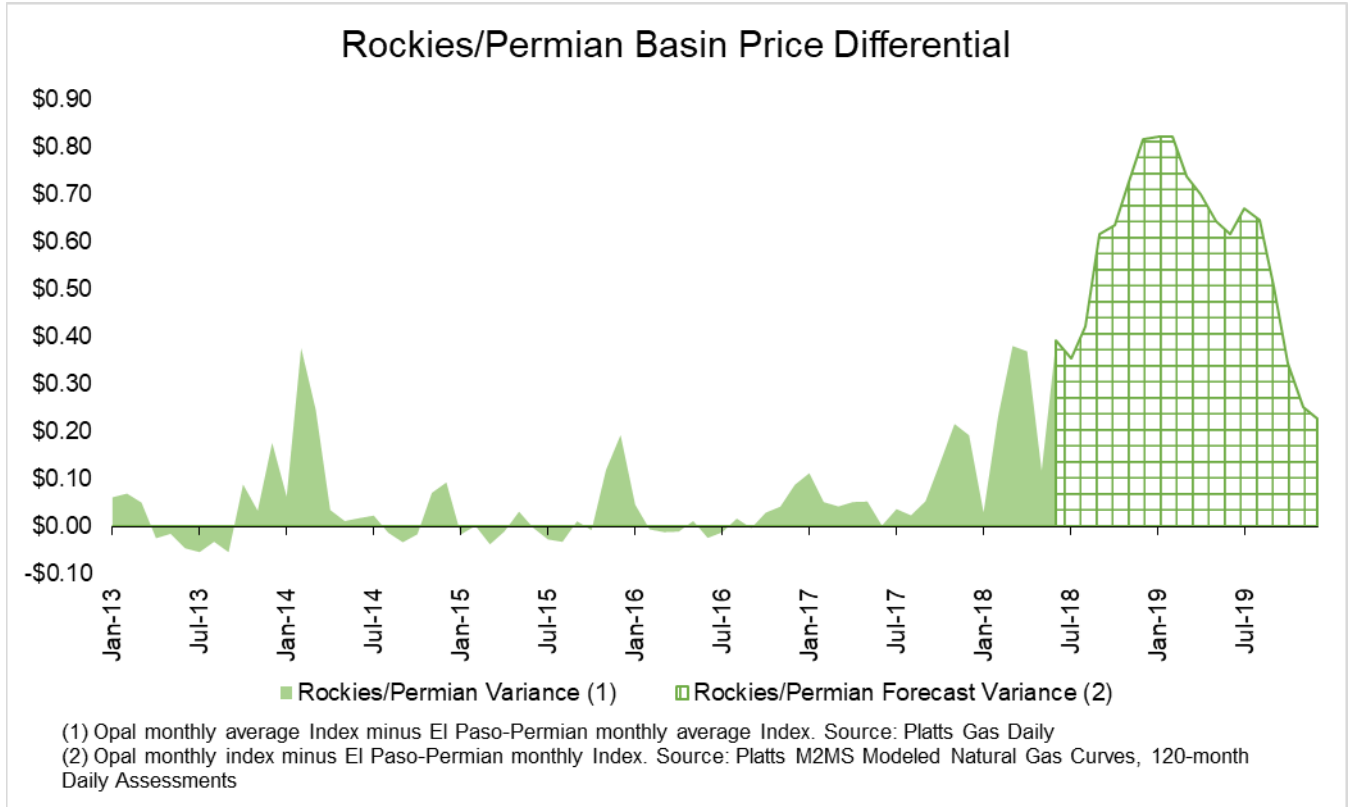
Page 2 of 2

Prior Period Adjustment						
	VIN-10	E02-10	E03-10	VIN-15_10	VIN-15_15	Total
2011	239,968	-	-	-	-	239,968
2012	988,542	78,778	-	-	-	1,067,320
2013	1,106,642	127,839	755,746	-	-	1,990,228
2014	1,238,851	143,537	1,226,864	-	-	2,609,252
2015	1,386,855	161,161	1,378,235	-	-	2,926,251
2016	1,552,541	180,950	1,548,283	1,000,098	548,387	4,830,259
Total Prior Year	6,513,400	692,265	4,909,128	1,000,098	548,387	13,663,279 ⁽¹⁾

