



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

April 5, 2024

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

Re: Docket No. W-1343, Sub 1 – Application by GWWTP, LLC for a Certificate of Public Convenience and Necessity to Provide Wastewater Utility Service to Southern Shores Landing and Ginguite Mixed Use Development in Dare 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 public version of the testimony of Gregory J. Reger, Public Utilities Regulatory Analyst, Economic Research Division of the Public Staff – North Carolina Utilities Commission.

By copy of this letter, I am forwarding a redacted version to all parties of record by electronic delivery. Confidential information is located on pages 4 and 5. The confidential version will be provided to those parties that have entered into a confidentiality agreement.

Sincerely,

Electronically submitted
/s/ Davia A. Newell
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/s/ James Bernier, Jr.
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cc: Parties of Record

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CERTIFICATE OF SERVICE

I certify that a copy of this Testimony 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 5th day of April, 2024.

Electronically submitted
/s/ Davia A. Newell
Staff Attorney

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1343, SUB 1

In the Matter of)	
Application by GWWTP, LLC for a)	
Certificate of Public Convenience and)	TESTIMONY OF
Necessity to Provide Wastewater Utility)	GREGORY J. REGER
Service to Southern Shores Landing)	PUBLIC STAFF – NORTH
and Ginguite Mixed Use Development)	CAROLINA UTILITIES
in Dare County, North Carolina, and for)	COMMISSION
Approval of Rates)	

April 5, 2024

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

3 A. My name is Gregory J. Reger, and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Public Utilities
5 Regulatory Analyst in the Economic Research Division of the Public
6 Staff – North Carolina Utilities Commission (Public Staff).

7 **Q. Please state your qualifications and duties.**

8 A. I received a Bachelor of Arts degree in Business, with a Minor in
9 Mathematics from Lake Forest College in 2008, and a Master of
10 Public Administration degree from Syracuse University in 2012. Prior
11 to joining the Public Staff in December of 2023, I held data analytics,
12 budget and performance management, and process improvement
13 roles at the local and federal government level for 10 years, I was
14 awarded a one-year local government management fellowship with
15 the City of Hamilton, OH Electric Department, and I was a Contractor
16 Operations Specialist/Assessor & Final Inspector for two years in the
17 Weatherization Department of a nonprofit in Chicago. Since joining
18 the Public Staff, I have conducted rate of return and financial viability
19 studies in water and wastewater utility cases and filed an affidavit on
20 fair rate of return in a small water and sewer utility rate case in Docket
21 No. W-1263, Sub 4. In addition, I have been involved in the
22 evaluation of ferry operations, as well as the investigation and

1 analysis of electric utilities' proposed riders, avoided cost rates, and
2 integrated resource plans.

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

4 A. The purpose of my testimony is to provide the North Carolina Utilities
5 Commission (Commission) with the results of my investigation of the
6 financial viability of GWWTP, LLC (GWWTP or the Company) to
7 provide wastewater utility service to Southern Shores Landing and
8 Ginguite Mixed Use Development (collectively Ginguite Woods) in
9 Dare County and for approval of rates, and to recommend a fair rate
10 of return to be employed as a basis for determining the appropriate
11 revenue requirement for GWWTP.

12 **Q. Why is it necessary to assess the company's financial viability?**

13 A. Past owners of the system did not have the resources to adequately
14 maintain this wastewater utility system. The wastewater system
15 currently owned by GWWTP was relinquished by the original owner
16 in 2009, six years after receiving a CPCN, as the owner did not have
17 the necessary capital to adequately fund operations. The
18 Commission then appointed an emergency operator, Enviro-tech,
19 who operated from November 2009 to August 2021. In addition to
20 the costs GWWTP would incur operating the wastewater system,
21 Public Staff Engineer Lindsay Darden testifies that the wastewater

1 treatment plant is in poor condition and has rust, holes, and a non-
2 working spray irrigation system. Accordingly, it is important that
3 GWWTP have the financial capability to make the needed capital
4 expenditures that were identified in the Company's Application for a
5 Certificate of Public Convenience and Necessity (Application).

