

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. G-9, SUB 743**

In the Matter of:)	
)	
Application of Piedmont Natural Gas)	STIPULATION SUPPORT
Company, Inc. for Adjustment of Rates)	TESTIMONY OF
and Charges Applicable to Gas Service in)	ROBERT B. HEVERT FOR
North Carolina)	PIEDMONT NATURAL GAS
		COMPANY, INC.

1 prepared by me, or under my direction.

2 **II. SUPPORT FOR THE STIPULATED RETURN ON EQUITY**

3 **Q. ARE YOU FAMILIAR WITH THE TERMS OF THE STIPULATION AS IT**
4 **RELATES TO THE COMPANY'S RETURN ON EQUITY?**

5 A. Yes, I am familiar with certain terms underlying the Stipulation dated August 12,
6 2019 among the Stipulating Parties. In particular, I understand the Stipulating
7 Parties have agreed to the Stipulated ROE of 9.70 percent.

8 **Q. IN GENERAL, DO YOU SUPPORT THE COMPANY'S DECISION TO**
9 **AGREE TO THE STIPULATED ROE?**

10 A. Yes, I do. In my Direct and Rebuttal Testimonies, I recommend an ROE within the
11 range of 10.00 percent to 11.00 percent.³ Although the 9.70 percent Stipulated ROE
12 is somewhat below the lower bound of my recommended range, I understand the
13 Stipulation reflects negotiations among the Stipulating Parties regarding multiple
14 issues. I further understand the Company believes the terms of the Stipulation,
15 taken as a whole, would be viewed by the financial community as constructive and
16 equitable. I appreciate and respect that determination.

17 **Q. PLEASE NOW SUMMARIZE YOUR ASSESSMENT OF THE**
18 **STIPULATED ROE.**

19 A. Although it falls somewhat below my recommended range, the Stipulated ROE

³ See, Direct Testimony of Robert B. Hevert, at 4; Rebuttal Testimony of Robert B. Hevert dated August 9, 2019, at 3, Table 1.

1 generally is within the ranges of analytical results presented in my Direct
2 Testimony, and Rebuttal Testimonies. As discussed in those Testimonies, the
3 unsettled capital market environment adds considerable complexity to estimating
4 the Cost of Equity. Given that complexity and uncertainty, it remains my position
5 that in a fully litigated proceeding, 10.00 percent to 11.00 percent represents an
6 appropriate and defensible range of the Company's Cost of Equity. Nonetheless, I
7 recognize the benefits associated with the Company's decision to enter into the
8 Stipulation. On balance, it is my view that the Stipulated ROE is a reasonable
9 resolution of a complex, and frequently contentious issue.

10 **Q. HAVE YOU CONSIDERED THE STIPULATED ROE IN THE CONTEXT**
11 **OF AUTHORIZED RETURNS FOR OTHER NATURAL GAS UTILITIES?**

12 A. Yes, I have. As shown in Exhibit RBH-S-1, from January 2017 through June 2019,
13 the average authorized ROE for natural gas utilities was 9.64 percent, only six basis
14 points from the Stipulated ROE. From a somewhat different perspective,
15 Regulatory Research Associates ("RRA"), which is a widely referenced source of
16 rate case data, provides an assessment of the extent to which regulatory jurisdictions
17 are constructive from investors' perspectives, or not. As RRA explains:

18 RRA maintains three principal rating categories, Above Average,
19 Average, and Below Average, with Above Average indicating a
20 relatively more constructive, lower-risk regulatory environment
21 from an investor viewpoint, and Below Average indicating a less
22 constructive, higher-risk regulatory climate from an investor
23 viewpoint, Within the three principal rating categories, the numbers
24 1, 2, and 3 indicate relative position. The designation 1 indicates a
25 stronger (more constructive) rating; 2, a mid range rating; and, 3, a

1 weaker (less constructive) rating. We endeavor to maintain an
2 approximately equal number of ratings above the average and below
3 the average.⁴

4 Within that ranking system, North Carolina is rated “Average/1”, which falls in the
5 approximate top one-third of the 53 regulatory commissions ranked by RRA.⁵

6 Across the 69 natural gas rate cases summarized in Exhibit RBH-S-1, the mean and
7 median authorized ROEs were 9.68 percent and 9.73 percent, respectively, in
8 jurisdictions that, like North Carolina, are rated at least Average/1. Those results
9 are highly consistent with the Stipulated ROE.