⁽¹⁾ Prior period adjustment noted on 2017 FERC Form 2 page 122.13

15-year 2003 Expansion Shippers

Shipper	Daily Quantity	Period Two Quantity Elected	Turned Back Quantity
American Pacific Corporation	2,000		2,000
Boston Energy Trading & Marketing LLC	42,500		42,500
Calpine Energy Services, L.P.	50,000		50,000
Calpine Energy Services, L.P.	50,000		50,000
City of Redding	1,000		1,000
Cross Timbers Energy Services, Inc.	30,000		30,000
EDF Trading North America, LLC	39,178		39,178
Merrill Lynch Commodities, Inc.	70,000		70,000
Nevada Power Company, d/b/a NV Energy	75,000	75,000	
Nevada Power Company, d/b/a NV Energy	29,315	29,315	
QEP Energy Company	10,000		10,000
Questar Gas Company	53,685	53,685	
RRI Energy Services, LLC	50,000		50,000
Sacramento Municipal Utility District	20,000	20,000	
San Diego Gas & Electric	85,000		85,000
Sequent Energy Management, L.P.	15,122		15,122
Southern California Gas Company	80,000	55,000	25,000
Southwest Gas Corporation	17,786		17,786
Spark Energy Gas, LLC	7,036		7,036
The Department of Water & Power of the City of Los Angeles	39,000	39,000	
Total	766,622	272,000	494,622



Data as of: 06/30/2018

**Kern River Gas Transmission Company
Section 5 ROE Analysis**

Entity	Docket	FERC Order Sec 5 ROE	Tax Adj FERC Order Sec 5 ROE
Natural Gas Pipeline Company of America	RP10-147	24.5%	
Northern Natural Gas	RP10-148	24.4%	
Great Lakes Gas Transmission	RP10-149	20.8%	
Kinder Morgan Interstate Gas Transmission	RP11-1494	29.3%	
Ozark Gas Transmission	RP11-1495	25.6%	
Tuscarora Gas Transmission	RP11-1823	27.2%	
Bear Creek Storage Company	RP12-121	29.2%	
MIGC	RP12-122	57.14%	
ANR Storage Company	RP12-123	153.71%	
Wyoming Interstate Company	RP13-184	19.57%	
Viking Gas Transmission Company	RP13-185	21.99%	
Tuscarora Gas Transmission Company	RP16-299	24.90%	
Empire Pipeline	RP16-300	20.20%	
Iroquois Pipeline	RP16-301	16.30%	
Columbia Gulf	RP16-302	18.20%	
Wyoming Interstate Company	RP17-302	19.00%	
Natural Gas Pipeline Company of America ¹	RP17-303	20.80%	
Midwestern Gas Transmission	RP18-441	— —	20.20%
Dominion Overthrust Transmission	RP18-442	— —	30.90%

¹ In Docket No. RP17-303, the Commission initiated a section 5 proceeding after calculating NGPL's return on equity to be 20.8 percent. Natural Gas Pipeline Company of America, 158 FERC ¶ 61,044 (2017). After ordering the investigation, the Commission corrected its calculated return to be 15.7 percent. Natural Gas Pipeline Company of America, 158 FERC ¶ 61,111 (2017).

