



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

July 6, 2023

Ms. A. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. E-2, Sub 54 – Application of Appalachian State University, d/b/a New River Light and Power Company for Adjustment of General Base Rates and Charges Applicable to Electric Service

Docket No. E-2, Sub 55 – Petition of Appalachian State University d/b/a New River Light and Power Company for an Accounting Order to Defer Certain Capital Costs and New Tax Expenses

Dear Ms. Dunston:

Attached for filing on behalf of the Public Staff in the above-referenced docket is the testimony and exhibit of John R. Hinton, Director of the Economic Division of the Public Staff – North Carolina Utilities Commission together with a certificate of service for same.

By copy of this letter, I am serving same on all parties of record by electronic delivery via agreement.

Sincerely,

/s/ William Freeman
William S. F. Freeman
Staff Attorney

Attachments as described
cc w/attachments per certificate of service

Executive Director
(919) 733-2435

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Economic Research
(919) 733-2267

Energy
(919) 733-2267

Legal
(919) 733-6110

Transportation
(919) 733-7766

Water/Telephone
(919) 733-5610

CERTIFICATE OF SERVICE

I certify that I have caused to be served a copy of the testimony and exhibit of John R. Hinton, Director of the Economic Division of the Public Staff, on all the parties of record on the date set forth below in the manner set forth below on the person(s) set forth below and in accordance with the applicable jurisprudence, especially Commission Rule R1-39.

Served on July 6, 2023, via email electronic email delivery by agreement of the receiving party, upon those persons identified in the filed documents or in the Commission's online docket's service list at the following addresses:

mgarira@selcnc.org
njimenez@selcnc.org
dneal@selcnc.org
laplaca.nancy@gmail.com
tbutler@foxrothschild.com
gstyers@foxrothschild.com
ddrooz@foxrothschild.com
millerec1@appstate.edu

/s/ William Freeman, by electronic filing
William S. F. Freeman
Staff Attorney

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-34, SUB 54)
)
In the Matter of)
Application of Appalachian State)
University, d/b/a New River Light)
and Power Company for Adjustment)
of General Base Rates and Charges)
Applicable to Electric Service)
DOCKET NO. E-34, SUB 55)
)
In the Matter of)
Petition of Appalachian State)
University, d/b/a New River Light)
and Power Company for an)
Accounting Order to Defer Certain)
Capital Costs and New Tax)
Expenses)

**SETTLEMENT
TESTIMONY OF
JOHN R. HINTON
PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION**

July 6, 2023

1 **Q. Please state your name, business address, and present position**
2 **for the record.**

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

6 **Q. Are you the same John R. Hinton whose direct testimony was**
7 **filed in this docket on June 6, 2023?**

8 A. Yes.

9 **Q. What is the purpose of your settlement testimony in this**
10 **proceeding?**

11 A. The purpose of my settlement testimony is to support the Agreement
12 and Stipulation of Settlement between New River Light and Power
13 Company and the Public Staff dated July 5, 2023 (Settlement), as it
14 relates to the cost of capital and the usage adjustment to the test
15 year.

16 **Q. What is the cost of capital in the settlement?**

17 A. The Public Staff and the Company have agreed to a 6.165% cost of
18 capital in this proceeding. The overall cost rate is comprised of a
19 9.10% rate of return on common equity (ROE) and a 3.23% cost rate
20 of long-term debt, which is proportionally allocated to a capital
21 structure that for ratemaking purposes is deemed to consist of
22 50.00% common equity and 50.00% long-term debt.

23 **Q. What is your experience with, and understanding of,**
24 **settlements in similar general rate case proceedings?**

25 A. It has been my experience that settlements are generally the result
26 of good faith “give and take” and compromise-related negotiations
27 among the parties to utility rate proceedings. Settlements, as well as
28 the individual components of the settlements, are often achieved by
29 the respective parties’ agreements to accept otherwise unacceptable
30 individual aspects of individual issues in order to focus on other
31 issues. Settlements sometimes result in a “global” resolution of all
32 the issues that would otherwise be litigated in a rate proceeding, and
33 are sometimes restricted to resolution of one or more individual
34 issues. Resolving a case by settlement allows the utility to avoid or
35 reduce the costs it may have otherwise incurred in litigation and
36 hearings. The Settlement in this proceeding is global with respect to
37 the contested issues identified by the Public Staff and represents the
38 results of “give and take” good-faith negotiations.

