

**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

October 23, 2023

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

Re: Docket Nos. W-938, Sub 6 and W-1328, Sub 8 – Application by Red Bird Utility Operating Company, LLC, for Authority to Transfer the Windemere Point Subdivision Wastewater Utility System and Public Utility Franchise in Montgomery 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.

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

Sincerely,

Electronically submitted
s/ James Bernier, Jr.
Staff Attorney
james.bernier@psncuc.nc.gov

cc: Parties of Record

Executive Director
(919) 733-2435

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Economic Research
(919) 733-2267

Energy
(919) 733-2267

Legal
(919) 733-6110

Transportation
(919) 733-7766

Water/Telephone
(919) 733-5610

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. W-938, SUB 6****DOCKET NO. W-1328, SUB 8**

In the Matter of
Application by Red Bird Utility Operating)
Company, LLC, 1630 Des Peres Road,)
Suite 140, St. Louis, Missouri 63131, and)
Baytree Waterfront Properties, Inc., 4)
Stanley Ave., Thomasville, North Carolina)
27360 for Authority to Transfer the Baytree)
Waterfront Properties, Inc., Wastewater)
Utility System and Public Utility Franchise)
in Windemere Pointe Subdivision in)
Montgomery County, North Carolina, and)
for Approval of Rates)

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

October 23, 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 9, 2020,
10 by Baytree Waterfront Properties, Inc. (Baytree), and Red Bird Utility
11 Operating Company, LLC (Red Bird), for authority to transfer the
12 wastewater system and public utility franchise serving the
13 Windemere Point Subdivision (Windemere) in Montgomery County
14 from Baytree to Red Bird and approval of rates as it relates to the
15 financial 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.

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

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

13 **Q. Do you agree with witness Cox that Red Bird and CSWR, LLC**
14 **have the financial capacity to acquire, own, and operate the**
15 **Baytree system?**

16 A. Yes. Based on data request responses and the testimony of witness
17 Cox, US Water Systems, LLC and CSWR, LLC will provide Red Bird
18 with sufficient equity capital to acquire and improve its water and
19 wastewater systems, fund system upgrades, and support other
20 capital improvements. However, the Public Staff has some concerns
21 regarding the ongoing viability of CSWR, LLC, because it continues

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

1 to report significant losses on its consolidated income statements. As
2 such, the Company's financial viability largely depends on external
3 infusions of common equity.

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

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

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

13 A. No. My understanding is that Public Staff witness Franklin is unaware
14 of any plant and operational problems that stem from a lack of
15 capital. However, it should be noted that Red Bird has not owned its
16 systems in North Carolina for very long. The Public Staff will continue
17 to monitor capital investment in the acquired systems.

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

20 A. Yes. I recommend that Red Bird meet with the Public Staff on an
21 annual basis to discuss Red Bird's North Carolina water and
22 wastewater utility operations and address any concerns with its

1 financial condition. I propose that these meetings continue until the
2 Company's capital structure has been rebalanced to acceptable
3 levels and all viability concerns have been resolved.

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

5 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. In 1986, 1989, and 1992, I developed the long-range forecasts of peak demand for electricity in North Carolina. 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 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.