10 **Q. DOES THE STIPULATED ROE GENERALLY FALL WITHIN THE**
11 **RANGE OF YOUR MODEL RESULTS?**

12 A. Yes. Although it falls below the Risk Premium model results, the Stipulated ROE
13 percent falls at about:

- 14 • The 37th percentile of the mean and median Constant Growth Discounted
15 Cash Flow (“DCF”) results provided in Exhibit RBH-R-1,⁶
- 16 • The 9th percentile of the Capital Asset Pricing Model (“CAPM”), and
17 Empirical CAPM results provided in Exhibit RBH-R-5; and
- 18 • The 18th percentile of Expected Earnings analysis results provided in Exhibit
19 RBH-R-7.

⁴ Source: Regulatory Research Associates, accessed August 7, 2019.

⁵ Source: Regulatory Research Associates, accessed August 7, 2019. Of the 53 jurisdictions, 19 are ranked “Average/1” or higher.

⁶ Based on the mean and median results presented in columns 10, 11, and 12 for the 30, 90, and 180-day average stock price calculations. The cited exhibits refer to my Rebuttal Testimony filed August 9, 2019, and the subsequent Errata filing on August 12, 2019.

1 Q. WHAT CONCLUSIONS DO YOU DRAW FROM THOSE ANALYSES AND
2 RESULTS?

3 A. First, the Stipulated ROE is supported by returns authorized in other jurisdictions,
4 including those whose regulatory climates are comparable to North Carolina. That
5 finding is important, given the Company's need to compete for capital with other
6 natural gas utilities. Second, although it is toward the lower end, 9.70 percent
7 generally falls within the range of my model results. Together, those observations
8 support my conclusion that the Stipulated ROE, in the context of the overall
9 Stipulation, is a reasonable outcome. As noted earlier, however, in a fully litigated
10 proceeding I would continue to support my recommended range.

11 Q. LASTLY, DOES YOUR TESTIMONY IN THIS PROCEEDING,
12 INCLUDING YOUR SUPPORT FOR THE STIPULATED ROE, CONSIDER
13 ECONOMIC CONDITIONS IN NORTH CAROLINA?

14 A. Yes, it does. As explained in my Direct Testimony, I understand and appreciate the
15 Commission's need to balance the interests of investors and ratepayers, and to
16 consider economic conditions in the State, as it sets rates. I therefore reviewed
17 several measures of economic conditions and found that North Carolina, and the
18 counties contained in the Company's service area, have experienced significant
19 improvement over the past several years, with further improvement expected in the
20 future.⁷ From that perspective as well, I believe the Stipulated ROE is a reasonable

⁷ Direct Testimony of Robert B. Hevert, at 35-44.

1 outcome.

