



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

July 5, 2022

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

Re: Docket No. G-39, Sub 46 and G-39, Sub 47 – Cardinal Pipeline Company, LLC Depreciation Rate Study as of December 31, 2020, and Application of Cardinal Pipeline Company, LLC for an Adjustment in its Rates and Charges

Dear Ms. Dunston:

In connection with the above-captioned dockets, I transmit herewith for filing on behalf of the Public Staff the Settlement Testimony and Exhibit of John R. Hinton.

By copy of this letter, we are forwarding copies to all parties of record.

Sincerely,

/s/ Gina C. Holt  
Staff Attorney  
[gina.holt@psncuc.nc.gov](mailto:gina.holt@psncuc.nc.gov)

Attachments

cc: Parties of Record

Executive Director (919) 733-2435	Communications (919) 733-2810	Economic Research (919) 733-2902	Legal (919) 733-6110	Transportation (919) 733-7766
Accounting (919) 733-4279	Consumer Services (919) 733-9277	Electric (919) 733-2267	Natural Gas (919) 733-4326	Water (919) 733-5610

4326 Mail Service Center • Raleigh, North Carolina 27699-4300 • Fax (919) 733-9565  
An Equal Opportunity / Affirmative Action Employer

OFFICIAL COPY

Jul 05 2022

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-39, SUB 46  
DOCKET NO. G-39, SUB 47

July 5, 2022

DOCKET NO. G-39, SUB 46	)	
	)	
In the Matter of	)	
Cardinal Pipeline Company, LLC	)	SETTLEMENT
Depreciation Rate Study as of	)	TESTIMONY OF
December 31, 2020	)	JOHN R. HINTON
	)	PUBLIC STAFF – NORTH
DOCKET NO. G-39, SUB 47	)	CAROLINA UTILITIES
	)	COMMISSION
In the Matter of	)	
Application of Cardinal Pipeline	)	
Company, LLC, for an Adjustment of	)	
Rates and Charges in North Carolina	)	

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. G-39, SUB 46  
DOCKET NO. G-39, SUB 47**

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

**July 5, 2022**

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 JUNE 10, 2022?**

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 Settlement  
14 Agreement and Stipulation (Agreement) between Cardinal Pipeline  
15 Company, LLC (Cardinal or the Company) and the Public Staff

1 (collectively, the Parties), as it relates to the cost of capital and capital  
2 structure to be used in setting rates in this proceeding.

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

4 A. The Public Staff and the Company have agreed to a 7.34% overall  
5 cost of capital in this proceeding. The overall cost rate is comprised  
6 of a 9.55% rate of return on common equity (ROE), and a 4.96% cost  
7 rate of long-term debt, which is combined with a hypothetical capital  
8 structure consisting of 51.96% common equity and 48.04% long-  
9 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. Some settlements result in a “global” resolution of all the  
20 issues that would otherwise be litigated in a rate proceeding while  
21 others are restricted to resolution of one or more individual issues.  
22 The Settlement in this proceeding is global with respect to the  
23 contested issues identified by the Public Staff.

1 Q. DID YOU PARTICIPATE IN THE NEGOTIATIONS LEADING UP  
2 TO THE SETTLEMENT IN THIS PROCEEDING?

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

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

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

12 I note that it remains my position that, should this be a fully litigated  
13 proceeding, I would continue to recommend a hypothetical capital  
14 structure with 51.96% common equity, and 48.04% long-term debt,  
15 an ROE of 9.48%, and a cost of long-term debt of 4.06%. However,  
16 given the benefits associated with entering into a settlement, it is my  
17 view that the cost of capital components of the Settlement are a  
18 reasonable resolution of otherwise contentious issues.

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

3 A. The settled capital structure is reflective of approved common equity  
4 ratios for general rates cases involving local natural gas distribution  
5 utilities. The settled 51.96%.<sup>1</sup> common equity ratio is based on  
6 approved equity ratios from January 1, 2020, through March 31,  
7 2022, as addressed in my prefilled direct testimony. Furthermore, the  
8 North Carolina Utilities Commission (Commission) approved similar  
9 common equity ratios in the last two natural gas general rate cases  
10 involving Piedmont Natural Gas Company, Inc. (PNG) in Docket No.  
11 G-9, Sub 781 and Public Service Company of North Carolina, Inc.  
12 (PSNC) in Docket G-5, Sub 632. In addition, the Commission has  
13 approved similar capital structures in recent general rate cases  
14 involving Dominion Energy North Carolina (DENC), Duke Energy  
15 Carolinas, LLC (DEC), and Duke Energy Progress, LLC (DEP) as  
16 shown below:

---

<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, those 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%
PNG	G-9, Sub 781	1/6/2022	51.60%
PSNC	G-5, Sub 632	1/21/2022	51.60%

1   **Q.    PLEASE COMMENT ON THE SETTLEMENT AS IT RELATES TO**  
2       **THE COST RATE OF DEBT.**

3    A.   The Company and Public Staff have fundamentally different views of  
4       the risk comparability of Cardinal which impacts the Company's  
5       proposed cost of long-term debt as well as the cost rate for common  
6       equity. For this Settlement, the Public Staff and the Company have  
7       agreed to use the 135 basis point spread approach that I  
8       recommended and a recently observed yield of five-year treasury  
9       bonds of 3.61%<sup>2</sup>. The combination of the 135-basis point spread and  
10      the 3.61% yield generated a reasonable cost of debt of 4.96% as  
11      noted in the Rebuttal Testimony of Company witness David J. Haag.

---

<sup>2</sup> Federal Reserve Bank of St. Louis, FRED, "Market Yield on U.S. Treasury Securities at 5-Year Constant Maturity." June 14, 2022.