**FERC Form No. 501-G
One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

Cost of Service

Pipeline
Company
Name

Kern River Gas Transmission Company

Line No.	(A) Description	(B) Form 2 Reference	(C) Calendar Year 2017 Actuals	(D) Net Amort. of Excess/ Deficient ADIT	(E) With Adjusted Tax Allowance
3	CID	C000962			
4	Is the Pipeline a separate income taxpaying entity? Does it conduct business, realize net income or loss, pay income taxes and distribute profits to shareholders?		Yes		
Cost of Service - Non Fuel					
Operating, Maintenance and Administrative & General					
5	Total Production & Gathering	P. 317; L. 30, C. (b)	\$ -		\$ -
6	Total Products Extraction	P. 318; L. 58, C. (b)	-		-
7	Total Natural Gas Storage	P. 322; L. 177, C. (b)	-		-
8	(Less) UG Compressor Station Fuel & Power	P. 320; L. 106, C. (b)	-		-
9	(Less) Other Compressor Station Fuel & Power	P. 321; LL. 131 & 132, C. (b)	-		-
10	(Less) LNG Compressor Station Fuel & Power	P. 322; LL. 157 & 158, C. (b)	-		-
11	Net Storage Costs	L. 7 minus LL. 8-10	-		-
12	Total Transmission	P. 323; L. 201, C. (b)	63,650,901		63,650,901
13	(Less) Gas for Compressor Station Fuel	P. 323; L. 184, C. (b)	41,134,489		41,134,489
14	(Less) Other Fuel & Power for Compressor Stns. (if included in true-up or tracking mechanism)	P. 323; L. 185, C. (b)	687,745		687,745
15	Net Transmission Costs	L. 12 minus LL. 13-14	21,828,667		21,828,667
16	Administrative & General	P. 325; L. 270, C. (b)	18,644,936		18,644,936
17	Total Operating, Maintenance and Admin. & Gen.	Sum of LL. 4, 5, 10, 14, 15	\$ 40,473,603		\$ 40,473,603
18	Depreciation, Depletion, and Amortization	Form 2 - P. 337; L. 12, C. (h) Form 2A - P. 114; LL. 6-8, C. (c)	66,122,810		66,122,810
19	Amort. of Plant Acq. Adj. If 'yes' to P. 2; L. 5 of Form 501-G then 0, else P. 114; L. 9, C. (c)		-		-
Credits to Cost of Service					
20	Regulatory Debits (if incl. in a § 4 rate filing)	P. 114; L. 12, C. (c)	49,944,681		49,944,681
21	(Less) Regulatory Credits (if incl. in a § 4 rate filing)	P. 114; L. 13, C. (c)	35,125,743		35,125,743
22	Other Taxes	P. 114; L. 14, C. (c)	12,897,704		12,897,704
Return					
23	Long Term Debt	P. 2; L. 27 of Form 501-G	20,216,690		20,335,091
24	Preferred Stock (or equivalent)	P. 2; L. 28 of Form 501-G	-		-
25	Common Equity	P. 2; L. 29 of Form 501-G	56,545,613		56,876,776
26	Total Return		76,762,303		77,211,866
Allowance for Income Taxes					
27	Federal Income Tax Rate	P. 5; L. 3 of Form 501-G	35.00%		21.00%
28	Weighted Average State Income Tax Rate	P. 5; L. 4 of Form 501-G	5.27%		5.27%
29	Composite Income Tax Rate	P. 5; LL. 3-6 of Form 501-G	38.43%		25.16%
30	Income Tax Allowance on Equity Return	[(L. 24+L. 25)*(L. 29/(1-L. 29))]	35,287,228		19,124,405
31	(Less) Net Amort. of Excess(+) and/or Deficient(-) ADIT (Year 1 amortization)		-	5,506,995	5,506,995
32	Total Income Tax Allowance	L. 30 minus L. 31	35,287,228		13,617,410
33	Total Cost of Service - Non Fuel	Sum of LL. 17-20, 22, 26, 32 less L. 21	\$ 246,362,586		\$ 225,142,331
34	Indicated Cost of Service Reduction	1 minus [L. 33, C. (E) divided by L. 33, C. (C)]			8.6%