6 **Q. What information did you examine in the course of your**
7 **investigation?**

8 A. In investigating GWWTP's financial viability, I examined the financial
9 and accounting information that GWWTP provided in connection with
10 the Application, Mr. Howsare's direct testimony, Mr. Howsare's
11 response to customer testimony, and GWWTP's responses to the
12 Public Staff's data requests, in particular financial statements and pro
13 forma financial modeling provided by GWWTP and reviewed by the
14 Public Staff.

15 **Q. Please describe the findings of your investigation of the**
16 **Company's financial viability.**

17 A. My investigation and analysis indicate that GWWTP has the financial
18 resources to operate the wastewater system and to fund needed
19 upgrades. GWWTP's owners have cash on hand **[BEGIN**
20 **CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**, a
21 combined net worth of approximately **[BEGIN CONFIDENTIAL]**

1 [REDACTED] [END CONFIDENTIAL], and earn a combined annual
2 salary of [BEGIN CONFIDENTIAL] [REDACTED] [END
3 CONFIDENTIAL] from their partnership and co-ownership in SAGA
4 Construction, Inc. SAGA Construction has a vested interest in the
5 wastewater utility system, as it is planning to build a mixed-use
6 development (commercial and residential) to be served by this
7 wastewater system. Additionally, GWWTP has already made
8 improvements to the wastewater system since 2019 totaling
9 \$459,630.

10 The Company provided financial projections that assume completion
11 of the mixed-use development and adds 39 customers in Year Two
12 and 36 customers in Year Three. Based on the information provided,
13 which assumes an increase in rates from a subsequent rate case in
14 2024 and effective in 2025, GWWTP will have positive net income
15 beginning in Year Two. If the rates recommended by the Public Staff
16 continue for the next five years, GWWTP should experience a
17 positive net income upon full build-out of the mixed-use development
18 in Year Three. These findings indicate GWWTP will be financially
19 viable operationally assuming this mixed-use development adheres
20 to the projected schedule.

1 Per Docket No. W-1139 Sub 0, the original intention of the
2 wastewater system (per Public Staff Witness Lucas in January 2001)
3 was to serve 36 residential customers in the Ginguite Woods
4 townhouse development, along with various commercial customers
5 in "The Ginguite Center," with system costs to be recovered through
6 tap fees and developer contributions. For this system, rates have
7 been historically set with the expectation that that commercial area
8 will eventually be developed and receive wastewater services,
9 sharing the burden of system operations and maintenance. In Docket
10 No. W-1139, Sub 3, filed June 2009, the mixed-used development
11 had not yet been built, and rates were designed with an excess
12 capacity adjustment. This development is still in the planning stages
13 and has not received a special use permit from the Town of Southern
14 Shores to begin construction. Until the mixed-use development is
15 built and operational, GWWTP's revenues will not be sufficient to
16 cover all operational expenses and the Company will be operating at
17 a net loss. As evidenced in Mr. Howsare's direct testimony, the
18 Company is aware that it will not realize full recovery of its capital
19 and operational expenses until full build-out. SAGA Construction is
20 committed to a full build-out, and GWWTP has the financial
21 resources to cover operational losses in the meantime.

1 **Q. What is your recommendation regarding the financial viability**
2 **of GWWTP to operate the wastewater system?**

3 A. Based on my evaluation of the information mentioned above, I
4 conclude that GWWTP is financially viable to operate the wastewater
5 system. In addition, GWWTP has the financial viability to make
6 necessary system improvements and upgrades and to adequately
7 maintain the wastewater system. However, GWWTP's financial
8 viability is merely one factor that the Public Staff considers in its
9 review and is not dispositive of the Public Staff's ultimate
10 recommendation to the Commission regarding the Application.