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 common equity.  
5 The Settlement ROE of 9.55% falls below the Company witness  
6 Haag average Discounted Cash Flow and Capital Asset Pricing  
7 Model estimates, but the rate is within my range of cost rates for  
8 common equity of 9.28% to 9.64%, as shown in Public Staff Hinton  
9 Exhibit 8. The Company and the Public Staff continue to disagree on  
10 whether Cardinal's investor-related risk is that of an interstate  
11 pipeline company or a local natural gas distribution utility.  
12 Nonetheless, the Public Staff and Cardinal have found a way to  
13 bridge their differences, which results in a reasonable Settlement  
14 ROE.

15 **Q. ARE THE OVERALL COST OF CAPITAL AND ITS COMPONENTS**  
16 **A REASONABLE RESULT?**

17 A. Yes. The settled overall cost of capital of 7.34% is reasonable as  
18 shown in Public Staff Hinton Settlement Exhibit I. The higher cost  
19 rate of long-term debt reduced the pre-tax coverage ratio which was  
20 partially offset by the higher rate of return on common equity. The  
21 settled cost of capital reflects a pre-tax interest coverage ratio of 3.7  
22 times. In my opinion, this ratio would qualify for a debt rating of "A."  
23 As previously noted, the Settlement overall cost of capital represents



1 a reasonable middle ground between the original positions of the  
2 Public Staff and the Company. In addition, the agreement on the  
3 9.55% ROE, 4.96% cost of debt, and capital structure embodied in  
4 the Settlement occurred in the context of various compromises by  
5 both Parties on these issues.

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

7 A. Yes, it does.

## QUALIFICATIONS AND EXPERIENCE

JOHN ROBERT HINTON

I received a Bachelor of Science degree in Economics from the University of North Carolina at Wilmington in 1980 and a Master of Economics degree from North Carolina State University in 1983.

I joined the Public Staff in May 1985 and have been involved in a variety of projects and testified in numerous dockets. Those projects include (1) developing the long-range forecasts of peak demand and energy sales for electricity in North Carolina in 1986, 1989, and 1992; (2) reviewing numerous peak demand and energy sales forecasts and the resource expansion plans filed in electric utilities' annual IRPs; (3) serving as the lead analyst for the Public Staff in numerous avoided cost proceedings and arbitration proceedings; (4) recommending the appropriate rate of return on equity and debt capital for water, local natural gas distribution and pipeline companies, and electric utilities; (5) performing a financial analysis of two audit reports on Mid-South Water Systems, Inc., filed in Docket No. W-100, Sub 21; (6) serving as a member of the Small Systems Working Group that reported to the National Drinking Water Advisory Council of the U.S. Environmental Protection Agency regarding the 1996 Safe Drinking Water Act; and (7) publishing an article in the National Regulatory Research Institute's Quarterly Bulletin entitled "Evaluating Water Utility Financial

Capacity”.

I have testified or filed affidavits in the dockets listed below.

<b><u>ISSUE</u></b>	<b><u>DOCKETS</u></b>
<b>Long-range electric peak demand and energy forecast</b>	E-100, Sub 50
<b>Weather normalization of electricity sales</b>	E-7, Subs 620 and 989 E-2, Sub 833
<b>Customer growth adjustments</b>	E-2, Sub 1023
<b>Level of funding for nuclear decommissioning costs</b>	E-2, Subs 1023 and 1219 E-7, Subs 1026 and 1146
<b>Integrated Resource Plans</b>	E-100, Subs 114 and 125
<b>Avoided Costs for Biennial Proceeding</b>	E-100, Subs 106, 136, 140, 148, and 158
<b>Avoided Costs for energy efficiency and demand side management programs</b>	E-7, Subs 1032 and 1130 E-2, Subs 1145 and 1174
<b>Issuance of Certificates of Public Convenience and Necessity (CPCN) for electric generation</b>	E-2, Sub 669 E-7, Subs 790, 791, and 1134 SP-132, Sub 0
<b>Merger of Dominion Energy, Inc., and SCANA Corp.</b>	E-22, Sub 551 G-5, Sub 585

<p><b>Fair rate of return</b></p>	<p>E-22, Subs 333, 412, and 532 G-5, Subs 327, 386, and 632 G-9, Subs 351, 382, 722, and 781 G-21, Subs 293 and 442 P-12, Sub 89 P-26, Sub 93 P-31, Sub 125 P-100, Sub 133b P-100, Sub 133d (1997 and 2002) W-218, Subs 319, 497, and 526 W-354, Subs 360, 364, and 384 W-778, Sub 31 W-1300, Sub 60</p>
<p><b>Credit metrics and the risk of a downgrade</b></p>	<p>E-7, Sub 1146</p>
<p><b>Hedging of natural gas prices</b></p>	<p>E-2, Subs 1001, 1018, and 1031</p>
<p><b>Expansion of natural gas</b></p>	<p>G-5, Subs 337 and 372</p>
<p><b>Water utility CPCN transfer application</b></p>	<p>W-1000, Sub 5</p>
<p><b>Rainfall normalization with respect to water sales</b></p>	<p>W-274, Sub 160</p>



Cardinal Pipeline Company, LLC  
Overall Cost of Capital  
as of December 31, 2021

Item	Ratios	Cost Rate	Weighted Cost Rate	Pre-Tax Cost of Capital <sup>1</sup>
Long-Term Deb	48.04%	4.96%	2.38%	2.39%
Common Equity	51.96%	9.55%	4.96%	6.45%
Total	100.00%		7.34%	8.84%

Pre-Tax Interest Coverage<sup>2</sup> 3.7

Note:

<sup>1</sup> Also includes gross up for Regulatory Fee.

<sup>2</sup>  $3.7 = 8.84\% / 2.39\%$ .