

1 PLACE: Dobbs Building, Raleigh, North Carolina  
2 DATE: Wednesday, August 2, 2023  
3 DOCKET NO.: W-354, Sub 412  
4 TIME: 10:00 a.m. to 11:22 a.m.  
5 BEFORE: Chair Charlotte A. Mitchell, Presiding  
6 Commissioner ToNola D. Brown-Bland  
7 Commissioner Daniel G. Clodfelter  
8 Commissioner Kimberly W. Duffley  
9 Commissioner Jeffrey A. Hughes  
10 Commissioner Floyd B. McKissick, Jr.  
11 Commissioner Karen M. Kemerait

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IN THE MATTER OF:

Application for Approval of Business Combination  
between Carolina Water Service, Inc. of North  
Carolina/Corix Infrastructure (US) Inc., and  
SW Merger Acquisition Corp.

VOLUME 2

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and SW Merger Acquisition Corp.,  
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## P R O C E E D I N G S

1  
2 CHAIR MITCHELL: Good morning. Let's come  
3 to order and go on the record, please. I'm Charlotte  
4 Mitchell, Chair of the North Carolina Utilities  
5 Commission, and joining me today are Commissioners  
6 Brown-Bland, Clodfelter, Duffley, Hughes, McKissick,  
7 and Kemerait.

8 I now call for hearing Docket Number W-354,  
9 Sub 412, In the Matter of Application for Approval of  
10 a Business Combination between Carolina Water Service,  
11 Inc. of North Carolina/Corix Infrastructure (US) Inc.,  
12 and SW Merger Acquisition Corp.

13 Before we proceed further, and as I am  
14 required by the State Government Ethics Act, I remind  
15 members of the Commission of our duty to avoid  
16 conflicts of interest, and inquire at this time as to  
17 whether any member has a known conflict with respect  
18 to matters coming before us this morning?

19 (No response)

20 The record will reflect that no conflicts  
21 have been identified.

22 The intervention and participation of the  
23 Public Staff in this proceeding is recognized pursuant  
24 to North Carolina General Statute § 62-15(d) and

1 Commission Rule R1-19(e).

2 On November 23rd, 2022, Carolina Water  
3 Service, Inc. of North Carolina, or CWSNC, Corix  
4 Infrastructure (US) Inc., or Corix US, and SW Merger  
5 Acquisition Corp., or SWMAC, and collectively, the  
6 Applicants, filed with the Commission an Application  
7 for approval of a business combination. I'll refer to  
8 that Application as the Application. Filed with the  
9 Application were the direct testimonies of Donald H.  
10 Denton, III, Ellen Lapson, Dante M. DeStefano, and  
11 Brian D. Bahr.

12 CWSNC is an investor-owned public utility,  
13 does business as a regulated water and sewer utility  
14 in North Carolina, and is subject to the regulatory  
15 oversight of this Commission.

16 The Application proposes a transaction  
17 pursuant to which the water and wastewater businesses  
18 of Corix US and SWMAC will be combined.

19 The Application provides that the proposed  
20 transaction does not involve a change in the direct  
21 control of CWSNC and does not involve a transfer of  
22 CWSNC's stock. Further, the Application provides that  
23 the transaction will have no impact on the  
24 Commission's continuing regulation of CWSNC as



1 regulated water and wastewater utility in this state.  
2 Assuming the transaction is approved, CWSNC would  
3 remain a public utility subject to the jurisdiction of  
4 the Commission pursuant to the North Carolina Public  
5 Utilities Act and the Commission's Rules and  
6 Regulations.

7           On April 25th, 2023, on the Public Staff's  
8 recommendation, the Commission issued an Order in this  
9 docket Scheduling Hearings, Establishing Discovery  
10 Guidelines, and Requiring Customer Notice. The Order  
11 scheduled a public witness hearing to be held remotely  
12 by way of Webex on July 20th, 2023, as well as an  
13 expert witness hearing to be held in Raleigh beginning  
14 today, August 2nd, 2023.

15           On June 30th, 2023, the Public Staff filed  
16 the joint direct testimonies of Witnesses Feasel,  
17 Chiu, Darden, and Hinton, which sets forth the Public  
18 Staff's recommendations on the Application.

19           On July 14th, 2023, the Applicants filed the  
20 joint rebuttal testimony of Witnesses DeStefano, Bahr,  
21 and Denton, as well as the rebuttal testimony of  
22 Witness Lapson.

23           On July 20th, 2023, a public witness hearing  
24 was held for the purpose of receiving public witness

1 testimony on the Application.

2           On July 26th, the Commission issued an Order  
3 on the Public Staff's motion excusing Witness Chiu  
4 from attending the expert witness hearing and allowing  
5 Witness Feasel to testify regarding portions of the  
6 prefiled joint testimony and exhibit originally  
7 addressed by Witness Chiu.

8           On July 31st, the Applicants and the Public  
9 Staff filed their Joint Settlement Agreement and  
10 Stipulation to which I will refer as the Settlement  
11 Agreement which, in effect, settled all issues between  
12 the parties to this proceeding.

13           On July 31st, the Applicants filed the  
14 testimony of Witnesses Bahr, DeStefano, and Denton,  
15 and the Public Staff filed the testimony of Witnesses  
16 Feasel, Darden and Hinton, all of which supports the  
17 Settlement Agreement.

18           An amended Settlement Agreement was filed in  
19 the docket on August 1st to reflect a technical  
20 correction to the document.

21           That brings us to today.

22           I call upon counsel for the parties to  
23 announce their appearances for the record, and we will  
24 begin with the Applicants.

1 MS. SANFORD: Thank you and good morning,  
2 Chair Mitchell and Members of the Commission. I'm Jo  
3 Anne Sanford with the Sanford Law Office appearing  
4 this morning for Carolina Water Service, Inc. of North  
5 Carolina and Corix Infrastructure US, Inc. I'm joined  
6 in the hearing room by Donald Denton, Steve  
7 Lubertozzi, who is behind us, and Dante DeStefano. I  
8 have worked jointly in this matter with my colleague  
9 Mary Lynne Grigg, who will make her introduction and  
10 that of her client.

11 CHAIR MITCHELL: Good morning, Ms. Sanford.

12 MS. GRIGG: Good morning, Chair Mitchell and  
13 Commissioners. I'm Mary Lynne Grigg with the Law Firm  
14 of McGuireWoods appearing on behalf of SW Merger  
15 Acquisition Corp. Also here for the Company is  
16 Mr. Brian Bahr who is Director of the Rates and  
17 Regulatory Affairs.

18 CHAIR MITCHELL: Good morning, Ms. Grigg.  
19 Before we set forth with the proceeding I  
20 will --

21 MS. CULPEPPER: Chair Mitchell.

22 CHAIR MITCHELL: Oh, I'm sorry. I'm sorry,  
23 Ms. Culpepper, go ahead.

24 MS. CULPEPPER: Elizabeth Culpepper with the

1 Public Staff appearing on behalf the Using and  
2 Consuming Public. Appearing with me are James  
3 Bernier, Jr., and William S.F. Freeman.

4 CHAIR MITCHELL: Good morning, Public Staff.  
5 And again, my apologies, Ms. Culpepper.

6 Preliminary matters that we need to address  
7 before we get started?

8 MS. SANFORD: We do have a few matters,  
9 thank you, some organizational issues.

10 First of all, we bring to you a proposed  
11 global settlement this morning, and we appreciate the  
12 very hard work done by the Public Staff and with both  
13 parties in conjunction with our clients which have  
14 made this outcome possible.

15 Secondly, we thank you very much for  
16 excusing Witness Ellen Lapson. That was most  
17 appreciated by us and by Ms. Lapson. We will, at the  
18 present point, ask to move her testimony into the  
19 record this morning.

20 Third, the organization of our presentation  
21 today is as follows: We're presenting our Witnesses  
22 Denton, Bahr and DeStefano as a panel. We have  
23 provided summaries of their testimony to the Public  
24 Staff and to the Commission this morning and we have

1 one coming to the court reporter. We request -- well,  
2 we will not read the summaries. They are available to  
3 you but we will not read the summaries. Our witnesses  
4 will be available thereafter for examination by the  
5 Commission, and we all understand the normal process  
6 of examination and follow-up examination.

7 The Public Staff witnesses will appear next.  
8 After which, we reserve the right to call our panel  
9 should that be necessary. We don't think that it will  
10 be but we have discussed it with the Public Staff  
11 that, if necessary, we would ask you if we could bring  
12 our panel back before you.

13 We appreciate your time and attention this  
14 morning. Ms. Grigg will address some document issues  
15 for us if that is the right time with respect to  
16 moving things into the record. And with that, I will  
17 turn it over to Ms. Grigg.

18 CHAIR MITCHELL: Ms. Grigg.

19 MS. GRIGG: Is now the appropriate time,  
20 Chair Mitchell?

21 CHAIR MITCHELL: Yes, please proceed.

22 MS. GRIGG: Thank you. We would like to  
23 move the Company's Application for approval of the  
24 business combination, which was marked for

1 identification, be admitted into evidence. For the  
2 record, the Application consists of 20 typed pages  
3 with Appendices, A of eight pages, and Appendices B --  
4 and B which is 175 pages, which was filed on  
5 November 23rd, 2022. And please note that a portion  
6 of Appendix B contains confidential information and we  
7 ask that this material continue to be treated as such.

8 CHAIR MITCHELL: Hearing no objection to  
9 that motion, I will allow it. And I note just for  
10 clarity in the record, the Application which was filed  
11 on the 23rd of November 2022, included six appendices  
12 but, for the moment, we are going to move in the  
13 Application plus Appendix A and Appendix B, and  
14 Appendix B has confidential information in that  
15 Appendix, and we'll make sure that it's treated as  
16 such in the transcript.

17 MS. GRIGG: Thank you, Chair Mitchell. Yes,  
18 the remaining Appendices will be moved in as the  
19 testimony is moved in later in our direct case.

20 CHAIR MITCHELL: Okay.

21 (WHEREUPON, Application by  
22 Carolina Water Service, Inc.  
23 of North Carolina, Corix  
24 Infrastructure (US)

1 Inc., and SW Merger  
2 Acquisition Corp., Appendix  
3 A, and Confidential  
4 Appendix B are received  
5 into evidence.)

6 MS. GRIGG: I'd also like to move the  
7 Company's direct testimony of Ellen Lapson which was  
8 marked as Appendix C (sic) to the Application. We ask  
9 that it be read into the record as if the witness gave  
10 it orally from the stand. The testimony consists of  
11 17 typed pages, one exhibit of seven pages, and was  
12 filed on November 23rd, 2022. We request that  
13 Ms. Lapson's one exhibit which was premarked for  
14 identification and her testimony be entered into the  
15 evidence.

16 CHAIR MITCHELL: So the direct testimony  
17 Ellen Lapson, which was filed in this docket on  
18 November 23rd, 2022, consisting of 17 pages will be  
19 copied into the record as if given orally from the  
20 stand. And the one exhibit to that testimony will be  
21 marked for identification as it were when prefiled,  
22 and that exhibit will be admitted into the record as  
23 I've heard no objection to that motion.

24 (WHEREUPON, Exhibit EL-1 is

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marked for identification  
as prefiled and received  
into evidence.)  
(WHEREUPON, the prefiled  
direct testimony of ELLEN  
LAPSON is copied into the  
record as if given orally  
from the stand.)



**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

**DOCKET NO. W-354, SUB 412**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	)	
Application by Carolina Water Service,	)	DIRECT TESTIMONY OF ELLEN
Inc. of North Carolina, along with Corix	)	LAPSON ON BEHALF OF JOINT
Infrastructure (US) Inc. and SW Merger	)	APPLICANTS
Acquisition Corp., for Approval of a	)	
Business Combination Transaction	)	

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**Direct Testimony of**

**Ellen Lapson**

**on behalf of**

**JOINT APPLICANTS**

**November 23, 2022**

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**GLOSSARY OF ACRONYMS AND DEFINED TERMS**

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
BCI	British Columbia Investment Management Corporation. BCI manages assets for clients that include British Columbia public pension funds, insurance reserves and trust funds.
CII	Corix Infrastructure Inc. As of the closing of the Proposed Transaction, CII and an affiliate or affiliates, each directly or indirectly controlled by BCI, will own 50% of the outstanding stock issued by Corix US.
Corix US	Corix Infrastructure (US) Inc. Prior to the Proposed Transaction, Corix US is a subsidiary of CII; after the Proposed Transaction, Corix US is the parent of Intermediate Newco.
Commission or NCUC	North Carolina Utilities Commission.
CRU US	Corix Regulated Utilities (US) Inc. CRU US owns 100% of the outstanding stock issued by CWSNC.
EBITDA	Earnings before Interest Expense, Income Tax, Depreciation and Amortization, a measure of cash flow.
FFO	Funds from Operations, calculated by S&P as EBITDA less cash interest paid and less cash tax paid.
IIF	Infrastructure Investments Fund. A private, open-ended investment vehicle, focused on long-term critical infrastructure assets.
IIF Subway	IIF Subway Investment LP. Owns 75% of the outstanding stock issued by SWMAC. Bazos CIV, L.P. ("Bazos") owns the remaining 25% of SWMAC's stock. Bazos is indirectly owned by the German reinsurer, Munich RE (Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München). As of the closing of the Proposed Transaction, a to-be-formed subsidiary of IIF Subway and Bazos, SWMAC Holdco, will own 50% of the outstanding stock issued by Corix US.

<u>Acronym/Defined Term</u>	<u>Meaning</u>
Intermediate Newco	An entity that will be formed for the sole purpose of owning all the water and wastewater businesses previously owned by CII and SouthWest. It will be directly owned by Corix US.
Joint Applicants	Carolina Water Service, Inc. of North Carolina, Corix Infrastructure (US) Inc., and SW Merger Acquisition Corp.
Moody's	Moody's Investors Service
Proposed Transaction	Proposed combination of water, wastewater, and certain related holdings owned by Corix and Corix US with the holdings of SouthWest.
S&P	Standard & Poor's Ratings or S&P Global Ratings
SWMAC	SW Merger Acquisition Corp.
SWMAC Holdco	A to-be-formed entity that will be owned 75% by IIF Subway, with the remaining 25% owned by Bazos. As of the closing of the Proposed Transaction, SWMAC Holdco will own 50% of the outstanding stock issued by Corix US.
SouthWest	SouthWest Water Company
Utility	Carolina Water Service, Inc. of North Carolina (also "CWSNC")

1 **I. WITNESS INTRODUCTION AND BACKGROUND**

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

3 A. My name is Ellen Lapson, CFA. My business address is 370 Riverside  
4 Drive, New York, New York 10025.

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

6 A. I am the founder and principal of Lapson Advisory, a private company that  
7 is a division of Trade Resources Analytics, LLC. Through Lapson Advisory,  
8 I provide independent consulting services relating to the financial strength  
9 of utilities and infrastructure companies. I advise client companies on  
10 access to capital and debt markets. I frequently testify as an expert witness  
11 relating to utility finance and utility capital market matters, including utility  
12 merger transactions.

13 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND**  
14 **PROFESSIONAL EXPERIENCE.**

15 A. I am a Chartered Financial Analyst ("CFA") and earned a Master of  
16 Business Administration from New York University Stern School of  
17 Business with a specialization in accounting. I have worked in the capital  
18 markets space with particular focus on financing or analyzing the finances  
19 of regulated public utilities for the past 50 years. The list of my professional  
20 qualifications appears in Exhibit EL-1.

21 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

1 A. I am appearing on behalf of the Joint Applicants in an application regarding  
2 a proposed business combination transaction.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR OTHER**  
4 **UTILITY REGULATORY COMMISSIONS?**

5 A. Yes, I have previously testified as a financial expert in 13 state jurisdictions<sup>1</sup>,  
6 at the Federal Energy Regulatory Commission, and in US District Court as  
7 summarized in Exhibit EL-1.

8 **Q. WHAT IS THE BASIS FOR YOUR EXPERTISE IN MATTERS RELATING**  
9 **TO UTILITY MERGERS AND BUSINESS COMBINATIONS?**

10 A. Before I founded Lapson Advisory in 2012, I was a Senior Director and then  
11 a Managing Director at Fitch Ratings (“Fitch”), one of the three prominent  
12 credit rating agencies in the U.S. market. My team established and  
13 maintained the credit ratings of investor-owned electric, gas, and water  
14 utilities. For 17 years at Fitch, I performed credit evaluations and  
15 supervised other analysts to rate hundreds of electric, gas, and water  
16 utilities. Also, I supervised and wrote the credit rating methodologies  
17 applied to companies in the investor-owned electric, gas, and water sector.  
18 While at the credit rating agency, I was a member and then the chair of the  
19 Criteria Committee that oversaw Fitch’s global corporate rating criteria,

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<sup>1</sup> Arkansas, Colorado, Delaware, District of Columbia, Hawaii, Illinois, Maryland, Massachusetts, New Jersey, New Mexico, New York, South Carolina, Texas.

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1 including its policies on the credit effects of corporate structure. I closely  
2 studied the credit criteria and polices of the two other large credit rating  
3 agencies, Moody's and S&P.

4 Prior to joining Fitch, I was employed for 20 years from 1974 to 1994  
5 in commercial banking and investment banking at Chemical Bank, a  
6 predecessor of JP Morgan Chase. In banking, I specialized in structuring  
7 financial transactions for regulated utilities, utility holding companies, and  
8 project-financed energy and natural resource projects, sometimes including  
9 bankruptcy-remote special purpose funding entities, partnership structures,  
10 and limited liability companies.

11 Since founding Lapson Advisory, I have served as an expert witness  
12 in regulatory proceedings involving the merger applications of several large  
13 electric or gas utilities on the financial aspects of the transaction and  
14 proposed corporate structure and governance upon a utility's future viability  
15 and financial strength.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
17 **PROCEEDING?**

18 A. I am testifying as a financial expert on behalf of the Joint Applicants  
19 regarding the future financial strength and suitability of Intermediate Newco  
20 as the parent of its water and wastewater utility subsidiaries. I also testify  
21 regarding the expected impact of the Proposed Transaction upon CWSNC's

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1 future access to equity capital. In my view, the Proposed Transaction will  
2 have no adverse financial effect on CWSNC and will have favorable  
3 financial impact upon CWSNC and its customers by enhancing the Utility's  
4 access to capital.

5 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

6 A. The remainder of my testimony is comprised of the following sections:

7 II. Executive Summary and Conclusions

8 III. Transaction Impact on the Utility's Financial Strength

9 A. Current Ownership and Financial Circumstances

10 B. Impact of the Transaction on Utility's Access to Equity

11 Capital

12 C. Transaction Impact on Access to Debt Capital and Credit by

13 Intermediate Newco and the Consolidated Group

14 IV. Conclusion and Recommendations

15 **II. EXECUTIVE SUMMARY AND CONCLUSIONS**

16 **Q. PLEASE SUMMARIZE YOUR TESTIMONY AND CONCLUSIONS.**

17 A. I have reviewed the financial aspects of the Proposed Transaction with a  
18 focus upon how the change in the indirect ownership of CWSNC as a result  
19 of the Proposed Transaction will affect CWSNC's ability to carry out its  
20 regulated water and wastewater business for the benefit of customers.



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1 Water service is one of the most capital-intensive industrial sectors.  
2 CWSNC must make ongoing capital investments in facilities to connect new  
3 customers, access water supplies, and update its assets. To fund its capital  
4 expenditures, CWSNC needs access to equity and debt capital.

5 In the testimony that follows, I conduct four distinct analyses. First, I  
6 review the pro forma financial statements of the proposed Intermediate  
7 Newco. My analysis shows that the pro forma financial condition of  
8 Intermediate Newco is similar to the current financial status of the CII water,  
9 wastewater and related businesses.

10 Second, I review the likely effect of the change in owners upon  
11 CWSNC's access to capital. As an indirect subsidiary of Intermediate  
12 Newco, CWSNC will have access to equity capital funding superior to that  
13 which it now has as an indirect subsidiary of CII and direct subsidiary of  
14 Corix Regulated Utilities (US) Inc. ("CRU US"). The owners of Intermediate  
15 Newco will include two complementary sets of private investors which  
16 together represent a very large funding pool committed to investing in  
17 essential infrastructure assets. BCI and IIF each manages funds on behalf  
18 of major investors with a long-term orientation, such as public pension  
19 funds.

20 Third, I review the continuing ability of CWSNC's direct parent, CRU  
21 US, to access the debt capital market to issue its long-term bonds and to

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1 obtain bank credit facilities. The Proposed Transaction will not disrupt CRU  
2 US's ongoing access to debt funding from the debt capital market and bank  
3 credit facilities, which should continue in the same manner as currently.  
4 Both CRU US and CWSNC may benefit from the increased scale of  
5 Intermediate Newco and the addition of the strong relationships that IIF  
6 Subway and SWMAC have with the lending community. CRU US, and  
7 therefore CWSNC, will not only have access to the same sources of debt  
8 capital as it does today, but it may receive additional attention and  
9 consideration from fixed income sources that have relationships with IIF  
10 Subway and SWMAC.

11 Finally, after the consummation of the Proposed Transaction, there  
12 are potential benefits in the form of future cost savings for CWSNC due to  
13 the increased scale of the combined enterprise. Even though the  
14 transaction is not driven by net financial synergies, management expects  
15 scale and integration to yield financial benefits over time, which is likely to  
16 produce future benefits for CWSNC and its customers.

17 Therefore, I conclude that there is no possibility of any harm to  
18 CWSNC or its customers as a consequence of the Proposed Transaction,  
19 and in fact Intermediate Newco will have superior capability to supply equity  
20 capital to CWSNC for the Utility's future capital improvements.

1 **III. TRANSACTION IMPACT ON THE UTILITY'S FINANCIAL STRENGTH**

2 **A. Current Ownership and Financial Circumstances**

3 **Q. PLEASE DESCRIBE CWSNC'S CURRENT OWNERSHIP AND ITS**  
4 **OWNERSHIP AFTER THE PROPOSED TRANSACTION IS EFFECTIVE.**

5 A. CWSNC is an indirect subsidiary of Corix US, which in turn is a direct  
6 subsidiary of CII. BCI indirectly controls CII. At the conclusion of the  
7 Proposed Transaction, CWSNC will be an indirect subsidiary of  
8 Intermediate Newco.

9 **Q. AFTER THE CONSUMMATION OF THE PROPOSED TRANSACTION,**  
10 **WILL CWSNC'S NEW INDIRECT PARENT HAVE A SOUND FINANCIAL**  
11 **CONDITION?**

12 A. Yes. The new indirect parent for all of the system water utilities will be  
13 Intermediate Newco. Intermediate Newco will have the benefit of greater  
14 size than either CII's water, wastewater and related businesses or  
15 SouthWest and will have credit characteristics that are consistent with those  
16 of investment grade rated peer companies in the water and wastewater  
17 industry.

18 **Q. UPON WHAT DO YOU BASE YOUR CONCLUSIONS?**

19 A. I reviewed the pro forma 2021 financial statements of Intermediate Newco  
20 prepared by sponsor companies SouthWest and CII. The pro forma income  
21 statement and balance sheet illustrate that the combined company will be

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1 approximately double the size of the CII water, wastewater and related  
 2 businesses that are part of the business combination, as shown in Table 2  
 3 below. Increased size and scale will give Intermediate Newco greater  
 4 diversity (e.g., diverse geography, climate, and regulatory jurisdictions),  
 5 which investors view as a favorable qualitative characteristic.

**Table 2: Size of Intermediate Newco Relative to Current SouthWest and Corix**  
 (US \$, 000)

	Corix (a)	SouthWest	Intermediate Newco	Relative Size (b)	Relative Size (c)
Operating revenues	273,988	248,906	522,894	2.1	1.9
Operating income	51,331	58,551	109,882	1.9	2.1
Net income	24,265	23,662	47,927	2.0	2.0
Property, Plant & Equipmt.					
Net of Depreciation	1,112,073	768,340	1,880,413	2.4	1.7
Long-Term Capital	818,942	1,116,044	1,934,986	1.7	2.4

a. Adjusted to eliminate Corix businesses not included in the business combination.

b. Intermediate Newco divided by SouthWest; c. Divided by original Corix.

6  
 7           Second, I compared the pro forma financial ratios of Intermediate  
 8 Newco relative to the key financial credit ratios of peer water companies  
 9 that have investment grade credit ratings. Table 3 compares Intermediate  
 10 Newco with two companies, Essential Utilities and SJW Group, both rated  
 11 in the investment grade category by S&P. I compared Intermediate Newco  
 12 to water companies with S&P ratings because S&P rates more companies  
 13 in the water and wastewater sector than any other credit rating agency. I  
 14 matched Intermediate Newco's key financial credit ratios with those of these

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1 two peer companies; all three companies have key credit ratios that are in  
 2 a comparable range. This analysis confirms my view that Intermediate  
 3 Newco will have financial ratios and credit characteristics that are consistent  
 4 with those of investment grade-rated water utility peers.

**Table 3: Intermediate Newco Compared to Peer Water Companies**

Period	Intermediate	Essential	
	Newco	Utilities	SJW Group
	12/31/21 PF	12/31/2020(a)	12/31/2020 (b)
<b>RATIOS</b>			
FFO to Debt	10.2%	9.1%	8.4%
Debt to EBITDA	6.8	8.2	7.7
FFO interest coverage	3.4	4.0	3.1
EBITDA Margin	35.2%	48.4%	37.7%

Notes: PF = Pro Forma

a. Source: S&amp;P Global Ratings Direct, "Essential Utilities", Feb. 3, 2022

b. Source: S&amp;P Global Ratings Direct, "SJW Group", Nov. 23, 2021

5  
 6 **Q. WHAT IS CWSNC'S CURRENT FINANCIAL CONDITION?**

7 A. CWSNC is a corporation that is in good standing. CRU US also is a  
 8 corporation that is in good standing. It is solvent and financially sound, and  
 9 not in default of any credit agreements or notes.

10 **Q. WHAT ARE CWSNC'S CURRENT SOURCES OF EQUITY CAPITAL?**

11 A. CWSNC's two sources of equity are retained earnings and equity  
 12 contributions from CRU US. CRU US in turn raises equity through its  
 13 relationship with CII and, ultimately, its relationship with BCI.

14 **Q. UNDER ITS CURRENT OWNERSHIP, WHAT ARE CWSNC'S SOURCES**  
 15 **OF DEBT CAPITAL AND CREDIT?**

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1 A. CRU US raises debt capital by means of the issuance of long-term collateral  
2 trust notes in the private placement market. CRU US currently has \$326  
3 million of such debt outstanding. In addition, CRU US has a delayed draw  
4 term loan in the amount of \$75 million, with \$50 million outstanding (and  
5 \$25 million available). CRU US also has a bank credit agreement and may  
6 borrow up to \$80 million under that agreement.

7 **B. Impact of the Transaction on the Utility's Access to Equity**  
8 **Capital**

9 **Q. HOW WILL CWSNC FULFILL ITS NEEDS FOR EQUITY CAPITAL**  
10 **AFTER THE PROPOSED TRANSACTION?**

11 A. If new equity is needed to fund capital investment, the indirect co-owners  
12 SWMAC Holdco and CII (and an affiliate or affiliates) would likely be able to  
13 obtain infusions of equity to invest in their indirect subsidiary from IIF  
14 Subway and Bazos and investments managed by BCI. The Proposed  
15 Transaction increases and diversifies the base of equity upon which  
16 CWSNC can draw in the future relative to the current sources of equity  
17 funding.

18 **Q. PLEASE DESCRIBE THE ROLE OF BCI AND IIF WITHIN THE CAPITAL**  
19 **MARKET.**

20 A. BCI is a highly regarded investment management company founded in  
21 1999. BCI is a statutory corporation created by the Public Sector Pension

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1 Plans Act (British Columbia) for the purpose of providing investment  
2 management services to British Columbia's public sector. BCI manages  
3 approximately \$211 billion (CAD) of assets on behalf of its clients, which  
4 include 11 public sector pension plans, three insurance funds and various  
5 special purpose funds. The public sector pension funds include public  
6 sector employees such as teachers, municipal and provincial employees.  
7 Through its infrastructure and renewable resources program, BCI seeks  
8 long-term, stable investments around the world in regulated utilities,  
9 transportation, telecommunications, and other infrastructure-based  
10 industries. The BCI infrastructure and renewable resources program has  
11 made net new investments in utility and infrastructure assets in the past five  
12 years of approximately \$4.2 billion (CAD).

13 IIF is an approximately \$26 billion<sup>2</sup> open-ended private investment  
14 vehicle focused on investing in critical infrastructure assets. It is responsible  
15 for investing and growing the retirement money of more than 60 million  
16 families. IIF is a long-term owner of companies that provide essential  
17 services, including water, natural gas and electric utility services, renewable  
18 energy, and transportation infrastructure, which are all vital to the  
19 communities in which they operate. As of June 30, 2022, IIF owned 20  
20 companies throughout North America, Europe, and Australia. Since

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<sup>2</sup> As of June 30, 2022.

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1 acquiring SouthWest in 2010, IIF has supported over \$500 million in capital  
2 expenditures for critical infrastructure for SouthWest's water and  
3 wastewater businesses.

4 In summary, these owners are well respected entities within the  
5 capital markets. The objectives and investment styles of the IIF and BCI  
6 investors are in harmony, with a strong emphasis on long-term, stable, and  
7 low-volatility investment.

8 **Q. DO YOU SEE ANY BENEFITS FOR CWSNC FROM THE GREATER SIZE**  
9 **OF THE COMBINED INTERMEDIATE NEWCO AND FROM OWNERSHIP**  
10 **BY IIF SUBWAY IN ADDITION TO BCI?**

11 A. Yes. Small water utilities suffer a disadvantage attracting the attention of,  
12 and raising capital in, the equity market. Private investors such as IIF and  
13 BCI are ideally suited to supply common equity to CWSNC if equity is  
14 needed for future capital expenditures.

