

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-34, SUB 46

In the Matter of)	SUPPLEMENTAL
Application of Appalachian State)	TESTIMONY OF
University, d/b/a New River Light and)	JOHN R. HINTON
Power Company for an Adjustment of)	PUBLIC STAFF – NORTH
Rates and Charges for Electric Service)	CAROLINA UTILITIES
in North Carolina)	COMMISSION

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Supplemental Testimony of John R. Hinton
On Behalf of the Public Staff –
North Carolina Utilities Commission

January 26, 2018

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 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am
5 Director of the Economic Research Division of the Public Staff –
6 North Carolina Utilities Commission.

7 Q. ARE YOU THE SAME JOHN R. HINTON THAT FILED DIRECT
8 TESTIMONY AND EXHIBITS ON THE COST OF CAPITAL AND
9 WEATHER NORMALIZATION ON DECEMBER 20, 2017?

10 A. Yes, I am.

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

13 A. The purpose of my supplemental testimony in this proceeding is to
14 provide support for the stipulated cost of capital in the Stipulation
15 entered into by New River Light and Power Company (NRLP or
16 Company) and the Public Staff, and to provide a Revised Exhibit

1 JRH-3 and make corrections to page 14 of my pre-filed testimony of
2 December 20, 2017.

3 **Q. PLEASE DESCRIBE THE STIPULATED COST OF CAPITAL AND**
4 **HOW DOES IT DIFFER FROM YOUR PREVIOUSLY FILED**
5 **TESTIMONY?**

6 A. The Public Staff and the Company agreed to a 9.25% rate of return
7 on common equity (ROE), which is 15 basis points above my pre-filed
8 recommendation of 9.10%. The Company agreed to my
9 recommended 3.80% cost rate for long-term debt and a capitalization
10 comprised of 50% equity capital and 50% debt capital. The increase
11 in the equity return raised the overall weighted cost of capital from
12 6.45% to 6.53%, as shown in Supplemental Exhibit JRH-1.

13 **Q. DO YOU AGREE THAT THE COST OF CAPITAL COMPONENTS**
14 **OF THE PROPOSED SETTLEMENT ARE REASONABLE WITHIN**
15 **THE CONTEXT OF THE OVERALL SETTLEMENT?**

16 A. Yes. The Stipulated ROE is slightly above my high end DCF result
17 of a 9.20% and below my 9.48% result from my risk premium
18 analysis, shown in Exhibit JRH-7 of my testimony filed on
19 December 20, 2017. In addition, a recent Regulatory Research
20 Associates (RRA) report noted that the average allowed ROE for
21 2016 is 9.31% and for January-September 2017 is 9.53% for electric

1 utilities that only deliver the energy to customers.¹ For comparison
2 purposes, the RRA report shows that the average allowed ROE for
3 vertically integrated electric utilities for 2016 is 9.77% and for
4 January-September 2017 is 9.70%.

5 **Q. DO YOU HAVE ANY CORRECTIONS TO YOUR TESTIMONY**
6 **FILED ON DECEMBER 20, 2017?**

7 A. Yes. I would like to offer a Revised Exhibit JRH-3, which is attached
8 hereto and incorporated herein by reference, and make four changes
9 to page 14 of my pre-filed testimony. On page 14, line 10, the words
10 “20-year general obligation” should be changed to “25-year
11 revenue”. On line 15, “13-week” should be changed to “26-week”
12 and “September 7, 2017” should be changed to “June 8, 2017”. On
13 line 16, “3.58%” should be changed to “3.80%”. A copy of page 14 of
14 my pre-filed testimony with these revisions shown is attached hereto.

15 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

16 A. Yes it does.

¹ SNL Energy, “RRA Regulatory Focus, Major Rate Case Decisions January 2017-September 2017,” October 26, 2017, p. 6.

New River Power and Light Co.
Cost of Capital

Item	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Long-term Debt	50.00%	3.80%	1.90%
Common Equity	50.00%	9.25%	4.63%
Total	100.00%		6.53%

Pre-Tax Interest Coverage 3.4 times

New River Power and Light Co.
Recommended Cost of Long-Term Debt

	Date	25-year Revenue Bond
1	30-Nov	4.04%
2	21-Nov	3.97%
3	16-Nov	3.91%
4	8-Nov	3.86%
5	2-Nov	4.04%
6	26-Oct	3.98%
7	19-Oct	3.86%
8	12-Oct	3.82%
9	5-Oct	3.84%
10	28-Sep	3.85%
11	21-Sep	3.81%
12	14-Sep	3.77%
13	7-Sep	3.70%
14	31-Aug	3.72%
15	24-Aug	3.74%
16	17-Aug	3.78%
17	10-Aug	3.73%
18	3-Aug	3.70%
19	27-Jul	3.72%
20	20-Jul	3.70%
21	13-Jul	3.77%
22	6-Jul	3.76%
23	29-Jun	3.75%
24	22-Jun	3.70%
25	15-Jun	3.70%
26	8-Jun	3.70%
26-week Average		3.80%

Source: The Bond Buyer, Bond Buyer Indexes.

1 of other electric utilities identified in the Commission's June 2016
2 edition of its "Quarterly Review." Financial textbooks⁴ cite the below
3 formula which enables investors to compare the promised yield on a
4 municipal bond to a yield on a taxable bond:

$$\text{Equivalent taxable yield} = \frac{(\text{Municipal bond yield})}{(1 - \text{Marginal tax rate})}$$

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9 Q. WHAT IS YOUR RECOMMENDED COST OF LONG-TERM DEBT?

10 A. Given that NRLP is an operating unit of ASU, I believe that a
11 reasonable estimate of the current cost of long-term debt is
12 represented by the ~~250~~-year revenue general obligation bond index
13 as published in the Bond Buyer Index. The municipal bonds in this
14 index are rated Aa2 by Moody's Investor Services, which is close to
15 the Aa3 rating for ASU, as shown in Exhibit JRH-2. In an effort to
16 determine the current cost of debt along with a hypothetical capital
17 structure, I recommend a ~~2613~~-week average calculation of June
18 8September-7, 2017 through November 30, 2017 producing a
19 3.8058% cost of debt, as shown in Exhibit JRH-3. I believe this is a
20 reasonable proxy for the cost rate of long-term debt for NRLP and it is
21 appropriate for this proceeding.
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⁴ Fabozzi, Frank J. and T. Dossa Fabozzi, The Handbook of Fixed Income Securities, 4th ed., Burr Ridge, Ill: Irwin Publishing, 1995, p. 176.