39 **Q. Did you participate in the negotiations leading up to the**
40 **settlement in this proceeding?**

41 A. Yes, I participated in the negotiations leading up to the Settlement.

42 **Q. Do you agree that the cost of capital components of the**
43 **proposed settlement are reasonable within the context of the**
44 **overall settlement?**

45 A. Yes, I do. As with other settlements, the Settlement cost of capital
46 components in this proceeding represent a compromise by both
47 parties in an effort to reach agreement. Furthermore, the Settlement
48 cost of capital components are the result of good faith negotiations
49 and compromises.

50 **Q. Please explain why the proposed capital structure ratio is**
51 **reasonable.**

52 A. As noted in my direct testimony filed on June 6, 2023, over the prior
53 five years the average common equity ratio for an electric distribution
54 utility is approximately 50.00% which is supportive of the settled
55 common equity ratio.

56 **Q. Please comment on the settlement, particularly as it relates to**
57 **the ROE.**

58 A. The Company and Public Staff have fundamentally different views of
59 current market conditions and the current cost of capital. Neither
60 party convinced the other to change its view of the cost of capital
61 issues, but the Public Staff and NRLP have found a way to bridge
62 their differences, which results in a reasonable Settlement ROE.

63 **Q. How does the settlement 9.10% ROE compare to the results of**
64 **the analytical models used by you and by the company?**

65 A. The Settlement ROE of 9.10% is 20-basis points above my
66 recommended cost of equity in my direct testimony. Secondly, the
67 Settled ROE reflects a 50-basis point reduction from witness Haley's
68 proposed 9.60% ROE. In addition, the 9.10% ROE is 15-basis point
69 below their currently approved ROE of 9.25%¹. Finally, it is in line
70 with the average authorized ROE for distribution-only electric utilities
71 reported by RRA and found as Hinton Direct Testimony Exhibit 7,
72 especially in light of the reduced risk the utility enjoys as a
73 governmental entity.

74 **Q. Is the resulting overall cost of capital reasonable?**

75 A. Yes. The Settlement 6.165% overall cost of capital is reasonable as
76 it reflects the agreed upon capital structure, cost of common equity,
77 and cost of debt shown in Public Staff Hinton Settlement Exhibit I.
78 The higher ROE contributed to increasing the pre-tax interest
79 coverage ratio in my direct testimony from 4.3 to 4.4 times. It is
80 believed that the Settlement should help provide for an adequate
81 level of income to attract capital, fairly and justly compensate the
82 utility as required by law, and fund day-to-day operations. While
83 funding operations is generally not considered a driving factor in

¹ On January 19, 2018 the Public Staff filed a proposed Settlement containing a 9.25% ROE in Docket No. E-34, Sub 46.

84 regard to the cost of capital for larger electric utilities, in 2022 NRLP's
85 average cost of purchased power practically doubled from 2021,
86 which prompted the Company to seek additional debt capital. Lastly,
87 the 6.165% cost rate indicates a significant reduction in the NRLP's
88 currently approved 6.525% overall cost of capital.

89 **Q. What is the usage adjustment in the settlement?**

90 A. Hinton Direct Exhibit 12 included both a "customer growth
91 adjustment" and a "usage adjustment," and these two resulted in a
92 substantial revenue adjustment. Per the Settlement, the "usage
93 adjustment" (4,606,715 kWh) to test year sales that I included in my
94 direct testimony was removed. This is appropriate because it is
95 believed that the figures underpinning the usage adjustment were
96 possibly skewed and/or exacerbated by reduced energy sales
97 stemming from the COVID pandemic. As previously noted, the
98 Settlement overall cost of capital, as well as with the withdrawal of
99 the usage adjustment represents a reasonable middle ground
100 between the original positions of the Public Staff and the Company.
101 In addition, the agreement on the Settlement occurred in the context
102 of various other compromises by both parties on other issues.
103 Settlement on all this and all the issues referenced in my testimony
104 are fair, just, appropriate, and reasonable both to the utility and to the
105 ratepayers.

106 Q. Does this conclude your settlement testimony?

107 A. Yes, it does.

NEW RIVER LIGHT & POWER COMPANY
RECOMMENDED COST OF CAPITAL
as of December 31, 2022

| Item | Ratios | Cost Rate | Weighted Cost Rate | Pre-Tax Cost of Capital |
|----------------|---------|-----------|-----------------------|-------------------------------|
| Long-Term Debt | 50.00% | 3.23% | 1.615% | 1.622% |
| Common Equity | 50.00% | 9.10% | 4.550% | 5.486% |
| Total | 100.00% | | 6.165% | 7.107% |

Pre-Tax Interest Coverage¹ 4.4

¹ Pre-Tax Interest Coverage is adjusted for the taxed sales to its customers in Boone, NC.