



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

September 7, 2021

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

Re: Docket No. G-9, Sub 722 – Petition for Consolidated Construction/Redelivery Agreement; G-9, Sub 781 – Application for General Rate Increase; and G-9, Sub 786 – Application of Piedmont Natural Gas Company, Inc., for Modifications to Existing Energy Efficiency Program and Approval of New Energy Efficiency Programs

Dear Ms. Dunston:

Attached for filing in the above-referenced docket is the settlement testimony and exhibit of John R. Hinton, Director, Economic Research Division.

By copy of this letter, I am forwarding a copy to all parties of record by electronic delivery.

Sincerely,

Electronically submitted  
s/ Elizabeth D. Culpepper  
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s/ Megan Jost  
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Attachment

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-9, SUB 722  
DOCKET NO. G-9, SUB 781  
DOCKET NO. G-9, SUB 786

DOCKET NO. G-9, SUB 722

In the Matter of )  
Consolidated Natural Gas Construction )  
and Redelivery Services Agreement )  
Between Piedmont Natural Gas )  
Company, Inc., and Duke Energy )  
Carolinas, LLC )

DOCKET NO. G-9, SUB 781

In the Matter of )  
Application of Piedmont Natural Gas )  
Company, Inc., for an Adjustment of )  
Rates, Charges, and Tariffs Applicable )  
to Service in North Carolina )

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

DOCKET NO. G-9, SUB 786

In the Matter of )  
Application of Piedmont Natural Gas )  
Company, Inc., for Modification to )  
Existing Energy Efficiency Program )  
and Approval of New Energy Efficiency )  
Programs )

**PIEDMONT NATURAL GAS COMPANY, INC.  
DOCKET NO. G-9, SUB 722  
DOCKET NO. G-9, SUB 781  
DOCKET NO. G-9, SUB 786**

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

**September 7, 2021**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2 **PRESENT POSITION.**

3 A. My name is John R. Hinton. My business address is 430 N. Salisbury  
4 Street, Dobbs Building, Raleigh, North Carolina. I am Director of the  
5 Economic Research Division of the Public Staff – North Carolina  
6 Utilities Commission (Public Staff).

7 **Q. ARE YOU THE SAME JOHN R. HINTON THAT FILED DIRECT**  
8 **TESTIMONY AND EXHIBITS ON RATE OF RETURN AND**  
9 **CAPITAL STRUCTURE ON AUGUST 11, 2021?**

10 A. Yes, I am.

11 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY**  
12 **IN THIS PROCEEDING?**

13 A. The purpose of my settlement testimony is to support the stipulation  
14 between Piedmont Natural Gas Company, Inc. (Piedmont or the  
15 Company) and the Public Staff (Settlement), as it relates to the cost

1 of capital and capital structure to be used in setting rates in this  
2 proceeding.

3 **Q. WHAT IS THE COST OF CAPITAL IN THE SETTLEMENT?**

4 A. The Public Staff and the Company have agreed to a 6.90% cost of  
5 capital in this proceeding. The overall cost rate is comprised of a  
6 9.60% rate of return on common equity (ROE), a 0.20% cost rate of  
7 short-term debt, a 4.08% cost rate of long-term debt, which is  
8 combined with a capital structure consisting of 51.60% common  
9 equity, 0.65% short-term debt, and 47.75% long-term debt.

10 **Q. WHAT IS YOUR EXPERIENCE WITH AND UNDERSTANDING OF**  
11 **SETTLEMENTS IN SIMILAR GENERAL RATE CASE**  
12 **PROCEEDINGS?**

13 A. It has been my experience that settlements are generally the result  
14 of good faith “give and take” and compromise-related negotiations  
15 among the parties to utility rate proceedings. Settlements, as well as  
16 the individual components of the settlements, are often achieved by  
17 the respective parties’ agreements to accept otherwise unacceptable  
18 individual aspects of individual issues in order to focus on other  
19 issues. Settlements sometimes result in a “global” resolution of all  
20 the issues that would otherwise be litigated in a rate proceeding, and  
21 are sometimes restricted to resolution of one or more individual

1 issues. The Settlement in this proceeding is global with respect to  
2 the contested issues identified by the Public Staff.

3 **Q. DID YOU PARTICIPATE IN THE NEGOTIATIONS LEADING UP**  
4 **TO THE SETTLEMENT IN THIS PROCEEDING?**

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

6 **Q. DO YOU AGREE THAT THE COST OF CAPITAL COMPONENTS**  
7 **OF THE PROPOSED SETTLEMENT ARE REASONABLE WITHIN**  
8 **THE CONTEXT OF THE OVERALL SETTLEMENT?**

9 A. Yes I do. As with other settlements, the Settlement cost of capital  
10 components in this proceeding represent a compromise by both  
11 parties in an effort to reach agreement. Furthermore, the Settlement  
12 cost of capital components are the result of good faith negotiations  
13 and compromises.

14 I note that it remains my position that, should this be a fully litigated  
15 proceeding, I would continue to recommend a capital structure with  
16 50.54% common equity, 0.65% short-term debt, and 48.81% long-  
17 term debt, an ROE of 9.42%, a cost of short-term debt of 0.20%, and  
18 a cost of long-term debt of 4.08%. However, given the benefits  
19 associated with entering into a settlement, it is my view that the cost  
20 of capital components of the Settlement are a reasonable resolution  
21 of otherwise contentious issues.