15 There is very little if any overlap between the investors in IIF and the  
16 BCI investor group, so joining these two sets of investors as equity sponsors  
17 will expand the pool of equity capital from which Intermediate Newco's utility  
18 subsidiaries may receive equity infusions when they are needed.

19 Also, there may be scale benefits for CWSNC from association with  
20 a larger enterprise, such as more attention from debt lenders and credit  
21 providers, as I will discuss below. Furthermore, the IIF and BCI portfolio



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1 companies involved in the Proposed Transaction have management  
2 expertise and strong relationships throughout the water and utility industry.  
3 This combination will broaden the network of professionals to share best  
4 practices on important priorities such as health and safety, cybersecurity,  
5 operational excellence, and other areas of shared interest.

6 **C. Transaction Impact on Access to Debt Capital and Credit by**  
7 **Intermediate Newco and the Consolidated Group**

8 **Q. WILL THERE BE ANY ADVERSE EFFECT ON INTERMEDIATE**  
9 **NEWCO'S ACCESS TO DEBT OR CREDIT DUE TO THE PROPOSED**  
10 **TRANSACTION?**

11 A. Quite the contrary. Going forward, Intermediate Newco should have access  
12 to a broader and more diverse group of lenders than at present. For  
13 example, there are currently 23 major private placement lenders that invest  
14 in bonds of Corix or SouthWest-affiliated companies. Only three of those  
15 private placement lenders currently are lenders to both groups, indicating  
16 only a 13% overlap among the lender groups. Moreover, CRU US should  
17 be able to issue private placement bonds, in the same manner as in the  
18 past and, similar to Intermediate Newco, it may benefit from an expansion  
19 of the field of interested bond investors. The business combination thus will  
20 result in a significant expansion of the potential lenders that have current  
21 relationships.

1 **Q. WILL INTERMEDIATE NEWCO OBTAIN PUBLIC CREDIT RATINGS**  
2 **AFTER THE PROPOSED TRANSACTION?**

3 A. Not in the near term. I am not aware of any plans by management to seek  
4 public credit ratings at this time. In the future, Intermediate Newco may  
5 consider the economic costs of obtaining and maintaining a public rating  
6 versus any market benefits of obtaining such rating or ratings. Going  
7 forward, Intermediate Newco's needs could be fulfilled with private  
8 placement funding that may not require a public credit rating and with a  
9 multi-year bank credit facility. However, as noted in the Application, it is  
10 intended that Intermediate Newco will be established and operated in a  
11 manner that that is consistent with that of investment grade entities in the  
12 water utility industry.

13 **Q. HAS THE APPLICANT MADE ANY COMMITMENTS REGARDING ITS**  
14 **FUTURE FINANCIAL PRACTICES AND POLICIES TO PROTECT THE**  
15 **UTILITY'S FINANCIAL WELL-BEING?**

16 A. Yes. A complete set of these commitments can be found in the Application.

17 **IV. CONCLUSION AND RECOMMENDATIONS**

18 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

19 A. The Proposed Transaction creates no new risks to CWSNC or to its  
20 customers. After the closing, CWSNC will have superior access to common  
21 equity funding via ownership by BCI plus IIF Subway relative to the current

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1 situation with ownership by BCI alone. Furthermore, going forward CWSNC  
2 will have comparable access to the debt capital market and either similar or  
3 superior access to bank credit relative to its current situation as a subsidiary  
4 of CII.

5 Also, there are potential benefits in the form of future cost savings  
6 for CWSNC due to the doubling of scale of the combined enterprise. I also  
7 understand that, even though the transaction is not driven by net financial  
8 synergies, management expects scale and integration to yield financial  
9 benefits over time. Based on the approximately doubled size of the  
10 combined entities, management's intention to lower costs in overhead  
11 categories and shared services seems quite reasonable, in my professional  
12 opinion.

13 Therefore, I recommend that the Commission approve the Proposed  
14 Transaction.

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16 **A.** Yes, it does.

1 MS. GRIGG: Thank you, Chair Mitchell. I  
2 would also like to move the Company's rebuttal  
3 testimony of Ellen Lapson, ask that it be marked for  
4 identification and admitted into the record as if the  
5 witness gave it orally from the stand. For the  
6 record, the testimony consists of five typed pages and  
7 was filed on July 4th, 2023. We ask that it get  
8 admitted into the record.

9 CHAIR MITCHELL: Okay. Let's see, so I will  
10 allow that motion. The rebuttal testimony of Witness  
11 Lapson consisting of five pages which was filed on  
12 July 14th, 2023, will be copied into the record at the  
13 appropriate time as if given orally from the stand.

14 MS. GRIGG: Thank you, Chair Mitchell. And  
15 finally, I would like to move the Company and Public  
16 Staff Joint Settlement Agreement and Stipulation. We  
17 ask that it be marked for identification and admitted  
18 into the record. For the record, the Settlement  
19 consists of seven typed pages, and an Appendix A which  
20 was eight pages, and was filed as corrected on  
21 August 1st, 2023.

22 CHAIR MITCHELL: The Settlement Agreement,  
23 as corrected on August 1st, will be admitted into the  
24 record, having heard no objection to that motion.

1 MS. GRIGG: Thank you, ma'am.  
2 (WHEREUPON, the Amended  
3 Joint Settlement Agreement  
4 and Stipulation, and  
5 Appendix A, filed on August  
6 1, 2023, is received into  
7 evidence.)

8 CHAIR MITCHELL: With that, any other  
9 preliminary matters? Ms. Culpepper?

10 MS. CULPEPPER: No.

11 CHAIR MITCHELL: And I assume the Public  
12 Staff is in agreement with the order of witnesses.

13 MS. CULPEPPER: Yes.

14 CHAIR MITCHELL: With that, the case is with  
15 the Applicants. Please call your witnesses.

16 MS. SANFORD: Thank you. I call Donald  
17 Denton, Brian Bahr, and Dante DeStefano, please.

18 CHAIR MITCHELL: Good morning, gentlemen.  
19 As a panel,

20 DONALD H. DENTON III, BRIAN D. BAHR, and

21 DANTE M. DESTEFANO;

22 having been duly sworn,

23 testified as follows:

24 CHAIR MITCHELL: You may proceed.

1 MS. SANFORD: Thank you.

2 Good morning, gentlemen. I'm going to go  
3 through some preliminary questions with respect to  
4 your various pieces of filed testimony and we'll go  
5 quickly.

6 DIRECT EXAMINATION OF MR. DENTON BY MS. SANFORD:

7 Q Mr. Denton, we'll start with you. Please state  
8 your name, position of employment, and business  
9 address.

10 A My name is Donald H. Denton III. I'm President  
11 of Carolina Water Service of North Carolina, and  
12 my business address is 5821 Fairview Road,  
13 Charlotte, North Carolina.

14 Q Do you have with you a document entitled direct  
15 testimony of Donald H. Denton, III, on behalf of  
16 joint Applicants, consisting of a one-page  
17 summary and 11 typed pages of questions and  
18 answers which was filed on November 11th, 2022?

19 A Yes.

20 Q Was that document prepared by you or under your  
21 supervision?

22 A Yes.

23 Q Do you have any corrections or additions to that  
24 document?

1 A No.

2 Q If you were asked the same questions appearing  
3 there, would you provide the same or  
4 substantially the same answers?

5 A Yes.

6 Q You have prepared a summary of your testimony; is  
7 that correct?

8 A That is correct.

9 Q And it has been distributed to the Public Staff,  
10 the Commission, and the court reporter, correct?

11 A Correct.

12 MS. SANFORD: I'll ask that Mr. Denton's  
13 direct testimony be marked for identification and  
14 admitted to the record.

15 CHAIR MITCHELL: That motion will be  
16 allowed.

17 MS. SANFORD: Thank you.

18 (WHEREUPON, the prefiled  
19 direct testimony and  
20 summary of DONALD H. DENTON  
21 III, is copied into the  
22 record as if given orally  
23 from the stand.)  
24

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

**DOCKET NO. W-354, SUB 412**

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

In the Matter of

Application by Carolina Water Service, Inc. of North Carolina, along with Corix Infrastructure (US) Inc. and SW Merger Acquisition Corp., for Approval of a Business Combination Transaction	)	DIRECT TESTIMONY OF DONALD H. DENTON III ON BEHALF OF JOINT APPLICANTS
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**Direct Testimony of**

**Donald H. Denton III**

**on behalf of**

**JOINT APPLICANTS**

**November 23, 2022**



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1 **I. WITNESS INTRODUCTION AND BACKGROUND**

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

3 A. My name is Donald H. Denton III, and my business address is 5821 Fairview  
4 Road, Suite 401, Charlotte, North Carolina 28209.

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

6 A. I am Senior Vice President, East Operations for Corix Infrastructure Inc.  
7 (“CII”). I oversee the operations of Carolina Water Service, Inc. of North  
8 Carolina (“CWSNC” or “Company”), Blue Granite Water Company in South  
9 Carolina, and Sunshine Water Services Company in Florida, all of which  
10 are subsidiaries of Corix Regulated Utilities (US) Inc. (“CRU US”). In  
11 addition, I serve as President of CWSNC and Blue Granite Water  
12 Company.

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

15 A. I hold a Bachelor of Aerospace Engineering from The Georgia Institute of  
16 Technology as well as an Executive Masters in Business Administration  
17 from Queens University in Charlotte, North Carolina. I have worked in the  
18 utility sector for over 24 years in multiple capacities ranging from  
19 engineering to strategic planning and major project execution and  
20 operations.

21 **Q. WHAT ARE YOUR DUTIES AS PRESIDENT OF CWSNC?**

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1 A. I am responsible for the Company's regulated water and sewer operations  
2 in North Carolina, including facility operations, finance, business  
3 development, safety, compliance, regulatory affairs, and customer service.

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

6 A. My testimony will provide background on the history and structure of  
7 CWSNC; a brief summary of the transaction; anticipated impacts on  
8 CWSNC of the merger; and other commitments.

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY PUBLIC UTILITY**  
10 **COMMISSIONS?**

11 A. Yes. I have provided written and oral testimony before public utilities  
12 commissions in multiple states. State commissions where I have presented  
13 testimony include Ohio, Indiana, North Carolina, and South Carolina.

14 **II. BACKGROUND OF THE COMPANY**

15 **Q. PLEASE DESCRIBE THE WATER AND SEWER OPERATIONS OF**  
16 **CWSNC IN NORTH CAROLINA.**

17 A. CWSNC is an investor-owned public utility pursuant to N.C. Gen. Stat. § 62-  
18 3, does business as a regulated water and sewer utility in North Carolina,  
19 and is subject to the regulatory oversight of the North Carolina Utilities  
20 Commission ("NCUC" or "Commission"). The Company presently serves  
21 approximately 35,000 water customers and 21,000 sewer customers in

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1 North Carolina and operates approximately 93 water systems and 38 sewer  
2 systems in the State. The Company's service territory spans 38 counties in  
3 North Carolina, from Corolla in Currituck County to Bear Paw in Cherokee  
4 County.

5 N.C.G.S. § 62-131(b) requires that every public utility in North  
6 Carolina shall provide service to its customers which is "...adequate,  
7 efficient, and reasonable..." CWSNC is proud of the quality of service which  
8 it consistently provides to its water and sewer customers in this state. In  
9 CWSNC's most recently decided rate case in Docket No. W-354, Sub 384,  
10 the Commission, consistent with N.C.G.S. § 62-131(b), described the  
11 overall quality of service provided by the Company as "...adequate, reliable,  
12 and economical." (*See the April 8, 2022, Docket No. W-354 Sub 384 Rate*  
13 *Case Order at pages 6 and 16*).

14 Another significant indicium of the quality of water and sewer service  
15 provided by CWSNC in North Carolina is the fact that, upon  
16 recommendation by the Public Staff, the Company has been appointed to  
17 serve on multiple occasions as the emergency operator of water and/or  
18 sewer systems. In fact, CWSNC is presently serving as the emergency  
19 operator of four troubled or defunct public utilities in North Carolina: Harrco  
20 Utility Corporation (Docket No. W-796, Sub 12); Cross-State Development  
21 Company (Docket No. W-408, Sub 9); Mountain Air Utilities Corporation

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1 (Docket No. W-1148, Sub 20); and Outer Banks/Kinnakeet Associates, LLC  
2 (Docket Nos. W-1125, Subs 9 and 10).

3 Furthermore, subsequent to serving as the Commission-appointed  
4 emergency operator of two additional troubled utility systems in  
5 North Carolina (the Riverbend Estates water system in Macon County  
6 [Docket Nos. W-390, Subs 13 and 14 and W-354, Sub 358] and the  
7 Silverton water and sewer system in Cabarrus County [Docket Nos. W-354,  
8 Sub 361 and W-1046, Sub 5], CWSNC acquired those systems in system  
9 transfer cases by Orders entered on May 16, 2019, and August 6, 2019,  
10 respectively.

11 Thus, CWSNC has a strong history of demonstrating the willingness  
12 to assist and acquire troubled and struggling water and sewer utility systems  
13 in North Carolina.

14 **III. CWSNC'S MISSION AND VALUES**

15 **Q. WHAT ARE THE COMPANY'S MISSION AND VALUES?**

16 A. CWSNC's vision is to be the preferred utility delivering water and  
17 wastewater solutions to our customers. Our Company's values include  
18 safety, integrity, connection, and excellence. Our values enable our  
19 customers and stakeholders to enjoy a better life by improving utility  
20 infrastructure and operations while ensuring strong environmental  
21 stewardship in each community served.

1 **Q. HOW DOES CWSNC WORK TO ACHIEVE THIS VISION?**

2 A. We plan and work to achieve our vision by accomplishing the following  
3 strategic goals:

- 4 • Operational and Service Excellence – developing our people,  
5 strengthening our processes, and investing in our technology to  
6 support a high-performance organization and a culture of continuous  
7 improvement.
- 8 • Collaboration and Engagement – communicating and engaging with  
9 our team members, customers, and communities with relevant and  
10 timely billing, service, and operational information to improve  
11 stakeholder awareness and collaboration.
- 12 • Strong Financial Performance – managing and planning business  
13 costs, pursuing growth, and prudently mitigating enterprise risks to  
14 engender trust and confidence in our financial responsibility and  
15 ensure access to needed capital.
- 16 • World Class Talent -- attracting and retaining top talent to deliver  
17 dependable, timely, courteous, and quality service.

18 **IV. SUMMARY OF THE PROPOSED TRANSACTION**

19 **Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF THE PROPOSED**  
20 **TRANSACTION.**

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1 A. As discussed by other witnesses, on August 26, 2022, CII, Corix  
2 Infrastructure (US) Inc. ("Corix US"), IIF Subway Investment LP ("IIF  
3 Subway"), SW Merger Acquisition Corp. ("SWMAC") and SouthWest Water  
4 Company ("SouthWest") entered into a transaction agreement. Upon  
5 consummation of the transaction ("Proposed Transaction"), CII and an  
6 affiliate or affiliates of CII will own 50% of Corix US and SWMAC Holdco,  
7 an entity to be formed by SWMAC's shareholders before closing, will own  
8 the remaining 50% of Corix US. Corix US will own all of the stock of a new  
9 holding company, Intermediate Newco, and Intermediate Newco will  
10 indirectly own CWSNC.

11 **V. IMPACT ON CWSNC**

12 **Q. HOW WILL CWSNC OPERATE AFTER THE PROPOSED**  
13 **TRANSACTION?**

14 A. As Mr. DeStefano and Mr. Bahr explain, being locally led and locally  
15 operated are important to both CII and SouthWest. CWSNC will continue to  
16 operate under its existing name and brand in North Carolina. Customers in  
17 this state will continue to be served by a team of passionate, dedicated  
18 employees and leaders with local responsibility and accountability.

19 CWSNC will continue to provide safe and reliable water and  
20 wastewater service to its customers. The Company will maintain

1 employees, offices, and facilities consistent with its obligation to serve  
2 customers and intends to maintain a local presence.

3 **VI. IMPACT ON THE COMMUNITIES SERVED BY CWSNC**

4 **Q. PLEASE DESCRIBE CWSNC'S COMMUNITY ENGAGEMENT**  
5 **ACTIVITIES.**

6 A. At CWSNC, we understand the important role we play in the communities  
7 we serve. In addition, many of our employees work and live in the areas we  
8 serve and act as ambassadors for the Company.

9 The goals of our community engagement activities include, but are  
10 not limited to, educating customers to better understand their own water  
11 usage, water conservation, water quality, rate changes, project updates,  
12 emergent issues and general safety tips. We engage in a number of  
13 meaningful ways, including via our Website, Twitter, Facebook and through  
14 meetings with neighborhood and customer groups, such as homeowners'  
15 associations ("HOA"), as well as conversations with individual customers.  
16 To date, our staff has attended regular face-to-face and virtual meetings in  
17 15 of the largest communities we serve including The Point, the Farms, the  
18 Harbour, Bradfield Farms, Skyleaf, Wolf Laurel, Fairfield Harbour,  
19 Brandywine Bay, Carolina Trace, the Villages of Nags Head, Mountain Air,  
20 Kinnekeet, Forest Hills, and Connestee Falls.

21 **Q. PLEASE DESCRIBE HOW CWSNC SUPPORTS ITS COMMUNITIES.**



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1 A. At CWSNC, our core purpose is to help people enjoy a better life and help  
2 communities thrive. We believe this is achieved not only through the safe  
3 and reliable treatment and delivery of local, life-sustaining water and the  
4 proper treatment and disposal of wastewater, but also through a  
5 commitment to connecting with the communities we serve. In addition to  
6 engaging directly with customers and stakeholders, our staff members  
7 participate in a variety of community and public service events in North  
8 Carolina including Water for People 5k races, street and stream clean-ups,  
9 HOA and property owners' association board meetings, beach restoration  
10 efforts on the coast, food drives, Charlotte Mecklenburg Schools  
11 International Center, American Red Cross blood drives, support of  
12 employees who coach little league teams, and tree and water saving  
13 landscaping planted in various communities.

14 **Q. WILL CWSNC CONTINUE ITS COMMUNITY SUPPORT AND**  
15 **COMMUNITY ENGAGEMENT ACTIVITIES?**

16 A. Absolutely. Both CII and SouthWest are dedicated to engaging with our  
17 customers and supporting our communities. The combined company will  
18 maintain that shared commitment to our communities and to high customer  
19 service levels.

1 **VII. OPERATIONAL BENEFITS**

2 **Q. WHAT OPERATIONAL BENEFITS DO YOU BELIEVE THIS BUSINESS**  
3 **COMBINATION WILL PRODUCE?**

4 A. SouthWest and CII share common values centered on safety,  
5 environmental stewardship, integrity, employee empowerment, and  
6 excellence in serving our customers and delivering on our commitments to  
7 stakeholders. These shared values provide an opportunity for operational  
8 improvement that follows from sharing prudent practices and resources.

9 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY SHARING OF PRUDENT**  
10 **PRACTICES.**

11 A. Sharing prudent practices is part of continuous improvement, which we  
12 strive for at CII and in our local operations, like CWSNC. Sharing these  
13 practices involves identifying optimal ways of efficiently performing certain  
14 tasks and operations and then adopting those practices deemed prudent.

15 **Q. HOW CAN SHARING OF PRUDENT PRACTICES BETWEEN CII AND**  
16 **SOUTHWEST IMPROVE THEIR UTILITY SUBSIDIARIES'**  
17 **PERFORMANCE – INCLUDING CWSNC?**

18 A. The sharing of prudent practices increases a company's knowledge base  
19 and enables improved decision-making through enhanced efficiency and  
20 competence. Examples of prudent practices that could benefit our  
21 customers include: methods of addressing customer service

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1 questions/complaints; compliance with environmental regulations and  
2 safety initiatives; and management of safety initiatives, data security  
3 programs, and operational techniques. In short, sharing of prudent practices  
4 promotes continuous improvement, which ultimately leads to benefits for  
5 customers.

6 **Q. WILL THE PROPOSED TRANSACTION PROVIDE CWSNC WITH**  
7 **ACCESS TO A BROADER NETWORK FOR SHARING OF PRUDENT**  
8 **PRACTICES AND MUTUAL ASSISTANCE?**

9 A. Yes. Each water and wastewater utility within the combined company will  
10 have access to a broader network of knowledge and mutual assistance.  
11 Some examples include knowledge transfer, advanced technology, and  
12 greater efficiency. Likewise, if a natural or man-made disaster (e.g., a  
13 hurricane or cyber breach) were to disrupt CWSNC's operations or  
14 operations staff, we would be able to draw from a larger pool of employees  
15 familiar with CWSNC's processes, and these employees would be ready,  
16 willing and able to assist our operations.

17 **Q. DOES RESOURCE SHARING REDUCE OPERATIONAL RISK?**

18 A. Yes. Being part of a larger organization results in more resources, such as  
19 equipment, tools, inventory, and other assets that can be shared or  
20 leveraged in response to emergencies and natural disasters. Accordingly,  
21 sharing can reduce operational risk by connecting to a broader group of

1 vendors, providing for optionality in day-to-day operations and  
2 emergencies.

3 **VIII. COMMITMENTS FROM THE JOINT APPLICANTS**

4 **Q. THE JOINT APPLICATION DESCRIBES SEVERAL CUSTOMER**  
5 **PROTECTION COMMITMENTS. WOULD YOU PLEASE COMMENT ON**  
6 **THESE COMMITMENTS?**

7 A. I agree with all of the commitments included in the Joint Application.  
8 CWSNC will continue to focus on providing high-quality water and  
9 wastewater services to its customers while maintaining a strong local  
10 presence in North Carolina in terms of employees, facilities, offices, and  
11 community support. CWSNC also reiterates its commitment to refrain from  
12 any involuntary reductions in force related to the combination for the first 12  
13 months after the Proposed Transaction closes, and to present any new or  
14 amended affiliated interest agreement to the Commission for approval  
15 pursuant to N.C.G.S. § 62-153.

16 **Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

17 A. Yes. It does.

## SUMMARY OF DENTON DIRECT TESTIMONY

My direct testimony discusses the history and structure of Carolina Water; gives a brief summary of the transaction; and discusses anticipated impacts on CWSNC of the merger.

My direct testimony provides that upon the consummation of the Proposed Transaction, Carolina Water will continue to operate under its existing name and brand in North Carolina. Customers in this state will continue to be served by a team of passionate, dedicated employees and leaders with local responsibility and accountability. Carolina Water will continue to provide safe and reliable water and wastewater service to its customers. The Company will maintain employees, offices, and facilities consistent with its obligation to serve customers and intends to maintain a local presence.

Community engagement and support is important to Carolina Water, and SouthWest Water is also dedicated to engaging with our customers and supporting our communities, as well. The combined company will maintain the shared commitment to our communities and to high customer service levels.

SouthWest also shares common values centered on safety, environmental stewardship, integrity, employee empowerment, and excellence in serving our customers and delivering on our commitments to stakeholders. These shared values provide an opportunity for operational improvement that follows from sharing prudent practices and resources.

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1 DIRECT EXAMINATION OF MR. DESTEFANO BY MS. SANFORD:

2 Q Now, Mr. DeStefano, please state your name,  
3 position of employment, and business address.

4 A My name is Dante M. DeStefano. My position is  
5 Director of Regulatory Affairs, and my business  
6 address is 500 West Monroe, Chicago, Illinois.

7 Q Do you have with you a document entitled direct  
8 testimony of Dante M. DeStefano premarked as  
9 Application, Appendix E, consisting of 21 typed  
10 pages of questions and answers, and one exhibit  
11 marked for identification as DMD-1, all of which  
12 were filed on November 23rd, 2022?

13 A Yes.

14 Q Was this document prepared by you or under your  
15 supervision?

16 A Yes.

17 Q Do you have any corrections or additions to the  
18 document?

19 A No.

20 Q If you were asked the questions appearing there  
21 today, would you provide the same or  
22 substantially similar answers?

23 A Yes.

24 Q And you too, have prepared a summary that has

1           been distributed, correct?

2    A       Correct.

3                   MS. SANFORD: I'd ask that Mr. DeStefano's  
4 direct testimony be marked for identification and  
5 admitted to the record?

6                   CHAIR MITCHELL: That motion will be  
7 allowed.

8                                   (WHEREUPON, Exhibit DMD-1  
9 is marked for  
10 identification as prefiled  
11 and received into  
12 evidence.)

13                                   (WHEREUPON, the prefiled  
14 direct testimony and  
15 summary of DANTE M.  
16 DESTEFANO is copied into  
17 the record as if given  
18 orally from the stand.)

19  
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**STATE OF NORTH CAROLINA**

**UTILITIES COMMISSION**

**RALEIGH**

**Docket No. W-354, Sub 412**

In the Matter of

Application by Carolina Water Service, Inc.	)	DIRECT TESTIMONY OF
of North Carolina, along with Corix	)	DANTE M. DESTEFANO FOR
Infrastructure (US) Inc. and SW Merger	)	JOINT APPLICANTS
Acquisition Corp., for Approval of a Business	)	
Combination Transaction	)	

---

**Direct Testimony of**

**Dante M DeStefano**

**on behalf of**

**JOINT APPLICANTS**

**November 23, 2022**



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1 **I. WITNESS INTRODUCTION AND BACKGROUND**

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

3 A. My name is Dante M. DeStefano, and I am the Director of Regulatory Affairs  
4 for Corix Infrastructure Inc. ("CII"). My business address is 500 W. Monroe,  
5 Suite 3600, Chicago, Illinois 60661.

6 **Q. PLEASE DESCRIBE YOUR DUTIES IN YOUR CURRENT POSITION.**

7 A. As Director of Regulatory Affairs, I am responsible for supporting CII's  
8 regulatory activities by providing leadership and oversight of the regulatory  
9 performance of the operating companies and managing standards,  
10 strategies, and procedures across CII.

11 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL  
12 BACKGROUND.**

13 A. I have been employed by CII or an affiliate since October 2018. I graduated  
14 from Rutgers University with a Major in Accounting and am a Certified  
15 Public Accountant in the State of New Jersey. Prior to joining CII, I was  
16 employed by American Water for 10 years - first as a Senior Accountant in  
17 the Accounting Department for two years, then in the Rates and Regulatory  
18 Department for eight years. During my last eight years with American  
19 Water, my duties consisted of preparing and assisting in regulatory filings  
20 and related activities for the Eastern Division. My responsibilities included  
21 preparing work papers and exhibits, providing testimony in support of rate  
22 applications and other regulatory filings, and addressing rate and tariff

1 related matters. I also assisted with preparation of multi-year budgets and  
2 other budget modeling responsibilities.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY PUBLIC UTILITY**  
4 **COMMISSIONS?**

5 A. Yes. I have provided testimony before regulatory commissions in New  
6 Jersey, New York, North Carolina, Tennessee, and South Carolina.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
8 **PROCEEDING?**

9 A. My testimony describes the proposed merger of SW Merger Acquisition  
10 Corp. (“SWMAC”) with and into Corix Infrastructure (US) Inc. (“Corix US”,  
11 which together with SWMAC, are referred to as the “Companies”). Corix US  
12 indirectly owns Corix Regulated Utilities (US) Inc. (“CRU US”), the direct  
13 parent of Carolina Water Service, Inc. of North Carolina (“CWSNC”, which  
14 together with the Companies, are referred to as the “Joint Applicants”). The  
15 merger results in the combination of the water, wastewater, and related  
16 businesses currently owned by CII,<sup>1</sup> with the water and wastewater  
17 businesses currently owned by SWMAC (none of which are located in North  
18 Carolina) through SouthWest Water Company (“SouthWest”). This merger  
19 of equals joins two highly complementary businesses to create a leading  
20 water and wastewater utility with the scale and financial foundation

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<sup>1</sup> CII owns Corix US. CII’s related businesses include the electric, natural gas, and propane distribution, geothermal energy delivery and municipal service operations of CII related to its U.S. and Canadian water and wastewater operations.

1 necessary to better facilitate long-term investments needed to serve  
2 customers.

3 My testimony explains why the combination is consistent with the  
4 public interest, will assist the employees supporting CWSNC, has no impact  
5 on competition within its service area, and should allow CWSNC to better  
6 balance the needs for capital investment with the rates needed to support  
7 those investments. The testimony also supports the request for North  
8 Carolina Utilities Commission (“NCUC”) approval of the combination. My  
9 testimony describes the CII business involved in the transaction, the  
10 Proposed Transaction<sup>2</sup>, the rationale behind the proposed combination,  
11 governance of the combined company, and other regulatory approvals  
12 required for effectuating the Proposed Transaction. My testimony also  
13 addresses CII’s mission, vision and values and how they are consistent with  
14 those of SouthWest. I further discuss the benefits of the Proposed  
15 Transaction, CWSNC’s continuing commitment to North Carolina  
16 customers, and its commitment to provide reliable, safe, and high-quality  
17 utility service.

18 **Q. PLEASE IDENTIFY THE OTHER WITNESSES SUBMITTING**  
19 **TESTIMONY IN THIS CASE.**

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<sup>2</sup> As defined in Section IV (Proposed Transaction) on page 8.

1 A. In addition to my testimony, the following witnesses provide testimony in  
2 this case:

- 3 • Brian D. Bahr, Director of Rates and Regulatory Affairs for  
4 SouthWest, who will introduce SouthWest to the NCUC, support the  
5 commitments of the Companies in this combination, and discuss  
6 certain requests for confidential treatment in this proceeding;
- 7 • Donald H. Denton III, State President of CWSNC, who will discuss in  
8 greater detail the operational benefits the Proposed Transaction is  
9 expected to produce, as well as CWSNC's commitment to its local  
10 community; and
- 11 • Ellen Lapson of Lapson Advisory, an expert witness who will discuss  
12 the future financial strength of the combined company, the expected  
13 impact of the Proposed Transaction upon the utility, and the utility's  
14 future access to equity and debt capital.

