

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1075, SUB 12

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by KRJ, Inc., d/b/a KRJ)
Utilities Company, Post Office Box 2369,) AFFIDAVIT
Swansboro, North Carolina 28584, for) OF
for Authority to Increase Rates for Water) JOHN R. HINTON
and Sewer Utility Service in its Southern)
Trace and Rockbridge Subdivisions in)
Wake County, North Carolina)

State of North Carolina

County of Wake

I, John R. Hinton, being first duly sworn do depose and say:

I am a Public Utilities Financial Analyst and the Director of the Economic Research Division of the Public Staff of the North Carolina Utilities Commission representing the using and consuming public.

I received a Bachelor of Science degree in Economics from the University of North Carolina at Wilmington in 1980, a Master of Economics from North Carolina State University in 1983. Since joining the Public Staff in May 1985, I have been involved with various electrical utility issues related to costs and planning, natural gas expansion projects, and I have testified in numerous general rate case proceedings for electric, natural gas, and water utilities,

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including affidavits assessing financial viability and the fair rate of return with small water and sewer utility rate cases.

The purpose of this affidavit is to recommend to the Commission a fair rate of return to be employed as a basis for determining the appropriate revenue requirement for KRJ, Inc., (KRJ) to provide water utility service in its Southern Trace and the water and sewer utility service in its Rockbridge Subdivisions in Wake County, North Carolina.

For the water utility service and the sewer utility service, I recommend that KRJ be granted a 7.75% margin on operating revenue deductions or a 7.75% overall return on rate base. After investigation, the Public Staff has determined that Company's reasonable level of operating expenses is greater than its rate base for Southern Trace water utility service. For the Rockbridge subdivision, its utility rate base is greater than the reasonable level of operating expenses for both water and sewer utility service. As allows under G.S. 62-133.1 I have used the operating ratio method to evaluate KRJ's proposed rate increase for utility service in the Southern Trace subdivision, and as allowed under G. S. 62-133, I have used the rate base method to evaluate KRJ's proposed rate increase for utility service in the Rockbridge subdivision.

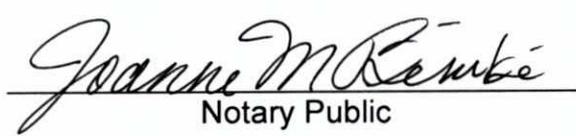
As outlined in Docket No. W-173, Sub 14, Montclair Water Company, several factors should be considered when judging the adequacy of a return. These are interest coverage, adequacy of the income level after interest expense, the level of inflation, and the quality of service.

In considering these factors in conjunction with this proceeding, I have not incorporated any consideration with respect to quality of service. Interest coverage has been provided at an adequate level. The level of inflation has been factored into the U.S. Treasury bond rate by investor expectations of the future levels of inflation. In my opinion, the recommended margin on expenses and overall return on rate base provide an adequate level of income after interest expense.

For these reasons, I recommend to the Commission that KRJ be granted a 7.75% margin on operating revenue deductions and a 7.75% return on rate base. This concludes my affidavit.


John R. Hinton

Sworn to and subscribed before me
this the 7th day of June, 2018.


Notary Public

Joanne M. Berube
NOTARY PUBLIC
WAKE COUNTY, N.C.
My Commission Expires 12-17-2022.

My Commission expires: 12/17/2022