

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Saltville Gas Storage Company L.L.C. §
 § Docket No. RP08-____-000
 §

**PREPARED DIRECT TESTIMONY OF
KIMBERLY A. JOHNSTON
ON BEHALF OF
SALTVILLE GAS STORAGE COMPANY L.L.C.**

1 **Q. 1 Please state your full name, title, and current place of employment.**

2 A. My name is Kimberly A. Johnston, and I am Director, Income Tax Accounting
3 for Spectra Energy Corp (“Spectra Corp”). Spectra Corp’s home office is located
4 at 5400 Westheimer Court, Houston, Texas 77056. Employees of Spectra Corp
5 and its subsidiaries perform administrative functions for Saltville Gas Storage
6 Company L.L.C. (“Saltville”). In that capacity, I oversee the accounting for
7 income taxes and external reporting requirements impacting income taxes for
8 Spectra Corp and its subsidiaries.

9 **Q. 2 Please briefly summarize your educational and professional background.**

10 A. I currently serve as Director of Income Tax Accounting for Spectra Corp, with
11 over 15 years of income tax experience specific to U.S. income tax compliance
12 requirements and controversy matters, including compliance with Statement of
13 Federal Accounting Standard 109 Accounting for Income Taxes and Sarbanes-
14 Oxley Section 404 standards.

15 I received a Bachelor of Science degree in Accounting from the University
16 of Utah in Salt Lake City, Utah, in 1991. After obtaining my degree, I accepted a
17 position with the Internal Revenue Service following a one-year internship with
18 the Salt Lake District Office. I worked for five years as a field examiner

1 performing federal income tax audits of closely held corporations and publicly
2 held companies on various technical tax matters. In 1995, I accepted a Tax
3 Manager position with Living Centers of America in Houston, Texas. In this role,
4 I was responsible for the management of the Living Centers' U.S. federal
5 consolidated income tax return and accounting for income taxes for financial
6 reporting purposes. In 1998, I accepted a Tax Manager position with American
7 General Corporation in Houston, Texas. At American General, I was primarily
8 responsible for the consolidation of the company's U.S. federal income tax filing,
9 state unitary returns, and income tax accrual. In 2001, I accepted a position as a
10 Senior Tax Manager at Ernst & Young, where I was responsible for all aspects of
11 tax consulting service impacting large multi-national clients. In 2004, I accepted
12 a position as Director in the tax area at Price Waterhouse Coopers ("PWC"),
13 where I served as the senior lead for large multi-national clients who outsourced a
14 significant portion of their tax department compliance and income tax reporting
15 requirements to PWC. In 2007, I accepted my current position with Spectra Corp.

16 **Q. 3 On whose behalf are you testifying in this proceeding?**

17 A. I am testifying on behalf of Saltville.

18 **Q. 4 Have you previously testified before the Federal Energy Regulatory**
19 **Commission?**

20 A. No.

21 **Q. 5 What is the purpose of your testimony in this proceeding?**

22 A. The purpose of my testimony is to sponsor the statements and schedules
23 supporting the calculation of accumulated deferred income taxes ("ADIT") and
24 the calculation of the federal and state income tax allowances for Saltville.

1 **Q. 6 What statements, schedules, or exhibits are you sponsoring in conjunction**
2 **with your testimony?**

3 A. I am sponsoring the following statements and schedules: Statement B-1
4 (Accumulated Deferred Income Taxes), Schedule B-1.1 (Adjustments to ADIT)
5 and Statement H-3, Part 1 (Income Taxes).

6 **Q. 7 Were these exhibits prepared by you or under your direction or supervision?**

7 A. Yes, all of these statements and schedules were prepared under my direction and
8 supervision.

9 **Q. 8 What period has been used in preparing Saltville's instant case?**

10 A. As explained by Mr. Gregg E. McBride in his Prepared Direct Testimony in this
11 proceeding, the period used in preparing the instant case is a base period, which
12 consists of the twelve months ended November 30, 2007, as adjusted for known
13 and measurable changes through August 31, 2008.

14 **Q. 9 Where did you obtain the data for your ADIT and federal and state income**
15 **tax allowance calculations?**

16 A. With respect to the amounts utilized in these calculations, I obtained the data from
17 the books and records of the company, as certified by Mr. Frederick S. Bush as
18 part of his Prepared Direct Testimony this proceeding. With respect to the federal
19 ADIT and the federal and state income tax allowance calculations, I obtained the
20 appropriate federal and state income tax rates from Mr. Dwight E. Jeter's
21 Prepared Direct Testimony. With respect to the state ADIT calculation, I used the
22 effective state tax rate for the Commonwealth of Virginia.

1 **ADIT**

2 **Q. 10 How were the ADIT data that appear in Statement B-1 developed?**

3 A. I note at the outset that the final ADIT amounts reflect the ADIT amount
4 associated with Saltville, as well as two additional companies that Saltville
5 anticipates acquiring by April 1, 2008. Specifically, as explained by Mr.
6 McBride, Exhibit No. SGS-1, Saltville plans to acquire Spectra Energy Early
7 Grove Company (“Early Grove”) and Spectra Energy Virginia Pipeline
8 Company’s storage facility (“Virginia Storage Facility”) by April 1, 2008. Line
9 No. 7 of Statement B shows the total ADIT in column C, which reflects the sum
10 of the ADIT balances for Saltville, Early Grove, and the Virginia Storage Facility
11 as of August 31, 2008, the end of the adjustment period for this proceeding.
12 Pages 1 and 2 of Statement B-1 show the monthly balances of federal and state
13 ADIT accrued for Saltville through the end of the base period. Column (P) on
14 Page 2 of 2 of Statement B-1 reflects the adjustment period ADIT accruals for
15 Saltville, as well as the adjustments for Early Grove and the Virginia Storage
16 Facility equal to each company’s total ADIT balances as of August 31, 2008.
17 Schedule B-1.1 shows the ADIT balances as of the end of the base period for
18 Saltville and Early Grove, as adjusted for ADIT amounts accrued during the
19 adjustment period for these companies, as well as the total ADIT balance for the
20 Virginia Storage Facility as of the end of the adjustment period.