15 **Q. ARE YOU SPONSORING ANY APPENDICES TO THE VERIFIED JOINT**  
16 **APPLICATION WHICH IS BEING FILED IN CONNECTION WITH THIS**  
17 **PROCEEDING ("JOINT APPLICATION")?**

18 A. Yes, I am sponsoring the following Appendices in this proceeding:

- 19 • **Appendix A – Summary of Proposed Transaction with**  
20 **Simplified Pre- and Post-Closing Organizational Charts**

1 • **Appendix B – Transaction Agreement<sup>3</sup>**

2 **Q. WERE THESE APPENDICES PREPARED BY YOU OR UNDER YOUR**  
3 **SUPERVISION?**

4 A. Yes, they were, except for Appendix B.

5 **II. CII**

6 **Q. PLEASE DESCRIBE CII.**

7 A. CII is the direct parent of Corix US. CII currently has its primary offices in  
8 Vancouver, British Columbia, Canada, and Chicago, Illinois. The utility  
9 subsidiaries of CII provide safe, reliable, and cost-effective water and  
10 wastewater services to approximately 800,000 people in 18 U.S. states<sup>4</sup>  
11 and two Canadian provinces<sup>5</sup>, making CII one of the largest privately-owned  
12 water and wastewater utilities in the U.S. CII's subsidiaries employ  
13 approximately 800 people in the water, wastewater, and related  
14 businesses. CII also owns and operates several district energy businesses,  
15 which are not part of the proposed combination. British Columbia  
16 Investment Management Corporation ("BCI") indirectly controls CII.

17 **Q. PLEASE DESCRIBE BCI.**

---

<sup>3</sup> Exhibit A and Appendix I to Exhibit D of the Transaction Agreement, which contain confidential information, are filed confidentially. Redacted versions of both documents are filed with the public portion of this Application.

<sup>4</sup> Alabama, Alaska, Arizona, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maryland, Nevada, New Jersey, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, and Virginia.

<sup>5</sup> Alberta and British Columbia.

1 A. Founded in 1999, BCI is a statutory corporation created by the Public Sector  
2 Pension Plans Act for the purpose of providing investment management  
3 services to British Columbia's public sector. BCI manages approximately  
4 \$211 billion (CAD) of assets on behalf of its clients, which include 11 public  
5 sector pension plans, three insurance funds and various special purpose  
6 funds. Through its infrastructure and renewable resources program, BCI  
7 seeks long-term, stable investments around the world in regulated utilities,  
8 transportation, telecommunications, and other infrastructure-based  
9 industries.

10 **Q. PLEASE DESCRIBE CII'S PURPOSE, VISION, AND VALUES.**

11 A. CII's purpose is: "We help people enjoy a better life and communities thrive."  
12 Our vision is: "We are the preferred utility delivering solutions our customers  
13 want." CII enables its customers and stakeholders to enjoy a better life by  
14 improving utility infrastructure and operations, while ensuring strong  
15 environmental stewardship in each community served. CII's values  
16 emphasize safety, integrity, connection, and excellence. As Mr. Bahr's  
17 direct testimony illustrates, the mission and values of CII and SouthWest  
18 are similar, including our shared commitment to local management and  
19 decision-making, supported by broad corporate-wide resources.

20 **Q. PLEASE EXPLAIN THE STRENGTHS CII BRINGS TO THE PROPOSED**  
21 **COMBINATION IN TERMS OF FINANCIAL RESOURCES.**

1 A. For the 12-month period ending December 31, 2021, CII had revenue of  
2 approximately \$307 million and \$1.55 billion in assets. In 2021, CII  
3 supported approximately \$114 million in capital investments across its  
4 operating areas in North America.

5 **Q. PLEASE DESCRIBE CII'S OPERATIONAL AND TECHNICAL**  
6 **EXPERTISE.**

7 A. CII has experience in virtually every aspect of water and wastewater system  
8 operation. CII has experienced operational employees dedicated to safely  
9 providing high-quality water and wastewater services to our customers in  
10 an environmentally compliant manner. Our state-certified water and  
11 wastewater technicians pump and treat millions of gallons of water for  
12 hundreds of communities, assisted by our in-house operations  
13 management and quality control professionals. We also have extensive  
14 construction and project management experience and expertise.

15 **Q. DOES CII ALSO BRING MANAGEMENT EXPERTISE TO THE**  
16 **PROPOSED COMBINATION?**

17 A. Yes. CII has a strong management team that cumulatively has decades of  
18 experience owning and operating water and wastewater utilities. As  
19 described more fully in my testimony, the Proposed Transaction will result  
20 in an executive leadership team that draws from the strong existing talent  
21 pools of both CII and SouthWest. Please see Exhibit DMD-1 for



1 background information on members of the announced executive  
2 leadership team to be effective upon closing of the Proposed Transaction.

3 **Q. IN SUMMARY, DOES CII BRING FINANCIAL, OPERATIONAL/  
4 TECHNICAL, AND MANAGERIAL STRENGTHS TO THE PROPOSED  
5 COMBINATION?**

6 A. Yes, CII's financial resources, strong leadership team, and extensive  
7 managerial expertise make it an ideal owner of water and wastewater  
8 utilities.

9 **III. RESTRUCTURING PRIOR TO CLOSING**

10 **Q. PLEASE DESCRIBE THE CII AND CORIX US ("CORIX PARTIES")  
11 RESTRUCTURING THAT WILL TAKE PLACE PRIOR TO CLOSING.**

12 A. The Corix Parties pre-closing restructuring has two objectives. First, the pre-  
13 closing restructuring separates CII's district energy business from the CII  
14 water, wastewater and related businesses. Second, the pre-closing  
15 restructuring results in the inclusion of CII's Canadian water, wastewater,  
16 and related businesses in the deal perimeter by making the Canadian  
17 companies that provide water, wastewater, and related services indirect,  
18 wholly-owned subsidiaries of Corix US. Together, these steps allow the  
19 parties to combine their respective water and wastewater businesses to  
20 create a platform company focused almost exclusively on the delivery of  
21 water and wastewater services to customers.

1 **IV. PROPOSED TRANSACTION**

2 **Q. PLEASE SUMMARIZE THE PROPOSED BUSINESS COMBINATION OF**  
3 **CORIX US AND SWMAC.**

4 A. On August 26, 2022, CII, Corix US, IIF Subway Investment LP (“IIF  
5 Subway”), SWMAC, and SouthWest entered into a Transaction Agreement  
6 (the “Transaction Agreement”). The Transaction Agreement provides a  
7 framework for combining CII’s water, wastewater businesses and related  
8 businesses with the water and wastewater businesses owned by SWMAC.  
9 When the transactions contemplated by the Transaction Agreement are  
10 completed, CII and an affiliate or affiliates of CII will own 50% of Corix US,  
11 and SWMAC Holdco, an entity to be formed by SWMAC’s shareholders  
12 before closing, will own the other 50% of Corix US (the “Proposed  
13 Transaction”). Corix US, in turn, will indirectly own and control all the CII  
14 water, wastewater, and related businesses and the SWMAC water and  
15 wastewater businesses. To prepare for the Proposed Transaction, both the  
16 Corix Parties and IIF Subway, SWMAC, and SouthWest (the “SouthWest  
17 Parties”) will undertake pre-closing restructuring transactions.

18 **Q. HOW WILL THE BUSINESS COMBINATION BE EFFECTUATED?**

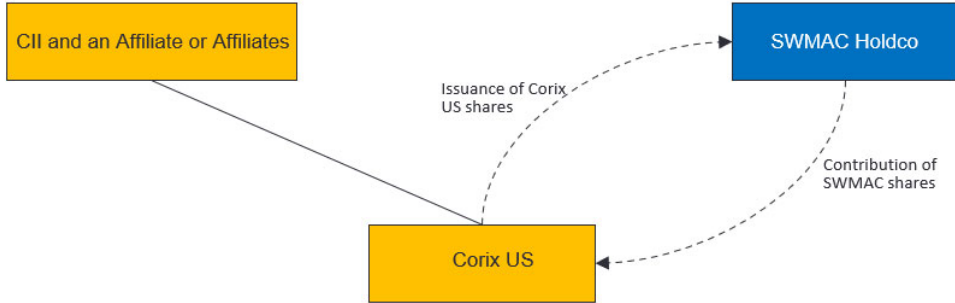
19 A. Before the business combination occurs, CII will complete the Corix Parties’  
20 pre-closing restructuring, which is described in Appendix A to the Joint  
21 Application. Likewise, SWMAC will complete a pre-closing restructuring.  
22 Then, the Proposed Transaction will be completed in a series of steps.

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**Step 1:** SWMAC Holdco will contribute 100% of the outstanding stock of SWMAC to Corix US in exchange for shares of stock issued by Corix US. Step 1 will result in CII and an affiliate or affiliates of CII and SWMAC Holdco each holding a 50% interest in Corix US, which will hold 100% of the outstanding stock of SWMAC and also continue to hold 100% of the outstanding stock of Inland Pacific Resources Inc. (“Inland Pacific”).

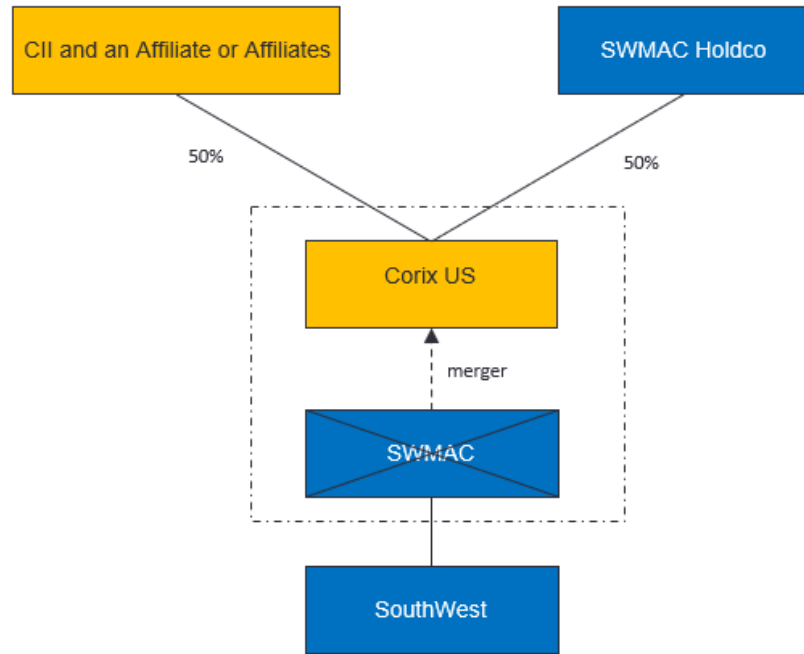
**Figure 1** depicts this step.

**Figure 1**



**Step 2:** After Step 1 is completed, SWMAC will merge with and into Corix US. Corix US will survive the merger. As a result of Step 2, Corix US will directly hold 100% of the outstanding stock of SouthWest, previously held by SWMAC, and Corix US will also continue to hold 100% of the shares of Inland Pacific. **Figure 2** shows this step.

1 **Figure 2**

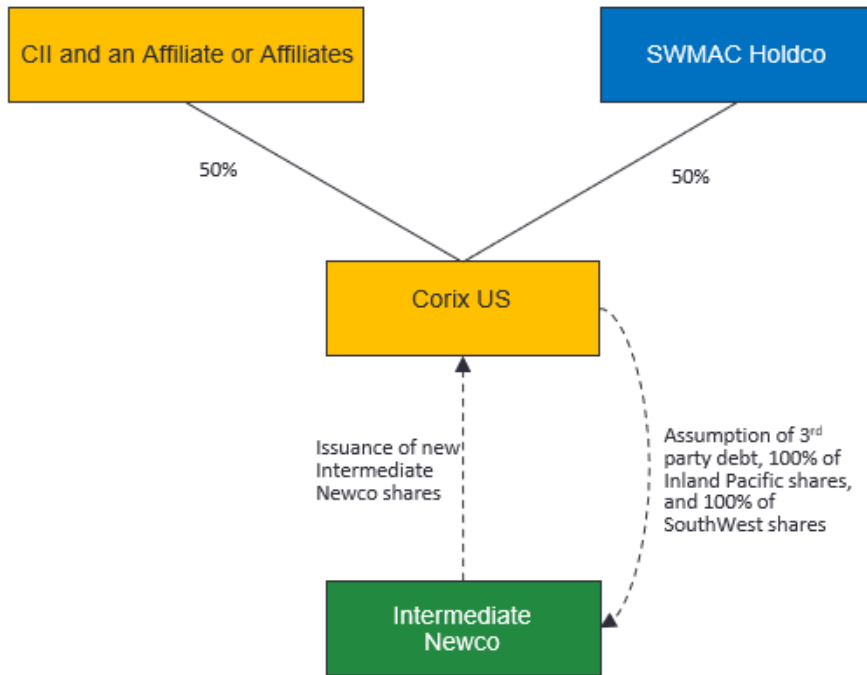


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**Step 3:** After Step 2 is completed, Corix US will transfer 100% of the outstanding stock of SouthWest and Inland Pacific to Intermediate Newco. In exchange for this contribution of stock, Intermediate Newco will issue to Corix US common stock of Intermediate Newco and assume all of Corix US's third-party debt. Step 3 is the last step in the transactions contemplated by the Transaction Agreement. **Figure 3** illustrates this step.

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**Figure 3**



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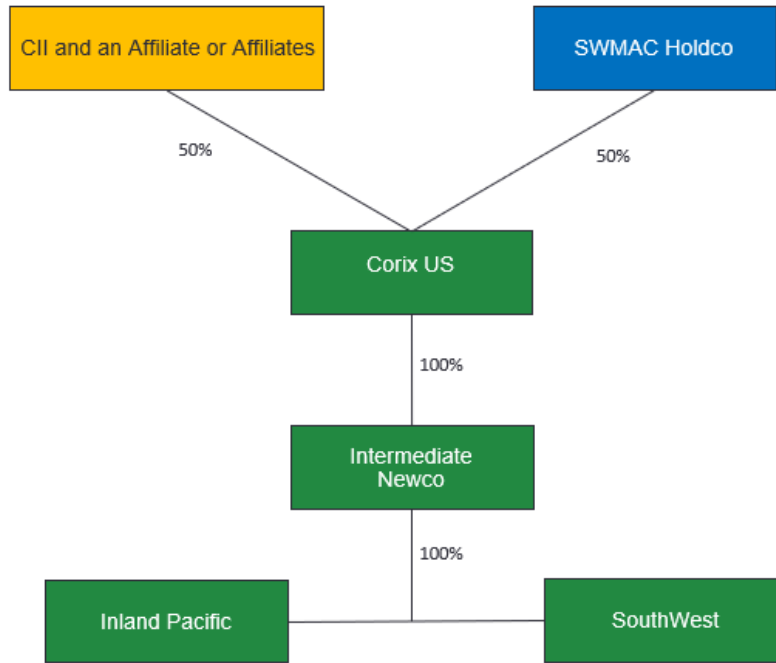
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As a result of Steps 1 through 3, CII (and an affiliate or affiliates) and SWMAC Holdco will each hold 50% of the outstanding stock of Corix US, which will hold 100% of the outstanding stock of Intermediate Newco, which will hold 100% of the outstanding stock of both SouthWest and Inland Pacific. **Figure 4** illustrates the resulting structure following Steps 1 through 3.

1

**Figure 4**



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**Q. HAVE THE JOINT APPLICANTS PROVIDED A SUMMARY OF THE PRE- AND POST-CLOSING ORGANIZATION CHARTS CONSISTENT WITH THE ABOVE-DESCRIBED CHANGES?**

4

5

6

**A.** Yes. Please see Appendix A attached to the Joint Application, which provides a simplified view of the current, pre-closing, post-restructuring and post-closing organizational structures of CII’s and SWMAC’s holdings applicable to the Transaction Agreement.

7

8

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10

**Q. AFTER THE PROPOSED TRANSACTION CLOSES, HOW WILL THE COMBINED COMPANY BE GOVERNED AND MANAGED?**

11

12

**A.** The combined company will be managed by a board comprised of nine directors (the “Board”):

13

14

- The combined company’s CEO (i.e., Rob MacLean);

- 1           • Four shareholder representatives; and
- 2           • Four independent directors, one of whom will be the chair

3           The management team of the combined company will be led by Rob  
4           MacLean and will consist of the following senior executives:

- 5           • Chief Operating Officer – Richard Rich
- 6           • Chief Financial Officer – Alison Zimlich
- 7           • Chief Legal Officer – Shawn Elicegui
- 8           • Chief Enterprise Services Officer – Jim Devine
- 9           • Chief Growth Officer – Don Sudduth
- 10          • Chief Human Resources Officer – Joanne Elliott

11          CWSNC will continue to be managed locally. Please see the testimony of  
12          Donald H. Denton, III for more details on our local commitments with this  
13          Proposed Transaction.

14          **Q.    WHAT OTHER APPROVALS ARE REQUIRED IN ORDER TO CLOSE**  
15          **THE PROPOSED TRANSACTION?**

16          A.    In addition to the NCUC's approval, similar approvals are being requested  
17          from regulatory commissions in other jurisdictions in which the utility  
18          subsidiaries of CII and SouthWest operate across the US and Canada. The  
19          Proposed Transaction also is subject to review by federal agencies in  
20          Canada and the United States.

21          **V.    RATIONALE AND BENEFITS OF THE PROPOSED TRANSACTION**

22          **Q.    WHAT WAS THE IMPETUS FOR THE PROPOSED TRANSACTION?**

1 A. As the testimony demonstrates, both CII and SouthWest are strong  
2 companies – financially, technically, operationally, and managerially – that  
3 share consistent missions and values. At the same time, CII and SouthWest  
4 are geographically diverse. This Proposed Transaction will allow our  
5 approximately 1,300 employees to provide quality water and wastewater  
6 services to our customers across 20 U.S. states and 2 Canadian provinces,  
7 building a larger platform to facilitate needed investments in the  
8 communities served by the CII and SouthWest operating companies, while  
9 continuing to add scale and grow in the future. Intermediate Newco, in short,  
10 will have the scale to enhance the ability of the operating utilities, including  
11 CWSNC, to make important infrastructure investments that provide long-  
12 term benefits for the communities they serve.

13 **Q. WHAT ARE THE OVERALL BENEFITS OF THE PROPOSED**  
14 **TRANSACTION TO CII, SOUTHWEST, CWSNC'S CUSTOMERS, AND**  
15 **THE STATE OF NORTH CAROLINA?**

16 A. The Proposed Transaction joins two highly complementary businesses to  
17 create a leading water and wastewater utility. As one company,  
18 SouthWest's and CII's water and wastewater utilities will have deeper  
19 resources and capabilities to invest and operate in the water and  
20 wastewater sector for the long term. The investments that the combined  
21 company can make, together with the leveraging of prudent practices and  
22 operating experience of both companies, will support the safe, reliable and



1 sustainable delivery of critical resources and services and will enhance the  
2 customer experience.

3 As I will discuss in greater detail in my testimony, and as shown in  
4 the testimony of the Joint Applicants' other witnesses, the Proposed  
5 Transaction will benefit CWSNC and its customers in several ways. First,  
6 the Proposed Transaction will create greater diversity and depth of  
7 resources through the combining of two large water and wastewater utilities,  
8 allowing a sharing of prudent practices (both at the corporate level and  
9 regionally/locally) and an increase in emergency response resources, which  
10 will benefit customers and the State. Mr. Denton discusses these benefits  
11 in greater detail. Second, the combination of two boards of directors into the  
12 Board and the combination of two executive leadership teams into a single  
13 team is expected to reduce costs. We also expect a reduction in overall  
14 audit expenses (when the separate audit costs of the two companies are  
15 compared to the audit costs of the combined company). Because these  
16 costs – board governance, senior executive, and audit – are subsequently  
17 allocated through the corporate allocation process to individual utilities  
18 (including CWSNC) and reflected in customer rates, customers will benefit  
19 as the net savings are allocated to individual utilities and reflected in rates  
20 in future proceedings.

21 Third, the combination will increase the financial resources and  
22 flexibility of the combined company and its subsidiaries. This will facilitate

1 needed infrastructure investments and continued growth in the water and  
2 wastewater industry. The Companies anticipate their combined financial  
3 strength will allow for improved financing terms compared to present day.  
4 The testimony of Ellen Lapson discusses these benefits – future financial  
5 strength of the combined company and the expected impact of the proposed  
6 combination upon the utility and the utility's future access to equity and debt  
7 capital – in more detail.

8 Fourth, while the Proposed Transaction is not driven by synergies,  
9 we do anticipate that the business combination will improve efficiency and  
10 the integration of administrative and general functions should eventually  
11 result in cost savings. Yet, the integration of CII's water, wastewater, and  
12 related businesses with SouthWest's water and wastewater business will  
13 be a significant, prolonged undertaking. We anticipate that integration will  
14 lead, over time, to additional efficiencies and reduced operating costs in  
15 various functional areas. We expect that the costs and benefits of  
16 integration will be addressed in future ratemaking proceedings and our  
17 utility customers will benefit from even more efficient operations.

18 **Q. HAVE THE COMPANIES INCURRED, OR WILL THE COMPANIES**  
19 **INCUR, COSTS ASSOCIATED WITH THE COMBINATION?**

20 **A.** Yes, the Companies are incurring “transaction costs” and will also incur  
21 “integration costs.” The Joint Applicants will not seek to recover transaction  
22 costs from customers.

1 **Q. HAVE THE COMPANIES IDENTIFIED SPECIFIC AREAS OF**  
2 **INTEGRATION?**

3 A. As detailed above, the Companies plan to consolidate their respective  
4 boards and senior executive team into the Board and a single executive  
5 team, effective at Proposed Transaction closing. All other areas of the  
6 Companies' respective businesses have not identified potential integration  
7 at this time; however, the Companies anticipate integration activities to be  
8 undertaken and implemented over an extended time in the future. To the  
9 extent that any savings are generated from future integration, the  
10 Companies anticipate integration costs will be incurred in order to achieve  
11 such savings. Customers will receive the benefits of these efforts, net of  
12 integration costs, in future rate proceedings.

13 **Q. DOES CWSNC PROPOSE ANY RATE CHANGES TO CUSTOMERS AS**  
14 **A RESULT OF THE PROPOSED TRANSACTION?**

15 A. CWSNC does not propose any changes to customer rates in this Joint  
16 Application. As noted above, to the extent any net savings are generated  
17 through integration, such savings should be reflected through the regular  
18 ratemaking process.

19 **VI. SATISFACTION OF PUBLIC INTEREST**

20 **Q. IS THE PROPOSED COMBINATION OF CORIX US AND SWMAC**  
21 **CONSISTENT WITH THE PUBLIC INTEREST?**

1 A. Yes. The Proposed Transaction will not adversely impact competition,  
2 employment, or CWSNC's quality of service. In fact, the Proposed  
3 Transaction should provide a positive benefit by improving service over time  
4 due to the sharing of industry expertise and prudent practices between  
5 Corix US and SouthWest. In addition, the combined financial resources of  
6 Corix US and SouthWest will facilitate needed utility infrastructure  
7 investments. Further, the Proposed Transaction will have no immediate  
8 impact on CWSNC's rates. As future rate cases are processed, reductions  
9 in board governance positions and costs, senior executive positions and  
10 costs, and other functional areas will be allocated to our local operating  
11 utilities and reflected in those utilities' rates.

12 CWSNC will continue to be locally managed, with local employees,  
13 offices and facilities consistent with its obligations to serve customers. For  
14 all the reasons identified in my testimony and in the other witnesses'  
15 testimony, I believe this combination is consistent with the public interest.

16 **Q. DOES THE PROPOSED TRANSACTION INVOLVE ANY TRANSFER OF**  
17 **CWSNC'S STOCK OR ASSETS?**

18 A. No, it does not.

19 **Q. DOES THE PROPOSED TRANSACTION INVOLVE ANY PLEDGE,**  
20 **ENCUMBRANCE, OR CROSS-COLLATERALIZATION OF CWSNC'S**  
21 **ASSETS?**

1 A. No, it does not. CWSNC will not guarantee any debt for Intermediate Newco  
2 or other affiliated companies unless the debt is incurred for purposes  
3 specific to its system or operations. Any debt incurred by the CWSNC will  
4 only be used for purposes specific to its system or operations.

5 **Q. WHAT ARE THE COMPANIES' GOALS WITH RESPECT TO CREDIT**  
6 **QUALITY?**

7 A. The combined business will be established with a target investment grade  
8 capital structure profile and operated in a way that is consistent with  
9 maintaining an investment grade profile.

10 **Q. DO THE COMPANIES PROPOSE OTHER CUSTOMER PROTECTIONS?**

11 A. Yes, our customer protection commitments are discussed in the testimony  
12 of Mr. Bahr.

13 **Q. DOES THE PROPOSED TRANSACTION REQUIRE A CHANGE IN, OR**  
14 **IS CWSNC PROPOSING TO CHANGE, ITS EXISTING AFFILIATE**  
15 **AGREEMENT?**

16 A. No, the Proposed Transaction does not require a change in CWSNC's  
17 affiliate agreement, and no change is proposed in this Application. As noted  
18 above, although the process of planning for integration has begun,  
19 implementation cannot begin until after closing. Therefore, because affiliate  
20 activities directly involving CWSNC are not changing for some time,  
21 CWSNC has no need to change its existing affiliate agreement. CWSNC

1 will file any amendments or new agreements with the NCUC pursuant to  
2 N.C.G.S. § 62-153 at the appropriate time in the future.

3 **Q. PLEASE SUMMARIZE THE REQUEST FOR RELIEF IN THE CURRENT**  
4 **JOINT APPLICATION.**

5 A. The Joint Applicants request approval of the merger of equals contemplated  
6 in the Transaction Agreement as it is consistent with the public interest.  
7 Specifically, the Commission should find that the requirements of N.C.G.S.  
8 § 62-111 have been met.

9 **Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

10 A. Yes, it does.

## SUMMARY OF DIRECT TESTIMONY OF DANTE DESTEFANO

My direct testimony describes the proposed merger of SW Merger Acquisition Corp with and into Corix Infrastructure (US) Inc. Corix US indirectly owns Corix Regulated Utilities (US), the direct parent of Carolina Water Service of North Carolina. This merger of equals joins two highly complementary businesses to create a leading water and wastewater utility with the scale and financial foundation necessary to better facilitate long-term investments needed to serve customers.

My direct testimony explains why the combination is consistent with the public interest, will assist the employees supporting Carolina Water, has no impact on competition within its service area and should allow Carolina Water to better balance the needs for capital investment with the rates needed to support those investments. My direct testimony also supports the request for North Carolina Utilities Commission approval of the combination. My direct testimony describes the CII business involved in the transaction, the Proposed Transaction, the rationale behind the proposed combination, governance of the combined company, and other regulatory approvals required for effectuating the Proposed Transaction. My testimony also addresses CII's mission, vision and values and how they are consistent with those of SouthWest. I further discuss the benefits of the Proposed Transaction, Carolina Water's continuing commitment to North Carolina customers, and its commitment to provide reliable, safe, and high-quality utility service.

The Proposed Transaction joins two highly complementary businesses to create a leading water and wastewater utility. As one company, SouthWest's and CII's water and wastewater utilities will have deeper resources and capabilities to invest and operate in the water and wastewater sector for the long term. The investments that the combined company can make, together with the leveraging of prudent practices and operating experience of both companies, will support the safe, reliable and sustainable delivery of critical resources and services and will enhance the customer experience.

The proposed transaction is consistent with the public interest. It will not adversely impact competition, employment, or Carolina Water's quality of service. Further, the proposed transaction will have no immediate impact on Carolina Water's rates. The Joint Applicants request approval of the merger of equals contemplated in the Transaction Agreement.



1 DIRECT EXAMINATION OF MR. BAHR BY MS. SANFORD:

2 Q Now, Mr. Bahr, we'll talk about your direct  
3 testimony. First of all, would you state your  
4 name, position of employment, and business  
5 address, please?

6 A My name is Brian Bahr. I'm a SouthWest Water  
7 Company Director of Rates and Regulatory Affairs,  
8 and my business address is 1620 Grand Avenue  
9 Parkway, Suite 140, Pflugerville, Texas 78660.

10 Q Thank you. Do you have with you a document  
11 entitled "Direct Testimony of Brian D. Bahr",  
12 premarked as Application, Appendix F, consisting  
13 of 11 typed pages of questions and answers which  
14 was filed on November 23rd, 2022.

15 A Yes, I do.

16 Q Was that document prepared by you or under your  
17 supervision?

18 A Yes, it was.

19 Q Do you have any corrections or additions to that  
20 document?

21 A No, I don't.

22 Q If you were asked the same questions appearing  
23 there, would you provide the same or  
24 substantially similar answers?

1 A Yes, I would.

2 Q Thank you. And you prepared a summary of your  
3 testimony.

4 A Yes, I did.

5 MS. SANFORD: I would ask that Mr. Bahr's  
6 direct testimony be marked for identification and  
7 admitted to the record, please.

8 CHAIR MITCHELL: That motion will be  
9 allowed.

10 MS. SANFORD: Thank you.

11 (WHEREUPON, the prefiled  
12 direct testimony and  
13 summary of BRIAN D. BAHR is  
14 copied into the record as  
15 if given orally from the  
16 stand.)

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**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

**DOCKET NO. W-354, SUB 412**

In the Matter of  
Application by Carolina Water Service, Inc. ) DIRECT TESTIMONY OF  
of North Carolina, along with Corix ) BRIAN D. BAHR FOR JOINT  
Infrastructure (US) Inc. and SW Merger ) APPLICANTS  
Acquisition Corp., for Approval of a Business )  
Combination Transaction )

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**Direct Testimony of**

**Brian D. Bahr**

**on behalf of**

**JOINT APPLICANTS**

**November 23, 2022**

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1 **I. INTRODUCTION AND BACKGROUND**

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

3 A. My name is Brian D. Bahr and I am employed by SouthWest Water  
4 Company ("SouthWest"), a subsidiary of SW Merger Acquisition Corp.  
5 ("SWMAC"), as Director of Rates and Regulatory Affairs. My business  
6 address is 1620 Grand Avenue Parkway, Suite 140, Pflugerville, Texas  
7 78660.