**FERC Form No. 501-G
One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

Rate Base

Kern River Gas Transmission Company

Line No.	(A) Description	(B) Form 2 Reference	(C) Calendar Year 2017 Actuals	(D) Excess/ Deficient ADIT Adjustment	(E) With Adjusted Tax Allowance
Rate Base					
1	Gas Plant in Service	P. 110; L. 2, C. (c)	\$ 2,878,462,045		\$ 2,878,462,045
2	Accumulated Depreciation	P. 110; L. 5, C. (c)	1,332,265,996		1,332,265,996
3	Acquisition Adjustment	P. 200; L. 12, C. (b)	-		-
4	(Less) Amort. of Plant Acquisition Adjustment	P. 200; L. 32, C. (b)	-		-
5	No Has the pipeline received permission to include Acq. Adjustment(s) in Rate Base? If no, provide amounts as a reduction to Rate Base.				
6	FERC Order Cite				
7	Net Acquisition Adjustment	If L. 5 is yes, then zero; else L. 3 minus L. 4	-		-
8	Net Plant	L. 1 minus L. 2 minus L. 7	1,546,196,049		1,546,196,049
Gas Stored Underground					
9	Base Gas - Account No. 117.1	P. 220; L. 5, C. (b)	-		-
10	System Balancing - Account No. 117.2	P. 220; L. 5, C. (c)	-		-
Working Capital					
11	Prepayments	P. 111; L. 54, C. (c)	1,289,626		1,289,626
12	Materials and Supplies	P. 111; L. 45, C. (c)	11,097,449		11,097,449
ADIT and Regulatory Assets and Liabilities					
13	Accumulated Deferred Income Taxes (IT)	P. 235; L. 3, C. (k)(see footnote)	152,057,936		152,057,936
14	(Less) Accum. Deferred IT - Other Property	P. 275; L. 3, C. (k)(see footnote)	338,186,264		338,186,264
15	(Less) Accum. Deferred IT - Other	P. 277; L. 3, C. (k)(see footnote)	34,814,062		34,814,062
16	Other Regulatory Assets	P. 232; L. 40, C. (g)	145,029,870	-	145,029,870
17	(Less) Other Regulatory Liabilities	P. 278; L. 45, C. (g)	542,359,429	-	536,852,434
18	Rate Base	Sum of LL. 8 - 13 minus LL. 14-15 plus L. 16 minus L. 17	\$ 940,311,175		\$ 945,818,170

The Commission will apply Opinion No. 414, et al. in reviewing data submitted on page 4. Opinion No. 414, et al. requires that the pipeline's, or the parent's debt if using the parent's capital, must be issued in its name, be publicly traded, and be rated by a rating agency. The pipeline or parent must have a proper capital structure, which for purposes of FERC Form No. 501-G must have an equity ratio less than 65%.

Opinion No. 414, 80 FERC ¶ 61,157 (1997); reh'g denied, Opinion No. 414-A, 84 FERC ¶ 61,084 (1998).

Employing the data provided on Page 4 for capital structure and the component costs of Long Term Debt and Preferred Stock, the Pipeline's cost of capital for purposes of FERC Form No. 501-G will be based upon Case 4 - FERC Hypothetical Capital Structure and Cost of new Corporate Debt.

Summary of Page 4 Capital Structure and Capital Component Costs	Case 1	Case 2	Case 3	Case 4
	Balance Sheet & Income Statement	Page 218a	Parent's SEC Form 10K	Hypothetical
19) 1) Is the debt issued in the entity's name and traded?	No	No	No	
20) 2) Is the debt rated by a rating agency?	No	No	No	
21) 3) Is the equity ratio less than 65%?	No	No	No	
22) Each of the three above questions must be answered yes as the basis for using the capital structure and individual capital component cost.	Not using Case 1 per Opinion No. 414 et al	Not using Case 2 per Opinion No. 414 et al	Not using Case 3 per Opinion No. 414 et al	Using Case 4

