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November 15, 2023

Ms. Shonta Dunston
Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street
Raleigh, North Carolina

**Re: Application by Red Bird Utility Operating Company, LLC and Etowah Sewer Company, Inc. for Transfer of Public Utility Franchise and for Approval of Rates
Docket No. W-933, Sub 12
Docket No. W-1328, Sub 0**

Dear Ms. Dunston:

Enclosed on behalf of Red Bird Utility Operating Company, LLC, please find:

The Correction to the Non-Confidential Rebuttal Testimony of Brent G. Thies
The Corrected Non-Confidential Rebuttal Testimony of Brent G. Thies

Please contact me if you or the Commission have any questions regarding this filing.

Best regards,

/s/ Mindy McGrath
Mindy McGrath

Enclosure

c: Parties of Record w/ Encl.

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-933, SUB 12
DOCKET NO. W-1328, SUB 0

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Red Bird Utility Operating
Company, LLC, and Etowah Sewer
Company, Inc., for Transfer of Public
Utility Franchise and for Approval of Rates

**RED BIRD UTILITY OPERATING COMPANY, LLC'S CORRECTION TO
THE NON-CONFIDENTIAL REBUTTAL TESTIMONY OF BRENT G. THIES**

Red Bird Utility Operating Company, LLC ("Red Bird"), provides the following Correction to the Rebuttal Testimony of Brent Thies:

- On Page 5, beginning after line 10, please insert **[BEGIN CONFIDENTIAL]** and **[END CONFIDENTIAL]** around the Purchase Price as identified in the table. Please change Red Bird's Accumulated Depr from \$(1,585,928) to \$(1,301,696) and Red Bird's Rate Base from \$142,429 to \$426,661. The corrected Table should read:

	Red Bird	Per Staff	
Purchase Price	[BEGIN CONFIDENTIAL] [REDACTED]	[REDACTED]	[END CONFIDENTIAL]
Plant in Service	\$2,159,338	\$973,930	
Accumulated Depr	\$(1,301,696)	\$(825,156)	
CIAC	\$(430,981)	\$(430,981)	
Rate Base	\$426,661	\$(282,207)	

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In the Matter of
Application by Red Bird Utility Operating
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**NON-CONFIDENTIAL REBUTTAL TESTIMONY OF BRENT G. THIES
ON BEHALF OF RED BIRD UTILITY OPERATING COMPANY, LLC**

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Brent G. Thies, and my business address is 1630 Des Peres Rd., Suite 140,
4 St. Louis, MO 63131.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by CSWR, LLC ("CSWR"). My current position is Vice President and
7 Corporate Controller.

8 **Q. ON WHOSE BEHALF ARE YOU FILING THIS DIRECT TESTIMONY?**

9 A. I am filing on behalf of Red Bird Utility Operating Company, LLC ("Red Bird" or the
10 "Company"), which is a subsidiary of CSWR.

1 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS**
2 **COMMISSION?**

3 A. Yes. I filed testimony in Docket Nos. W-922, Sub 8 and W-1328, Sub 9 in support of
4 Red Bird's Joint Transfer Application to acquire Crosby Utilities Inc's water and
5 wastewater systems.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
7 **BACKGROUND.**

8 A. I hold a Bachelor of Arts in Communications/Public Relations from Missouri Baptist
9 University in St. Louis, Missouri and a Bachelor of Science in Accounting from Liberty
10 University in Virginia. I also hold a Master of Divinity degree from Midwestern Baptist
11 Theological Seminary in Kansas City, Missouri and a Master of Business
12 Administration degree from the University of Missouri-St. Louis. I am licensed as a
13 Certified Public Accountant in the state of Missouri, and during my time at CSWR, I
14 have completed the Fundamentals, Intermediate and Advanced Regulatory Studies
15 Programs through the Institute of Public Utilities at Michigan State University.

16 I have been employed in the Accounting and Finance department of CSWR
17 since July 2017. I started at CSWR as the Senior Accountant and was responsible for
18 monthly accounting work for CSWR and its regulated utility subsidiaries. My
19 responsibilities as a Senior Accountant included analysis and reporting related to state
20 regulatory requirements. I was promoted to the position of Controller in October 2018
21 and then Vice President and Corporate Controller in February 2022.