8 **Q. PLEASE DESCRIBE YOUR DUTIES IN YOUR CURRENT POSITION.**

9 A. My duties primarily consist of preparing and managing regulatory  
10 applications and compliance filings for the non-California regulated  
11 operating subsidiaries of SouthWest.

12 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL AND EDUCATIONAL  
13 BACKGROUND.**

14 A. My professional and educational experience includes the areas of  
15 accountancy, audit, analysis, regulation, and management. I graduated  
16 from Brigham Young University with a BA in Accountancy and subsequently  
17 earned the Certificate of Public Management from Willamette University. I  
18 received a Master of Business Administration from the University of La  
19 Verne with an emphasis in Finance. I also hold Grade II certifications as a  
20 Water Distribution Operator and Water Treatment Operator in the State of  
21 California. Prior to joining SouthWest, I was employed by the Oregon Public  
22 Utility Commission as a Senior Utility Analyst and, previous to that, worked

1 in the audit/assurance practice of PricewaterhouseCoopers LLP in the field  
2 of alternative investments.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH CAROLINA**  
4 **UTILITIES COMMISSION (“NCUC” OR “COMMISSION”) OR ANY**  
5 **OTHER PUBLIC UTILITIES COMMISSION?**

6 A. Yes, I have previously testified before the California, Oregon, and Texas  
7 commissions.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
9 **PROCEEDING?**

10 A. My testimony supports the joint application (“Joint Application”) for approval  
11 of the proposed merger of Corix Infrastructure (US) Inc. (“Corix US”) and  
12 SWMAC (which together with Corix US are referred to as the “Companies”).  
13 Corix US indirectly owns Corix Regulated Utilities (US) Inc. (“CRU US”), the  
14 direct parent of Carolina Water Service, Inc. of North Carolina (“CWSNC”  
15 and, together with the Companies, the “Joint Applicants”). Upon approval,  
16 the merger of Corix US and SWMAC will result in the combination of the  
17 water, wastewater, and related businesses currently owned by Corix  
18 Infrastructure Inc. (“CII”) with the water and wastewater businesses  
19 currently owned by SWMAC. In a merger of equals, this joins two highly  
20 complementary businesses to create a leading water and wastewater utility  
21 with the scale and financial foundation necessary to better facilitate long-  
22 term investments needed to serve customers.

1 My testimony describes the SouthWest organization, SouthWest's  
2 mission and values, and the strengths SouthWest brings to the proposed  
3 combination. I also reiterate the Companies' continuing commitment to  
4 North Carolina customers and our commitment to provide reliable, safe, and  
5 high-quality utility service. In addition, my testimony provides support for the  
6 Companies' request for confidential treatment of certain commercially  
7 sensitive information. Finally, I support the conclusion that the business  
8 combination is consistent with the public interest.

9 **II. SOUTHWEST**

10 **Q. PLEASE DESCRIBE SOUTHWEST.**

11 A. SouthWest's roots go back over 100 years. We are currently headquartered  
12 in Sugar Land, Texas, with approximately 500 employees. Our utility  
13 subsidiaries own and operate regulated water and wastewater systems  
14 serving over half a million residential and business customers in seven  
15 states: Alabama, California, Florida, Louisiana, Oregon, South Carolina,  
16 and Texas. Customer rates, service, and water quality provided by  
17 SouthWest's subsidiaries are generally regulated by state agencies.

18 **Q. PLEASE DESCRIBE SOUTHWEST'S OWNERSHIP.**

19 A. SouthWest is a wholly owned subsidiary of SWMAC. The Infrastructure  
20 Investments Fund ("IIF"), through IIF Subway Investment LP ("IIF Subway",  
21 and together with SWMAC and SouthWest, the "SouthWest Parties"),  
22 indirectly owns 75% of SWMAC. Bazos CIV, L.P. ("Bazos") owns the

1 remaining 25%. Bazos is indirectly owned by the German reinsurer,  
2 Munich RE (Münchener Rückversicherungs-Gesellschaft  
3 Aktiengesellschaft in München).

4 IIF is an approximately \$26 billion<sup>1</sup> open-ended private investment  
5 vehicle focused on investing in critical infrastructure assets. IIF is  
6 responsible for investing and growing the retirement money of more than  
7 60 million families. IIF is a long-term owner of companies that provide  
8 essential services, including water, natural gas and electric utility services,  
9 renewable energy, and transportation infrastructure, which are all vital to  
10 the communities in which they operate. As of June 30, 2022, IIF owned 20  
11 companies throughout North America, Europe, and Australia.

12 Since acquiring SouthWest in 2010, IIF has been an outstanding  
13 partner to SouthWest, including supporting over \$500 million in capital  
14 expenditures for critical infrastructure.

15 **Q. PLEASE DESCRIBE SOUTHWEST'S MISSION AND VALUES.**

16 A. SouthWest's mission is to provide life-sustaining water and wastewater  
17 services to our customers, empowering the communities we serve. We  
18 accomplish this mission by embracing our values, which are as follows:

- 19 • Safety – we make safety our #1 priority by continuously monitoring  
20 and improving our safety practices, protecting the wellness of our

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<sup>1</sup> As of June 30, 2022.



- 1 most valuable assets - our people - and safeguarding the public  
2 health in delivering safe, reliable water and wastewater services;
- 3 • Environmental Stewardship – environmental compliance and  
4 protection of natural resources is achieved through striving to meet  
5 all compliance and regulatory public safety requirements, reducing  
6 our carbon footprint, and meeting the demands of our customers by  
7 infrastructure improvement and efficiency;
- 8 • Customer Care – our commitment to customer care is achieved by  
9 supporting our customers in a timely manner, treating every  
10 customer with respect and honesty, and providing safe and reliable  
11 water and wastewater services;
- 12 • Employee Empowerment – we encourage all employees to  
13 participate in the decisions around their work, providing training and  
14 resources for development, and creating a culture that encourages  
15 communication, collaboration, and inclusiveness;
- 16 • Integrity – this value is demonstrated by showing respect for peers  
17 and customers at all times, building trust, acting with responsibility  
18 and accountability, and leading by example; and
- 19 • Community Partnership – we support the communities we serve by  
20 committing to volunteer in the communities, investing in solutions to  
21 improve communities, and supporting business partners whose  
22 efforts mirror our mission.

1 As Mr. DeStefano's direct testimony notes, the mission and values  
2 of CII and SouthWest are similar, including our shared commitment to local  
3 management and decision-making, supported by corporate-wide  
4 resources.

5 **Q. PLEASE DESCRIBE THE STRENGTHS SOUTHWEST BRINGS TO THE**  
6 **PROPOSED COMBINATION IN TERMS OF FINANCIAL RESOURCES.**

7 A. In 2021, SouthWest had annual revenues of \$248.9 million and had over  
8 \$1.4 billion in assets on its balance sheet. The combined business will be  
9 established with a target investment grade capital structure profile and  
10 operated in a way that is consistent with maintaining an investment grade  
11 profile.

12 **Q. PLEASE DESCRIBE SOUTHWEST'S OPERATIONAL AND TECHNICAL**  
13 **EXPERTISE.**

14 A. SouthWest has experience in virtually every aspect of water and  
15 wastewater system operation. SouthWest is dedicated to safely providing  
16 high-quality water and wastewater services to our customers in an  
17 environmentally compliant manner. Our state-certified water and  
18 wastewater technicians provide service to hundreds of communities,  
19 assisted by our in-house professional engineering and quality control staff.  
20 We also have extensive construction and project management experience  
21 and expertise. SouthWest is committed to providing excellent customer  
22 service and operational service.

1 **Q. DOES SOUTHWEST ALSO BRING MANAGEMENT EXPERTISE TO THE**  
2 **PROPOSED COMBINATION?**

3 A. Yes. SouthWest has a strong management team that cumulatively has  
4 decades of experience owning and operating water and wastewater utilities.  
5 As described more fully in Mr. DeStefano's testimony, the proposed  
6 business combination will result in an executive leadership team that draws  
7 from the skilled management of both Corix US and SouthWest.

8 **Q. IN SUMMARY, DOES SOUTHWEST BRING FINANCIAL,**  
9 **OPERATIONAL/TECHNICAL, AND MANAGERIAL STRENGTHS TO**  
10 **THE PROPOSED COMBINATION?**

11 A. Yes, SouthWest's financial resources, strong leadership team, managerial  
12 expertise, and commitment to providing safe, adequate, and proper utility  
13 service to its customers make it an ideal owner of water and wastewater  
14 utilities.

15 **III. RESTRUCTURING PRIOR TO CLOSING**

16 **Q. PLEASE DESCRIBE THE SOUTHWEST PARTIES' RESTRUCTURING**  
17 **THAT WILL TAKE PLACE PRIOR TO CLOSING.**

18 A. Before this business combination occurs, SWMAC's shareholders will form  
19 a new holding company, SWMAC Holdco. SWMAC's shareholders will  
20 contribute certain assets, including SWMAC's stock, to SWMAC Holdco in  
21 exchange for limited partnership interests in SWMAC Holdco. This step will  
22 facilitate the contribution of SWMAC's stock to Corix US in exchange for the

1 issuance of Corix US stock, as described in Mr. DeStefano's testimony,  
2 and the merger of SWMAC with and into Corix US.

3 **IV. COMMITMENTS FROM THE JOINT APPLICANTS**

4 **Q. PLEASE SUMMARIZE THE CUSTOMER PROTECTION COMMITMENTS**  
5 **THE JOINT APPLICANTS ARE MAKING TO THE STATE OF NORTH**  
6 **CAROLINA.**

7 A. To ensure that CWSNC's customers are held indifferent as a result of the  
8 proposed business combination, the Joint Applicants make the following  
9 commitments:

- 10 • CWSNC will continue to provide high-quality water and wastewater  
11 utility services to its customers.
- 12 • CWSNC will continue to maintain a strong local presence in North  
13 Carolina in terms of employees, offices, facilities, community support  
14 and local operations.
- 15 • The Joint Applicants have incurred and will incur transaction costs,  
16 but they will not seek to recover transaction costs from customers.
- 17 • While the Transaction is not driven by net financial synergies, the  
18 Joint Applicants anticipate that the business combination will  
19 improve efficiency, and the integration of administrative and general  
20 functions should result in cost savings. The integration of CII's water,  
21 wastewater, and related businesses with SWMAC's water and  
22 wastewater business will be a significant, prolonged undertaking.

- 1                   The Joint Applicants acknowledge that costs and benefits associated  
2                   with integration will be addressed in future ratemaking proceedings.
- 3                   • Without the NCUC's prior approval, CWSNC will not guarantee any  
4                   debt or credit instrument of Intermediate Newco or any affiliate of  
5                   CWSNC unless such debt is incurred for the specific purpose of their  
6                   system or operations.
  - 7                   • The proceeds of any debt incurred by CWSNC will only be used for  
8                   purposes specific to its system or operations.
  - 9                   • Unless it first obtains the NCUC's approval, CWSNC will not transfer  
10                  any material assets to Intermediate Newco or an affiliate except in  
11                  an arm's length transaction and in compliance with the laws of North  
12                  Carolina.
  - 13                 • The combined business will be established with a target investment  
14                  grade capital structure profile and operated in a way that is consistent  
15                  with maintaining an investment grade profile.
  - 16                 • Related to keeping a solid local presence, to refrain from any  
17                  involuntary reductions in force related to the combination for the first  
18                  12 months after the transaction closes.
  - 19                 • To present any new or amended affiliated interest agreement to the  
20                  NCUC for approval pursuant to N.C. Gen. Stat. § 62-153 when  
21                  required.

1 **V. REQUEST FOR CONFIDENTIAL TREATMENT**

2 **Q. ARE THE COMPANIES REQUESTING CONFIDENTIAL TREATMENT**  
3 **OF ANY INFORMATION INCLUDED IN THE APPLICATION?**

4 A. Yes, in addition to the request for approval of the proposed business  
5 combination, the Companies seek confidential treatment of certain  
6 commercially sensitive information that are proprietary. Per N.C.G.S. §§ 66-  
7 152(3) and 132-1.2, confidential information that qualifies as “trade secrets”  
8 may be protected from public disclosure if it derives independent actual or  
9 potential commercial value from not being generally known and is the  
10 subject of efforts that are reasonable under the circumstances to maintain  
11 its secrecy. The Joint Applicants are not seeking confidential treatment for  
12 any information that has been made public elsewhere, and they will submit  
13 redacted copies of documents that can be part of the public record.

14 **VI. PUBLIC INTEREST**

15 **Q. IS THE PROPOSED COMBINATION OF CORIX US AND SWMAC**  
16 **CONSISTENT WITH NORTH CAROLINA’S PUBLIC INTEREST**  
17 **STANDARD?**

18 A. Yes. The combination involves two strong, complementary water and  
19 wastewater utility holding companies that will combine to create an even  
20 stronger new company. Through the combined financial, managerial, and  
21 operational resources of the two companies, the transaction will better  
22 facilitate needed infrastructure investments across our service territories, as

1 well as continued growth of our businesses. There will be no adverse impact  
2 on any of the criteria identified in N.C. G.S. § 62-111(a) and related NCUC  
3 precedent (competition, rates, employment and service to customers), and  
4 there will be positive benefits as well. The combination will allow the sharing  
5 of expertise and prudent practices across the various utility companies.  
6 Importantly, CWSNC will continue to be locally managed while being  
7 supported with resources and expertise from the combined new company  
8 and will continue to provide support to the communities in which they serve.

9 **Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

10 A. Yes, it does.

## SUMMARY OF DIRECT TESTIMONY OF BRIAN BAHR

My testimony supports the joint application for approval of the proposed merger. This merger of equals joins two highly complementary businesses to create a leading water and wastewater utility with the scale and financial foundation necessary to better facilitate long-term investments needed to serve customers.

My testimony describes the SouthWest organization and ownership, as well as SouthWest's mission, which is to provide life-sustaining water and wastewater services to our customers, empowering the communities we serve. My testimony also explains that SouthWest brings to this proposed transaction financial strength, operational and technical expertise, and managerial expertise. I also reiterate the Companies' continuing commitment to North Carolina customers and our commitment to provide reliable, safe, and high-quality utility service.

Finally, I support the conclusion that the business combination is consistent with the public interest. The combination involves two strong, complementary water and wastewater utility holding companies that will combine to create an even stronger new company. Through the combined financial, managerial, and operational resources of the two companies, the transaction will better facilitate needed infrastructure investments across our service territories, as well as continued growth of our businesses. There will be no adverse impact and there will be positive benefits as well. The combination will allow the sharing of expertise and prudent practices across the various utility companies. Importantly, CWSNC

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will continue to be locally managed while being supported with resources and expertise from the combined new company and will continue to provide support to the communities in which they serve.



1 MS. SANFORD: I now wish to address you  
2 about rebuttal testimony by the panel.

3 BY MS. SANFORD:

4 Q Did the three of you cause to be filed on --

5 CHAIR MITCHELL: Ms. Sanford, let's hold on  
6 that.

7 MS. SANFORD: I'm sorry.

8 CHAIR MITCHELL: Let's hold on the rebuttal  
9 testimony --

10 MS. SANFORD: Okay, certainly.

11 CHAIR MITCHELL: -- until you-all determine  
12 whether you're going to recall the witnesses and then  
13 you can move the rebuttal testimony in at the  
14 appropriate time once that determination is made.

15 MS. SANFORD: Absolutely. I think I should  
16 proceed with the supplemental testimony if that's --

17 CHAIR MITCHELL: Yes. The testimony in  
18 support of the Settlement.

19 MS. SANFORD: Yes.

20 CHAIR MITCHELL: Please do.

21 DIRECT EXAMINATION OF THE PANEL BY MS. SANFORD:

22 Q This is addressed to the three of you. Did you  
23 cause to be filed 11 pages of joint supplemental  
24 testimony on July 31st, 2023, in question and

1 answer form?

2 A (Mr. Denton) Yes.

3 A (Mr. DeStefano) Yes.

4 A (Mr. Bahr) Yes.

5 Q Was that document prepared by you or under your  
6 supervision?

7 A (Mr. Denton) Yes.

8 A (Mr. DeStefano) Yes.

9 A (Mr. Bahr) Yes.

10 Q Do you have any corrections or additions to that  
11 document?

12 A (Mr. Denton) No.

13 A (Mr. DeStefano) No.

14 A (Mr. Bahr) No.

15 Q If you were asked the questions appearing there,  
16 would you provide the same or substantially the  
17 same answers?

18 A (Mr. Denton) Yes.

19 A (Mr. DeStefano) Yes.

20 A (Mr. Bahr) Yes.

21 Q You prepared a summary, also distributed.

22 MS. SANFORD: We will ask that the Panel's  
23 supplemental testimony be marked for identification as  
24

1 premarked and admitted to the record.

2 CHAIR MITCHELL: That motion will be  
3 allowed.

4 (WHEREUPON, the prefiled  
5 joint supplemental  
6 testimony and summary of  
7 BRIAN D. BAHR, DANTE M.  
8 DESTEFANO, and DONALD H.  
9 DENTON III is copied into  
10 the record as if given  
11 orally from the stand.)  
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**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

**DOCKET NO. W-354, SUB 412**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	)	JOINT APPLICANTS'
Application by Carolina Water Service,	)	SUPPLEMENTAL
Inc. of North Carolina, along with Corix	)	TESTIMONY OF
Infrastructure (US) Inc. and SW Merger	)	BRIAN D. BAHR,
Acquisition Corp., for Approval of a	)	DANTE M. DESTEFANO,
Business Combination Transaction	)	AND
	)	DONALD H. DENTON, III

JOINT APPLICANTS'  
SUPPLEMENTAL TESTIMONY

OF

BRIAN D. BAHR  
DANTE M. DESTEFANO  
DONALD H. DENTON, III

JULY 31, 2023

1 **Q. MR. BAHR, PLEASE STATE YOUR FULL NAME, TITLE, AND**  
2 **BUSINESS ADDRESS.**

3 A. My name is Brian D. Bahr, and I am Director of Rates and Regulatory Affairs  
4 for SouthWest Water Company ("SouthWest"), a subsidiary of SW Merger  
5 Acquisition Corp. ("SWMAC"). My business address is 1620 Grand Avenue  
6 Parkway, Suite 140, Pflugerville, Texas 78660.

7 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

8 A. Yes. I filed direct testimony on November 23, 2022 and rebuttal testimony  
9 on July 14, 2023.

10 **Q. MR. DESTEFANO, PLEASE STATE YOUR FULL NAME, TITLE, AND**  
11 **BUSINESS ADDRESS.**

12 A. My name is Dante M. DeStefano, and I am the Director of Regulatory Affairs  
13 for Corix Infrastructure Inc. ("CII"). My business address is 500 W. Monroe,  
14 Suite 3600, Chicago, Illinois 60661.

15 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

16 A. Yes. I filed direct testimony on November 23, 2022, and rebuttal testimony  
17 on July 14, 2023.

18 **Q. MR. DENTON, PLEASE STATE YOUR FULL NAME, TITLE, AND**  
19 **BUSINESS ADDRESS.**

20 A. My name is Donald H. Denton III, and my business address is 5821 Fairview  
21 Road, Suite 401, Charlotte, North Carolina 28209. I am Senior Vice  
22 President, East Operations for CII. I oversee the operations of Carolina  
23 Water Service, Inc. of North Carolina ("CWSNC"), Blue Granite Water

1 Company in South Carolina, and Sunshine Water Services Company in  
2 Florida, all of which are subsidiaries of Corix Regulated Utilities (US) Inc.  
3 (“CRU US”). In addition, I serve as President of CWSNC and Blue Granite  
4 Water Company.

5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

6 A. Yes. I filed direct testimony on November 23, 2022 and rebuttal testimony  
7 on July 14, 2023.

8 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

9 A. The purpose of our supplemental testimony in this proceeding is to support  
10 CWSNC’s, along with Corix Infrastructure (US) Inc. (“Corix US”) and  
11 SWMAC (collectively, “Joint Applicants”), position on the Agreement and  
12 Stipulation of Settlement (“Stipulation”) filed by the Joint Applicants and the  
13 Public Staff – North Carolina Utilities Commission (“Public Staff”), in this  
14 docket on July 31, 2023 for consideration by the North Carolina Utilities  
15 Commission (“Commission”).

16 **Q. HOW DID THE STIPULATION WITH THE PUBLIC STAFF COME**  
17 **ABOUT?**

18 A. After the Joint Applicants filed the Application pursuant to Gen. Stat. § 62-  
19 111(a) and Commission Rule R1-5 for authority to engage in the proposed  
20 business combination transaction (“Merger” or “Proposed Transaction”), the  
21 Public Staff engaged in an extensive audit and discovery process directed  
22 at investigating the public convenience and necessity of the proposed  
23 Merger. This discovery process involved the issuance of approximately 160

1 formal data and document requests, plus additional informal data requests,  
2 to the Joint Applicants. The Public Staff filed its joint testimony on June 30,  
3 2023, proposing 37 regulatory conditions. The Joint Applicants filed the  
4 joint rebuttal testimony of Mr. DeStefano, Mr. Denton, and Mr. Bahr, as well  
5 as the rebuttal testimony of Ellen Lapson, on July 14, 2023. Following filing  
6 of rebuttal testimony, Joint Applicants and the Public Staff turned to  
7 settlement negotiations. The negotiations involved substantial compromise  
8 by all parties on numerous issues. This process culminated in the  
9 Stipulation, including Appendix A - Regulatory Conditions, which was filed  
10 with the Commission on July 31, 2023.

11 **Q. PLEASE DESCRIBE SOME OF THE OVERALL BENEFITS ACHIEVED**  
12 **BY THE MERGER.**

13 A. As the Joint Applicants explained in their case-in-chief, the Proposed  
14 Transaction combines two similarly situated water and wastewater  
15 businesses that share values and a common mission. The combined  
16 company will have additional scale and will be positioned to make the long-  
17 term investments needed to collect and dispose of wastewater and deliver  
18 water safely, reliably, and sustainably to customers in North Carolina. While  
19 the Proposed Transaction is not driven by synergies, the Joint Applicants  
20 anticipate that the business combination will improve efficiency and the  
21 integration of administrative and general functions should eventually result  
22 in cost savings. The integration of CII's water, wastewater, and related  
23 businesses with SWMAC's water and wastewater business will be a

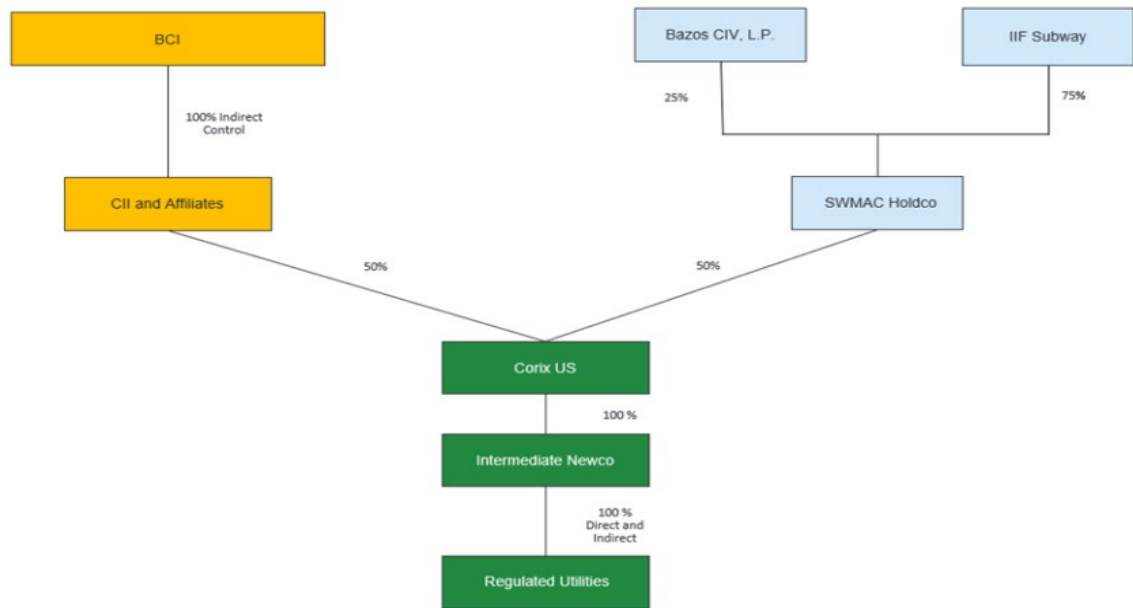


1 significant, prolonged undertaking. The Joint Applicants acknowledge that  
2 costs and benefits associated with integration will be addressed in future  
3 ratemaking proceedings.

4 **Q. PLEASE PROVIDE AN OVERVIEW OF THE STIPULATION REACHED**  
5 **WITH THE PUBLIC STAFF.**

6 A. The Regulatory Conditions, set forth in Appendix A to the Stipulation,  
7 represent commitments by the Joint Applicants as a precondition to  
8 approval by the Commission of the Merger. The parties to the Stipulation  
9 request that the Regulatory Conditions be incorporated into any  
10 Commission order approving the Merger.

11 The commitments in the Regulatory Conditions are made by Corix  
12 US, Intermediate Newco, and CWSNC. The Stipulation provides that the  
13 Regulatory Conditions shall be interpreted so as to protect CWSNC's  
14 customers from any known adverse effects, to protect customers as much  
15 as possible from potential costs and risks of the Merger, and to allow  
16 customers to receive sufficient benefits to offset Merger-related potential  
17 costs and risks. The commitments are also acknowledged by and  
18 consented to by the parent entities – CII, British Columbia Investment  
19 Management Corporation ("BCI"), Bazos CIV, L.P., IIF Subway Investment  
20 LP ("IIF Subway"), and SWMAC Holdco. As a reminder, below is an  
21 illustration of the post-closing corporate organization structure:  
22



1           The 36 agreed-upon Regulatory Conditions can be roughly divided  
 2 into the following categories: (1) costs and benefits (Conditions 1 through  
 3 5); (2) financial protections (Conditions 6 through 11); (3) regulatory  
 4 oversight (Conditions 12 through 18, 20, and 21); (4) affiliate issues  
 5 (Conditions 19 and 25 through 30); and (5) local operations (Conditions 22  
 6 through 24, and 31 through 36). Notably, these Regulatory Conditions are  
 7 in addition to the Customer Protection Commitments made by the Joint  
 8 Applicants in their case-in-chief. (See Joint Application, ¶ 24.)

9 **Q. WHAT ARE THE BENEFITS TO NORTH CAROLINA CUSTOMERS OF**  
 10 **THE STIPULATION, INCLUDING THE REGULATORY CONDITIONS?**

11 A. There are benefits for CWSNC's North Carolina customers in each of the  
 12 categories of Regulatory Conditions. The conditions in the cost and benefits  
 13 category address merger-related expenses and capital costs, the costs to  
 14 achieve Merger savings, non-consummation of the Merger, the inclusion of

1 cost savings in future rate proceedings, and the hold harmless commitment  
2 made by Corix US, Intermediate Newco and CWSNC. With respect to the  
3 hold harmless commitment, Corix US, Intermediate Newco and CWSNC  
4 agree that the Proposed Transaction shall be effectuated in a manner  
5 designed to prevent harm to CWSNC's customers.

6 In the category of financial protections, the Regulatory Conditions  
7 address: distributions; protection against decreased creditworthiness; notice  
8 of certain investments; notice of certain Intermediate Newco investments;  
9 notice by CWSNC of default or bankruptcy of an Affiliate<sup>1</sup>; and common  
10 equity capital. The financial conditions accomplish several objectives,  
11 including requiring CWSNS to maintain a 45% equity capitalization ratio, and  
12 limiting its dividends to 100% of net income. Also, Intermediate Newco shall  
13 be established with a target investment grade capital structure profile and  
14 operated in a way that is consistent with maintaining an investment grade  
15 profile.

16 In the category of regulatory oversight, the Regulatory Conditions  
17 address: post-closing financial information; meetings with Public Staff;  
18 access to books and records; changes to boards of directors; notice to Public  
19 Staff regarding proposed structural and organization changes; mergers and  
20 acquisitions; financial statements; and capital budgets. This category will  
21 allow for the Commission and Public Staff to continue to have access to the

<sup>1</sup> "Affiliate" shall mean Corix US and any business entity of which ten percent (10%) or more of the voting securities or interests are owned, directly or indirectly, by Corix US, including but not limited to CWSNC and Intermediate Newco.

1 books and records of CWSNC and its Affiliates in accordance with and to the  
2 extent provided by North Carolina law. In addition, the regulatory oversight  
3 category of Regulatory Conditions provides that CWSNC shall maintain a  
4 level of capital and operational support in North Carolina necessary to  
5 provide safe, efficient, and reliable service at reasonable rates.

6 In the category of affiliate issues, the Regulatory Conditions address:  
7 obligations with affiliates; Cost Allocation Manual (“CAM”); charges for and  
8 allocations of the costs of affiliate transactions; transfer pricing between  
9 affiliates; transfer of services, function, departments or assets; affiliate  
10 agreements; and affiliate transaction reports. With respect to affiliate  
11 transactions, CWSNC agreed that it will not make a loan to any affiliate or  
12 issue a guarantee for an obligation of any Affiliate. CWSNC also agreed to  
13 keep on file with the Commission a CAM with respect to goods or services  
14 provided between and among CWSNC and its affiliates. CWSNC will also  
15 file an annual report of affiliated transactions with the Commission in a format  
16 prescribed by the Commission.

17 In the category of local operations, the Regulatory Conditions  
18 address: regulatory and operational staffing; customer surveys; overall  
19 service quality; service area reporting; geographic information system  
20 mapping; emergency operator systems; a customer assistance program;  
21 leadership retention; and operator development and retention. With regard  
22 to the customer assistance program, CWSNC, at its own cost, shall develop  
23 a low-income customer assistance program. Regarding regulatory and

1 operational staffing, CWSNC will use prudent business practices to maintain  
2 sufficient adequately trained personnel to ensure that regulatory  
3 requirements are complied with in a timely and accurate manner. Regarding  
4 leadership retention, CWSNC, acting in good faith, shall, when possible,  
5 notify the Commission before, and in no event more than 10 days after, a  
6 change to any officer of CWSNC, Intermediate Newco, or Corix US occurs.