		<u>Capitalization Ratio</u>	<u>Component Cost</u>	<u>Wtd. Cost of Capital</u>
23	Long Term Debt	P. 4 of Form 501-G	43.00%	5.00%
24	Preferred Stock (or equivalent)	P. 4 of Form 501-G	0.00%	0.00%
25	Common Equity	P. 4 of Form 501-G	<u>57.00%</u>	<u>10.55%</u>
26	Total Return	Sum of LL. 23 - 25	100.00%	<u>8.16%</u>
27	Return - Long Term Debt	L. 18 times L. 23, C. (E)	\$ 20,216,690	\$ 20,335,091
28	Return - Preferred Stock (or equivalent)	L. 18 times L. 24, C. (E)	-	-
29	Return - Common Equity	L. 18 times L. 25, C. (E)	56,545,613	56,876,776
30	Total Return	Sum of LL. 27 - 29	<u>\$ 76,762,303</u>	<u>\$ 77,211,866</u>

FERC Form No. 501-G
One-time Report on Rate Effect of the Tax Cuts and Jobs Act

Return on Equity
Pre Tax Cut and Pro Forma Post Tax Cut
Kern River Gas Transmission Company

Line No.	(A) Description	(B) Form 2 Reference	(C) Calendar Year 2017 Actuals	(D) With Adjusted Tax Allowance	(E) Rate Moratorium Option 12% ROE Test
Operating Revenue					Indicated Cost of Service Reduction of 8.6%
1	Total Operating Revenues	P. 301; L. 21, C. (h)	\$ 301,620,227	\$ 301,620,227	
2	(Less) Sales for Resale (Acct. Nos. 480-484)	P. 301; L. 4, C. (h)	-	-	
3	(Less) Commercial & Industrial Sales	P. 301; L. 2, C. (h)	-	-	
4	(Less) Gas Sales & Other Adj. from Acct. No. 495	P. 308; L. 10, C. (b)	-	-	
5	(Less) Fuel Related Revenues Incl. in Total Revenues per Pipeline		-	-	
6	Total Adjusted Revenue	L. 1 minus sum of LL. 2-5	\$ 301,620,227	\$ 301,620,227	\$ 275,640,397
7	<input checked="" type="checkbox"/> Yes	Enter 'Yes' or 'No' - Does the Pipeline track or true-up fuel retention?			
8	<input checked="" type="checkbox"/> No	Enter 'Yes' or 'No' - Does the Pipeline have stated fuel rates?			
Calculation of Return On Equity - Pre Tax Cut and Pro Forma Post Tax Cut					
9	Total Operating, Maintenance and Admin. & Gen.	P. 1; L. 17 of 501-G	\$ 40,473,603	\$ 40,473,603	\$ 40,473,603
10	Depreciation, Depletion, and Amortization	P. 1; L. 18 of 501-G	66,122,810	66,122,810	66,122,810
11	Amort. of Plant Acq. Adj.	P. 1; L. 19 of 501-G	-	-	-
12	Regulatory Debits (if incl. in a § 4 rate filing)	P. 1; L. 20 of 501-G	49,944,681	49,944,681	49,944,681
13	(Less) Regulatory Credits (if incl. in a § 4 rate filing)	P. 1; L. 21 of 501-G	35,125,743	35,125,743	35,125,743
14	Other Taxes	P. 1; L. 22 of 501-G	12,897,704	12,897,704	12,897,704
15	Non-Fuel Operating Cost Excl. Interest and Taxes	Sum of LL. 9-12 minus L. 13 plus L. 14	134,313,055	134,313,055	134,313,055
16	Operating Income	L. 6 minus L. 15	\$ 167,307,172	\$ 167,307,172	\$ 141,327,342
17	Interest Expense	P. 1; L. 23, C. (C) of 501-G	20,216,690	20,335,091	20,335,091
18	Income Before Income Taxes	L. 16 minus L. 17	\$ 147,090,482	\$ 146,972,081	\$ 120,992,251
Allowance for Income Taxes					
19	Composite Income Tax Rate	P. 1; L. 29 of 501-G	38.43%	25.16%	25.16%
20	Income Taxes	L. 18 times L. 19	\$ 56,520,253	\$ 36,983,026	\$ 30,445,643
21	(Less) Net Amort. of Excess(+) and/or Deficient(-) ADIT	P. 1; L. 31 of 501-G	-	5,506,995	5,506,995
22	Total Income Tax Allowance	L. 20 minus L. 21	56,520,253	31,476,030	24,938,648
23	Net Income	L. 18 minus L. 22	\$ 90,570,229	\$ 115,496,051	\$ 96,053,604
24	(Less) Preferred Dividends	P. 1; L. 24, C. (C) of 501-G	-	-	-
25	Rate Base	P. 2; L. 18 of 501-G	\$ 940,311,175	\$ 945,818,170	\$ 945,818,170
26	Total Estimated ROE (excluding fuel)	[L. 23 - L. 24] / [L. 25 * P. 2; L. 25 C. (C) of 501-G]	16.9%	21.4%	17.8%