11 **Q. What is a fair rate of return?**

12 A. The fair rate of return is a percentage, which, when multiplied by a
13 utility's rate base investment, will yield the dollars of net operating
14 income a utility should have the opportunity to earn for investors to
15 recover the cost of capital. This dollar amount of net operating
16 income is available to pay the interest cost on a utility's debt and a
17 return to the common equity investor.

18 **Q. How did you determine the fair rate of return that you**
19 **recommend in this proceeding?**

20 A. The Economic Research Division (ERD) of the North Carolina Public

1 Staff makes recommendations to the Commission on appropriate
2 rates of returns for water and wastewater companies. From 1981
3 through the early 2000's, the ERD applied the Montclair Method,
4 established in Docket No. W-173, Sub 14, which uses a risk premium
5 method to derive a reasonable margin on expense. The Montclair
6 Method identified a risk-free rate based on average yields of 5-Year
7 Treasury bonds and added a risk premium of three hundred basis
8 points. This method was applied for over 25 years, until Federal
9 Reserve policies significantly cut interest rates, leading to sustained
10 decreases in the 5-Year Treasury bill rates, which led to questions
11 as to the appropriateness of the Montclair Method for determining
12 the appropriate cost of capital or the margin on expenses.

13 Analysis by the ERD noted a substantial difference between
14 Commission approved rates of return on common equity for larger
15 NC based water and wastewater utilities and natural gas utilities
16 using the Montclair Method. This issue prompted the ERD, beginning
17 in 2011, to rely on the approved average overall cost of capital for
18 Carolina Water Service Inc. of NC and Aqua NC as the basis for the
19 overall return on rate base and the recommended margin on
20 expenses. The recommended fair rate of return on rate base is
21 7.00%, based on the two most recent litigated rate cases involving
22 Carolina Water Inc. of NC (CWSNC), Docket No. W-354, Sub 400

1 and Aqua NC, Inc. (Aqua NC) Docket No. W-218, Sub 573. Given
2 that the overall cost rate is based on current competitive rates of
3 return, the 7.00% should not place GWWTP at a disadvantage when
4 seeking investors; furthermore, this rate should not place an
5 unreasonable cost on ratepayers for wastewater service.

6 **Q. What is your recommended capital structure?**

7 A. I recommend the use of a hypothetical capital structure comprised of
8 50% common equity and 50% debt. GWWTP has financed its utility
9 operations with 100% common equity, given it has no long-term debt.

10 The capital structure is a representation of how a utility's assets are
11 financed, the relative proportions of debt and common equity to the
12 total of these forms of capital. The actual capital structures of smaller
13 utilities often are asymmetrical in that they are composed of either
14 100% equity balances of common equity or large balances of debt,
15 neither of which are appropriate for ratemaking purposes. For
16 example, if a utility owner financed the utility's rate base with little or
17 zero amount of debt, the utility's capital structure would be comprised
18 of 100% common equity. If one was to apply an average approved
19 ROE, the higher cost rate for equity would lead to a higher level of
20 revenue requirement than necessary to maintain financial
21 sustainability. Furthermore, it is virtually impossible to estimate the

1 appropriate equity cost rate given the absence of publicly traded
2 securities that are comprised of unbalanced capital structures with
3 100% equity financing. In my opinion, the use of 50% debt and 50%
4 equity capitalization ratio continues to be a reasonable assumption,
5 as evidenced by recent ratemaking proceedings for CWSNC and
6 Aqua NC.

7 **Q. What is your recommended cost of capital?**

8 A. Based on GWWTP's capital structure as of August 31, 2023,
9 consisting of 100% equity, I recommend an overall rate of return of
10 7.00%, derived from applying a cost of debt of 4.20% and a rate of
11 return on common equity of 9.80%, to a hypothetical capital structure
12 consisting of 50.00% long-term debt and 50.00% common equity. No
13 information was received that warranted an increase to the cost rates
14 of debt and cost rates of equity above those received by CWSNC
15 and Aqua NC.

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

17 A. Yes.