7 **Q. DOES THE STIPULATION PROVIDE FINANCIAL PROTECTIONS FROM**  
8 **MERGER-RELATED COSTS FOR THE JOINT APPLICANTS AND THEIR**  
9 **CUSTOMERS?**

10 A. Yes, Merger-related expenses and capital costs – including Merger-related  
11 bonuses, change-in-control payments made to terminated executives,  
12 incentive payments, retention payments, severance payments, and  
13 regulatory process costs – will be excluded from the revenue requirement of  
14 CWSNC for Commission financial reporting and ratemaking purposes. (See  
15 Stipulation, Appendix A, Regulatory Condition 1.) Also, for purposes of future  
16 general rate case proceedings of CWSNC, CWSNC may seek to recover  
17 costs to achieve Merger savings to the extent there are Merger savings or  
18 cost savings resulting from the Merger. (See Stipulation, Appendix A,  
19 Regulatory Condition 4.)

20 **Q. ARE THE JOINT APPLICANTS MAKING ANY OTHER COMMITMENTS**  
21 **IN CONNECTION WITH THE MERGER?**

22 A. Yes, as mentioned above, the Joint Applicants made a number of Customer  
23 Protection Commitments in their Joint Application which, among other

1 things: reiterate CWSNC's commitment to high quality service; reiterate  
2 CWSNC's commitment to North Carolina; and provide other customer and  
3 employee protections. (See Joint Application, para. 24.)

4 **Q. IN YOUR OPINION, DO THE MERGER AND STIPULATION SERVE THE**  
5 **PUBLIC INTEREST AND AFFORD BENEFITS AND PROTECTIONS FOR**  
6 **NORTH CAROLINA CUSTOMERS?**

7 A. Yes. The Joint Applicants are confident that the Merger will produce  
8 qualitative and quantitative benefits for North Carolina customers and is  
9 consistent with the public convenience and necessity. As described above,  
10 the Stipulation and agreed-upon Regulatory Conditions provide numerous  
11 additional protections for CWSNC's customers. The Joint Applicants' initial  
12 conditions, plus the Stipulation's Regulatory Conditions, support the  
13 conclusion that there will be no adverse impact on any of the criteria  
14 identified in N.C. G.S. § 62-111(a) and related Commission precedent  
15 (competition, rates, employment and service to customers), and there will  
16 be positive benefits as well. The Joint Applicants respectfully request that  
17 the Commission approve the Stipulation in its entirety and approve the  
18 Merger.

19 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

20 A. Yes, it does.

SUMMARY OF SUPPLEMENTAL TESTIMONY  
DESTEFANO/BAHR/DENTON

We offered supplemental testimony in support of the stipulation and settlement agreement reached with the Public Staff. We noted that the negotiations that led to the settlement involved substantial compromise by all parties on numerous issues and culminated in the Stipulation and Regulatory Conditions filed with the Commission on July 31, 2023.

We provided an overview of the settlement and the 36 agreed-upon Regulatory Conditions. The Stipulation provides that the Regulatory Conditions are to protect Carolina Water's customers from any known adverse effects of the merger, to protect customers as much as possible from potential costs and risks of the Merger, and to allow customers to receive sufficient benefits to offset Merger-related potential costs and risks.

The Regulatory Conditions can be roughly divided into the following categories: (1) costs and benefits; (2) financial protections; (3) regulatory oversight; (4) affiliate issues; and (5) local operations. These Regulatory Conditions are in addition to the Customer Protection Commitments made by the Joint Applicants in their case-in-chief which, among other things: reiterate Carolina Water's commitment to high quality service; reiterate Carolina Water's commitment to North Carolina; and provide other customer and employee protections. There are benefits for Carolina Water's North Carolina customers in each of the categories of Regulatory Conditions.

We are confident that the Merger will produce qualitative and quantitative benefits for North Carolina customers and is consistent with the public convenience and necessity. The Joint Applicants' initial commitments, plus the Stipulation's Regulatory Conditions,

support the conclusion that there will be no adverse impact on any of the criteria identified in N.C. G.S. § 62-111(a) and related Commission precedent and there will be positive benefits as well. The Joint Applicants respectfully request that the Commission approve the Stipulation in its entirety and approve the Merger.



1 MS. SANFORD: These witnesses are available  
2 for examination.

3 CHAIR MITCHELL: Counsel, it's my  
4 understanding that you-all have waived cross  
5 examination opportunity of these witnesses?

6 MS. CULPEPPER: Yes.

7 CHAIR MITCHELL: Okay. So with that, then  
8 we will proceed with Commission questions and the  
9 Commission does have a few questions for these  
10 witnesses. Let's see. I'm going to ask a general one  
11 just to begin with.

12 EXAMINATION BY CHAIR MITCHELL:

13 Q Mr. Denton, I'm going to direct this to you but  
14 to the extent that any of you can answer, go  
15 for it.

16 Walk me through the  
17 transaction as it's proposed just so that I can  
18 understand exactly where the combination is going  
19 to occur and then ultimately what's going to  
20 happen to the entity that is subject to our  
21 direct jurisdiction?

22 A (Mr. Denton) So the -- I'll answer the last part  
23 of that question first and then Mr. DeStefano  
24 probably can talk to the details at the higher

1 level of the organization.

2 But the impact that Carolina  
3 Water Service of North Carolina is that there's  
4 no impact from the standpoint of overlap with  
5 SouthWest Water. CWSNC will remain as it is  
6 today. I will remain President in the new  
7 organization. The organization stays exactly the  
8 same for the CWSNC footprint within North  
9 Carolina. The transaction is above that at the  
10 CII and the SWMAC's level, and Mr. DeStefano can  
11 talk about that arrangement.

12 A (Mr. DeStefano) Sure. So again, it is multiple  
13 layers -- multiple holding companies above the  
14 operating company, CWSNC. So this being a merger  
15 of equals, the way it will land is CII and any  
16 affiliates of CII will have a 50 percent interest  
17 in Corix US which is an existing entity, Corix  
18 Infrastructure US, which is an existing entity  
19 under CII currently. SouthWest Merger  
20 Acquisition Corp. Holdco, SWMAC Holdco, will be a  
21 new entity created on the SouthWest side and that  
22 will have a 50 percent interest in Corix US as  
23 well.

24 Below Corix US, there will be

1 a new entity that's called Intermediate Newco in  
2 the Application. That's an entity that doesn't  
3 current exist. SWMAC Holdco also doesn't  
4 currently exist. Those entities will be created  
5 in the process of closing the transaction,  
6 accounts, I mean, in the transaction when that  
7 happens. Those, you know, Intermediate Newco  
8 will be a newly named entity and we'll probably  
9 have a more formal name at that point in time.

10 But the leadership of the  
11 ongoing, the merged business will be at the  
12 Intermediate Newco level. The executive team,  
13 the board members, those will be the entities or  
14 the folks that will be managing the larger  
15 business.

16 Q Thank you, Mr. DeStefano and Mr. Denton. So,  
17 just a few follow ups there for you. When the  
18 Application references the combined -- I want to  
19 make sure I use the exact word -- combined  
20 company or combined entity, is that reference to  
21 the Corix US entity or is that reference to the  
22 Intermediate Newco?

23 A It's the Intermediate Newco. That will really be  
24 the entity that will be managing the business on

1 a going-forward basis, the larger business on a  
2 going-forward basis. Corix US is just kind of  
3 facilitating the 50/50 investments of the  
4 shareholders.

5 Q So will Corix US and Intermediate Newco have  
6 separate boards of directors and officers, et  
7 cetera?

8 A There may be some differences. I don't know if  
9 it's been determined yet, but the final standing  
10 of Corix US will be as far as governance or who  
11 would be on that board. I think that's still a  
12 decision that has to come, is my understanding.  
13 For the Intermediate Newco, we did explain in our  
14 Application, that's been determined already who  
15 the executives and how the board will be  
16 structured.

17 Q So you answered my next question. Because the  
18 Application does go into detail about a board of  
19 directors but it doesn't specifically identify  
20 the entity, and so my understanding is, from your  
21 testimony, is that that board of directors  
22 identified in the Application pertains to the  
23 Intermediate -- will be the board of directors  
24 for Intermediate Newco?

1 A Correct.

2 Q Okay. So the way I understand and the way we  
3 understand the Application, Intermediate Newco  
4 will control through its direct and indirect  
5 subsidiaries a large number of regulated water  
6 and wastewater utilities across the United States  
7 and Canada. Can you help us understand how it  
8 will -- how Intermediate Newco is going to  
9 support operational management and provide  
10 regulatory and other guidance to its direct and  
11 indirect subsidiaries?

12 A Well, all those subsidiaries are currently  
13 supported by CII, by the parent company level, on  
14 through to the operating companies on the Corix  
15 side of things and, similarly, on the SouthWest  
16 side of things. So, really we're consolidating  
17 at that parent company level, that Intermediate  
18 Newco level, and the operating companies are  
19 expected to still meet all the same obligations  
20 and requirements that they have at the regulatory  
21 level on the ground level.

22 We do have -- it will be 20  
23 states, two provinces that will be in the  
24 combined business going forward. Five of which

1 we have overlapping between the SouthWest and  
2 the Corix side. So we've got our established  
3 teams. We've got our established support and  
4 resources already for those. And then over the  
5 process of integrating the entities, mostly on  
6 the administrative end and general function side  
7 of things, or corporate support services side of  
8 things, that's where integration would be  
9 focused, and the Company will look to find  
10 efficiencies and cost savings where we can on  
11 that front.

12 Q So just so I understand, prior to the  
13 consummation of integration or the completion of  
14 the integration process that has to, that will  
15 ensue, are the same -- will you -- will the  
16 corporate support be coming from the same places  
17 for both the Corix entities and the SouthWest  
18 entities as it's coming from right now prior to  
19 any sort of combination between the Companies?  
20 Does my question make sense?

21 A Are you speaking specifically on like  
22 administrative and general, kind of corporate  
23 support service front?

24 Q Yes.

1 A I think that's a little bit to be determined  
2 depending on the integration process. We have  
3 started integration planning between the  
4 companies. We're kind of limited, I believe my  
5 understanding is, through the anti-competition or  
6 anti-collusion type of acts and the  
7 Hart-Scott-Rodino process that we can only do so  
8 much pre-closing of the merger. But we have  
9 integration planning that has started and is  
10 underway that we're planning to go into full  
11 swing once we've commenced the merger and at that  
12 point we're going to start moving in the  
13 direction of where we need to consolidate things.  
14 Where there's redundancy, all those kind of  
15 things will be sorted out and moved forward in  
16 that process.

17 Q Can you-all provide a summary for us of the  
18 status of regulatory approvals for this  
19 particular combination and that you-all have to  
20 achieve in other jurisdictions?

21 A Yes. I believe we filed about 19 jurisdictions  
22 for regulatory approvals between the US and  
23 Canada as far as local jurisdictions. There's  
24 also some federal filings at the Canadian and US

1 level. I mentioned Hart-Scott-Rodino which we  
2 recently filed. I believe it's called the  
3 Council for Foreign Investment in the US or CFIUS  
4 filing that we've already completed. And there's  
5 some other federal filings as well. But as far  
6 as local jurisdictions, we've received approvals  
7 in the majority of our applications already. We  
8 have a few states or jurisdictions that are still  
9 outstanding including two jurisdictions in  
10 British Columbia, New Jersey, Pennsylvania,  
11 California, Texas, and the current jurisdiction.

12 Q Thank you. The Application makes a commitment to  
13 no involuntary layoffs for the first 12-month  
14 period. I'm assuming that 12-month period runs  
15 from the consummation of the transaction  
16 12-months forward?

17 A That's correct.

18 Q Are you -- do you propose -- does that proposal  
19 or does that condition remain in effect? Is the  
20 Company still standing by that commitment?

21 A Yes. All the commitments that we made in our  
22 Application that aren't already subsumed in any  
23 of the Regulatory Conditions and the Settlement,  
24 the Company still commit to going forward.



1 Q Thank you for that testimony. Once the 12-month  
2 period runs, what criteria will be used to  
3 determine if layoffs will be made and which  
4 employees will be perceived as being redundant?

5 A I think a lot of that will still have to be  
6 sorted out post-merger in the integration  
7 process. I think that's why we have that window  
8 where the Company's can look and see what the  
9 process of integration would be, the time of  
10 integration. Integration of the Company's is  
11 going to take sometime. It's going to take  
12 probably several years to get through all the  
13 different steps of it, of all the different  
14 moving parts, between different departments,  
15 software, you know, facilities; all the different  
16 things that are going to be looked at in the  
17 integration process. So that process will take,  
18 again, several years. As far as locally in North  
19 Carolina though, again, with no overlap  
20 operationally, as Mr. Denton said, there's not  
21 anticipated to have any impact on North Carolina  
22 staff.

23 Q Just following up on that last point just so the  
24 record is clear and I'm clear. One of the things

1           that we -- that I, let me speak for myself,  
2           routinely here when we're out in front of your  
3           customers at public hearings is their  
4           appreciation for the Carolina Water Service staff  
5           that works out in the field that shows up to fix  
6           their problems, to help them navigate through  
7           whatever the situation of the moment is, and that  
8           is -- and that always sticks with me. I can  
9           remember specifically being at one hearing where  
10          a customer pointed to Mr. Denton and took issue  
11          with the suits. He referred to you-all as the  
12          suits but said the guys in the field, the guys,  
13          women and men, in the field are helpful and  
14          provide wonderful service. What can you tell me  
15          about those men and women who are in the field in  
16          North Carolina providing service to your  
17          customers, helping your customers when they need  
18          it? Is anything going to change with respect to  
19          those men and women 12 months after this  
20          transaction is consummated, assuming you-all  
21          receive all the approvals you need?

22        A       (Mr. Denton) I can talk to that, Chair Mitchell.  
23                We do not foresee anything that is a workforce  
24                reduction along those lines. I mean, in fact, as

1 we've stated in testimony, we want to grow and  
2 continue to grow. We think consolidation is the  
3 right thing in North Carolina, which would  
4 actually mean that we would be adding staff in  
5 order to facilitate that growth, and so I see  
6 just the opposite.

7 Retention of employees and  
8 development of employees is a big focus for us  
9 right now. It's hard to find qualified operators  
10 in the current market and we're doing everything  
11 we can to keep the good people we do have and  
12 find new ones.

13 Q Thank you for that testimony. Mr. DeStefano,  
14 you've talked some about the integration process  
15 that has perhaps begun and will continue,  
16 assuming you-all move forward. Have you-all  
17 given any thought to or done any analysis of the  
18 costs that the Company's are going to incur to  
19 achieve integration?

20 A There's been some analysis on that. I guess it  
21 kind of comes depending on where we're at in the  
22 process and where the bigger issues or bigger  
23 topics are versus the smaller topics, is my  
24 understanding. We provided some information in

1 discovery as well about, for example, the ERP  
2 system consolidation and that that would take  
3 place over the course of multiple years as we  
4 integrate different jurisdictions into the new  
5 software and get everything fully on board.

6 So we identified some costs  
7 related to that and offsetting benefits as well  
8 in that process. So, we're trying to look at  
9 both sides of it as far as costs and resulting  
10 benefits that would happen from the integration  
11 process.

12 Q Well, you anticipated my next question. It was  
13 help me understand the functional areas where  
14 you-all will see some, will be able to achieve  
15 some savings. But before we get to that  
16 question, you mentioned software or software  
17 programs. Again, assuming this merger goes  
18 through, will Carolina Water -- will the Corix  
19 Companies have to be converted to a new type of  
20 software platform or platforms?

21 A (Mr. Denton) I can touch base. There are a  
22 number of decision points, both operational  
23 technologies and IT, that we're looking at that  
24 would be a part of the integration process.

1           There has been a decision to move forward with a  
2           new ERP platform in the integration process.  
3           However, we've looked at the timing of that and  
4           actually, at least from a planning perspective,  
5           trying to make sure that that timing doesn't  
6           conflict with, say, timing of anticipated cases,  
7           such that we don't end up with an issue where  
8           we're going through a transfer of technology at  
9           the same time we're needing to respond to DRs and  
10          Commission requests.

11        Q     Okay. It's good to hear that you-all  
12           are cognizant of issues that may arise in such a  
13           situation and paying attention to that.

14        A     Yes, ma'am.

15        Q     Let's see, the Affiliate Agreement. We have some  
16           questions on the Affiliate Agreement. When would  
17           you all expect to propose changes to Carolina  
18           Water's Affiliate Agreement?

19        A     (Mr. DeStefano) I think that's another item  
20           that's still to be determined. We're still  
21           working through, again, as part of integration  
22           and beginning those conversations; you know, how  
23           cost allocations would work, how our cost  
24           allocation manuals may currently be the

1 same/differ, how they would accommodate the  
2 current, or the new organization versus the  
3 current organization. We're starting to have  
4 those kind of conversations currently. At the  
5 moment, we don't anticipate any near-term filing  
6 for a change in the AIA.

7 Q So is it premature then for me to ask you what  
8 would change in the Affiliate Agreement?

9 A Yeah. I think that would be -- we're not quite  
10 there yet. It's in the process.

11 Q All right. Carolina Water has provided good  
12 service to customers here in North Carolina for  
13 decades and has performed adequately and provided  
14 beyond reliable service to its customers for  
15 many, many years here, and has stepped in to be  
16 an emergency operator when called upon to do so,  
17 when asked to do so, and has provided good  
18 service to those customers who were in an  
19 emergency situation.

20 Do you anticipate with this  
21 business transaction that Carolina Water's  
22 willingness to participate as an emergency  
23 operator when called upon or to step up and make  
24 investments in its system when they are needed to

1           ensure the provision of adequate service to its  
2           customers is going to change as a result of this  
3           transaction?

4    A       (Mr. Denton) I do not see that that changes at  
5           all. In fact, we share a common philosophy with  
6           regards to that with SouthWest Water that, and  
7           you know, at the request of the State we're  
8           willing to step in and support the needs as  
9           requested, so I do not foresee that changing as  
10          we move forward.

11   Q       Do you anticipate any change in Carolina Water's  
12          view of itself as an important partner in the  
13          provision of water service to customers in North  
14          Carolina as a result of this transaction?

15   A       Only in an increasing manner. We're an  
16          increasing component of that in the State as we  
17          continue to grow.

18   Q       Okay. Do you anticipate any change in Carolina  
19          Water's perspective on consolidation of systems  
20          growth in North Carolina, acquisition of systems  
21          in North Carolina as a result of this  
22          transaction?

23   A       None whatsoever. We continue to desire to grow  
24          in this state.

1 CHAIR MITCHELL: Let me see if there are  
2 questions from other Commissioners. Go ahead,  
3 Commissioner Duffley. I'm sorry, Commissioner  
4 Brown-Bland.

5 EXAMINATION BY COMMISSIONER BROWN-BLAND:

6 Q Mr. Denton, I just want to know from CWS's  
7 perspective and then yours as it impacts you,  
8 your leadership, what will change or be different  
9 for you in the job you're currently doing if this  
10 combination is approved?

11 A Well, as President, and at the local level, I  
12 don't see a whole lot changing for the team. I  
13 see that there is an opportunity as we bring in  
14 access to new states and new personnel that that  
15 provides, quite frankly, diversity of operational  
16 experience, and that is something that actually  
17 will benefit us. Also, it brings more depth from  
18 a bench strength perspective that will benefit  
19 the State for crisis management, hurricanes,  
20 you-name-it, and so we think that that is a  
21 significant benefit, but on the day-to-day  
22 operations we don't. Obviously, in North  
23 Carolina we don't see an overlap so we don't see  
24 a whole lot changing from day-to-day.



1 Q And after the -- if the combination is approved,  
2 you'll ultimately be reporting to the Newco?

3 A There is a new COO that will be put in place.  
4 Rich who is currently the COO of SouthWest will  
5 be the COO of Newco. I will report directly to  
6 Rich. My role changes a bit that I am currently  
7 not only President of Carolina Water, I'm also  
8 the President of Blue Granite in South Carolina,  
9 and SVP of the East Region which includes the  
10 President of Florida reporting in to me. That  
11 shifts in the Newco. I will be the SVP of the  
12 Northeast but only President of Carolina Water.  
13 And so there are two presidents in the Northeast  
14 that would report to me, but they would have  
15 responsibility for those jurisdictions and report  
16 to me in the new structure. I would be President  
17 only of North Carolina. I will no longer be  
18 President of South Carolina.

19 Q And so, and just following that, so what  
20 aspects -- and again, this is to you personally.  
21 When you learned about this or knew it was a  
22 possibility, what aspects of your day-to-day do  
23 you expect to be different?

24 A Well, other than --

1 Q You go to the office and do the same thing?

2 A Oh no, yeah, I expect to be doing a lot of the  
3 same thing. To be honest, I'm dealing with a few  
4 different people, quite frankly, but I think the  
5 day-to-day is exactly the same.

6 I'm excited about the  
7 opportunity that it brings from the standpoint of  
8 having been through a number of mergers on the  
9 electric side and seeing what it can produce.  
10 The culture of these two companies is very  
11 similar. And in the past, I've seen some  
12 cultural differences that led to challenges and  
13 integration, I'm excited about this opportunity  
14 because of how similar these two cultures are.

15 COMMISSIONER BROWN-BLAND: Thank you.

16 CHAIR MITCHELL: Commissioner Duffley?

17 EXAMINATION BY COMMISSIONER DUFFLEY:

18 Q So my question is to Mr. Bahr. We heard  
19 Mr. Denton testify about emergency operator  
20 philosophy and that SouthWest shares the same  
21 philosophy as CWS, and I just want to hear your  
22 testimony on that point. Do you agree with  
23 Mr. Denton's testimony?

24 A (Mr. Bahr) I agree with it completely, and I

1 appreciate the opportunity to respond to that.  
2 SouthWest Operating Companies take a lot of pride  
3 in being a resource for the Commission and able  
4 to provide that service as an emergency operator.  
5 Currently, we're emergency operator for, within  
6 the past five years, three systems, specifically  
7 in Texas, that have been very troubled. And the  
8 Commission has reached out to us to serve as the  
9 emergency operator of those systems and we take a  
10 lot of pride in that.

11 COMMISSIONER DUFFLEY: Thank you.

12 CHAIR MITCHELL: Commissioner McKissick?

13 COMMISSIONER McKISSICK: Good morning,  
14 gentlemen. I appreciate you being here and sharing  
15 the testimony you've provided. Just a couple of quick  
16 questions.

17 EXAMINATION BY COMMISSIONER McKISSICK:

18 Q I know there's been a commitment made that for  
19 Carolina Water Service you're not going to go out  
20 and change or terminate any employees for a  
21 one-year period. Now, I also see language in  
22 this Stipulation relating to any type of  
23 change-in-control payments made to terminated  
24 executives, merger-related bonuses, incentive

1 payments, retention payments, severance payments,  
2 and those type of things, that would not be  
3 passed on to Carolina Water Service customers,  
4 that Company, in any respect. Do you anticipate  
5 those changes will take place with the entities  
6 that you're merging with or is that just a  
7 catch-all provision that's put in there just for  
8 protection, or what is anticipated to change  
9 since that language is pretty concise?

10 A (Mr. DeStefano) I think -- well, I think we  
11 wanted to make sure that the language there was  
12 precise so that we can make sure we're drawing a  
13 firm line as to what we're talking about there  
14 and make it clear as far as from an  
15 interpretation perspective in the future so that  
16 we know really what's not in play for passing  
17 costs onto customers. We're really focusing in  
18 that section on what costs are related to the  
19 transaction and related in the process of  
20 consummating the transaction to getting across  
21 that. And the Company is committed to not  
22 passing those costs on to carving those out from  
23 passing anything on to the customers.

24 Q But do you anticipate that any of those

1 provisions would actually be triggered with the  
2 entity that Carolina Water Service is being  
3 merged with or it is just there just for  
4 protection?

5 A It's -- I think it's there to be more  
6 comprehensive to your point.

7 Q Okay, that's good. And, of course, there is  
8 language here about Carolina Water Service may  
9 seek to recover costs related to merger savings  
10 in the future. What type of merger-related  
11 savings are reasonably anticipated at this time?

12 A Again, we've kind of just kicked off the process  
13 of looking at all the different integration  
14 pieces that will be coming. What we identified,  
15 and we gave some information in discovery on  
16 this, we identified it I believe in direct  
17 testimony in the Application, is obviously we're  
18 going to merge two boards of directors, two  
19 executive teams; kind of those higher level teams  
20 will be merged into one. Those costs which are  
21 currently being allocated down to our respective  
22 kind of towers, or separate companies, would be  
23 merged -- would be allocated down in the future  
24 to a combined entity. So, you're talking about

1           one executive team spreading across a larger  
2           base. So operating companies, so there should be  
3           savings that would be relative to the current  
4           state for the operating companies. That's one  
5           example we've identified.

6    Q       So that would be the type of cost that could be  
7           reasonably anticipated that might be passed on in  
8           a rate case in the future?

9    A       Well, speaking on that, that piece particularly,  
10           those would be benefits that would be savings  
11           that we would get from the larger scale and the  
12           larger company that we would have going forward  
13           with the single executive team, single board. So  
14           relative to the current state, there would be  
15           anticipated savings to customers that would  
16           trickle down from that corporate change to the  
17           operating companies.

18   Q       And as I recall, there's language there saying  
19           that if there is like a director change and  
20           officer change, there will be notice provided to  
21           the Public Staff?

22   A       (Mr. Denton) That's correct.

23   A       (Mr. DeStefano) That's correct. For key  
24           position changes, there will be notification;

1           that's right.

2    Q       Now, let's say within Carolina Water Service  
3           itself there's organizational changes. To what  
4           extent will they be reported?

5    A       (Mr. Denton) I believe we've committed, too,  
6           that director of operations, the head of FP&A,  
7           our regulatory personnel, those, that level we've  
8           agreed to report that as well to the Public  
9           Staff.

10   Q       And that would be in advance of those changes or  
11           after the changes?

12   A       After, but I believe it's 10 days after.

13   A       (Mr. DeStefano) Very promptly after.

14   A       (Mr. Denton) It's very promptly after. In  
15           certain circumstances we just couldn't do it  
16           beforehand.

17   Q       Okay. And there's language here dealing with the  
18           cost allocation manual. Do you anticipate there  
19           will be changes to the cost allocation manual as  
20           a result of this proposed merger?

21   A       (Mr. DeStefano) At this point we're anticipating  
22           there will be changes but we don't know what  
23           those are. Again, we're still working through  
24           that process. Public Staff has obviously gotten

1           copies through rate cases and everything else of  
2           our current manual so they're familiar with it.  
3           But yeah, to the extent there are changes that  
4           happen in a normal course through the merger or  
5           even other major changes, the provisions here  
6           cover that.

7   Q       But you have no idea what those changes will be  
8           at this time?

9   A       Not yet. We're not there yet.

10  Q       Okay. And there was language about developing a  
11           customer assistance program.

12  A       (Mr. Denton) Yes.

13  Q       There's also language in there saying that the  
14           costs associated with development and funding of  
15           the CAP shall not be included for recovery by  
16           Carolina Water Service in any future general rate  
17           case or rider proceeding; is that correct?

18  A       That's correct.

19  A       (Mr. DeStefano) Correct.

20  Q       Let me ask you this, has much thought been given  
21           to this potential customer assistance program and  
22           what it might consist of? I do see some  
23           parameters that are included. But is there any  
24           type of a model that you're hoping to replicate



1           that's being successfully implemented by entities  
2           that are under your control that might be in other  
3           jurisdictions or ones that may not be under your  
4           control but are successful models for customer  
5           assistance programs?

6       A     I guess, again, another instance where the merger  
7           I think benefits us is SouthWest has experience in  
8           multiple jurisdictions, especially California,  
9           where customer assistance programs are a big focus  
10          and have been established for a long time. So  
11          there's been a lot of data you can kind of glean  
12          from those experiences since they've been around  
13          so long.

14                         We have been approved in other  
15                         jurisdictions like Illinois and Pennsylvania for  
16                         lifeline rates to be put into effect, so we've  
17                         got recent experience with that in other  
18                         jurisdictions. We've also made proposals of  
19                         different types, like a roundup program in South  
20                         Carolina, in our last rate case there. So, but  
21                         when it comes to customer assistance programs,  
22                         there's a lot of new data, a lot of entities,  
23                         municipalities, companies, are trying a lot of  
24                         different things out and there's a million

1 different ways to kind of do it. So we want to  
2 make sure we put together a proposal that is  
3 going to be -- is going to hit some key marks  
4 that's going to be administratively efficient,  
5 because that can eat away at the benefits of the  
6 program very easily, and that it's easy for  
7 customers to -- as easy as possible for customers  
8 to apply and be approved for so it's a low burden  
9 for customers as opposed to just the company  
10 administering it, and that we can get as many  
11 people that need help to get help from the  
12 program. So as long as we can focus on those  
13 priorities and we can try to establish a program  
14 that hits those marks, we think it can be a  
15 successful process.

16 COMMISSIONER McKISSICK: Thank you. I don't  
17 have any further questions.

18 CHAIR MITCHELL: Mr. Bahr, just one for you.

19 EXAMINATION BY CHAIR MITCHELL:

20 Q What can you tell us about why SouthWest wants to  
21 be in North Carolina?

22 A (Mr. Bahr) Chair Mitchell, I guess I'd respond  
23 to that by saying you yourself actually just  
24 recently said that Carolina Water has provided

1 service for decades and done at least an adequate  
2 job of that. And so for SouthWest Water, I can't  
3 reiterate enough how much that this is a very  
4 complimentary transaction of two entities that  
5 are very similar in terms of mission, values, and  
6 so I think North Carolina is regarded as an  
7 excellent state. And that specifically, Carolina  
8 Water Service as a component of Corix, overall,  
9 is a very well-run operation and a very good  
10 business and very, very attractive.