**FERC Form No. 501-G
One-time Report on Rate Effect of the Tax Cuts and Jobs Act**

**Capital Structure and Component Costs
Kern River Gas Transmission Company**

Line No.	(A) Description	(B) Form 2 Reference	(C) Capitalization	(D) Capitalization Ratio	(E) Capital Component Cost Rate	(F) Weighted Cost of Capital
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The Commission will use your responses on the following four cases to evaluate your capital structure and capital component costs for Form No. 501-G: Case 1, balance sheet and income statement; Case 2, Page 218a of Form No. 2; Case 3, the parent's financial statements as filed in its SEC Form 10-K; or Case 4, a hypothetical capital structure and capital component costs.

Case 1. Cost of Capital based upon amounts obtained from the Balance Sheet and Income Statement.

Cost of Debt and Preferred Stock						
1	Interest	P. 116; LL. 62-68, C. (c)	\$ 6,473,218	= 0		
2	Long-Term Debt	P. 112; L. 24, C. (c)	\$ -			
3	Preferred Dividends	P. 120a; L. 68, C. (b)	\$ -	= 0		
4	Preferred Stock (or equivalent)	P. 112; L. 3, C. (c)	\$ -			
5	Common Equity	P. 112; L. 15, C. (c)	\$ 968,638,133			
6	Cost of Capital					
7	Long-Term Debt	L. 3	\$ -	0.00%	0.00%	0.00%
8	Preferred Stock (or equivalent)	L. 5	\$ -	0.00%	0.00%	0.00%
9	Common Equity	L. 6 minus L. 5	\$ 968,638,133	100.00%	10.55%	10.55%
10	Totals		\$ 968,638,133	100.00%		10.55%
11	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 3 above issued in the pipeline's name and publicly traded?				
12	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all the debt listed on L. 3 above rated by a rating agency?				

Case 2. Cost of Capital based upon amounts obtained from Page 218a of the FERC Form No. 2.

	P. 218a	Column (b)	Column (c)	Column (d)		
14	Long-Term Debt	L. 3	\$ -	0.00%	0.00%	
15	Preferred Stock (or equivalent)	L. 4	\$ -	0.00%	0.00%	
16	Common Equity	L. 5	\$ 968,022,353	100.00%	10.55%	
17	Totals		\$ 968,022,353	100.00%	10.55%	
18	<input type="checkbox"/> Yes	Are the Values on P. 218a from the books and records of Kern River Gas Transmission Company?				
19	If no, provide the name and stock symbol of the company for the source of the Page 218a amounts.					
20	Ticker	Company Name				
21	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 15 above issued in the pipeline's name, or, that of the entity on L. 21? and publicly traded?				
22	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 15 above rated by a rating agency?				

Case 3. Cost of Capital based upon Parent's Capital Structure and costs for Long Term Debt and Preferred Stock.