21 **Q. 11 What federal and state income tax rates did you use in calculating these**
22 **ADIT amounts?**

23 A. With respect to the accumulated federal balances, I used the income tax rate of 35
24 percent provided by Mr. Jeter. With respect to the accumulated state balances, I

1 used the state income tax rate of 6 percent that I provided to Mr. Jeter for
2 Statement H-3, Part 2, which he is sponsoring.

3 **Q. 12 Why did you use a state income tax rate of 6 percent for the state ADIT?**

4 A. The 6 percent rate is the applicable state income tax rate for the Commonwealth
5 of Virginia, and it is the rate that applies to state taxable income liability
6 generated by Saltville.

7 **Q. 13 Is this the appropriate rate to use for state ADIT after making adjustments**
8 **for the contribution of Saltville into Spectra Energy Partners, LP (“SEP”)?**

9 A. Mr. Gregg E. McBride, as part of his Prepared Direct Testimony in this
10 proceeding, discusses the mechanics and timing of the contribution to SEP. As
11 Mr. McBride states, the contribution has not yet happened and is expected to
12 occur on or about April 1, 2008, during the middle of the adjustment period for
13 this rate case, after certain approvals are received from the Commonwealth of
14 Virginia. Currently, Saltville, Early Grove and Virginia Pipeline Company are
15 wholly-owned, indirect subsidiaries of Spectra Corp, a sub-chapter C corporation,
16 and therefore the generally accepted rate to use for accruing deferred state income
17 taxes is the applicable rate of the state in which the taxable income is generated.
18 For the remaining adjustment period months following the contribution, Early
19 Grove and Virginia Pipeline will have been rolled up into Saltville and
20 approximately 84 percent of Saltville will continue to be owned indirectly by
21 Spectra Corp.

22 After the contribution of Saltville, the appropriate rate to use for state
23 ADIT is subject to change. Mr. Jeter calculated the marginal state income tax rate
24 using an alternative methodology that would result in a lower 3.1773 percent rate

1 for calculating both the state ADIT and the state income tax allowance for
2 Saltville following the contribution. Based on Mr. Jeter's analysis, I could have
3 used the lower 3.1773 percent rate for accruing state ADIT for the months
4 following the contribution, which would have resulted in a lower accumulated
5 state ADIT amount. The lower state ADIT amount, of course, would result in an
6 increase to Saltville's annual cost-of-service calculation.

7 **Q. 14 If the lower state income tax rate calculated by Mr. Jeter would result in a**
8 **lower state ADIT amount, why did you choose to use the higher rate for**
9 **accruing state ADIT following the contribution?**

10 A. I chose to use the higher rate for simplicity purposes. I note that while Saltville is
11 using the higher rate for calculating the state ADIT for purposes of calculating the
12 recourse rates proposed in this proceeding, Saltville's books will reflect a lower
13 rate following the contribution, if Saltville's accountants believe it is appropriate.

14 **Q. 15 What is the total end of test period amount reflected on Statement B-1 for**
15 **total deferred income taxes?**

16 A. The total amount, as reflected in Column Q on page 2 of 2 of Statement B-1, is
17 \$25,155,332.

18 **Q. 16 Is this the amount that should be reflected on Statement B as an adjustment**
19 **to rate base?**

20 A. No. The adjustment to rate base should be \$15,863,570, which is the portion of
21 total deferred income taxes that is due to timing differences associated with
22 depreciation. This amount is reflected in Column R on page 2 of 2 of Statement
23 B-1.

1 **FEDERAL AND STATE INCOME TAXES**

2 **Q. 17 What is reflected in Statement H-3, Part 1?**

3 A. Statement H-3, Part 1 shows the computation of the federal and state income tax
4 allowances for the base period, as adjusted for the acquisition of Early Grove and
5 the Virginia Storage Facility during the adjustment period, shown on Lines 4 and
6 5 of Statement A. The return shown on Line 2 ties to Line 10 on Statement B.
7 Line 3 reflects the deduction for interest and debt expense. Debt expense is
8 calculated by multiplying the proposed cost of debt included in Statement F-2 by
9 rate base. State income taxes on Line 13 are calculated by multiplying the
10 applicable taxable income times the appropriate state income tax rate which, as I
11 stated earlier was provided to me by Mr. Jeter. The calculation of the state
12 income tax rate of 3.177 percent is shown on Statement H-3, Part 2 and Schedules
13 H-3.1 and H-3.2. As Mr. Jeter explains in his Prepared Direct Testimony, the
14 only unitholders of SEP who were allocated taxable income from SEP during
15 calendar year 2007, were wholly-owned indirect subsidiaries of Spectra Corp. I
16 utilized the weighted average federal income tax rate of 35 percent, provided to
17 me by Mr. Jeter, to derive the federal income taxes on Line 15.

18 **Q. 18 Does this conclude your prepared direct testimony?**

19 A. Yes, it does.