11 CHAIR MITCHELL: Thank you, Mr. Bahr.  
12 Anything else from Commissioners?

13 (No response)

14 With that, you-all may -- let's see if there  
15 are questions on Commissioners' questions before I let  
16 you go.

17 MS. CULPEPPER: No questions.

18 CHAIR MITCHELL: Okay.

19 MS. SANFORD: No questions. Thank you.

20 CHAIR MITCHELL: With that gentlemen,  
21 you-all may step down, to be determined as to whether  
22 you're excused.

23 MR. DESTEFANO: Thank you, Commissioners.

24 MR. DENTON: Thank you.

NORTH CAROLINA UTILITIES COMMISSION

1 MR. BAHR: Thank you.

2 CHAIR MITCHELL: Ms. Culpepper?

3 MS. CULPEPPER: Public Staff calls Lynn  
4 Feasel, Lindsay Darden, and John Hinton.

5 CHAIR MITCHELL: Good morning to the three  
6 of you.

7 As a panel,

8 LYNN FEASEL, LINDSAY Q. DARDEN, and  
9 JOHN R. HINTON;

10 having been duly sworn,

11 testified as follows:

12 CHAIR MITCHELL: Please proceed,  
13 Ms. Culpepper.

14 DIRECT EXAMINATION BY MS. CULPEPPER:

15 Q Ms. Feasel, please state your name, business  
16 address, and present position for the record.

17 A My name is Lynn Feasel. My business address is  
18 430 North Salisbury Street, Raleigh, North  
19 Carolina. I'm the Public Utility Regulatory  
20 Analyst Supervisor of the Water, Sewer and the  
21 Telecommunications sections with the Accounting  
22 Division of the Public Staff - NC Utilities  
23 Commission.

24 Q Ms. Darden, please state your name, business

1 address, and present position for the record.

2 A Lindsay Darden, 430 North Salisbury Street,  
3 Utilities Engineer with the Water, Sewer, and  
4 Telephone Division.

5 Q Mr. Hinton, please state your name, business  
6 address, and present position for the record.

7 A My name is John Robert Hinton. My business  
8 address is 430 North Salisbury. I'm the Director  
9 of the Economic Research Division of the Public  
10 Staff.

11 Q Ms. Feasel, on June 30, 2023, did the Panel  
12 prepare and caused to be filed in this docket  
13 joint testimony consisting of 15 pages, three  
14 appendices, and one exhibit consisting of eight  
15 pages?

16 A (Ms. Feasel) Yes.

17 Q Does the Panel have any corrections to its  
18 testimony?

19 A No.

20 Q If you were asked those same questions today,  
21 would your answers be the same?

22 A Yes.

23 MS. CULPEPPER: Chair Mitchell, I move that  
24 the joint testimony consisting of 15 pages and three

1 appendices be copied into the record as if given  
2 orally from the stand.

3 CHAIR MITCHELL: Ms. Culpepper, my notes  
4 indicate four appendices. I just want to make sure  
5 we're clear on the record. Is it three?

6 MS. CULPEPPER: Three; yes, ma'am.

7 CHAIR MITCHELL: All right. Your motion  
8 will be allowed.

9 MS. CULPEPPER: I also move that Public  
10 Staff Exhibit 1 be identified as marked when filed and  
11 entered into evidence.

12 CHAIR MITCHELL: The exhibit to that  
13 testimony will be marked for identification as it were  
14 when prefiled and, having heard no objection to your  
15 motion, we'll admit that evidence into the record at  
16 this time.

17 MS. CULPEPPER: Thank you.

18 (WHEREUPON, Public Staff  
19 Exhibit 1 is marked for  
20 identification as prefiled  
21 and received into  
22 evidence.)

23 (WHEREUPON, the prefiled  
24 joint direct testimony of

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LYNN FEASEL, JUNE CHIU,  
LINDSAY Q. DARDEN, and JOHN  
R. HINTON, and Appendices  
A, B, C, and D are copied  
into the record as if given  
orally from the stand.)

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. W-354, SUB 412**

In the Matter of	)	
Application for Approval of Business	)	<b>JOINT TESTIMONY OF</b>
Combination between Carolina Water	)	<b>LYNN FEASEL,</b>
Service, Inc. of North Carolina/Corix	)	<b>JUNE CHIU,</b>
Infrastructure (US) Inc., and SW	)	<b>LINDSAY Q. DARDEN, AND</b>
Merger Acquisition Corp.	)	<b>JOHN R. HINTON</b>
	)	<b>PUBLIC STAFF –</b>
	)	<b>NORTH CAROLINA</b>
	)	<b>UTILITIES COMMISSION</b>

**June 30, 2023**



1 **Q. Ms. Feasel, please state your name, business address, and**  
2 **present position.**

3 A. My name is Lynn Feasel. My business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am the Financial  
5 Manager of the Water, Sewer, and Telecommunications Sections  
6 with the Accounting Division of the Public Staff – North Carolina  
7 Utilities Commission (Public Staff).

8 **Q. Would you briefly discuss your education and experience?**

9 A. My education and experience are summarized in Appendix A of this  
10 testimony.

11 **Q. Ms. Chiu, please state your name, business address, and**  
12 **present position.**

13 A. My name is June Chiu. My business address is 430 North Salisbury  
14 Street, Raleigh, North Carolina. I am a Public Utilities Regulatory  
15 Analyst with the Accounting Division of the Public Staff.

16 **Q. Would you briefly discuss your education and experience?**

17 A. My education and experience are summarized in Appendix B of this  
18 testimony.

1 **Q. Ms. Darden, please state your name, business address, and**  
2 **present position.**

3 A. My name is Lindsay Q. Darden. My business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am a Public Utilities  
5 Engineer with the Water, Sewer, and Telephone Division of the  
6 Public Staff.

7 **Q. Would you briefly discuss your education and experience?**

8 A. My education and experience are summarized in Appendix C of this  
9 testimony.

10 **Q. Mr. Hinton, please state your name, business address, and**  
11 **present position.**

12 A. My name is John R. Hinton. My business address is 430 North  
13 Salisbury Street, Raleigh, North Carolina. I am the Director of the  
14 Economic Research Division of the Public Staff.

15 **Q. Would you briefly discuss your education and experience?**

16 A. My education and experience are summarized in Appendix D of this  
17 testimony.

18 **Q. Please describe the purpose of your testimony in this**  
19 **proceeding.**

20 A. The purpose of our testimony is to present the results of the Public  
21 Staff's investigation of the application filed on November 23, 2022

1 (Application), by Carolina Water Service, Inc. of North Carolina  
2 (CWSNC), Corix Infrastructure (US) Inc. (Corix US),<sup>1</sup> and SW  
3 Merger Acquisition Corp. (SWMAC)<sup>2</sup> (collectively, the Applicants),  
4 pursuant to N.C. Gen. Stat. § 62-111 and Commission Rule R1-5 for  
5 authorization to engage in a business combination transaction as  
6 described in more detail below (Merger).

7 In our testimony, we describe the scope of the Public Staff's  
8 investigation of the Merger; discuss the balancing of costs and  
9 benefits of the Merger; describe the primary reasons for and major  
10 provisions of the Merger-related regulatory conditions recommended  
11 by the Public Staff, which are attached hereto as Exhibit 1  
12 (Regulatory Conditions); and present the Public Staff's  
13 recommendation regarding Commission approval of the Merger.

14 **Q. Please describe the Public Staff's investigation.**

15 A. A task force of accountants, engineers, attorneys, and financial  
16 analysts conducted an investigation of the Merger. We reviewed the  
17 Application to assess potential costs and benefits of the Merger and  
18 analyzed the complex and multiple levels of business entities in the

<sup>1</sup> Corix US is a corporation incorporated under the laws of Delaware. Corix US is owned by Corix Infrastructure Inc. (CII). Corix US indirectly owns 100% of CWSNC.

<sup>2</sup> SWMAC is a Delaware corporation that owns 100% of SouthWest Water Company (SouthWest). SWMAC is owned by IIF Subway Investment LP (IIF Subway) and Bazos CIV, L.P. (Bazos). IIF Subway is indirectly owned by IIF US Holding 2 LP, and Bazos CIV, L.P. is indirectly owned by the German reinsurer, Munich RE (Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München).

1 proposed ownership chain above CWSNC. In the course of our  
2 investigation, we submitted data requests to the Applicants and  
3 reviewed the responses to those data requests. The Public Staff also  
4 reviewed the applications for Merger and related data requests and  
5 responses filed in other jurisdictions.

6 **Q. Why is it important to identify and balance the costs and**  
7 **benefits of a proposed merger or business combination?**

8 A. N.C. Gen. Stat. § 62-111(a) provides that no merger or combination  
9 affecting any public utility shall be made through acquisition or  
10 control by stock purchase or otherwise, except after Commission  
11 approval, which “shall be given if justified by the public convenience  
12 and necessity.”

13 As explained in the Order Approving Merger Subject to Regulatory  
14 Conditions and Code of Conduct issued September 29, 2016, in  
15 Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682  
16 (Duke/Piedmont Merger Order):

17 In prior merger proceedings the Commission has  
18 established a three-part test for determining whether a  
19 proposed utility merger is justified by the public  
20 convenience and necessity. That test is (1) whether the  
21 merger would have an adverse impact on the rates and  
22 services provided by the merging utilities; (2) whether  
23 ratepayers would be protected as much as possible  
24 from potential costs and risks of the merger; and (3)  
25 whether the merger would result in sufficient benefits to  
26 offset potential costs and risks. See Order Approving  
27 Merger Subject to Regulatory Conditions and Code of  
28 Conduct (Duke/Progress Merger Order), issued June

1 29, 2012, in Docket Nos. E-2, Sub 998 and E-7, Sub  
2 986, aff'd, In re Duke Energy Corp., 232 N.C. App. 573,  
3 755 S.E.2d 382 (2014). These questions are related to  
4 one another and together establish a reasoned  
5 framework upon which utility mergers may be  
6 evaluated. In making these assessments, the  
7 Commission has also examined factors such as  
8 whether service quality will be maintained or improved,  
9 the extent to which costs can be lowered and rates can  
10 be maintained or reduced, and whether effective  
11 regulation of the merging utilities will be maintained. See  
12 Order Approving Merger and Issuance of Securities,  
13 issued April 22, 1997, in Docket No. E-7, Sub 596.

14 Duke/Piedmont Merger Order, p. 68.

15 **Q. Please describe the Merger.**

16 A. On August 26, 2022, CII and Corix US (the Corix Parties) entered  
17 into a transaction agreement (Transaction Agreement) with IIF  
18 Subway, SWMAC, and SouthWest (the SouthWest Parties). The  
19 Transaction Agreement provides a framework for combining CII's  
20 water, wastewater, and related businesses with the water and  
21 wastewater businesses owned by SWMAC. When the transactions  
22 contemplated by the Transaction Agreement are completed, CII and  
23 an affiliate or affiliates of CII will own 50% of Corix US. SWMAC  
24 Holdco, an entity that will be formed by SWMAC's shareholders  
25 before closing, will own the other 50% of Corix US. Corix US, in turn,  
26 will indirectly own and control all the CII water, wastewater, and  
27 related businesses, and the SWMAC water and wastewater  
28 businesses. To prepare for the Merger, both the Corix Parties and  
29 the SouthWest Parties will undertake pre-closing restructuring

1 transactions, which are described in Appendix A to the Application.  
2 The Transaction Agreement is attached to the Application as  
3 Appendix B.

4 After the Corix Parties and the SouthWest Parties complete the pre-  
5 closing restructuring transactions, SWMAC will merge with and into  
6 Corix US, with Corix US being the surviving entity. As a result of this  
7 step, SWMAC Holdco will acquire 50% of Corix US's stock, Corix US  
8 will acquire the outstanding stock of SouthWest currently owned by  
9 SWMAC, and Corix US will continue to indirectly own CWSNC.

10 Corix US then will transfer all of the outstanding equity of SouthWest  
11 and certain Corix US entities to Intermediate Newco.<sup>3</sup> In exchange  
12 for this contribution of stock, Intermediate Newco will issue stock to  
13 Corix US and assume all of Corix US's third-party debt, with  
14 Intermediate Newco being a wholly owned subsidiary of Corix US.

15 Upon consummation of the Merger: (a) CII and an affiliate or affiliates  
16 of CII will own 50% of Corix US's stock; and (b) SWMAC Holdco will  
17 own the remaining 50% of Corix US's stock. Corix US will own all of  
18 the stock of Intermediate Newco, and Intermediate Newco will  
19 indirectly own all of the utility operating subsidiaries comprising the  
20 CII water, wastewater, and related businesses, as well as the

<sup>3</sup> Corix US will transfer all of the stock of Inland Pacific Resources Inc. and Corix Utility Systems (Georgia) Inc. to Intermediate Newco.

1 SWMAC water and wastewater businesses, completing the merger  
2 of equals.

3 **Q. Please explain the primary reasons for, and the major**  
4 **provisions of, the Regulatory Conditions recommended by the**  
5 **Public Staff.**

6 A. As a result of its investigation, the Public Staff developed its  
7 recommended Regulatory Conditions, which it believes are  
8 necessary to ensure that the Merger meets the Commission's three-  
9 part test for determining whether a proposed utility merger is justified  
10 by the public convenience and necessity and serves the public  
11 interest. The following is a description of the major provisions of our  
12 recommended Regulatory Conditions:

13 **Applicability of the Regulatory Conditions**

14 The Regulatory Conditions apply jointly and severally to British  
15 Columbia Investment Management Corporation (BCI), CII,<sup>4</sup> Bazos,  
16 IIF Subway, SWMAC Holdco (SWMAC Holdco), Corix US, Intermediate  
17 Newco, and CWSNC (as well as any successor entities).

<sup>4</sup> It is anticipated that, as of closing, CII and an affiliate or affiliates of CII will collectively own 50% of Corix US's outstanding stock. These Regulatory Conditions will apply to such affiliate or affiliates of CII.

1           **Definition of Affiliate**

2           The Regulatory Conditions state that “Affiliate” shall mean BCI, CII,  
3           Bazos, IIF Subway, SWMAC Holdco and any business entity of which  
4           ten percent (10%) or more is owned or controlled, directly or  
5           indirectly, by BCI, CII, Bazos, IIF Subway, SWMAC Holdco, including,  
6           but not limited to, CWSNC, Corix US, and Intermediate Newco.

7           **Regulatory Conditions 1-18: Ratepayer Protection from**  
8           **Potential Costs and Risks Associated with the Merger**

9           These Regulatory Conditions are designed to protect CWSNC’s  
10          ratepayers as much as reasonably possible from potential costs and  
11          risks associated with the Merger.

12          Regulatory Conditions 1-4 address removing the impact of any  
13          expenses or capital costs associated with the Merger or transitioning  
14          to the reorganized entity from CWSNC’s rates and charges, including  
15          change-in-control payments made to terminated executives, Merger-  
16          related bonuses, severance payments, regulatory process costs, and  
17          transaction fees (such as investment banker and legal fees for  
18          transaction structuring, financial market analysis, and fairness  
19          opinions based on formal agreements with investment bankers).  
20          These conditions also address protecting CWSNC from non-  
21          consummation of the Merger and the appropriate treatment of cost  
22          savings in future rate proceedings.



1           These recommended Regulatory Conditions are also intended to  
2           support the continued viability of CWSNC and to insulate and protect  
3           CWSNC and its North Carolina ratepayers from financial risks of  
4           Affiliates. They provide for protections regarding dividend  
5           distributions, maintenance of the level of CWSNC's common equity  
6           capital, and notices of certain investments, default, or bankruptcy.

7           Regulatory Conditions 5, 6, 7, and 11 relate to ring fencing. Condition  
8           6 prohibits CWSNC from paying any distribution in excess of 100%  
9           of CWSNC's net income calculated on a two-year rolling average  
10          basis.

11          Condition 7 protects ratepayers in the event of a decrease in  
12          creditworthiness which could cause an increase in the cost rate of  
13          long-term debt. A sustained decrease in Intermediate Newco's  
14          Funds From Operations (FFO) to its Debt ratio<sup>5</sup> below 10.2% would  
15          trigger an investigation to determine whether a replacement cost of  
16          debt should be relied upon to remove any increases in Corix US's or  
17          CWSNC's cost of long-term debt resulting from the Merger.  
18          Condition 7 also requires Corix Regulated Utilities (US) Inc. (CRU  
19          US) or CWSNC to file an economic analysis of the expected benefits  
20          and costs with a competitive public credit rating and debt offering  
21          within twelve months of consummation of the Merger and avail itself

<sup>5</sup> FFO to Debt ratio should be calculated in a format followed by S&P Global Ratings Direct as shown in Table 3 on Page 11 of Applicants' witness Lapson's Direct Testimony.

1 to lower cost debt capital with State Revolving Funds administered  
2 through the North Carolina Department of Environmental Quality.  
3 This would help to address the Public Staff's ongoing concern  
4 regarding CWSNC's relatively high cost of debt.

5 Regulatory Condition 11 requires that CWSNC maintain common  
6 equity capital at levels equal to or greater than 45% of total adjusted  
7 capital. A common equity capitalization ratio of 45% for six years  
8 after the consummation of the Merger represents a reasonable  
9 minimal level of equity capitalization given that CSWNC has  
10 historically maintained a 50% common equity ratio. As such, the  
11 Public Staff does not expect the Merger will lead to any undue  
12 financial risk.

13 The legal entities comprising the post-Merger combined company  
14 are not publicly traded and do not make filings with the Securities  
15 and Exchange Commission (SEC). A publicly owned and traded  
16 corporation makes routine annual and quarterly SEC filings that may  
17 describe business operations, a history of events, operational and  
18 financial conditions, and insight into any risk, as well as the  
19 company's management team and legal proceedings. Notification  
20 filings describing unscheduled events such as a bankruptcy, material  
21 impairment, completion of acquisition or disposition of assets,  
22 departures or appointments of executives, and other events of

1 importance may also be filed with the SEC. In order to address risks  
2 and concerns regarding such information not being publicly  
3 available, Regulatory Conditions 8-10 include provisions that provide  
4 for the Commission and the Public Staff to receive the type of  
5 information contained in SEC filings.

6 **Regulatory Conditions 1, 2, and 4: Merger Benefits are Sufficient**  
7 **to Offset any Potential Costs and Risks**

8 These Regulatory Conditions are designed to benefit CWSNC's  
9 ratepayers by ensuring that cost savings associated with the Merger  
10 will be tracked and flowed back to ratepayers. As discussed above,  
11 Regulatory Condition 1 provides that any expenses or capital costs  
12 associated with the Merger or transitioning to the reorganized entity  
13 will be excluded from the regulated expenses of CWSNC for  
14 Commission financial reporting, earnings, and ratemaking purposes.  
15 Regulatory Condition 2 requires CWSNC to report the actual costs to  
16 achieve savings from the Merger, and Regulatory Condition 4  
17 addresses inclusion of Merger cost savings in future rate proceedings.

18 **Regulatory Conditions 12-37: No Adverse Impact on Rates and**  
19 **Services**

20 These Regulatory Conditions are primarily designed to obtain a  
21 commitment from the new ownership that there will be no adverse  
22 impact on the rates and services provided by CWSNC to its North

1 Carolina ratepayers due to the Merger. They provide that after the  
2 close of the Merger, CWSNC shall continue its commitment to  
3 provide safe, reliable, and affordable water and sewer service and  
4 effective customer service support and maintain a level of capital and  
5 operational support in North Carolina necessary to achieve this  
6 commitment. These Regulatory Conditions also require that CWSNC  
7 (1) comply with all regulatory reporting requirements; (2) maintain  
8 sufficient, adequately trained personnel to ensure that regulatory  
9 reporting requirements are complied with in a timely and accurate  
10 manner; (3) make reasonable efforts to retain key staff serving North  
11 Carolina customers; (4) monitor and track customer service by  
12 surveying customers regarding their satisfaction with CWSNC's  
13 public utility service; (5) report annually on efforts to develop and  
14 retain qualified operators and research of the operator labor market;  
15 (6) notify the Public Staff when there is any change in regulatory or  
16 operational personnel at the management/supervisor level; and (7)  
17 develop a low-income customer assistance program.

18 These Regulatory Conditions also govern relationships and  
19 transactions between CWSNC and its Affiliates, including the  
20 allocation of costs, the transfer pricing provisions that govern  
21 affiliated transactions, and the filing of affiliated transaction reports  
22 and agreements with the Commission.

1 **Q. Why does the Public Staff recommend CRU US or CWSNC file**  
2 **an economic analysis of the expected benefits and costs with a**  
3 **competitive public credit rating and debt offering within twelve**  
4 **months of consummation of the Merger?**

5 A. While the Applicants' witness Lapson testified that the Merger will  
6 result in superior access to equity capital funding, she was not as  
7 confident that the Merger will result in greater access to sources of  
8 debt capital. As such, an ongoing concern of the Public Staff has  
9 been CWSNC's relatively high cost of debt. Over numerous years,  
10 including the last five, the Commission has approved a significantly  
11 higher<sup>6</sup> cost rate of long-term debt for CWSNC as compared to Aqua  
12 NC, whose parent company's debt is publicly rated as compared to  
13 CWSNC's private debt placements. Witness Lapson testified that the  
14 Merger may expand the field of interested bond investors to CRU  
15 US; however, the pool of potential investors would be even greater  
16 and would likely result in lower costs of debt through a public credit  
17 rating and public offering. Given the planned external capital  
18 requirements for CWSNC, the Public Staff recommends that twelve  
19 months following the consummation of the Merger CRU US or

<sup>6</sup> CWSNC's NCUC currently approved cost of long-term debt is 67 basis points above the approved cost of long-term debt for Aqua North Carolina, Inc. (Aqua NC). In previous rate cases over the last five years, the spread between the approved cost of debt for CWSNC has ranged well over 100 basis points higher than Aqua NC's debt costs for contemporaneous rate cases.

1 CWSNC should file an economic analysis of the expected benefits  
2 and costs with a competitive public debt offering.

3 **Q. What is the Public Staff's recommendation with regard to the**  
4 **proposed Merger?**

5 A. The Public Staff recommends that the proposed Merger be  
6 approved, subject to the provisions of the Regulatory Conditions.

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

8 A. Yes.

## APPENDIX A

**QUALIFICATIONS AND EXPERIENCE**

## LYNN FEASEL

I am a graduate of Baldwin Wallace University with a Master of Business Administration degree in Accounting. I am a Certified Public Accountant licensed in the State of North Carolina. Prior to joining the Public Staff, I was employed by Franklin International in Columbus, Ohio until June 2013. Additionally, I worked for ABB Inc. from September 2013 until October 2016. I joined the Public Staff as a Staff Accountant in November 2016. Since joining the Public Staff, I have worked on rate cases involving water and sewer and natural gas companies, filed testimony and affidavits in various general rate cases, calculated quarterly earnings for Carolina Water Service, Inc. of North Carolina and Aqua North Carolina, Inc., calculated quarterly earnings for various natural gas companies, calculated refunds to consumers from AH4R and Progress Residential and reviewed franchise and contiguous filings for multiple water and sewer companies.

## APPENDIX B

**QUALIFICATIONS AND EXPERIENCE****JUNE CHIU**

I graduated from Drake University with a master's degree in business administration. Prior to joining the Public Staff, I worked for Fortune 500 companies, including Rieter and Novo. My duties varied from preparation of SEC filings to supervision of overall accounting operations, internal controls, and operation of ERP systems.

I joined the Public Staff in October 2017. I am responsible for: (1) examining and analyzing testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) preparing and presenting testimony, exhibits, and other documents for presentation to the Commission.

I have performed audits and/or presented testimony and exhibits before the Commission for water cases involving Ridgecrest, Water Resources, Aqua North Carolina, Lake Junaluska, Carolina Water Service Inc. of North Carolina, and JAARS. I have participated in electric and gas cases such as the Dominion Energy North Carolina 2019 general rate case, Duke Energy Progress, LLC's general rate cases and 2020 REPS proceeding, Duke Energy Carolinas, LLC's 2021 fuel rider case and 2019 thru 2023 general rate cases. I have also worked on transfer and franchise cases.



## APPENDIX C

**QUALIFICATIONS AND EXPERIENCE**

Lindsay Q. Darden

I graduated from North Carolina State University, earning a Bachelor of Science Degree in Civil Engineering. I am a licensed Professional Engineer (PE - State of North Carolina #042110). I am also certified as a B-Well Operator (#130281) by the North Carolina Water Treatment Facility Operators Certification Board. I worked for the North Carolina Department of Environmental Quality (DEQ), Public Water Supply Section for four years prior to joining the Public Staff in December 2016. Prior to working for DEQ, I worked for Smith Gardner, an engineering consulting firm.

My duties with the Public Staff are to monitor the operations of regulated water and wastewater utilities with regard to rates and service. These duties include conducting field investigations, reviewing, evaluating, and recommending changes in the design, construction, and operations of regulated water and wastewater utilities, presenting expert testimony in formal hearings, and presenting information, data, and recommendations to the North Carolina Utilities Commission.

**APPENDIX D****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 Nos. E-2, Sub 1023; 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 158. I 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 regarding avoided costs 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 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 testified in the sale of Frontier Natural Gas Company in Docket No. G-40, Sub 160. I testified in the transfer of the Bald Head Island Transportation, LLC in Docket No. A-41, Sub 22.

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, 526 and 573; 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 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.

1 BY MS. CULPEPPER:

2 Q Ms. Feasel, on July 31, 2023, did the Panel  
3 prepare and cause to be filed in this docket  
4 joint settlement testimony consisting of 12  
5 pages?

6 A (Ms. Feasel) Yes.

7 Q Does the Panel have any corrections to this  
8 testimony?

9 A No.

10 Q If you were asked those same questions today,  
11 would your answers be the same?

12 A Yes.

13 MS. CULPEPPER: Chair Mitchell, I move that  
14 the joint settlement testimony consisting of 12 pages  
15 be copied into the record as if given orally from the  
16 stand.

17 CHAIR MITCHELL: That motion will be  
18 allowed.

19 (WHEREUPON, the prefiled  
20 joint settlement testimony  
21 and summary of LYNN FEASEL,  
22 LINDSAY Q. DARDEN, and JOHN  
23 R. HINTON is copied into  
24 the record as if given

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orally from the stand.)

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. W-354, SUB 412**

In the Matter of	)	
Application for Approval of Business	)	<b>JOINT SETTLEMENT</b>
Combination between Carolina Water	)	<b>TESTIMONY OF</b>
Service, Inc. of North Carolina/Corix	)	<b>LYNN FEASEL,</b>
Infrastructure (US) Inc., and SW	)	<b>LINDSAY Q. DARDEN, AND</b>
Merger Acquisition Corp.	)	<b>JOHN R. HINTON</b>
	)	<b>PUBLIC STAFF –</b>
	)	<b>NORTH CAROLINA</b>
	)	<b>UTILITIES COMMISSION</b>

**JULY 31, 2023**

**OFFICIAL COPY**

**Aug 31 2023**

1 **Q. Ms. Feasel, please state your name, business address, and**  
2 **present position.**

3 A. My name is Lynn Feasel. My business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am the Public Utility  
5 Regulatory Analyst Supervisor of the Water, Sewer, and  
6 Telecommunications Sections with the Accounting Division of the  
7 Public Staff – North Carolina Utilities Commission (Public Staff).

8 **Q. Are you the same Lynn Feasel who filed direct testimony on**  
9 **behalf of the Public Staff in this proceeding on June 30, 2023?**

10 A. Yes.

11 **Q. Are your qualifications and duties the same as stated in your**  
12 **direct testimony?**

13 A. Yes.

14 **Q. Ms. Darden, please state your name, business address, and**  
15 **present position.**

16 A. My name is Lindsay Q. Darden. My business address is 430 North  
17 Salisbury Street, Raleigh, North Carolina. I am a Public Utilities  
18 Engineer with the Water, Sewer, and Telephone Division of the  
19 Public Staff.



1 **Q. Are you the same Lindsay Q. Darden who filed direct testimony**  
2 **on behalf of the Public Staff in this proceeding on June 30,**  
3 **2023?**

4 A. Yes.

5 **Q. Are your qualifications and duties the same as stated in your**  
6 **direct testimony?**

7 A. Yes.

8 **Q. Mr. Hinton, please state your name, business address, and**  
9 **present position.**

10 A. My name is John R. Hinton. My business address is 430 North  
11 Salisbury Street, Raleigh, North Carolina. I am the Director of the  
12 Economic Research Division of the Public Staff.

13 **Q. Are you the same John R. Hinton who filed direct testimony on**  
14 **behalf of the Public Staff in this proceeding on June 30, 2023?**

15 A. Yes.

16 **Q. Are your qualifications and duties the same as stated in your**  
17 **direct testimony?**

18 A. Yes.

1 **Q. What is the purpose of your settlement testimony in this**  
2 **proceeding?**

3 A. The purpose of our settlement testimony is to support the Joint  
4 Settlement Agreement and Stipulation (Stipulation) filed on  
5 July 31, 2023, entered into between Carolina Water Service, Inc. of  
6 North Carolina (CWSNC), Corix Infrastructure (US) Inc. (Corix US),  
7 and SW Merger Acquisition Corp. (collectively, the Joint Applicants)  
8 and the Public Staff (collectively, the Stipulating Parties) regarding  
9 the proposed business combination transaction (Merger or Proposed  
10 Transaction).

11 **Q. Please briefly describe the Stipulation.**

12 A. The Stipulation addresses the agreement of the Stipulating Parties  
13 that the Commission should authorize the Joint Applicants to  
14 consummate the Proposed Transaction subject to the regulatory  
15 conditions attached to the Stipulation as Appendix A (Regulatory  
16 Conditions).