22 Prior to CSWR, I was employed as the Controller of a multi-entity non-profit
23 in St. Louis, Missouri.

1 **Q. WHAT ARE YOUR DUTIES AS VICE PRESIDENT AND CORPORATE**
2 **CONTROLLER?**

3 A. As Vice President and Corporate Controller I am responsible for maintaining the
4 accounting books and records of CSWR and its regulated utility subsidiaries. This
5 includes setting financial controls and accounting policy and having responsibility for
6 the accurate recording of revenues, expenses and capital expenditures. My team also is
7 responsible for preparing and filing regulatory annual reports and responding to certain
8 data requests for the regulated utility subsidiaries of CSWR. In addition, my
9 responsibilities include preparation of monthly and quarterly management reports and
10 interfacing with external auditors and tax professionals.

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

13 A. My rebuttal testimony responds to the testimony filed by Public Staff witnesses Lynn
14 Feasel and Michael Franklin. Specifically, I respond to Public Staff witness Feasel's
15 rate base and Contributions in Aid of Construction ("CIAC") calculations along with
16 her estimate of the impacts the Company's acquisition adjustment and due diligence
17 costs would have on a future revenue requirement. I also provide a brief response to
18 the depreciation rates used in the testimony of Public Staff witness Franklin. Lastly,
19 my testimony discusses some particulars of Public Staff's calculations and how the
20 Company views the underlying assumptions and calculations.

21 **Q. DO YOU HAVE ANY EXHIBITS TO YOUR REBUTTAL TESTIMONY?**

22 A. Yes. **Thies Rebuttal Exhibit 1** details the adjustments to Tap-Ins that the Company
23 used to arrive at its rate base calculation.

1 **Q. WAS THIS EXHIBIT PREPARED OR PROVIDED BY YOU OR UNDER**
2 **YOUR DIRECTION AND SUPERVISION?**

3 A. Yes.

4 **II. ACCOUNTING ISSUES**

5 **Q. HOW DID THE PUBLIC STAFF CALCULATE ETOWAH'S RATE BASE?**

6 A. Public Staff calculated Etowah's rate base beginning with the approved amounts in
7 Etowah's last rate case in Docket No. W-933, Sub 9 for Utility Plant in Service
8 ("UPIS"), accumulated depreciation, and CIAC. The UPIS approved as part of Docket
9 No. W-933, Sub 9 was \$951,285. Public Staff analyzed invoices provided by Etowah
10 to calculate UPIS additions of \$22,645, and then totaled these amounts to arrive at its
11 UPIS value of \$973,930.

12 Public Staff calculated Etowah's accumulated depreciation value in a similar
13 fashion. Public Staff began with the approved amount of accumulated depreciation in
14 Etowah's last rate case in Docket No. W-933, Sub 9—\$547,706—and then brought this
15 figure forward to December 31, 2023. Public Staff then calculated the additional
16 accumulated depreciation from the UPIS additions to arrive at \$825,156 for its final
17 amount of accumulated depreciation.

18 Public Staff also updated the CIAC balance used in its rate base calculation.
19 Public Staff updated the value approved in Docket No. W-933, Sub 9 for tap-in fees
20 received since that time and brought forward the accumulated amortization to
21 December 31, 2023. This process resulted in an adjusted net CIAC value of \$430,981.

3 **Q. DO YOU AGREE WITH PUBLIC STAFF'S CALCULATIONS?**

	Red Bird	Per Staff
Purchase Price		
Plant in Service	\$2,159,338	\$973,930
Accumulated Depr	\$(1,301,696)	\$(825,156)
CIAC	\$(430,981)	\$(430,981)
Rate Base	\$426,661	\$(282,207)

13 A. In his testimony, Public Staff witness Franklin uses depreciation lives and rates that
14 differ from those approved in Etowah's last rate case. Mr. Franklin used an adjusted
15 depreciable life for generators of 3 years as opposed to 20 years; 20 years as opposed

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1 to 50 years for lift stations; and a life of 7 years instead of the approved 20 years for
2 check valves.

3 **Q. DOES RED BIRD AGREE WITH THE PUBLIC STAFF'S ADJUSTED**
4 **DEPRECIATION LIVES?**

5 A. No. While the Company respects Mr. Franklin's qualifications to assess depreciable
6 lives, an acquisition case is not the appropriate forum to make adjustments to
7 depreciation lives; rather, depreciation changes should be addressed in a future rate
8 case after further evaluation and depreciation studies have been completed.

