

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 364

In the Matter of)	
Application by Carolina Water Service,)	SUPPLEMENTAL
Inc. of North Carolina, 4944 Parkway)	TESTIMONY OF
Plaza Boulevard, Suite 375, Charlotte,)	JOHN R. HINTON
North Carolina, 28217, for Authority to)	PUBLIC STAFF – NORTH
Adjust and Increase Rates for Water)	CAROLINA UTILITIES
and Sewer Utility Service in All of its)	COMMISSION
Service Areas in North Carolina)	

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 364**

**SUPPLEMENTAL TESTIMONY OF JOHN R. HINTON
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION**

NOVEMBER 26, 2019

1 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS**
2 **ADDRESS FOR THE RECORD.**

3 A. My name is John R. Hinton, and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am the Director of the
5 Economic Research Division of the Public Staff.

6 **Q. ARE YOU THE SAME JOHN R. HINTON WHOSE DIRECT**
7 **TESTIMONY WAS FILED IN THIS DOCKET ON NOVEMBER 4,**
8 **2019?**

9 A. Yes.

10 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT**
11 **TESTIMONY?**

12 A. The purpose of my testimony is to revise my recommended cost rate
13 of common equity. On November 18, 2019, the Company withdrew
14 its proposed Consumption Adjustment Mechanism (CAM). In my
15 November 4, 2019, filed testimony, I reduced my recommended

1 return on equity by 10 basis points from 9.10% to 9.00%. As such, I
2 feel it is appropriate to increase my recommended cost rate to
3 9.10%. However, I maintain that it is reasonable that investors view
4 the recently approved legislation to allow CAMs as a significant step
5 in demonstrating the supportive regulatory environment in North
6 Carolina, which, when enacted, will reduce the operating risk of the
7 utility and contribute to a lower investor required rate of return.
8 Therefore, I believe it is best to address the full impact of a CAM in
9 the Company's next rate case.

10 **Q. HOW DOES THE 9.10% RECOMMENDED COST RATE FOR**
11 **COMMON EQUITY IMPACT YOUR RECOMMENDED OVERALL**
12 **COST OF CAPITAL?**

13 A. The use of the 9.10% recommended cost of common equity with the
14 recommended cost of long term debt and capital structure ratios
15 increased the overall cost of capital by five basis points to 7.20%, as
16 shown in my Supplemental Hinton Exhibit 10.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes.

Public Staff
Supplemental Hinton Exhibit 10

OFFICIAL COPY

Nov 26 2019

Carolina Water Service, Inc. of North Carolina
Cost of Capital as of September 30, 2019

Item	Ratios	Cost Rate	Weighted Cost Rate	Pre-Tax Cost of Capital ¹
Long-Term Debt	50.90%	5.36%	2.73%	2.73%
Common Equity	49.10%	9.10%	4.47%	5.81%
Total	100.00%		7.20%	8.54%

Pre-Tax Interest Coverage ²	3.1
Funds Flow to Debt ³	25.0%

Notes:

¹ The pre-tax cost of debt and equity is grossed up by tax retention factors.

² Pre-Tax Interest Coverage: $3.1 = 8.54 / 2.73$.

³ Funds Flow to Debt = (Recommended rate base*weighted debt cost rate) / (Net Income for Return + Depreciation + Amortization-protected EDIT).

$25.0\% = (\$132,517,318 * 2.73\%) / (\$9,536,406 + \$5,023,767 - 69,123)$.