1 **Q. Do the Regulatory Conditions ensure that the Merger meets the**  
2 **Commission's three-part test for determining whether a**  
3 **proposed utility merger is justified by the public convenience**  
4 **and necessity and serves the public interest discussed in the**  
5 **Public Staff's prefiled direct testimony?**

6 A. Yes. The Regulatory Conditions ensure that CWSNC's customers  
7 (a) are protected from any known adverse effects from the Merger,  
8 (b) are protected as much as possible from potential costs and risks  
9 resulting from the Merger, and (c) receive sufficient known and  
10 expected benefits to offset any potential costs and risks resulting  
11 from the Merger. The Regulatory Conditions also ensure that service  
12 quality and effective regulation of the merging utility will be maintained.

13 **Q. Please explain the primary reasons for, and the major**  
14 **provisions of, the Regulatory Conditions recommended by the**  
15 **Public Staff.**

16 A. The Stipulating Parties agreed to Regulatory Conditions that the  
17 Public Staff believes are necessary to ensure that the Merger meets  
18 the Commission's three-part test for determining whether a proposed  
19 utility merger is justified by the public convenience and necessity and  
20 serves the public interest. The following is a description of the major  
21 provisions of the Regulatory Conditions:

1           **Applicability of the Regulatory Conditions**

2           The Regulatory Conditions set forth commitments made by Corix US,  
3           Intermediate Newco,<sup>1</sup> and CWSNC (Regulatory Condition Parties),  
4           as these are the entities that can or will be directly involved in key  
5           decisions that impact the customers of the operating utilities,  
6           including CWSNC.

7           **Commitment of the Parent Entities**

8           The Regulatory Conditions set forth the commitments of British  
9           Columbia Investment Management Corporation (BCI), Corix  
10          Infrastructure Inc. (CII) and any affiliate of CII that, collectively with CII,  
11          owns 50% of Corix US upon the closing of the Proposed Transaction,  
12          Bazos CIV, L.P. (Bazos), IIF Subway Investment LP (IIF Subway), and  
13          SWMAC Holdco,<sup>2</sup> as well as any additional or successor entities with  
14          control over Corix US, Intermediate Newco or CWSNC (collectively,  
15          the Parent Entities). The Parent Entities acknowledge and consent to  
16          these Regulatory Conditions agreed and entered into by the  
17          Regulatory Condition Parties. The Parent Entities further commit not to  
18          cause the Regulatory Conditions Parties to violate such Regulatory

<sup>1</sup> Intermediate Newco is an entity that has not yet been formed but will be formed prior to the closing of the Proposed Transaction. As the Commission's approval of the Proposed Transaction will be conditioned on the Regulatory Conditions, the Regulatory Conditions will apply to Intermediate Newco only upon the closing of the Proposed Transaction.

<sup>2</sup> SWMAC Holdco is an entity that has not been formed but will be formed prior to the closing of the Proposed Transaction. The provisions of the Regulatory Conditions that apply to the Parent Entities shall apply to SWMAC Holdco upon closing the Proposed Transaction.

1 Conditions and not to prevent the Regulatory Condition Parties from  
2 taking commercially reasonable actions to comply with the Regulatory  
3 Conditions, for so long as such Regulatory Conditions remain in effect  
4 and applicable to the Regulatory Condition Parties.

5 **Definition of Affiliate**

6 The Regulatory Conditions state that “Affiliate” shall mean Corix US  
7 and any business entity of which ten percent (10%) or more of the  
8 voting securities or interests are owned, directly or indirectly, by Corix  
9 US, including but not limited to CWSNC and Intermediate Newco.

10 **Regulatory Conditions 1-11: Ratepayer Protection from**  
11 **Potential Costs and Risks Associated with the Merger**

12 These Regulatory Conditions are designed to protect CWSNC’s  
13 ratepayers as much as reasonably possible from potential costs and  
14 risks associated with the Merger.

15 Regulatory Conditions 1-4 address removing the impact of any  
16 expenses or capital costs associated with the Merger from CWSNC’s  
17 rates and charges, including change-in-control payments made to  
18 terminated executives, Merger-related bonuses, incentive payments,  
19 retention payments, severance payments, regulatory process costs,  
20 and the costs of securing formal written evaluations of the  
21 transaction; the costs of structuring the transaction and obtaining tax  
22 advice on the structure of the transaction; the costs of negotiating,

1 preparing, and reviewing the Transaction Agreement; the costs of  
2 retained consultants and advisors to evaluate the transaction and  
3 perform due diligence; legal and other fees of completing pre-closing  
4 restructuring; legal and other fees to close the Proposed  
5 Transaction; financial advisor fees; and the costs of securing  
6 regulatory approvals. These conditions also address protecting  
7 CWSNC from non-consummation of the Merger and the appropriate  
8 treatment of cost savings in future rate proceedings.

9 These recommended Regulatory Conditions are also intended to  
10 support the continued viability of CWSNC and to insulate and protect  
11 CWSNC and its North Carolina ratepayers from financial risks of  
12 Affiliates. They provide for protections regarding dividend  
13 distributions, maintenance of the level of CWSNC's common equity  
14 capital, and notices of certain investments, default, or bankruptcy.

15 Regulatory Conditions 5, 6, 7, and 11 relate to ring fencing. Condition  
16 6 prohibits CWSNC from paying any distribution in excess of 100%  
17 of CWSNC's net income.

18 Condition 7 ensures there is an investment grade profile which will  
19 protect ratepayers in several ways, including against a decrease in  
20 creditworthiness which could cause an increase in the cost rate of  
21 long-term debt. More specifically, Condition 7 requires an investment  
22 grade profile; discusses metrics that will be considered in assessing

1 same; requires the use of third-party consultants to evaluate the  
2 investment grade profile; mandates a meeting with the Public Staff  
3 regarding the financing of utility operations; provides for a  
4 comparison between private placement debt versus publicly traded  
5 debt instruments; requires an evaluation of whether there are  
6 opportunities for SRF funds; and ensures the Public Staff is not  
7 precluded from subsequently arguing the Merger has caused an  
8 inappropriate cost rate of debt.

9 Regulatory Condition 11 requires that CWSNC maintain common  
10 equity capital at levels equal to or greater than 45% of total adjusted  
11 capital. A common equity capitalization ratio of 45% until the final  
12 order is issued in CWSNC's next general rate case.

13 The legal entities comprising the post-Merger combined company  
14 are not publicly traded and do not make filings with the Securities  
15 and Exchange Commission (SEC). A publicly owned and traded  
16 corporation makes routine annual and quarterly SEC filings that may  
17 describe business operations, a history of events, operational and  
18 financial conditions, and insight into any risk, as well as the  
19 company's management team and legal proceedings. Notification  
20 filings describing unscheduled events such as a bankruptcy, material  
21 impairment, completion of acquisition or disposition of assets,  
22 departures or appointments of executives, and other events of

1 importance may also be filed with the SEC. In order to address risks  
2 and concerns regarding such information not being publicly  
3 available, Regulatory Conditions 8-10 include provisions that provide  
4 for the Commission and the Public Staff to receive the type of  
5 information contained in SEC filings.

6 **Regulatory Conditions 1, 2, and 4: Merger Benefits are Sufficient**  
7 **to Offset any Potential Costs and Risks**

8 These Regulatory Conditions are designed to benefit CWSNC's  
9 ratepayers by ensuring that cost savings associated with the Merger  
10 will be tracked and flowed back to ratepayers. As discussed above,  
11 Regulatory Condition 1 provides that any expenses or capital costs  
12 associated with the Merger will be excluded from the revenue  
13 requirement of CWSNC for Commission financial reporting and  
14 ratemaking purposes. Regulatory Condition 2 requires CWSNC to  
15 report the North Carolina portion of actual costs to achieve Merger  
16 savings and Merger benefits, and Regulatory Condition 4 addresses  
17 inclusion of cost savings in future rate proceedings.

18 **Regulatory Conditions 12-36: No Adverse Impact on Rates and**  
19 **Services**

20 These Regulatory Conditions are primarily designed to obtain a  
21 commitment from the new ownership that there will be no adverse  
22 impact on the rates and services provided by CWSNC to its North



1 Carolina ratepayers due to the Merger. They provide that after the  
2 close of the Merger, CWSNC shall continue its commitment to  
3 provide safe, reliable, and affordable water and sewer service and  
4 effective customer service support and maintain a level of capital and  
5 operational support in North Carolina necessary to achieve this  
6 commitment. These Regulatory Conditions also require that CWSNC  
7 (1) comply with all regulatory reporting requirements; (2) maintain  
8 sufficient, adequately trained personnel to ensure that regulatory  
9 reporting requirements are complied with in a timely and accurate  
10 manner; (3) notify the Commission before, and in no event more than  
11 10 days after, a change to any officer of CWSNC, Intermediate  
12 Newco, or Corix US occurs; (4) informally survey customers  
13 regarding their satisfaction with CWSNC's public utility service; (5)  
14 report annually on efforts to develop and retain qualified operators; ;  
15 (6) upon request, provide the Public Staff and the Commission with  
16 a confidential downloaded version of CWSNC's GIS map of  
17 specifically requested North Carolina service areas, provide the  
18 Public Staff with a direct staff contact as a resource for service area  
19 related inquires and mapping, and collaborate with the Public Staff  
20 to develop a process of sharing GIS data; and (7) develop a low-  
21 income customer assistance program.

22 These Regulatory Conditions also govern relationships and  
23 transactions between CWSNC and its Affiliates, including the

1 allocation of costs, the transfer pricing provisions that govern  
2 affiliated transactions, and the filing of affiliated transaction reports  
3 and agreements with the Commission.

4 **Q. What is the Public Staff's recommendation with regard to the**  
5 **Merger?**

6 A. The Public Staff recommends that the Commission approve the  
7 terms of the Stipulation reached by the Stipulating Parties, and that  
8 the Merger be approved, subject to the provisions of the Regulatory  
9 Conditions.

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

11 A. Yes.

**Summary of Testimony****Joint Testimony of Lynn Feasel, Lindsay Q. Darden, and John R. Hinton****Docket No. W-354, Sub 412**

The purpose of our direct and settlement testimony is to (1) present the results of the Public Staff's investigation of the application filed on November 23, 2022, by Carolina Water Service, Inc. of North Carolina, Corix Infrastructure (US) Inc., and SW Merger Acquisition Corp. (collectively, the Joint Applicants), pursuant to N.C. Gen. Stat. § 62-111 and Commission Rule R1-5 for authorization to engage in a business combination transaction, and (2) support the Joint Settlement and Stipulation (Stipulation) between the Joint Applicants and the Public Staff.

Based on its investigation and subject to the provisions of the Regulatory Conditions attached to the Stipulation as Appendix A, the Public Staff believes that the proposed merger meets the three-part test established by the Commission for determining whether a proposed utility merger is justified by the public convenience and necessity as required by N.C. Gen. Stat. § 62-111(a). Therefore, the Public Staff recommends that the transaction be approved.

This concludes the summary of our testimony.

1 MS. CULPEPPER: A testimony summary has been  
2 provided to the Commission, court reporter, and the  
3 parties.

4 CHAIR MITCHELL: Thank you, Ms. Culpepper.

5 MS. CULPEPPER: And the witnesses are  
6 available for Commission questions.

7 CHAIR MITCHELL: Just for the record, the  
8 parties to the proceeding have waived their  
9 opportunity for cross examination of these witnesses.

10 MS. SANFORD: Yes.

11 CHAIR MITCHELL: So we will move then to  
12 questions from the Commissioners, and I will start.

13 EXAMINATION BY CHAIR MITCHELL:

14 Q You-all, the three of you-all have been in the  
15 room the whole time this morning, is that  
16 correct?

17 A (Ms. Feasel) Yes.

18 A (Ms. Darden) Yes.

19 A (Mr. Hinton) (Nods head in agreement).

20 Q And did you hear the responses provided by  
21 witnesses for the Applicants to the questions  
22 that they were asked by Commissioners?

23 A (Ms. Darden) Yes.

24 A (Ms. Feasel) Yes.

1 A (Mr. Hinton) (Nods head in agreement).

2 Q Is there anything that you-all would like to say  
3 in response to any of the responses provided by  
4 the Company, or by the Applicants? I'm sorry.

5 A (Ms. Feasel) I don't have objections, just to  
6 make supplemental comments for some of the  
7 questions.

8 The first one is related to,  
9 does the Company anticipate any merger-related  
10 costs. And so for that one, we put that on Item  
11 1 of the Regulatory Conditions. So we are trying  
12 to hold the ratepayers harmless from any  
13 potential costs that are incurred because of this  
14 merger, because had this merger not happened  
15 these costs would not have incurred, so we put  
16 that here. The ratepayers will not pay the costs  
17 related to the merger. So that is my comment for  
18 that question.

19 Q Thank you, Ms. Feasel.

20 A (Mr. Hinton) I could possibly add to that. To  
21 one of the questions asked about the benefits  
22 that I believe Mr. Denton responded to. The one  
23 that focuses on me is protection against a  
24 decreased credit worthiness. I'm going to go

1 back a little to history as I do so often now.

2 Commissioner Clodfelter, about  
3 six years ago or maybe five years ago, asked the  
4 analyst from the Economic Research Division about  
5 the high cost of debt of Carolina Water, and the  
6 analyst responded it was reasonable. He could  
7 have better said it was not unreasonable.

8 There is a history of Carolina  
9 Water having a high cost of debt relative to Aqua  
10 and now Essential Utilities. It's largely due to  
11 one particular issuance that they did years ago,  
12 six and five-eighths interest rate, and it has a  
13 lot of prepayment provisions that make new  
14 financing not attractive for the companies. When  
15 they do, they make whole economic analysis, it's  
16 not worth -- economic to refinance that loan.  
17 It's always been a burr in my saddle. You can  
18 see it in the embedded cost of debts that we  
19 approve for Aqua and Carolina Water and it is a  
20 50 to even a higher basis point differentials  
21 when it's two companies, and that goes right to  
22 the ratepayer costs. So it hits me personally.  
23 They are open to a -- they  
24 agreed to a Condition that in a couple of years

1 go through an economic analysis, see about public  
2 issuance to have their stock publicly rated.  
3 That's, of course, not a fee item; it costs  
4 money. Fees are paid to S&P to do that  
5 valuation. It needs to be done, and I agree it  
6 needs to be done post-merger to get a more full  
7 picture of the economics of the merger, and they  
8 have agreed to this, and I think that's  
9 worthwhile. Because I hope that through that  
10 process of public issuances, they'll be in a  
11 better position to have cost of debt that will be  
12 more akin to what Aqua America has it today on  
13 its books.

14 Again, it was a private  
15 placement done years ago with the teacher's union  
16 and that was a costly issuance. At that time, it  
17 may have been reasonable. But the fact that they  
18 had these prepayment penalties or provisions, I  
19 think have been costly on our ratepayers, because  
20 I would have preferred that debt to be retired a  
21 long time ago.

22 There are other provisions in  
23 the Order that we feel -- I mean, in the  
24 Conditions, we feel appropriate. But that one

1 was particularly strong to me because it goes to  
2 the heart of the future environment where a  
3 bigger pool of investors will be available to bid  
4 on a debt issuance by -- that will be CIA, you  
5 know, Intermediate Newco, and the corporate  
6 general entity. They'll be issuing the debt. It  
7 will be a combined structure or they'll  
8 have some -- they'll have a relationship.  
9 Whenever anyone issues debt their rating will be  
10 cognizant of the parent entities. So this  
11 merger, even though the debt may be issued under  
12 a Corix headline, it will have an influence due  
13 with it, the merger we're approving today.

14 Q Thank you, Mr. Hinton.

15 A (Ms. Darden) I was going to add about the  
16 testimony that was given on the customer  
17 assistance plan, just that the Public Staff  
18 agrees with the philosophy that Carolina Water  
19 has focusing on, that it be administratively  
20 efficient and easy for customers to apply, and  
21 help as -- serve as many customers as possible.  
22 We know this is still in the infancy stage of  
23 planning but just that we discussed and  
24 philosophies align with what Carolina Water



1 shared with us so far.

2 And then one more about your  
3 question that you had about the actual men and  
4 women who are operating the systems. That's  
5 something that we discussed, too, and that's why  
6 we have the Reg. Condition Number 36 about, we  
7 know that this is an industry-wide problem of  
8 companies retaining and keeping good operators,  
9 and Carolina Water will be working with --  
10 providing a report as to document their work on  
11 that and their initiative on keeping the same  
12 concerns that you had mentioned, too.

13 Q Thank you, Ms. Darden. One follow up,  
14 Mr. Hinton, for you on the issue of public  
15 issuance. So I reviewed the proposed Reg.  
16 Conditions and, in particular, the one of which  
17 you speak, and my question for you is this. How  
18 likely is it that assuming the transaction were  
19 to be consummated as it's been proposed and as  
20 it's contemplated, that the -- that the public  
21 rating would be able to be achieved?

22 A (Mr. Hinton) I think it's quite reasonable.  
23 Again, they'll look at it, the cost of being  
24 publicly rated. They'll look at the benefits.

1           And we can review that decision through this  
2           process of meeting with the Company on a regular  
3           basis.

4                               SouthWest Water is publicly  
5           rated. I believe they issued them manually  
6           through, again, private placements, but  
7           apparently at one time in the past, they may have  
8           had a public issuance that was for debt. So, and  
9           at one time they were privately; they are a  
10          publicly-traded Company, and maybe that's when it  
11          goes back to. But I remember the first meeting  
12          we had with SouthWest Water on the merger and  
13          they acknowledged that they were publicly rated,  
14          and I talked to the finance person at that time.

15                              So I think it's -- to answer  
16          your question, I think it's very possible,  
17          because they will be combined together. Even  
18          though they may issue debt separately, they may  
19          issue -- you don't know how companies will evolve  
20          over time, and all dollars are green as I've  
21          testified to in the past. So you don't know  
22          how -- you know, when they issue the debt, the  
23          bond person that lends them the capital will be  
24          aware they're owned by, their ownership is shared

1 with SouthWest Water. So I think it's very  
2 possible.

3 Q And can you, just for my own edification, which  
4 entity would achieve the public rating, assuming  
5 the transaction occurs as it's contemplated?

6 A To be honest with you, I would assume it would be  
7 the Corix up, the Corix down policy, or maybe in  
8 whatever the Intermediate Newco eventually turns  
9 into. I mean, that name will not last forever I  
10 expect.

11 Q Okay.

12 CHAIR MITCHELL: Let my see if there are  
13 questions from other Commissioners? Commissioner  
14 Brown-Bland?

15 COMMISSIONER BROWN-BLAND: Just one of a  
16 general nature.

17 EXAMINATION BY COMMISSIONER BROWN-BLAND:

18 Q Has the Public Staff, in thinking about this  
19 combination, identified or seen that there would  
20 be any either additional efficiencies or  
21 additional levels of work created by the fact  
22 that you would now be overseeing a merged  
23 company, either for the Public Staff or the  
24 Commission? What change do you see or is it

1 going to be nontransparent to us, it will be just  
2 the same as we now see with CWSNC, well, the  
3 current Corix?

4 A (Mr. Hinton) On a capital level, it will largely  
5 be transparent.

6 A (Ms. Darden) I would assume the same on an  
7 operational level, too.

8 A (Ms. Feasel) The same.

9 COMMISSIONER BROWN-BLAND: Thank you.

10 CHAIR MITCHELL: Commissioner Kemerait?

11 EXAMINATION BY COMMISSIONER KEMERAIT:

12 Q Good morning, Mr. Hinton. Following up on Chair  
13 Mitchell's questions about I believe it's the  
14 Regulatory Condition 7(D), and dealing with the  
15 Company evaluating, accessing debt capital  
16 through a publicly traded debt instrument, and  
17 that Regulatory Condition states that the Company  
18 is to evaluate that within 36 months after the  
19 transaction. How did -- can you provide some  
20 information about how the 36-month period was  
21 determined?

22 A Yes. Originally, I wanted something less, but  
23 the Company argued that, and it made -- it was  
24 persuasive. That, like I alluded to earlier in

1 that if when S&P, and S&P would likely be the  
2 person who would rate this Company because they  
3 do more smaller waters than Moody's does, which  
4 tends to focus on the Duke Energy. They would  
5 want to look at the business operations, the  
6 financial operations of the combined entity over  
7 time. And these rating are not, are obviously  
8 never done in a vacuum, and financial benchmarks  
9 only take place about 40 to 50 percent of the  
10 weighting of a complete evaluation. So they  
11 would want to see if there are some shared  
12 economics, which we believe there should be and  
13 can be. So I think 36 months was a reasonable  
14 compromise because it made some sense.

15 Q And then, Ms. Darden, my last question deals with  
16 Regulatory Condition, I think 36, about providing  
17 annual reports, about efforts to develop and  
18 retain qualified operators. Is CWS experiencing  
19 any difficulties with retaining qualified  
20 operators that are in excess or different from  
21 the other water/wastewater utilities? Are their  
22 challenges greater or different?

23 A (Ms. Darden) The Public Staff's understanding is  
24 the challenges are the same. That it's something

1 that a lot of companies are struggling with now.  
2 It's apparent there's more contract operators  
3 that have been used just because of the shortage  
4 and retaining those employees. But it's kind of  
5 an industry-wide issue.

6 MS. KEMERAIT: Thank you.

7 CHAIR MITCHELL: Any additional questions  
8 from Commissioners?

9 (No response)

10 Questions on Commissioners' questions?

11 MS. CULPEPPER: No questions.

12 MS. SANFORD: No questions.

13 CHAIR MITCHELL: Okay. With that, you-all  
14 may step down and you're excused. Thank you very much  
15 for participating this morning.

16 MS. CULPEPPER: Chair Mitchell, I need to  
17 make a correction to what I stated earlier. There  
18 were four appendices.

19 CHAIR MITCHELL: Okay.

20 MS. CULPEPPER: One was for Ms. Chiu who was  
21 excused.

22 CHAIR MITCHELL: The record will so reflect  
23 that there were four appendices to the Public Staff's  
24 joint direct testimony.

1 MS. CULPEPPER: Thank you.

2 CHAIR MITCHELL: At this point, would it be  
3 helpful to take a five-minute recess?

4 MS. SANFORD: Yes.

5 CHAIR MITCHELL: We will be in recess until  
6 ten after eleven. Let's go off the record, please.

7 MS. SANFORD: Thank you.

8 (A recess was taken from 11:04 a.m.,  
9 until 11:11 a.m.)

10 CHAIR MITCHELL: Let's go on the record,  
11 please, ma'am.

12 CWSNC, or the Applicants, have you decided  
13 to recall your witnesses?

14 MS. SANFORD: Yes, we have, please.

15 CHAIR MITCHELL: Okay.

16 MS. SANFORD: We would like to recall the  
17 Panel. And as they're coming up, we've discussed this  
18 with the Public Staff, we would like to get the  
19 rebuttal testimony admitted and then we would like  
20 permission to ask two very brief clarifying questions.

21 CHAIR MITCHELL: All right.

22 MS. SANFORD: And we vetted this with the  
23 Public Staff.

24 CHAIR MITCHELL: Understood. Gentlemen,

1 just a reminder, you're under oath.

2 As a panel,

3 DONALD H. DENTON III, BRIAN D. BAHR, and

4 DANTE M. DESTEFANO;

5 having been previously sworn,

6 returns to the witness stand

7 and testified as follows:

8 MS. SANFORD: We're talking about rebuttal  
9 testimony at this point. This question is to all  
10 three of you. We will let you decide who answers.

11 DIRECT EXAMINATION BY MS. SANFORD:

12 Q Did you with cause to be filed on July 14th,  
13 2023, 29 pages of joint rebuttal testimony in  
14 question and answer form and one exhibit?

15 A (Mr. Denton) Yes.

16 A (Mr. DeStefano) Yes.

17 A (Mr. Bahr) Yes.

18 Q Well, everybody can answer. Was that document  
19 prepared by you or under your supervision?

20 A (Mr. Denton) It was.

21 A (Mr. DeStefano) Yes.

22 A (Mr. Bahr) Yes.

23 Q Do you have any corrections or additions to that  
24 document?



1 A (Mr. DeStefano) No.

2 A (Mr. Denton) No.

3 A (Mr. Bahr) No.

4 Q If you were asked the same questions, would your  
5 answers be the same or substantially similar?

6 A (Mr. Denton) Yes.

7 A (Mr. DeStefano) Yes.

8 A (Mr. Bahr) Yes.

9 A You prepared a summary. We distributed that  
10 earlier.

11 MS. SANFORD: We'd ask that the Panel's  
12 rebuttal testimony be marked for identification as  
13 premarked and admitted to the record, please.

14 CHAIR MITCHELL: Hearing no objection to  
15 that motion, it will be allowed.

16 (WHEREUPON, Joint  
17 Applicants Rebuttal Exhibit  
18 1 is marked for  
19 identification as prefiled  
20 and received into  
21 evidence.)

22 (WHEREUPON, the prefiled  
23 joint rebuttal testimony  
24 and summary of DANTE M.

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DESTEFANO, BRIAN D. BAHR,  
AND DONALD H. DENTON III is  
copied into the record as  
if given orally from the  
stand.)

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. W-354, SUB 412

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	)	JOINT REBUTTAL
Application by Carolina Water Service,	)	TESTIMONY OF DANTE M.
Inc. of North Carolina, along with Corix	)	DESTEFANO, BRIAN D.
Infrastructure (US) Inc. and SW Merger	)	BAHR, AND DONALD H.
Acquisition Corp., for Approval of a	)	DENTON III ON BEHALF OF
Business Combination Transaction	)	JOINT APPLICANTS

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**I. WITNESS INTRODUCTION AND BACKGROUND**

**Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

A. My name is Dante M. DeStefano, and I am the Director of Regulatory Affairs for Corix Infrastructure Inc. ("CII"). My business address is 500 W. Monroe, Suite 3600, Chicago, Illinois 60661.

**Q. ARE YOU THE SAME DANTE M. DESTEFANO WHO PREVIOUSLY FILED DIRECT TESTIMONY ON NOVEMBER 23, 2022, IN THIS PROCEEDING?**

A. Yes.

**Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

A. My name is Brian D. Bahr, and I am the Director of Rates and Regulatory Affairs for SouthWest Water Company ("SouthWest"), a subsidiary of SW Merger Acquisition Corp. ("SWMAC"). My business address is 1620 Grand Avenue Parkway, Suite 140, Pflugerville, Texas 78660.

**Q. ARE YOU THE SAME BRIAN D. BAHR WHO PREVIOUSLY FILED DIRECT TESTIMONY ON NOVEMBER 23, 2022, IN THIS PROCEEDING?**

A. Yes.

**Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

A. My name is Donald H. Denton III, and I am the Senior Vice President, East Operations for CII. My business address is 5821 Fairview Road, Suite 401, Charlotte, North Carolina 28209.

1 **Q. ARE YOU THE SAME DONALD H. DENTON III WHO PREVIOUSLY**  
2 **FILED DIRECT TESTIMONY ON NOVEMBER 23, 2022, IN THIS**  
3 **PROCEEDING?**

4 A. Yes.

5 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

6 A. The purpose of our rebuttal testimony is to address the Public Staff –  
7 North Carolina Utilities Commission’s (“Public Staff”) — proposed  
8 Regulatory Conditions filed as Public Staff Exhibit 1 (“Staff-Proposed  
9 Conditions”) to the Joint Testimony of Public Staff witnesses Lynn  
10 Feasel, June Chiu, Lindsay Q. Darden, and John R. Hinton on June 30,  
11 2023. More specifically, our rebuttal testimony offers some general  
12 comments regarding the Staff Proposed Conditions and specifically  
13 addresses each of the Staff Proposed Conditions individually.

14 **II. OVERALL COMMENTS AND GENERIC ISSUES**

15 **Q. DO THE JOINT APPLICANTS AGREE WITH THE STAFF-**  
16 **PROPOSED CONDITIONS?**

17 A. Yes, with certain modifications. Of the 37 Staff-Proposed Conditions, the  
18 Joint Applicants agree with five of them as proposed and with twenty-  
19 nine of them subject to minor, non-substantive modifications or  
20 clarification. The Joint Applicants do not outright reject any of the Staff-  
21 Proposed Conditions but respectfully assert that three of the Staff-  
22 Proposed Conditions are agreeable only if modified substantively.

1 Without substantive modification, these three conditions would lack  
2 sufficient justification, be vague, or be administratively onerous and  
3 unnecessarily costly relative to any potential benefits they may provide.  
4 For convenience, the Joint Applicants refer to these conditions as (1)  
5 Bucket One – Agreeable Conditions without Modification; (2) Bucket  
6 Two – Agreeable Conditions with Non-Substantive Modifications or  
7 Clarification; and (3) Bucket Three – Agreeable Conditions with  
8 Substantive Modifications.

9 An example of the overreach within the Staff-Proposed  
10 Conditions is the inclusion in certain commitments of investor entities  
11 that are only distantly related to the regulated utility, Carolina Water  
12 Service, Inc. of North Carolina (“CWSNC”). Some of the entities to which  
13 the Public Staff intends certain of the Staff-Proposed Conditions to apply  
14 are upstream shareholders with numerous other ownership interests  
15 and are inappropriate for inclusion in any conditions imposed in the  
16 instant proceeding. Further, the Joint Applicants are concerned that  
17 some of the Staff-Proposed Conditions are indeterminate to the extent  
18 that assessing compliance therewith would be difficult to measure, while  
19 others would require undertakings beyond the scope of a utility’s  
20 reasonable operations. Finally, in several instances, it is unclear why  
21 inclusion of certain conditions would be appropriate for the Proposed  
22 Transaction, and likewise unclear as to what benefit they may provide.

1 Joint Applicants Rebuttal Exhibit 1 to our rebuttal testimony  
2 contains the Joint Applicants' proposed Regulatory Conditions ("Joint  
3 Applicants' Conditions"). Joint Applicants Rebuttal Exhibit 1 to our  
4 rebuttal testimony also contains a table showing each of the Staff-  
5 Proposed Conditions and indicating, for each proposed condition,  
6 whether the Joint Applicants have accepted or proposed a modification  
7 (and to what degree - non-substantive or substantive).

