

**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

October 27, 2023

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

Re: Docket Nos. W-933, Sub 12 and W-1328, Sub 0 – Application by Red Bird Utility Operating Company, LLC, for Authority to Transfer the Etowah Community Wastewater Utility System and Public Utility Franchise in Henderson County, North Carolina, and for Approval of Rates

Dear Ms. Dunston,

Attached for filing on behalf of the Public Staff in the above-referenced dockets is the testimony of John R. Hinton, Director of the Economic Research Division of the Public Staff – North Carolina Utilities Commission.

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

Sincerely,

Electronically submitted
s/ Davia Newell
Staff Attorney
davia.newell@psncuc.nc.gov

cc: Parties of Record

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-933, SUB 12

DOCKET NO. W-1328, SUB 0

In the Matter of
Application by Red Bird Utility Operating)
Company, LLC, 1650 Des Peres Road,)
Suite 303, St. Louis, Missouri 63131, and)
Etowah Sewer Company Inc, P.O. Box)
1659 Etowah, NC 28729-1659, for)
Authority to Transfer the Sewer Utility)
Systems and Public Utility Franchise in)
Henderson County, North Carolina, and)
for Approval of Rates)

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

October 27, 2023

1 **Q. Please state your name, business address, and present**
2 **position.**

3 A. My name is John R. Hinton, and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am the Director of the
5 Economic Research Division of the Public Staff. My qualifications
6 and experience are provided in Appendix A.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony in this proceeding is to present the
9 results of my investigation of the application filed on October 8, 2020,
10 by Etowah Sewer Company, Inc. (Etowah) and Red Bird Utility
11 Operating Company, LLC (Red Bird) for authority to transfer the
12 wastewater utility system and public utility franchise serving the
13 Etowah Community in Henderson County, North Carolina, from
14 Etowah to Red Bird and approval of rates as it relates to the financial
15 viability of Red Bird.

16 **Q. Please describe your investigation.**

17 A. I reviewed Red Bird's application, responses to data requests, the
18 direct testimony of Company witness Josiah Cox, and the direct
19 testimony of David Murray filed on the behalf of the Missouri Office
20 of the Public Counsel in Case No. WR-2023-0006, a rate case filed
21 with the Missouri Public Service Commission by Red Bird's affiliate,
22 Confluence Rivers Utility Operating Company, Inc. In addition, I was

1 present during Mr. Cox's Supplemental Testimony of October 24,
2 2023, in the transfer proceeding involving Red Bird and Total
3 Environmental Solutions, Inc. in Docket Nos. W-1146, Sub 13 and
4 W-1328, Sub 10.

5 **Q. Please describe the Organizational Chart provided to the Public**
6 **Staff in response to a data request.**

7 A. The Central States Water Resources Corporate Entity
8 Organizational Chart attached to this testimony as Public Staff
9 Hinton Exhibit 1 shows that Red Bird is owned by the North Carolina
10 CSWR, LLC, in a similar fashion as the other utility operations in the
11 11 other state jurisdictions. In addition, US Water Systems, LLC is
12 the sole member of CSWR, LLC, and it owns 100% of CSWR, LLC.
13 The Company has stated that US Water, LLC is the sole source of
14 financing for CSWR, LLC.¹ In response to a data request, Red Bird
15 states that private equity firm, Sciens Capital Management, LLC is
16 also involved in raising capital for CSWR, LLC.

¹ Docket Nos.W-1146, Sub 13, W-1328, Sub 10, Rebuttal Testimony of Todd Thomas, P. 26.

1 **Q. Do you agree with witness Cox that Red Bird and CSWR, LLC**
2 **have the financial capacity to acquire, own, and operate the**
3 **Etowah system?**

4 A. Yes. Based on data request responses and the testimony of witness
5 Cox, US Water Systems, LLC and CSWR, LLC, I believe that Red
6 Bird will have sufficient equity capital to acquire and improve
7 Etowah's water and wastewater systems, fund system upgrades,
8 and support other capital improvements. However, the Public Staff
9 has some concerns regarding the ongoing viability of CSWR, LLC,
10 because it continues to report significant losses on its consolidated
11 income statements. As such, the Company's financial viability largely
12 depends on external infusions of common equity that are supplied by
13 private equity.

14 **Q. Does CSWR, LLC depend only on equity capital that is, in part,**
15 **provided by private equity?**

16 A. No. CSWR, LLC has been approved for three loans with CoBank in
17 other state jurisdictions and Red Bird's eventual plans are to
18 rebalance its capital structure from being comprised of 100% equity
19 to offsetting equity with 40% to 50% of debt capital.

1 **Q. Has the Public Staff observed any ongoing issues with any of**
2 **Red Bird's North Carolina operations that suggest sufficient**
3 **capital is not available?**

4 A. No. My understanding is that Public Staff witness Franklin and other
5 Public Staff engineers who have been involved with other transfer
6 applications with Red Bird are unaware of any plant and operational
7 problems that stem from a lack of investment capital. However, it
8 should be noted that Red Bird has not owned its systems in North
9 Carolina for very long. In view of the Company's business plan and
10 record of acquiring non-viable systems, raising additional equity
11 capital, and making necessary capital investments, I believe CSWR
12 has sufficient capital resources to be considered financially viable.

13 **Q. In view of your financial concerns, do you have any**
14 **recommendations?**

15 A. Yes. I recommend that Red Bird meet with the Public Staff on an
16 annual basis to discuss Red Bird's North Carolina water and
17 wastewater utility operations and address any concerns with its
18 financial condition. I propose that these meetings continue until the
19 Company's capital structure has been rebalanced to acceptable
20 levels and all viability concerns have been resolved.

