

**BEFORE THE  
STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-992, SUB 8  
DOCKET NO. W-1328, SUB 4

In the Matter of  
Application by Red Bird Utility Operating )  
Company, LLC, 1650 Des Peres Road, Suite 303, )  
St. Louis, Missouri 63131, and Crosby Utilities, )  
Inc., 7536 NC Highway 39, Zebulon, North )  
Carolina 27597, for Authority to Transfer the )  
Baywood Forest Subdivision Water and Wastewater )  
Utility Systems and the Cottonwood Subdivision )  
Wastewater Utility System and Public Utility )  
Franchise in Wake County, North Carolina, and for )  
Approval of Rates

**NON-CONFIDENTIAL REBUTTAL TESTIMONY**

**OF**

**BRENT G. THIES**

**ON BEHALF OF**

**RED BIRD UTILITY OPERATING COMPANY, LLC**

**March 15, 2023**

**WITNESS INTRODUCTION**

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

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

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

5    A.    I am employed by CSWR, LLC. My current position is Vice President & Corporate  
6        Controller.

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

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

10   **Q.    HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS**  
11       **COMMISSION?**

12   A.    I have filed testimony in other jurisdictions but never before the North Carolina  
13        Utilities Commission.

14   **Q.    PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
15       **BACKGROUND.**

16   A.    I hold a Bachelor of Arts in Communications/Public Relations from Missouri  
17        Baptist University in St. Louis, Missouri, and a Bachelor of Science in Accounting  
18        from Liberty University in Virginia. I also hold a Master of Divinity degree from  
19        Midwestern Baptist Theological Seminary in Kansas City, Missouri and a Master  
20        of Business Administration degree from the University of Missouri-St. Louis. I am  
21        licensed as a Certified Public Accountant in the State of Missouri.

1 I have been employed in the Accounting and Finance department of CSWR,  
2 LLC (“CSWR”) since July 2017. I started at CSWR as the Senior Accountant,  
3 responsible for monthly accounting work for CSWR and its regulated utility  
4 subsidiaries. This included analysis and reporting related to regulatory  
5 requirements. I was promoted to the position of Controller in October 2018 and  
6 Vice President & Corporate Controller in February 2022. While at CSWR, I have  
7 contributed to the financial analysis, planning and filing requirements for multiple  
8 rate case filings in other jurisdictions and various data requests and analysis items  
9 in acquisition cases in the jurisdictions where CSWR subsidiaries operate. During  
10 my time at CSWR, I have completed the Fundamentals, Intermediate and Advanced  
11 Regulatory Studies Programs through the Institute of Public Utilities at Michigan  
12 State University.

13 Prior to being employed by CSWR, I was employed as the Controller of a  
14 multi-entity non-profit in St. Louis, Missouri.

15 **Q. WHAT ARE YOUR DUTIES AS VICE PRESIDENT & CORPORATE**  
16 **CONTROLLER?**

17 A. As Vice President & Corporate Controller I am responsible for the accounting  
18 books and records of CSWR and its regulated utility subsidiaries. This includes  
19 setting financial controls and accounting policy along with responsibility for the  
20 accurate recording of revenues, expenses and capital expenditures. With my team,  
21 I am also responsible for preparing and filing regulatory annual reports and  
22 responding to certain data requests for the regulated utility subsidiaries of CSWR.

1 My responsibilities also include preparation of monthly and quarterly management  
2 reports and interfacing with external auditors and tax professionals.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
4 **PROCEEDING?**

5 A. My testimony responds to the testimony filed by Public Staff witnesses Lynn  
6 Feasel and Michael Franklin. Specifically, Public Staff witness Feasel purports to  
7 assess the impact to a future revenue requirement of the Company's proposed  
8 acquisition adjustment and due diligence costs. Her analysis suggests annual  
9 impacts of \$18,563 and \$9,821, respectively for water and \$20,826 and \$10,157,  
10 respectively for wastewater. Public Staff witness Franklin assesses the overall  
11 impact to rate as \$11.27 and \$8.90, respectively. My testimony will discuss some  
12 particulars of Public Staff's calculations and how the Company views the  
13 underlying assumptions.