2 Q. DOES THIS CONCLUDE YOUR STIPULATION SUPPORT TESTIMONY?

3 A. Yes, it does.

EXHIBIT RBH-S-1

Recently Authorized ROEs by RRA Ranking

State	Company	Case Identification	Service	Case Type	Date	Return on Equity (%)	RRA Rank	Electric Utilities		
								Top Tier (Average/1 and higher)	Middle Tier (Average/2)	Bottom Tier (Average/3 and lower)
New York	Consolidated Edison Co. of NY	C-16-G-0061	Natural	Distribution	1/24/2017	9.00	Average / 1	9.00		
Georgia	Atlanta Gas Light Co.	D-40828	Natural	Distribution	2/21/2017	10.55	Above Average / 2	10.55		
District of Columbia	Washington Gas Light Co.	FC-1137	Natural	Distribution	3/1/2017	9.25	Below Average / 3			9.25
Arizona	Southwest Gas Corp.	D-G-01551A-16-0107	Natural	Distribution	4/11/2017	9.50	Average / 3			9.50
New York	Natl Fuel Gas Distribution Cor	C-16-G-0257	Natural	Distribution	4/20/2017	8.70	Average / 1	6.70		
Idaho	Intermountain Gas Co.	C-INT-G-16-2	Natural	Distribution	4/28/2017	9.50	Average / 2		9.50	
Texas	CenterPoint Energy Resources	D-GLUD-10567	Natural	Distribution	5/23/2017	9.60	Average / 2		9.60	
Delaware	Delmarva Power & Light Co.	D-16-0660	Natural	Distribution	6/6/2017	9.70	Average / 3			9.70
Kentucky	Louisville Gas & Electric Co.	C-2016-00371 (gas)	Natural	Distribution	6/22/2017	9.70	Average / 1	9.70		
New Jersey	Elizabethtown Gas Co.	D-GR-16090826	Natural	Distribution	6/30/2017	9.60	Below Average / 1			9.60
Montana	NorthWestern Corp.	D-D2016.9.68	Natural	Distribution	7/20/2017	9.55	Below Average / 1			9.55
Michigan	Consumers Energy Co.	C-U-18124	Natural	Distribution	7/31/2017	10.10	Above Average / 3	10.10		
Oregon	Avista Corp.	D-UG 325	Natural	Distribution	9/13/2017	9.40	Average / 2		9.40	
Marvland	Columbia Gas of Maryland Inc	C-9447	Natural	Distribution	9/19/2017	9.70	Below Average / 3			9.70
Alaska	ENSTAR Natural Gas Co.	D-U-16-066	Natural	Distribution	9/22/2017	11.88	Below Average / 1			11.88
South Carolina	Piedmont Natural Gas Co.	D-2017-7-G	Natural	Distribution	9/27/2017	10.20	Average / 3			10.20
New Jersey	South Jersey Gas Co.	D-GR-17010071	Natural	Distribution	10/20/2017	9.60	Below Average / 1			9.60
California	San Diego Gas & Electric Co.	Advice No. 2811-G	Natural	Distribution	10/26/2017	10.20	Average / 1	10.20		
California	Southern California Gas Co.	Advice No. 5192	Natural	Distribution	10/30/2017	10.05	Average / 1	10.05		
Washington	Puget Sound Energy Inc.	D-UG-170034	Natural	Distribution	12/6/2017	9.50	Average / 3			9.50
Wisconsin	Northern States Power Co - WI	D-4220-UR-123 (Gas)	Natural	Distribution	12/7/2017	9.80	Above Average / 2	9.80		
Connecticut	Southern Connecticut Gas Co.	D-17-05-42	Natural	Distribution	12/13/2017	9.25	Below Average / 1			9.25
Idaho	Avista Corp.	C-AVU-G-17-01	Natural	Distribution	12/28/2017	9.50	Average / 2		9.50	
Illinois	Northern Illinois Gas Co.	D-17-0124	Natural	Distribution	1/31/2018	9.80	Average / 2		9.80	
Missouri	Missouri Gas Energy	C-GR-2017-0216	Natural	Distribution	2/21/2018	9.80	Average / 3			9.80
Missouri	Spire Missouri Inc.	C-GR-2017-0215	Natural	Distribution	2/21/2018	9.80	Average / 3			9.80
Maine	Northern Utilities Inc.	D-2017-00065	Natural	Distribution	2/28/2018	9.50	Average / 2		9.50	
New York	Niaagara Mohawk Power Corp.	C-17-G-0239	Natural	Distribution	3/15/2018	9.00	Average / 1	9.00		
Florida	Pivotal Utility Holdings Inc.	20170179-GU	Natural	Distribution	3/26/2018	10.19	Above Average / 2	10.19		
Washington	Avista Corp.	D-UG-170486	Natural	Distribution	4/26/2018	9.50	Average / 3			9.50
New Hampshire	Liberty Utilities EnergyNorth	D-DG-17-048	Natural	Distribution	4/27/2018	9.30	Average / 3			9.30
New Hampshire	Northern Utilities Inc.	D-DG-17-070	Natural	Distribution	5/2/2018	9.50	Average / 3			9.50
Kentucky	Atmos Energy Corp.	C-2017-00349	Natural	Distribution	5/3/2018	9.70	Average / 1	9.70		
Montana	MDU Resources Group Inc.	D2017.9.79	Natural	Distribution	5/29/2018	9.40	Below Average / 1			9.40
Missouri	Liberty Utilities (Midstates)	C-GR-2018-0013	Natural	Distribution	6/6/2018	9.80	Average / 3			9.80
New York	Central Hudson Gas & Electric	C-17-G-0460	Natural	Distribution	6/14/2018	8.80	Average / 1	8.80		
Wyoming	Black Hills Northwest Wyoming	D-30011-97-GR-17	Natural	Distribution	7/16/2018	9.60	Average / 3			9.60
Washington	Cascade Natural Gas Corp.	D-UG-170929	Natural	Distribution	7/20/2018	9.40	Average / 3			9.40
Rhode Island	Narragansett Electric Co.	D-4770 (gas)	Natural	Distribution	8/24/2018	9.28	Average / 2		9.28	
Michigan	Consumers Energy Co.	C-U-18424	Natural	Distribution	8/28/2018	10.00	Above Average / 3	10.00		
Michigan	DTE Gas Co.	C-U-18999	Natural	Distribution	9/13/2018	10.00	Above Average / 3	10.00		
Wisconsin	Wisconsin Power and Light Co	D-6680-UR-121 (Gas)	Natural	Distribution	9/14/2018	10.00	Above Average / 2	10.00		
Indiana	Northern IN Public Svc Co.	Ca-44988	Natural	Distribution	9/19/2018	9.85	Average / 1		9.85	
Wisconsin	Madison Gas and Electric Co.	D-3270-UR-122 (Gas)	Natural	Distribution	9/20/2018	9.80	Above Average / 2		9.80	
North Dakota	MDU Resources Group Inc.	C-PU-17-295	Natural	Distribution	9/26/2018	9.40	Average / 1	9.40		
South Carolina	Piedmont Natural Gas Co.	D-2018-7-G	Natural	Distribution	9/26/2018	10.20	Average / 3			10.20
Massachusetts	Boston Gas Co.	DPJ-17-170 (Boston Gas)	Natural	Distribution	9/28/2018	9.50	Average / 2		9.50	
Massachusetts	Colonial Gas Co.	DPJ-17-170 (Colonial Gas)	Natural	Distribution	9/28/2018	9.50	Average / 2		9.50	
Arkansas	Black Hills Energy Arkansas	D-17-071-U	Natural	Distribution	10/5/2018	9.61	Average / 1	9.61		