9 **Q. PLEASE DESCRIBE THE PUBLIC STAFF'S UPIS VALUES AND THEIR**
10 **RELATION TO THE ADDITION OF CIAC.**

11 A. On the bottom of page 9 on the North Carolina Annual Report template, CIAC is
12 defined as follows:

13 Contributions in aid of construction (CIAC) are generally defined in
14 the NARUC Uniform System of Accounts as money, services, or
15 property received by the utility company from customers,
16 developers, or any other source at no cost to the utility company
17 which offsets the acquisition, improvement, or construction cost of
18 the utility's property, facilities, or equipment to be used to provide
19 utility service. Tap-on fees and meter installation fees are forms of
20 CIAC.

21 Thus, according to the Commission's own Annual Report template, CIAC is a payment
22 of cash or property that results in an additional component of UPIS. In its analysis,
23 Public Staff recognized that Etowah had received tap-on fees that it properly booked
24 as CIAC. However, Etowah's annual reports show no increase in UPIS that
25 corresponds to the plant assets that should have been purchased or constructed as a
26 direct result of the receipt of the tap-on fees. Public Staff made no other adjustment to

1 UPIS to reflect the fact that new taps were added. The effect of this omission is to
2 understate UPIS, resulting in an artificially low rate base value.

3 In order to adjust for the UPIS values associated with the new tap-on fees, the
4 Company added \$1,180,645 to UPIS. This number is equal to the value of CIAC that
5 Public Staff used in its rate base calculation. The Company also calculated the
6 accumulated depreciation that should be associated with the addition UPIS of \$753,559
7 to arrive at a total of \$427,086 as of December 31, 2023. **Thies Rebuttal Exhibit 1**
8 details the adjustments the Company made to arrive at its rate base calculation.

9 **Q. SHOULD THE COMMISSION CONSIDER THE IMPACT OF THE**
10 **PROPOSED ACQUISITION ON FUTURE RATES IN THIS PROCEEDING?**

11 A. No, it should not. As described in more detail in the rebuttal testimony of Red Bird
12 witness and CSWR's President Josiah Cox, the rate impacts included in the testimonies
13 of Public Staff's witnesses are nothing more than estimates based on numerous
14 assumptions that may or may not reflect the elements of the revenue requirement the
15 Commission would use to set future rates. As such, those rate estimates cannot be relied
16 on for assessing the rate impact of the proposed transaction.

17 In addition, Public Staff's rate impact estimates assumes that rates for the
18 Etowah system would be set on a stand-alone basis despite Red Bird stating its intention
19 to seek consolidated, statewide rates for its North Carolina water and wastewater
20 systems. Based on the experience of our affiliate group in states like Kentucky,
21 Missouri and Louisiana, there can be a significant difference between rates set on a
22 stand-alone basis and those set on a consolidated basis.

1 Finally, because Red Bird proposes to adopt at closing the rates that are
2 currently in effect for the Etowah system, the Commission need not consider rates in
3 this proceeding. As I understand applicable law in North Carolina, the focus of this
4 proceeding is to determine if Red Bird has the technical, managerial, and financial
5 qualifications to own and operate as a public utility and to also determine if the
6 proposed acquisition is in the public interest. Issues related to future rates can (and
7 should) be deferred to a future rate case proceeding, where necessary evidence is
8 available to determine Red Bird's revenue requirement and establish the appropriate
9 rate design.

10 **Q. PLEASE DESCRIBE THE ASSUMPTIONS PUBLIC STAFF USED IN**
11 **ARRIVING AT THEIR CALCULATION OF THE ESTIMATED REVENUE**
12 **IMPACT.**

13 A. Public Staff witnesses Feasel and Franklin utilized assumptions for capital structure,
14 rate of return, and amortization period to arrive at the revenue and rate impact of certain
15 items that are a part of Red Bird's filing in this docket. Since Red Bird is not currently
16 in a rate case proceeding, there is no way to know whether the assumptions the Public
17 Staff made to arrive at these estimated rate impacts are realistic or reasonable. As the
18 Commission knows, capital structure, return on equity, and amortization periods are
19 some of the most heavily contested issues in a rate case. While Public Staff's witnesses
20 properly characterize their work as estimations, it is not proper to consider their
21 estimated revenue requirement impacts when (a) they are not relevant to an acquisition
22 proceeding, and (b) they are based on hypothetical assumptions that require the

1 development of a complete record in a future general rate case and are likely to be the
2 subject of dispute in that case.