21 **Q. Does this conclude your testimony?**

22 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

JOHN R. 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 of 1985. I filed testimony on the long-range electrical forecast in Docket No. E-100, Sub 50 which included an independently produced peak demand and energy sales forecast. This forecast and two other peak demand forecasts published in 1989 and 1992 were provided to the NC Utilities Commission and the Governor. I filed testimony on electricity weather normalization in Docket Nos. E-7, Sub 620, E-2, Sub 833, and E-7, Sub 989. I filed testimony on the level of funding for nuclear decommissioning costs in Docket No. E-2, Sub 1023; Docket Nos. E-7, Sub 1026 and E-7, Sub 1146. I have filed testimony on the Integrated Resource Plans (IRPs) filed in Docket No. E-100, Subs 114 and 125, and I have reviewed numerous peak demand and energy sales forecasts and the resource expansion plans filed in electric utilities' annual IRPs and IRP updates.

I have been the lead analyst for the Public Staff in numerous avoided cost proceedings, filing testimony in Docket No. E-100, Subs 106, 136, 140, 148, and Sub 158. I have filed a Statement of Position in the arbitration case involving EPCOR and Progress Energy Carolinas in Docket No. E-2, Sub 966. I have filed testimony in avoided cost related to the cost recovery of energy efficiency programs and demand side management programs in Dockets Nos. E-7, Sub 1032, E-7, Sub 1130, E-2, Sub 1145, and E-2, Sub 1174.

I have filed testimony on the issuance of certificates of public convenience and necessity (CPCN) in Docket Nos. E-2, Sub 669, SP-132, Sub 0, E-7, Sub 790, E-7, Sub 791, and E-7, Sub 1134.

I filed testimony on the merger of Dominion Energy, Inc. and SCANA Corp. in Docket Nos. E-22, Sub 551, and G-5, Sub 585.

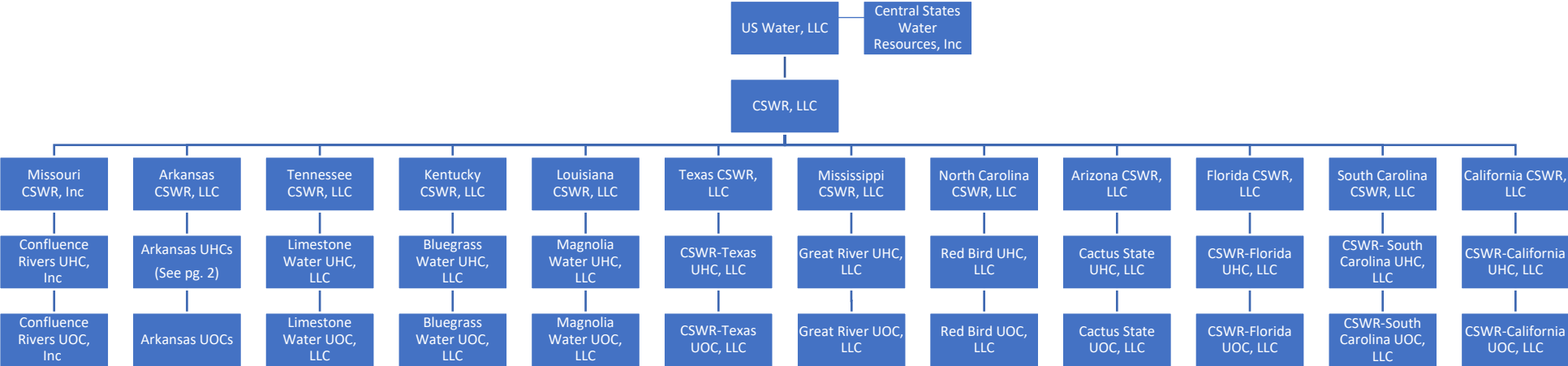
I have filed testimony on the issue of fair rate of return in Docket Nos. E-22, Subs 333 412, and 532; P-26, Sub 93; P-12, Sub 89; G-21, Sub 293; P-31, Sub 125; P-100, Sub 133b; P-100, Sub 133d (1997 and 2002); G-21, Sub 442; G-5, Subs 327, 386; and 632; G-9, Subs 351, 382, 722 and Sub 781, G-39, Sub 47, W-778, Sub 31; W-218, Subs 319, 497, and 526; W-354, Subs 360; 364, 384, and 400 and in several smaller water utility rate cases. I have filed testimony on credit metrics and the risk of a downgrade in Docket No. E-7, Sub 1146.

I have filed testimony on the hedging of natural gas prices in Docket No. E-2, Subs 1001, 1018, 1031, and 1292. I have filed testimony on the expansion of natural gas in Docket No. G-5, Subs 337 and 372. I performed the financial analysis in the two audit reports on Mid-South Water Systems, Inc., Docket No. W-100, Sub 21. I testified in the application to transfer the CPCN from North Topsail Water and Sewer, Inc. to Utilities, Inc., in Docket No. W-1000, Sub 5. I have filed testimony on rainfall normalization with respect of water sales in Docket No. W-274, Sub 160.

I was a member of the Small Systems Working Group that reported to the National Drinking Water Advisory Council with the EPA and I have published an article in the

National Regulatory Research Institute's Quarterly Bulletin entitled Evaluating Water Utility Financial Capacity and filed testimony on the financial viability of water and wastewater utilities, including Docket No. W-1328, Sub 10.

Central States Water Resources Corporate Entity Organizational Chart



Arkansas CSWR Organizational Chart Detail