State	Company	Case Identification	Service	Case Type	Date	Return on Equity (%)	RRA Rank	Top Tier (Average/1 and higher)	Middle Tier (Average/2)	Bottom Tier (Average/3 and lower)
Tennessee	Chattanooga Gas Co.	D-18-00017	Natural	Distribution	10/15/2018	8.80	Above Average / 3	9.80		
Oregon	Northwest Natural Gas Co.	D-UG-344	Natural	Distribution	10/26/2018	9.40	Average / 2		9.40	
New Jersey	Public Service Electric Gas	D-GR18010030	Natural	Distribution	10/29/2018	9.50	Below Average / 1			9.60
Illinois	Ameren Illinois	D-18-0463	Natural	Distribution	11/1/2018	9.87	Average / 2		9.87	
Delaware	Delmarva Power & Light Co.	D-17-0978	Natural	Distribution	11/8/2018	9.70	Average / 3			9.70
Minnesota	Minnesota Energy Resources	D-G-011/GR-17-563	Natural	Distribution	11/8/2018	9.70	Average / 2		9.70	
Maryland	Washington Gas Light Co.	C-9481	Natural	Distribution	12/11/2018	9.70	Below Average / 3			9.70
Connecticut	Yankee Gas Services Co.	D-18-05-10	Natural	Distribution	12/12/2018	9.30	Below Average / 1			9.30
Iowa	Interstate Power & Light Co.	D-RPU-2018-0002	Natural	Distribution	12/13/2018	9.60	Average / 1	9.60		
Connecticut	CT Natural Gas Corp.	D-18-05-16	Natural	Distribution	12/19/2018	9.30	Below Average / 1			9.30
Colorado	Public Service Co. of CO	D-17AL-0363G	Natural	Distribution	12/21/2018	9.35	Average / 2		9.35	
Nevada	Southwest Gas Corp.	D-18-05031 (Southern)	Natural	Distribution	12/24/2018	9.25	Average / 2		9.25	
Nevada	Southwest Gas Corp.	D-18-05031 (Northern)	Natural	Distribution	12/24/2018	9.25	Average / 2		9.25	
Maryland	Baltimore Gas and Electric Co.	C-9484	Natural	Distribution	1/4/2019	9.80	Below Average / 3			9.80
Massachusetts	Berkshire Gas Co.	DPU 18-40	Natural	Distribution	1/18/2019	9.70	Average / 2		9.70	
New York	Orange & Rockland Util. Inc.	C-18-G-0068	Natural	Distribution	3/14/2019	9.00	Average / 1	9.00		
Kentucky	Duke Energy Kentucky Inc.	C-2018-00261	Natural	Distribution	3/27/2019	9.70	Average / 1	9.70		
Kentucky	Louisville Gas & Electric Co.	C-2018-00295 (gas)	Natural	Distribution	4/30/2019	9.73	Average / 1	9.73		
Kentucky	Atmos Energy Corp.	C-2018-00281	Natural	Distribution	5/7/2019	9.65	Average / 1	9.65		
Texas	Atmos Energy Corp.	D-GUD-10779 (Mid-Tex Division)	Natural	Distribution	5/21/2019	9.80	Average / 2		9.80	
						Total Cases	89	25	17	27
						Mean	9.64	9.68	9.52	9.68
						Median	9.60	9.73	9.50	9.60
						Maximum	11.88	10.55	9.87	11.88
						Minimum	8.70	8.70	9.25	9.25
						2019				
						Total Cases	7			
						Mean	9.63			
						Median	9.70			
						Maximum	9.80			
						Minimum	9.00			