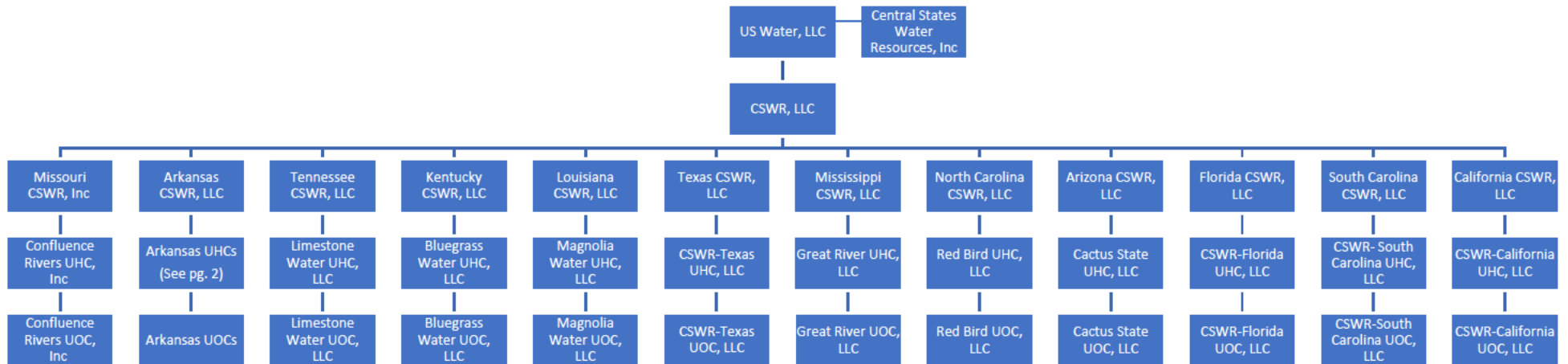
I have filed testimony on the issue of fair rate of return in Docket Nos. E-22, Subs 333 412, and 532; P-26, Sub 93; P-12, Sub 89; G-21, Sub 293; P-31, Sub 125; P-100, Sub 133b; P-100, Sub 133d (1997 and 2002); G-21, Sub 442; G-5, Subs 327, 386; and 632; G-9, Subs 351, 382, 722 and Sub 781, G-39, Sub 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, 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.

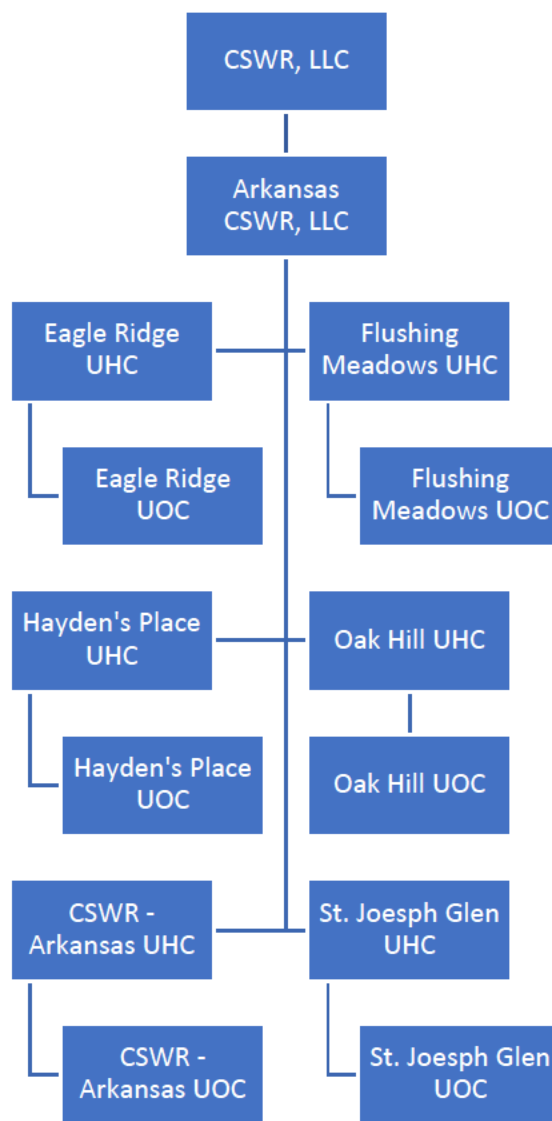
I was a member of the Small Systems Working Group that reported to the National Drinking Water Advisory Council with the EPA and I have published an article in the

National Regulatory Research Institute's Quarterly Bulletin entitled Evaluating Water
Utility Financial Capacity.

Central States Water Resources Corporate Entity Organizational Chart



Arkansas CSWR Organizational Chart Detail



CERTIFICATE OF SERVICE

I certify that a copy of the foregoing has been served on all parties of record or their attorneys, or both, in accordance with Commission Rule R1-39, by United States Mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 23rd day October, 2023.

Electronically submitted
/s/ James Bernier, Jr.
Staff Attorney