14 **Q. DO YOU BELIEVE THE COMMISSION SHOULD CONSIDER THE**  
15 **FUTURE RATE IMPACT OF THE PROPOSED ACQUISITION OF THE**  
16 **CROSBY UTILITIES WATER AND WASTEWATER SYSTEMS IN THIS**  
17 **PROCEEDING?**

18 A. No, I do not. As described in more detail in the rebuttal testimony of CSWR's  
19 President Josiah Cox, the rate impacts projected in the testimonies of Public Staff's  
20 witnesses are nothing more than estimates based on numerous assumptions that  
21 may or may not reflect the elements of the revenue requirement the Commission  
22 would use to set future rates. As such, those rate estimates cannot be relied on. In  
23 addition, Public Staff's rate impact estimates assume rates for the Crosby systems

1 would be set on a stand-alone basis. However, Red Bird has clearly stated its  
2 intention to seek consolidated, statewide rates for its North Carolina water and  
3 wastewater systems. Based on the experience of our affiliate group in states like  
4 Kentucky and Louisiana, there can be a huge difference between rates set on a  
5 stand-alone basis and those set on a consolidated basis. Finally, because Red Bird  
6 proposes to adopt at closing rates currently in effect for the Crosby systems, the  
7 Commission need not consider rate impact projections in this proceeding. As I  
8 understand applicable law in North Carolina, the focus of this proceeding is to  
9 determine if Red Bird has the technical, managerial, and financial qualifications to  
10 own and operate as a public utility and to also determine if the proposed acquisition  
11 is in the public interest. Issues related to future rates can and should be deferred to  
12 a future rate case, when necessary facts are available to determine Red Bird's  
13 revenue requirement and establish the appropriate rate design. Those facts have not  
14 been presented in this case.

15 **Q. PLEASE DESCRIBE THE ASSUMPTIONS PUBLIC STAFF USED IN**  
16 **ARRIVING AT THEIR CALCULATION OF ESTIMATED REVENUE**  
17 **IMPACT?**

18 A. As part of the testimonies of Public Staff witnesses Feasel and Franklin, estimates  
19 were made as to the revenue requirement and rate impact of certain items that are a  
20 part of Red Bird's filing in this docket. Since Red Bird is not currently in a rate  
21 case relating to the Crosby systems, there is no way to know whether the  
22 assumptions made in order to arrive at these estimated impacts are either realistic  
23 or reasonable. While Public Staff's witnesses properly qualify their work as

1 estimations, it is nevertheless important to assess the assumptions Public Staff used  
2 in order to determine the validity of the estimations and the likelihood that what is  
3 estimated actually would happen. The key estimates that Public Staff used in this  
4 case are capital structure, rate of return, amortization period, and customer count.

5 **Q. DOES THE COMPANY AGREE WITH ANY OF THE ASSUMPTIONS**  
6 **USED BY PUBLIC STAFF?**

7 A. The Company agrees with some of the assumptions used by Public Staff, but only  
8 to a limited extent. As I previously testified, because of numerous uncertainties  
9 regarding the Company's future revenue requirement and rate design, the  
10 Commission should not rely on any of Public Staff's estimations.

11 The first area of possible agreement relates to an assumed capital structure  
12 consisting of 50% equity and 50% debt. Because Red Bird has not obtained any  
13 type of debt financing to this point, the Company's actual capital structure consists  
14 of 100% equity. While the actual capital structure almost certainly won't change  
15 through at least Red Bird's initial rate case, the Company recognizes that a more  
16 balanced capital structure is generally used in regulatory ratemaking.  
17 Consequently, Public Staff's assumption regarding a capital structure consisting of  
18 50% equity and 50% debt may be reasonable, although other state commissions  
19 have allowed a much higher equity ratio for ratemaking purposes.

20 Secondly, Public Staff utilized an overall rate of return of 7% which was  
21 derived using the aforementioned hypothetical capital structure, a hypothetical debt  
22 interest rate of 4.6%, and an assumed return on equity of 9.4%. As part of an actual  
23 rate case, Red Bird would conduct a full, professional analysis of both market

1 conditions and the Company financial condition at that time the case is filed in order  
2 to determine appropriate equity return and hypothetical debt cost (if appropriate) in  
3 order to determine an overall rate of return. Consequently, there is no way to  
4 determine at this point whether Public Staff's current assumptions regarding a  
5 proxy cost of debt or an appropriate return on equity would be valid in a future rate  
6 case.

7 **Q. DOES THE COMPANY DISAGREE WITH ANY OF THE OTHER**  
8 **ASSUMPTIONS USED BY PUBLIC STAFF TO ESTIMATE THE RATE**  
9 **IMPACT OF THE PROPOSED ACQUISITION?**

10 A. Yes. The Company disagrees with the assumed amortization period and customer  
11 count used by Public Staff to calculate its future rate impacts.