1 **Q. PLEASE EXPLAIN WHY THE PROPOSED CAPITAL STRUCTURE**  
2 **RATIO IS REASONABLE.**

3 A. The average common equity ratio for natural gas utilities approved  
4 from January 1, 2018, through August 31, 2021, is 51.94% and since  
5 January 1, 2020, the average approved ratio has been 51.80%,<sup>1</sup>  
6 which is supportive of the Settlement common equity ratio. The  
7 Settlement capitalization ratios include a 0.65% ratio of short-term  
8 debt that is reflective of the Company's balance of gas inventory and  
9 a 48.81% ratio of long-term debt, which are comparable to the debt  
10 ratios approved in Docket No. G-9, Sub 743.

11 **Q. DOES THE SETTLEMENT CAPITAL STRUCTURE COMPORT**  
12 **WITH CAPITAL STRUCTURES APPROVED BY THIS**  
13 **COMMISSION IN RECENT RATE CASES?**

14 A. Yes, the last natural gas rate case was Piedmont's 2019 rate case  
15 (Docket No. G-9, Sub 743) where the North Carolina Utilities  
16 Commission (Commission) approved a capital structure containing  
17 52.00% common equity. In addition, recent Commission-approved  
18 common equity ratios for other regulated utilities support the  
19 reasonableness of the Settlement common equity ratio, as shown  
20 below:

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<sup>1</sup> This calculation excludes the decisions of four states – Arkansas, Florida, Indiana, and Michigan – because these jurisdictions include deferred taxes and other non-capital items in the approved capital structure. As such, the approved equity ratios are not comparable to those used in North Carolina ratemaking and would bias the average equity ratio downward.

Company	Docket	Order Date	NCUC Approved Equity Ratio
DENC	E-22, Sub 562	2/24/2020	52.00%
DEC	E-7, Sub 1214	3/31/2021	52.00%
DEP	E-2, Sub 1219	4/16/2021	52.00%

1 **Q. PLEASE COMMENT ON THE SETTLEMENT, PARTICULARLY**  
2 **AS IT RELATES TO THE RATE OF ROE.**

3 A. The Company and Public Staff have fundamentally different views of  
4 current market conditions and the current cost of capital. Neither  
5 party convinced the other to change its view of the cost of capital  
6 issues, but the Public Staff and Piedmont have found a way to bridge  
7 their differences, which results in a reasonable Settlement ROE.

8 **Q. HOW DOES THE SETTLEMENT 9.60% ROE COMPARE TO THE**  
9 **RESULTS OF THE ANALYTICAL MODELS USED BY YOU AND**  
10 **BY THE COMPANY?**

11 A. The Settlement ROE of 9.60% falls within my range of estimated cost  
12 rates for common equity of 9.10% to 9.73%, as shown in Public Staff  
13 Hinton Exhibit 9 to my originally filed testimony. The Settlement  
14 9.60% ROE falls at the lower end of the Company's unadjusted  
15 range of 9.59% and 12.72% and slightly below its adjusted range of  
16 9.70% to 12.83%.<sup>2</sup>

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<sup>2</sup> Docket No. G-9, Sub 781, Rebuttal Testimony of Dylan W. D'Ascendis at 3.

1 **Q. ARE THE 9.60% ROE AND THE 51.60% EQUITY RATIO A**  
2 **REASONABLE RESULT?**

3 A. Yes. The Settlement 6.90% overall cost of capital is reasonable as  
4 shown in Public Staff Hinton Settlement Exhibit 1. The higher  
5 percentage of equity capital and the higher ROE contribute to  
6 increasing the pre-tax interest coverage ratio to 4.3 times, as shown  
7 in Public Staff Hinton Settlement Exhibit 1. As previously noted, the  
8 Settlement overall cost of capital represents a reasonable middle  
9 ground between the original positions of the Public Staff and the  
10 Company. In addition, the agreement on the Settlement 9.60% ROE  
11 and on capital structure occurred in the context of various other  
12 compromises by both parties on other issues.

13 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

14 A. Yes, it does.



Piedmont Natural Gas  
Overall Cost of Capital and Capital Structure  
as of May 31, 2021

	Amount (\$)	Ratio	Cost Rate	Weighted Cost Rate <sup>1</sup>	Pre-Tax Cost of Capital <sup>2</sup>
Long-Term Debt	2,707,488,369	47.75%	4.08%	1.948%	1.959%
Short-Term Debt	36,227,098	0.65%	0.20%	0.001%	0.001%
Common Equity	2,803,794,382	51.60%	9.60%	4.954%	6.468%
Total	5,547,509,849	100.00%		6.90%	8.43%

Pre-Tax Interest Coverage<sup>2</sup> 4.3

Note:

<sup>1</sup> The calculation of the weighted cost rate is rounded to the thousandth place.

<sup>2</sup> The pre-tax cost of debt and equity is grossed up by tax retention factors of 0.9944 for debt capital and 0.7659 for equity capital.