

**Summary of Direct Testimony of Julie Perry,
adopting pre-filed Direct Testimony of Kevin O'Donnell
On Behalf of the Village of Bald Head Island**

The purpose of my testimony is to present my opinion on certain matters that are relevant to the Commission's review of the transfer proceeding.

First, I address BHIL's argument that the parking and barge assets should be valued for rate base purposes at market value, rather than at net book value. If SharpVue is allowed to place the parking and barge assets into rate base at fair market value—rather than net book value—then ratepayers will be harmed if customers have to *pay* a higher premium for assets that are already currently being used to provide utility service. In this regard, I disagree with the prior testimony of Shirley Mayfield in the Sub 21 proceeding, in which she stated that the parking and barge assets, should they be placed into rate base, should be valued at fair market value. This statement is contrary to utility regulation in North Carolina.

Second, based on the information provided in discovery, I was able to calculate returns on Limited's estimated rate base for 2021 for the consolidated transportation operation as well as each component department. Based on my review, the estimated overall rate of return is 26.50%. Thus, Limited is currently earning extremely high returns on the transportation operations—significantly above that which would typically be permitted in a general rate case proceeding from its investment in the transportation assets serving Bald Head Island.

Next, I address the Commission's treatment of acquisition premiums. Based on SharpVue's purchase price allocation amounts and the rate base amounts stated above, SharpVue is paying a very high acquisition premium for these transportation assets. If

SharpVue was allowed to recover this acquisition premium, I am concerned that ratepayers would be harmed in a future rate case proceeding. Customer rates could be increased for the impact of the acquisition premium SharpVue paid for the assets. Allowing a new owner to recover such a premium - simply because the assets changed hands - is not in the public interest. In the past 25 years, merger and transfer orders include language and regulatory conditions disallowing the recovery of any acquisition premium in order to protect ratepayers from the risk of harm. Although there may be a few exceptions in the water utility industry, this Commission has consistently disallowed the recovery of acquisition premiums from ratepayers in all other regulated industries.

Finally, I believe the Commission should consider the future rate-making treatment of the parking, barge, and ferry assets as part of its review of the proposed transfer so that customers are not harmed. In the event that the Commission moves forward to approve SharpVue's acquisition, I would recommend that the Commission condition such approval on SharpVue agreeing that, in future rate cases, (1) the parking, barge, and ferry assets will be valued at net book value as of December 31, 2021, for purposes of calculating rate base, and (2) SharpVue cannot seek to recover the acquisition premium related to the transfer as a whole from ratepayers and that ratepayers will be protected to the greatest extent possible from any other potential costs or risks associated with the transfer.

For these reasons, it is my recommendation to deny any acquisition premium related to this transfer proceeding and utilize the net book values as of December 31, 2021, for determining rate base for parking, barge and ferry assets.

This completes the summary of my direct testimony.