3 **Q. WHAT CONCERNS OR OBJECTIONS DOES THE COMPANY HAVE**
4 **REGARDING THE AMORTIZATION PERIOD PUBLIC STAFF USED TO**
5 **ESTIMATE THE RATE IMPACTS INCLUDED IN ITS TESTIMONY?**

6 A. Public Staff witness Feasel assumes the amortization periods below for her rate impact
7 estimates based on the values of plant in service.

<u>Proposed Amortization Period (Staff)</u>	
Acquisition Adjustments	27.74 Years
Due Diligence Cost	27.74 Years

8 While it may be reasonable to calculating an amortization period that incorporates the
9 useful lives of utility plant assets, this calculation results in an unnecessarily short
10 amortization period. The Company proposes to amortize acquisition adjustments and
11 due diligence costs over a longer amortization period as demonstrated in the table
12 below.

<u>Proposed Amortization Period (Company)</u>	
Acquisition Adjustments	50 Years
Due Diligence Cost	50 Years

13 In accordance with the Depreciation Practices for Small Water Utilities published by
14 the National Association of Regulatory Utility Commissioners, the proposed 50-year
15 amortization is based on the average useful lives of assets comprising water distribution
16 systems and sewer collection systems.

1 **Q. WHY IS THE LONGER AMORTIZATION PERIOD YOU JUST DISCUSSED**
2 **MORE REASONABLE THAN THE PERIOD USED BY PUBLIC STAFF IN ITS**
3 **RATE IMPACT ESTIMATES?**

A. The Company's amortization period is more reasonable for at least two reasons. First, as mentioned above, fifty years is a common estimate for the useful lives of the pipes and similar assets comprising water distribution systems and sewer collection systems. Second, the majority of the costs associated with the Company's due diligence efforts relate to mapping, surveying and title and easement research related to the distribution and collection systems. Due diligence costs associated with hard assets, such as those mentioned above, are typically amortized over a period equal to the depreciation period associated with those assets. Therefore, the amortization period for the due diligence related costs should also be fifty years.

13

III. CONCLUSION

14 **Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL TESTIMONY?**

15 A. Yes.

Red Bird Utility Operating Company
Tap Ons through 12/31/2023

Date	Amount	Rate	Accumulated Depr 12/31/2023
Pre 1998	361,800	3.30%	361,800
12/31/1998	9,000	3.30%	7,430
12/31/1999	86,400	3.30%	68,476
12/31/2001	5,400	3.30%	3,923
12/31/2002	19,800	3.30%	13,730
12/31/2003	59,800	3.30%	39,495
12/31/2004	99,268	3.30%	62,277
12/31/2004	24,357	3.30%	15,281
12/31/2005	66,700	3.30%	39,644
12/31/2006	149,362	3.30%	83,846
12/31/2007	43,700	3.30%	23,089
12/31/2010	6,900	3.30%	2,962
12/31/2012	6,900	3.30%	2,506
12/31/2013	11,500	3.30%	3,797
12/31/2014	4,600	3.30%	1,367
12/31/2015	11,500	3.30%	3,038
12/31/2016	6,900	3.30%	1,595
12/31/2017	32,200	3.30%	6,379
12/31/2018	6,900	3.30%	1,139
12/31/2019	9,200	3.30%	1,215
12/31/2020	27,600	3.30%	2,732
12/31/2021	106,673	3.30%	7,040
12/31/2022	24,185	3.30%	798
Total	1,180,645		753,559

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Nov 15 2023

CERTIFICATE OF SERVICE**DOCKET NO. W-933, SUB 12****DOCKET NO. W-1328, SUB 0**

I hereby certify that a copy of the Correction to the Non-Confidential Rebuttal Testimony of Brent G. Thies, and the Corrected Non-Confidential Testimony of Brent G. Thies on behalf of Red Bird Utility Operating Company, LLC was served electronically or by depositing a copy of the same in the United States Mail, first class postage prepaid, at the addresses contained in the official service lists in these proceedings.

This the 15th day of November 2023.

RED BIRD UTILITY OPERATING COMPANY, LLC

/s/ Mindy McGrath

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