



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

October 26, 2022

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

Re: Docket No. W-354, Sub 400 – Application by Carolina Water Service, Inc. of North Carolina for Authority to Adjust and Increase Rates and Charges for Water and Sewer Utility Service in All Service Areas of North Carolina and Approval of a Three-Year Water and Sewer Investment Plan

Dear Ms. Dunston:

Attached for filing on behalf of the Public Staff in the above-referenced docket is the testimony of John R. Hinton, Director of the 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/ Gina C. Holt
Manager, Legal Division, Water, Sewer,
Telephone, & Transportation Sections
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/s/ John D. Little
Staff Attorney
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Attachments

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CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

DOCKET NO. W-354, SUB 400

SUMMARY OF JOHN R. HINTON

The purpose of my testimony is to present to the North Carolina Utilities Commission (Commission) the results of my analysis and my recommendations as to the fair rate of return to be used in establishing rates for water and sewer utility service provided by Carolina Water Service, Inc. of North Carolina (CWSNC or Company) in connection with the Company's Application for Authority to Adjust and Increase Rates and Charges for Water and Sewer Utility Service in All Service Areas of North Carolina and Approval of a Three-Year Water and Sewer Investment Plan (Application). The testimony that follows covers the following topics: (1) the fair rate of return for the Company's base case¹ filing, which is for the 12-month test year ending March 31, 2022, updated through August 31, 2022 (Base Year); and (2) the way in which I determined that rate of return. It does not include a substantive discussion of my analysis and recommendations relating to the fair rate of return if the Commission approves the Company's request for approval of a Three-Year Water and Sewer Investment Plan (WSIP) (hereinafter also referred to as Multi-Year Rate Plan or MYRP). My views on the Company's request for a MYRP are discussed in detail in the contemporaneously filed Joint Testimony of Public Staff witnesses Hinton, Junis, Sun, and Zhang (Joint Testimony).

The Company's currently approved cost of capital is 7.14% and is based on a capital structure composed of 50.20% long-term debt and 49.80% common equity, a cost rate of long-term debt of 4.85%, and a rate of return on common equity of 9.40%. These figures were approved by the Commission on April 5, 2022, in the Company's last general rate case, Docket No. W-354, Sub 384.

In the present case, the Public Staff recommends an overall rate of return of 7.05% based on the Company's proposed capital structure consisting of 50.00% common equity and 50.00% long-term debt, a recommended debt cost rate of 4.64%, and a 9.45% return on common equity.

This concludes my summary.

¹ A base year is the multi-year rate plan (MYRP) equivalent of the test year or test period in traditional historic test year ratemaking. The base year is the foundation of a MYRP because all future expenses, revenues, etc., are based upon the levels in the established in the base year. All data supporting a utility's base year can be referred to as the utility's base case.