12 **Q. WHY ARE AMORTIZATION PERIOD AND CUSTOMER COUNT**  
13 **IMPORTANT ASSUMPTIONS?**

14 A. Amortization period and customer count are the key determinants in assessing the  
15 impact of any capital cost component on a utility's revenue requirement. The  
16 amortization period is the number of months or years over which a capital cost  
17 component is spread as it is recovered in rates. The customer count is the number  
18 of units over which a capital cost component is allocated as it is recovered in rates.

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

1 A. Public Staff witness Feasel assumes the amortization periods below for her rate  
2 impact estimates based on the values of plant in service, which are based on the  
3 useful lives of Crosby's plant assets.

4

<b>Proposed Amortization Period (Staff)</b>		
	<u>Water</u>	<u>Sewer</u>
5 Acquisition Adjustment	17	24
6 Due Diligence Costs	17	24

7 While an of amortization period incorporating the useful lives utility plant assets  
8 may be reasonable in some instances, this calculation results in an unnecessarily  
9 short amortization period therefore resulting in a larger estimated rate impact. In  
10 contrast to Public Staff's assumptions, the Company believes it would be more  
11 appropriate to amortize any acquisition adjustment and due diligence costs over a  
12 much longer amortization period, as shown in the table below.

13

<b>Proposed Amortization Period (Company)</b>		
	<u>Water</u>	<u>Sewer</u>
14 Acquisition Adjustment	50	50
15 Due Diligence Costs	50	50

15 A longer amortization period results in a smaller impact on customer rates.

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

19 A. The Company's amortization period is more reasonable for at least two reasons.  
20 First, as mentioned above, 50 years is a common rule of thumb estimate for the  
21 useful lives of the pipes and similar assets comprising water distribution systems  
22 and sewer



1 collection systems. In accordance with the Depreciation Practices For Small Water  
2 Utilities published by the NARUC,<sup>1</sup> a 50-year amortization is based on the average  
3 useful lives of assets comprising water distribution systems and sewer collection  
4 systems. In addition, much of the cost associated with the Company's due diligence  
5 efforts relates to mapping, surveying and title and easement research related to the  
6 distribution and collection systems. In keeping with NARUC USOA guidelines for  
7 construction, the Company records due diligence costs to account 183, Preliminary  
8 Survey and Investigation Charges. The instructions related to that account direct  
9 the Company to capitalize the costs to utility plant accounts when construction  
10 results. The guidelines state, "If construction results, this account shall be credited  
11 and the appropriate utility plan account charged."<sup>2</sup> Furthermore, a longer  
12 amortization period reduces the associated revenue requirement as demonstrated in  
13 the table below. **[BEGIN CONFIDENTIAL]**

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<sup>1</sup> Depreciation Practices For Small Water Utilities. National Association of Regulated Utility Commissioners, Washington, D.C., p. 5 (1979).

<sup>2</sup> Uniform System of Accounts for Class A Water Utilities. National Association of Regulated Utility Commissioners, Washington, D.C., p. 72 (1996).

1 [END CONFIDENTIAL]

2 **Q. HOW DOES THE COMPANY'S VIEW REGARDING THE**  
3 **APPROPRIATE CUSTOMER COUNT DIFFER FROM THE CUSTOMER**  
4 **COUNT ASSUMPTION USED BY PUBLIC STAFF?**

5 A. Public Staff witness Franklin states that the Crosby systems include 210 water  
6 customers and 290 wastewater customers. He uses those numbers to estimate the  
7 rate impacts of the increased revenues associated with the capital cost components  
8 of  
9 Red Bird's application to acquire the systems. The Company has stated its desire  
10 to seek consolidation of rates across its systems during its first statewide rate case.  
11 Should the Commission approve rate consolidation, the impacts of capital costs and  
12 rate base would have to be assessed based on the entire customer base of Red Bird  
13 and not just that of one system or service area. While it would be difficult, if not  
14 impossible, to estimate the impact of a consolidated rate at this time, it is also not  
15 accurate to assume rate impact without any consideration of consolidation.

16 **CONCLUSION**

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

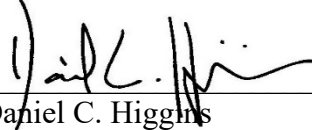
18 A. Yes.

**CERTIFICATE OF SERVICE**

I hereby certify that a true and exact copy of the foregoing document, has been served on the Public Staff, by either depositing same in a depository of the United States Postal Service, first-class postage prepaid and mailed by the means specified below, or by electronic delivery.

This the 15<sup>th</sup> day of March, 2023.

BURNS, DAY & PRESNELL, P.A.



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