24	Long-Term Debt	SEC - 10K	\$ -	0.00%	0.00%	0.00%
25	Preferred Stock (or equivalent)	SEC - 10K	-	0.00%	0.00%	0.00%
26	Common Equity	SEC - 10K	-	0.00%	10.55%	0.00%
27	Totals		\$ -	0.00%		0.00%
28	Provide the stock symbol(s), the name of the parent company(s), a hyperlink to the parent's SEC Form 10-K, and the associated year:					
29	Ticker(s)	Company Name(s)				
30	Year	10K Hyperlink(s)				
31	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 24 above publicly traded?				
32	<input type="checkbox"/> No	Enter 'Yes' or 'No' - Is all of the debt listed on L. 24 above rated by a rating agency?				

Case 4. Cost of Capital based upon FERC Hypothetical Capital Structure and Cost of new Corporate Debt.

33	Long-Term Debt		43.00%	5.00%	2.15%
34	Preferred Stock		0.00%	0.00%	0.00%
35	Common Equity		57.00%	10.55%	6.01%
36	Totals		100.00%		8.16%

FERC Form No. 501-G
One-time Report on Rate Effect of the Tax Cuts and Jobs Act

Current Composite Income Tax Rate
Kern River Gas Transmission Company

Line No.	(A) Description	(B) Form 2 Reference	(C) Weighting	(D) Marginal Tax Rates	(E) Weighted Average Tax Rates
1	Based on the response to Line 4 on Page 1 of Form No. 501-G, Kern River Gas Transmission Company				
2	is a C Corp subject to the 35% tax rate for 2017. Please fill out lines 6 and 9.				
3	Federal Income Tax Rate (FIT) - Calendar Year 2017:				35.00%
4	State Income Tax Rate (SIT) - Calendar Year 2017:				5.27%
5	Composite Tax Rate - Calendar Year 2017:				38.43%
6	Provide the percentage of federal income tax deductible for state income taxes. = (p)				0.00%
7	Composite Tax Rate equals				
8	[FIT Rate * (1 - SIT Rate) / (1 - SIT Rate * FIT Rate * p)] + [SIT Rate * (1 - FIT Rate * p) / (1 - SIT Rate * FIT Rate * p)]				
<u>Tax Rates for C Corps.</u>					
9	Provide the sum of weighted state tax rate(s)	sum of all rows from P. 263b.; C. (q)			5.27%
<u>Tax Rates for Pass Through Entities */</u>					
Federal Income Tax Rates					
10	Subchapter C	per Pipeline's parents' owners	0.0%	0.0%	0.00%
11	Individuals	per Pipeline's parents' owners	0.0%	0.0%	0.00%
12	Mutual Funds	per Pipeline's parents' owners	0.0%	0.0%	0.00%
13	Pensions, IRAs, Keogh Plans	per Pipeline's parents' owners	0.0%	0.0%	0.00%
14	UBTI Entities	per Pipeline's parents' owners	0.0%	0.0%	0.00%
15	Non-Taxpaying Entities	per Pipeline's parents' owners	0.0%	0.0%	0.00%
16	Weighted Average Rate		<u>0.00%</u>		<u>0.00%</u>
State and Local Income Tax Rates					
17	Subchapter C	per Pipeline's parents' owners	0.0%	0.0%	0.00%
18	Individuals	per Pipeline's parents' owners	0.0%	0.0%	0.00%
19	Mutual Funds	per Pipeline's parents' owners	0.0%	0.0%	0.00%
20	Pensions, IRAs, Keogh Plans	per Pipeline's parents' owners	0.0%	0.0%	0.00%
21	UBTI Entities	per Pipeline's parents' owners	0.0%	0.0%	0.00%
22	Non-Taxpaying Entities	per Pipeline's parents' owners	0.0%	0.0%	0.00%
23	Weighted Average Rate		<u>0.00%</u>		<u>0.00%</u>
24	Provide the date when the marginal tax rates were determined.			mm/dd/yyyy	

*/ Income tax rates and weighting must be consistent with the Commission's *Policy Statement on Income Tax Allowances*, 111 FERC ¶ 61,139 (2005), and the Commission's *Order on Initial Decision and on Certain Remanded Cost Issues*, 113 FERC ¶ 61,277 (2005).