8 **Q. DID THE PUBLIC STAFF'S TESTIMONY INCLUDE DETAILED**  
9 **JUSTIFICATION FOR THE STAFF-PROPOSED CONDITIONS?**

10 A. No. The Public Staff's testimony did not support Staff-Proposed  
11 Conditions Nos. 1-11 and only supported Staff-Proposed Conditions  
12 Nos. 12-37, grouped under the title "No Adverse Impact on Rates and  
13 Services," with very broad, general statements.<sup>1</sup> Regarding the 26  
14 conditions grouped under the "No Adverse Impact on Rates and  
15 Services" title, the Public Staff testified that these conditions were  
16 designed to ensure that there would be no adverse impact on the rates  
17 and services provided by CWSNC to its North Carolina customers after  
18 the Proposed Merger.<sup>2</sup> The Public Staff explained that these conditions  
19 would require CWSNC to: 1) comply with all regulatory requirements; 2)  
20 maintain sufficient personnel to satisfy regulatory reporting

<sup>1</sup> Beginning on page 12, at line 18 of its testimony, and continuing until line 22 of page 13.

<sup>2</sup> On page 12, beginning at line 20.



1 requirements; 3) make reasonable efforts to retain key staff serving  
2 North Carolina customers; 4) monitor and track customer satisfaction; 5)  
3 report annually on efforts to develop and retain qualified operators and  
4 research of the operator labor market; 6) notify the Public Staff when  
5 there are changes in regulatory or operational personnel at the  
6 management/supervisor level; and 7) develop a low-income customer  
7 assistance program.<sup>3</sup> Finally, the Public Staff explained that this group  
8 of the Staff-Proposed Conditions would govern relationships and  
9 transactions between CWSNC and its affiliates.<sup>4</sup>

10 **Q. DID THE PUBLIC STAFF PROVIDE ANY FURTHER SUPPORT FOR**  
11 **THE LANGUAGE IT USED IN THE STAFF-PROPOSED CONDITIONS**  
12 **TO WHICH THE JOINT APPLICANTS PROPOSE MODIFICATIONS?**

13 A. No. The Public Staff's testimony provided no further support or  
14 explanation for the language in the Staff-Proposed Conditions that Joint  
15 Applicants propose be modified.<sup>5</sup>

16 **Q. WHAT ARE THE KEY GENERIC ISSUES THAT THE JOINT**  
17 **APPLICANTS ADDRESS?**

<sup>3</sup> On page 13, beginning at line 6.

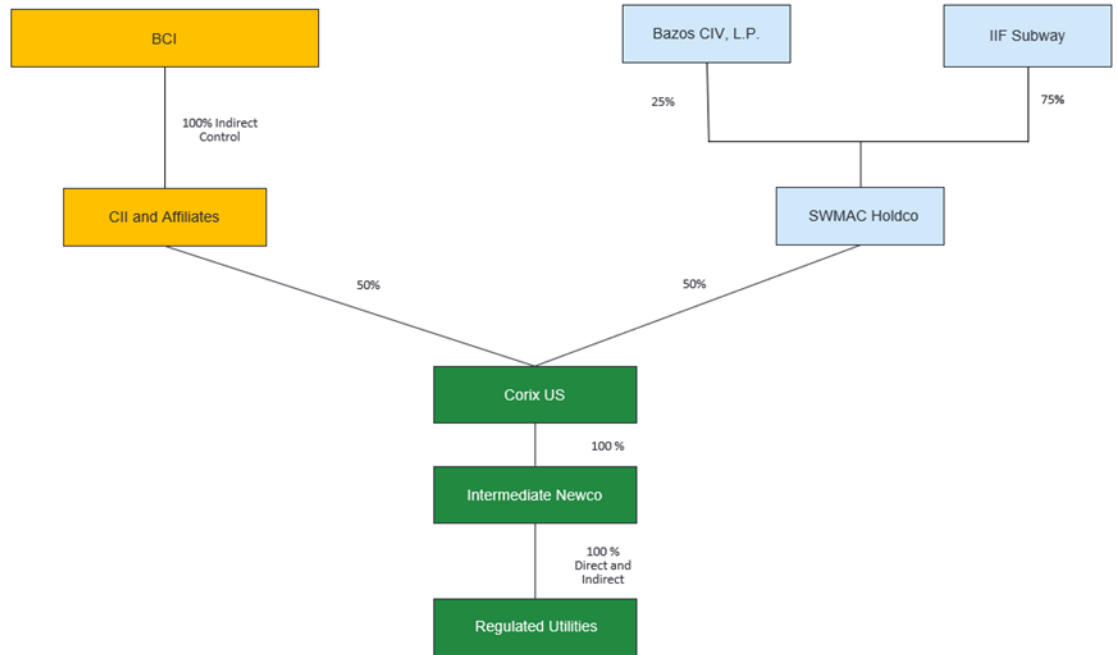
<sup>4</sup> On page 13, beginning at line 18.

<sup>5</sup> On page 9, at line 7 of its testimony, the Public Staff groups the Staff-Proposed Conditions "1-18" into a category titled "Ratepayer Protection from Potential Costs and Risks Associated with the Merger." The Public Staff then goes on to specifically support the Staff-Proposed Conditions Nos. 1-11 before categorizing the Staff-Proposed Conditions Nos. 12-37, as discussed above. It, therefore, appears there is a typographical error on page 9, line 7. It seems the first category should include the Staff-Proposed Conditions Nos. 1-11 and not 1-18. In any event, the Public Staff did not provide any specific support for the Staff-Proposed Conditions Nos. 13-18 in its section/category titled "Ratepayer Protection from Potential Costs and Risks Associated with the Merger."

1 A. They are: (a) the appropriate status of the various entities, with respect  
2 to the “reach” of the Staff-Proposed Conditions, as referenced above;  
3 (b) the limited support for many of the Staff-Proposed Conditions beyond  
4 conclusory assertions about their purported effectiveness; (c) the fact  
5 that many of the assertions are temporally unlimited; (d) the extent to  
6 which reporting contents and intervals should be designed with a  
7 rigorous focus on protecting customers while balancing the utility’s costs  
8 of compliance against the efficacy and value of the reports for the  
9 intended purpose; and (e) a recognition that some of the measures  
10 contained in a balanced set of the Staff-Proposed Conditions are well  
11 suited for guidance during the initial post-merger period, but should be  
12 designed to terminate after a certain period, unless the North Carolina  
13 Utilities Commission (“Commission”) determines later that they should  
14 be continued or otherwise modified.

15 **Q. WHICH OF THE ENTITIES LISTED BY THE PUBLIC STAFF IN THE**  
16 **STAFF-PROPOSED CONDITIONS SHOULD NOT BE INCLUDED**  
17 **WITHIN THE SCOPE OF THESE CONDITIONS?**

18 A. For context, it is important to understand the post-closing corporate  
19 structure, as shown in the Joint Application as Figure 2:



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The entities above Corix Infrastructure (US) Inc. (“Corix US”) and Intermediate Newco — CII and SWMAC Holdco, and their respective direct or indirect shareholders BCI, IIF Subway, and Bazos – are financial sponsors. Corix US and Intermediate Newco will have boards with independent directors and the board of directors of Intermediate Newco will be responsible for governance and, ultimately, the key decisions that impact the customers of the operating utilities, including CWSNC. In a recent similar transaction – Docket No. G-40, Sub 160 (In the Matter of Joint Application of Frontier Natural Gas Company and Ullico Infrastructure Hearthstone Holdco, LLC for Approval of the Sale and Transfer of Stock) – the regulatory conditions proposed by the Public Staff and approved by the Commission did not reach the financial

1 sponsors of the operating utilities. Instead, the conditions were limited  
2 to the entities with boards responsible for governing and making the key  
3 decisions that affect the customers of the relevant operating utilities.

4 Accordingly, the only entities to which any approved regulatory  
5 conditions should apply are CWSNC, Intermediate Newco, and Corix  
6 US. The relevant holding companies for the regulated utilities, including  
7 CWSNC, are Intermediate Newco and Corix US. The entities above  
8 Corix US are not among the Joint Applicants in this proceeding and  
9 should not be subject to conditions imposed as part of the Commission's  
10 approval of the Proposed Transaction.<sup>6</sup> The Joint Applicants'  
11 Conditions, enumerated in Joint Applicants Rebuttal Exhibit 1, reflect  
12 only the appropriate entities to which conditions should apply by  
13 appropriately excluding CII, SWMAC Holdco, IIF, Bazos, and BCI. The  
14 Joint Applicants have therefore defined "Affiliates" as Corix US and any  
15 business entity of which ten percent (10%) or more of the voting  
16 securities or interests are owned, directly or indirectly, by Corix US,  
17 including but not limited to CWSNC and Intermediate Newco.

<sup>6</sup> Consistent with the regulatory conditions set forth in Docket No. G-40, Sub 160, the regulatory conditions proposed by the Joint Applicants are limited to the utility platform company (in that proceeding, Ullico Infrastructure Hearthstone Holdco, LLC, and in this proceeding, Corix Infrastructure (US) Inc.) and relevant intermediary holding companies and do not extend, except in one limited respect, to the financial sponsors of the utility platform company. We excluded SW Merger Acquisition Corp., an applicant, from the regulatory conditions proposed by the Joint Applicants because that entity merges within and into Corix Infrastructure (US) Inc., with the latter being the surviving entity. Accordingly, any regulatory commitments made by SW Merger Acquisition Corp. would be become obligations of Corix Infrastructure (US) Inc. and therefore are redundant.

1                   Notwithstanding this, the Joint Applicants are willing to have the  
2                   parent entities, CII and SWMAC Holdco, acknowledge and consent to  
3                   the agreed-upon regulatory conditions.<sup>7</sup> This approach is consistent with  
4                   the approach taken by the Public Staff and the Commission in Docket  
5                   No. G-40, Sub 160.

6                   **Q.   WHY SHOULD THE STAFF-PROPOSED CONDITIONS BE**  
7                   **ADJUSTED IN SOME INSTANCES?**

8                   A.   The Joint Applicants understand the role of regulatory conditions in  
9                   these types of transactions and have committed to (or are in the process  
10                  of agreeing to) regulatory conditions in other jurisdictions in connection  
11                  with the Proposed Transaction.<sup>8</sup> Joint Applicants have also reviewed  
12                  regulatory conditions agreed to by parties in similar transactions  
13                  involving the acquisition of utility holding companies with utilities  
14                  operating in North Carolina. As such, Joint Applicants understand the  
15                  purpose and support the practice; however, it is important — both for  
16                  efficiency and as a best practice — to design each regulatory condition  
17                  to align with the specific details of this Proposed Transaction. Regulatory  
18                  conditions that would not support a regulatory purpose, or duplicate

<sup>7</sup> Intermediate Newco and SWMAC Holdco are entities that have not yet been formed but will be formed prior to the closing of the Proposed Transaction. As the Commission's approval of the Proposed Transaction will be conditioned on the Regulatory Conditions, the Regulatory Conditions will apply to Intermediate Newco and SWMAC Holdco only upon the closing of the Proposed Transaction.

<sup>8</sup> Joint Applicants have changed the word "Merger" to "Proposed Transaction" throughout our modified conditions to align with the terminology in the Joint Applicants' direct testimony and the Joint Application.

1 existing efforts or compliance requirements, would defeat the purpose  
2 to be served and would ultimately be wasteful of the time and other  
3 resources of all parties. Joint Applicants have proposed specific  
4 modifications and assert that, with these modifications, the Joint  
5 Applicants' Conditions adequately protect customers, given the relevant  
6 details of the Proposed Transaction.

7 **Q. SHOULD THE STAFF-PROPOSED CONDITIONS BE LIMITED TO A**  
8 **DISCRETE, INITIAL POST-MERGER PERIOD?**

9 A. Yes, where appropriate. Certain regulatory conditions will elicit  
10 information that the Commission and the Public Staff can utilize during  
11 the early post-merger period to track and assess how the combined  
12 companies are functioning, accounting for certain costs, and managing  
13 their operations. It is, understandably, a period of corporate and  
14 regulatory transition that warrants careful review. This period should  
15 give way, as soon as practicable, to a utility-regulator relationship that  
16 requires less incremental oversight and that becomes more reflective of  
17 the current regulatory environment expected efficiencies and ongoing  
18 operations emanating from the Proposed Transaction. Examples of  
19 suggested time limitations for certain regulatory conditions are  
20 addressed in Joint Applicants Rebuttal Exhibit 1.

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**III. BUCKET ONE – AGREEABLE CONDITIONS WITHOUT MODIFICATION**

**Q. PLEASE IDENTIFY THE STAFF-PROPOSED CONDITIONS THAT THE JOINT APPLICANTS ACCEPT WITHOUT MODIFICATIONS.**

A. The “Bucket One” conditions Joint Applicants accept, as proposed by the Public Staff, are the following:

- Condition 3 (Non-Consummation of Merger);
- Condition 11 (Common Equity Capital);
- Condition 14 (Access to Books and Records);
- Condition 21 (Regulatory Reporting Requirements)<sup>9</sup>; and
- Condition 24 (Overall Service Quality).

**IV. BUCKET TWO – AGREEABLE CONDITIONS WITH NON-SUBSTANTIVE MODIFICATIONS OR CLARIFICATION**

**Q. PLEASE IDENTIFY THE STAFF-PROPOSED CONDITIONS THE JOINT APPLICANTS ACCEPT, ALBEIT WITH SOME MINOR, NON-SUBSTANTIVE MODIFICATIONS OR CLARIFICATION.**

A. The “Bucket Two” conditions the Joint Applicants accept, with some minor, non-substantive modifications or clarification, are the following:

- Condition 1 (Transaction Costs and Accounting);

<sup>9</sup> Attachment A to Rebuttal Exhibit 1 contains the Joint Applicants’ list of Regulatory Reporting Requirements, and CWSNC will work with Staff to modify the list as needed.

- 1 • Condition 2 (Costs to Achieve Merger Savings);
- 2 • Condition 4 (Inclusion of Cost Savings in Future Rate
- 3 Proceedings);
- 4 • Condition 5 (Hold Harmless Commitment);
- 5 • Condition 6 (Distributions);
- 6 • Condition 8 (Notice of Certain Investments);
- 7 • Condition 9 (Notice of Certain Investments-Intermediate
- 8 Newco);
- 9 • Condition 10 (Notice by CWSNC of Default or Bankruptcy of an
- 10 Affiliate);
- 11 • Condition 12 (Post-Closing Financial Information);
- 12 • Condition 13 (Meetings with Public Staff);
- 13 • Condition 15 (Changes to Board of Directors or Management);
- 14 • Condition 16 (Notice and Consultation with Public Staff
- 15 Regarding Proposed Structural and Organizational Changes);
- 16 • Condition 18 (Financial Statements);
- 17 • Condition 19 (Obligation with Affiliates);
- 18 • Condition 20 (Capital Budgets);
- 19 • Condition 22 (Regulatory and Operational Staffing);
- 20 • Condition 23 (Customer Surveys);
- 21 • Condition 26 (Cost Allocation Manual);



- 1 • Condition 27 (Charges for and Allocations of the Costs of
- 2 Affiliate Transactions);
- 3 • Condition 28 (Transfer Pricing Between Affiliates);
- 4 • Condition 29 (Transfer of Services, Functions, Employees, or
- 5 Assets);
- 6 • Condition 30 (Affiliated Agreements);
- 7 • Condition 31 (Affiliate Transactions Report);
- 8 • Condition 32 (Service Area Reporting);
- 9 • Condition 33 (Geographic Information Systems (GIS) Mapping);
- 10 • Condition 34 (Emergency Operator System);
- 11 • Condition 35 (Customer Assistance Program (CAP));
- 12 • Condition 36 (Leadership Retention); and
- 13 • Condition 37 (Operator Development and Retention).

14 **Q. PLEASE EXPLAIN THE PROPOSED MODIFICATIONS OR**  
15 **CLARIFICATION TO THE STAFF-PROPOSED CONDITIONS IN**  
16 **BUCKET TWO.**

17 A. The “Bucket Two” conditions the Joint Applicants accept with minor,  
18 non-substantive modifications or clarification are briefly summarized  
19 below (and provided in full text on Joint Applicants Rebuttal Exhibit 1).  
20 Please note that annual reporting dates were adjusted to April 30 to  
21 synchronize with the typical filing date for CWSNC’s Commission Annual

1 Report, which will allow for efficient consolidation of reporting efforts,  
2 align with the workflow of the Annual Report, and limit filing costs.

- 3 • Condition 1 (Transaction Costs and Accounting), Condition 2  
4 (Costs to Achieve Merger Savings), and Condition 4 (Inclusion of  
5 Cost Savings in Future Rate Proceedings) — we have added a  
6 definition of “Transaction Costs” prior to Condition 1, and have  
7 clarified that Transaction Costs, along with incentive and  
8 retention payments directly related to the Proposed Transaction,  
9 will be excluded from CWSNC for ratemaking purposes. In  
10 addition, we have clarified that “Integration Costs” — the costs of  
11 integrating administrative and general functions — may be  
12 recovered through rates only to the extent the benefits of  
13 integrating such functions exceed the costs. We also included  
14 into the Joint Applicants’ Conditions the Staff-Proposed Condition  
15 4 but streamlined associated reporting requirements. As stated in  
16 the Joint Application, the Joint Applicants accept that Transaction  
17 Costs will be excluded from rates but believe that costs incurred  
18 to achieve benefits for customers – benefits that would not be  
19 achievable but for the Proposed Transaction - should be  
20 recoverable to the extent of generated customer savings. These  
21 changes are consistent with the purpose of the Staff-Proposed  
22 Conditions, as well as similar transactions.

- 1                   • Condition 5 (Hold Harmless Commitment) — we merely changed  
2                   the standard for taking actions to hold customers harmless from  
3                   “reasonably necessary and appropriate” to “commercially  
4                   reasonable.” This standard is more appropriate for a business  
5                   while still adequately protecting customers.
- 6                   • Condition 6 (Distributions) — we kept the proposed 100% of net  
7                   income dividend limitation but modified this condition to terminate  
8                   after five years. Regulatory dividend limitations are fairly  
9                   extraordinary. While we accept this scrutiny for a period of time  
10                  after closing, absent compelling circumstances, which do not  
11                  exist here, the condition should terminate after a reasonable  
12                  period of time after closing.
- 13                  • Condition 8 (Notice of Certain Investments) — we have modified  
14                  this condition to require an annual report listing all legal entities  
15                  controlled by Corix US, including identification of any entity or  
16                  acquisitions representing 10% or more of Intermediate Newco’s  
17                  book capitalization. As modified, this condition would terminate  
18                  five years after closing. An annual report will provide the  
19                  Commission and the Public Staff with adequate information to  
20                  monitor any material acquisitions by Corix US and Intermediate  
21                  Newco post-merger, while being less burdensome for CWSNC.

- 1 In addition, five years is an adequate period of time for such close  
2 monitoring of post-merger Corix US acquisitions.
- 3 • Condition 9 (Notice of Certain Investments-Intermediate Newco)  
4 — we have modified this condition to require CWSNC to file a  
5 notice with the Commission within 10 business days after  
6 Intermediate Newco makes any application to any state  
7 regulatory commission to acquire a controlling interest in a public  
8 utility. This modified condition would terminate five years after  
9 closing. Again, five years is adequate for such close monitoring  
10 of post-merger Intermediate Newco acquisitions.
  - 11 • Condition 10 (Notice by CWSNC of Default or Bankruptcy of an  
12 Affiliate) — consistent with the discussion at the outset of Joint  
13 Applicant’s rebuttal testimony regarding the entities to which  
14 these regulatory conditions should apply, we have modified this  
15 condition, relating to notice of a default or bankruptcy, to be  
16 triggered by (a) a default of an obligation that is material to Corix  
17 US, Intermediate Newco, or CWSNC, or (b) a bankruptcy that is  
18 material to Corix US, Intermediate, Newco, or CWSNC. As stated  
19 previously, the entities above Corix US are financial sponsors;  
20 the relevant holding companies for CWSNC are Intermediate  
21 Newco and Corix US. Thus, the scope of this condition should be  
22 limited to the Corix US level.

- 1                   • Condition 12 (Post-Closing Financial Information) — consistent  
2                   with the comments above regarding the entities to which these  
3                   regulatory conditions should apply, we have modified this  
4                   condition relating to post-closing financial information to apply to  
5                   CWSNC, Intermediate Newco, Corix Regulated Utilities (US) Inc.  
6                   (“CRU US”), and SouthWest Water Company. Besides the  
7                   Commission-regulated CWSNC, these are the entities expected  
8                   to engage independent auditors after closing. In addition, we  
9                   have modified this condition to be filed no later than 30 days after  
10                  completion of the first year’s audit after the closing of the  
11                  transaction; this change was made to allow adequate time to  
12                  prepare and finalize financial statements, including completion of  
13                  any audits.
- 14                 • Condition 13 (Meetings with Public Staff) — As written, this  
15                 condition is overly broad because it unnecessarily extends its  
16                 application to distant, upstream financial sponsors that will not be  
17                 directly involved in CWSNC’s business and operations, and it is  
18                 temporally unlimited in scope. The Joint Applicants propose  
19                 modifying this condition to require CWSNC and a representative  
20                 from Intermediate Newco meet annually with the Public Staff “if  
21                 requested.” Additionally, the Joint Applicants propose limiting the

- 1 duration of this condition to a period of five years following the  
2 closing of the Proposed Transaction.
- 3 • Condition 15 (Changes to Board of Directors or Management) —  
4 Similar to Staff-Proposed Condition No. 13, this Condition is  
5 overbroad because it unnecessarily extends its application to  
6 distant upstream entities and is temporally unlimited in scope.  
7 The Joint Applicants propose removing the references to BCI,  
8 CII, Bazos, IIF Subway, and SWMAC Holdco and adding a  
9 reference to CRU US. Next, the Joint Applicants propose limiting  
10 the duration of this Condition to a period of five years following  
11 the closing of the Proposed Transaction. The Joint Applicants  
12 also propose clarifying that the Condition would require  
13 notification of changes “to the membership of the Board of  
14 Directors” and not require notification of “any changes to the  
15 Board of Directors.”
  - 16 • Condition 16 (Notice and Consultation with Public Staff  
17 Regarding Proposed Structural and Organizational Changes) —  
18 As written, this condition is overbroad because, similar to Staff-  
19 Proposed Condition Nos. 13 and 15, it unnecessarily extends its  
20 application to distant upstream entities. The Joint Applicants  
21 propose removing references to BCI, CII, Bazos, IIF Subway, and  
22 SWMAC Holdco. Staff-Proposed Condition No. 16 is also vague

1                   because it is not clear what would constitute a “significant  
2                   change” that would trigger the Condition’s requirements. The  
3                   Joint Applicants propose using “material” instead of “significant.”  
4                   The Joint Applicants propose removing “organization” and  
5                   “activities” and instead focusing on the Affiliates “*corporate*  
6                   structure” because organization could be interpreted as simple  
7                   staffing changes. The Joint Applicants also propose removing the  
8                   language “Upon request, or at least 60 days before such changes  
9                   are to become effective,” and inserting a sentence at the end of  
10                  Staff-Proposed Condition No. 16 stating that CWSNC shall inform  
11                  the Public Staff promptly of any such events and changes.

- 12                  • Condition 18 (Financial Statements) — As written, this condition  
13                  is overbroad because it is temporally unlimited in scope. The Joint  
14                  Applicants propose limiting the duration of this Condition to a  
15                  period of five years following the closing of the Proposed  
16                  Transaction. The Joint Applicants also propose changing the  
17                  deadline from “by the end of the first quarter of each calendar  
18                  year” to 30 days after completion of Corix Regulated Utilities (US)  
19                  Inc. and Intermediate Newco audited financial statements.<sup>10</sup>  
20                  Finally, the Joint Applicants propose modifying this Condition to

<sup>10</sup> The Joint Applicants note that not all listed entities will have audited financial statements but will provide the statements for those that do.

- 1 clarify that the financial statements shared will be provided  
2 confidentially.
- 3 • Condition 19 (Obligation with Affiliates) — regarding obligations  
4 relating to affiliates, we have clarified that CWSNC will not,  
5 without the Commission’s prior approval, guarantee any debt or  
6 credit instruments of Intermediate Newco or Affiliate unless such  
7 debt is incurred for the specific purpose of CWSNC’s system or  
8 operations. In addition, we have added that the proceeds of any  
9 debt incurred by CWSNC will only be used for purposes specific  
10 to its system or operations. This modification will enable joint or  
11 consolidated financings while protecting CWSNC customers by  
12 ensuring any CWSNC debt guarantees are limited to debt to be  
13 used for the CWSNC system for the benefit of CWSNC  
14 customers.
  - 15 • Condition 20 (Capital Budgets) — with regard to capital budgets,  
16 we have modified this condition to state that CWSNC shall  
17 maintain a level of capital and operational support in North  
18 Carolina necessary to provide safe, efficient, and reliable service  
19 at reasonable rates. In addition, we have committed that CWSNC  
20 will, for a period of five years after closing, provide to the Public  
21 Staff, on a confidential basis and for informational purposes, its  
22 internally approved capital budget for new, expanded, or



- 1 upgraded water and wastewater facilities in North Carolina, by  
2 April 30 each year. CWSNC does not currently prepare six-year  
3 capital budgets as proposed by Public Staff. Thus, we modified  
4 this Condition to provide internally approved capital budgets  
5 annually.
- 6 • Condition 22 (Regulatory and Operational Staffing) — regarding  
7 regulatory and operational staffing, we have modified this  
8 Condition by adding a prudent business practice standard and a  
9 termination date of five years after closing. A prudent business  
10 practice standard is appropriate and, as discussed previously,  
11 five years will provide an ample period of heightened post-closing  
12 scrutiny.
  - 13 • Condition 23 (Customer Surveys) — with regard to customer  
14 surveys, we have modified this Condition to include a prudent  
15 business provision and eliminated the portion relating to the types  
16 of questions, as this should be a management decision.
  - 17 • Condition 26 (Cost Allocation Manual) — with regard to a Cost  
18 Allocation Manual (“CAM”), we have modified this condition to  
19 require an updated CAM to be filed by April 30 of each year,  
20 rather than requiring filing of any changes within 10 days. In  
21 addition, we have limited the update requirement for structural  
22 changes to Intermediate Newco and companies below

- 1 Intermediate Newco. We have moved the requirement from Staff-  
2 Proposed Condition No. 27 — that the CAM must include a list of  
3 all goods and services that CWSNC provides to an affiliate, or is  
4 provided by an affiliate to CWSNC, on a frequent or continuing  
5 basis — to this Condition 26. This filing schedule will provide  
6 adequate notice while streamlining the companies' filing  
7 requirements.
- 8 • Condition 27 (Charges for and Allocations of the Costs of Affiliate  
9 Transactions) — with regard to charges for and allocations of the  
10 costs of affiliate transactions, we agree that affiliate transactions  
11 should be directly charged where practicable and limited the  
12 entities to which this Condition applies, consistent with the Joint  
13 Applicants' opening comments in this rebuttal testimony.
  - 14 • Condition 28 (Transfer Pricing Between Affiliates) — regarding  
15 transfer pricing between affiliates, we have accepted this  
16 proposed Condition, with the exception of requirements tied to  
17 fair market value. Shared services companies exist to provide  
18 services efficiently to a group of companies at a lower cost than  
19 can outside vendors. However, proving that each and every  
20 service provided is lower cost than fair market value would be  
21 extremely burdensome and costly.

- 1                   • Condition 29 (Transfer of Services, Functions, Department or  
2                   Assets) — we have modified this proposed Condition relating to  
3                   transfers of services, functions, departments, or assets in two  
4                   minor ways. First, we have made it an annual filing requirement  
5                   rather than 60 days prior to any such transfer. Second, we have  
6                   added a materiality requirement. This streamlined filing  
7                   requirement and a materiality standard will give the Commission  
8                   and the Public Staff adequate insight into future changes without  
9                   unduly burdening the companies.
- 10                  • Condition 30 (Affiliated Agreements) — we have modified this  
11                  Condition relating to affiliate agreements by adding a materiality  
12                  requirement.
- 13                  • Condition 31 (Affiliate Transactions Report) — with respect to  
14                  affiliate transactions reporting, we have simply made this  
15                  requirement commence on April 30, 2025 (for activities in  
16                  calendar year 2024), rather than March 31, 2024 (for activities in  
17                  calendar year 2023), because we do not expect the Proposed  
18                  Transaction before the fourth quarter of 2023 or early 2024.  
19                  Should the Proposed Transaction close in the fourth quarter of  
20                  2023, a report covering only one or two months would provide  
21                  limited value to the Public Staff and the Commission.

- 1                   • Condition 32 (Service Area Reporting) — it is not clear whether  
2                   the report contemplated would be limited to certificates of public  
3                   convenience and necessity granted in the year covered by the  
4                   report or during some other period. The Joint Applicants propose  
5                   clarifying Staff-Proposed Condition No. 32 by adding clarifying  
6                   language to the end: “during the prior calendar year.”
- 7                   • Condition 33 (Geographic Information Systems (“GIS”) Mapping)  
8                   —the Joint Applicants propose modifying this Condition to require  
9                   CWSNC provide a confidential, downloaded version of the GIS  
10                  data from CWSNC’s system in lieu of access. There are  
11                  cybersecurity risks associated with granting non-company  
12                  personnel direct access to CWSNC’s GIS system. If, for example,  
13                  the Public Staff’s or the Commission’s systems were to be  
14                  compromised, that might give the threat actor(s) access (or easier  
15                  access) to CWSNC’s systems, and vice versa.
- 16                  • Condition 34 (Emergency Operator System) — the Joint  
17                  Applicants have added a clarification to note that this Condition is  
18                  not intended to, and does not, modify any of the provisions in the  
19                  respective Emergency Operator orders issued by the  
20                  Commission, specifically including the Company’s right to petition

- 1 the Commission at any time to be discharged as the Emergency  
2 Operator, and the Commission's obligation to approve same.<sup>11</sup>
- 3 • Condition 35 (Customer Assistance Program ("CAP")) —  
4 regarding a CAP, we have accepted this condition, except for the  
5 proposed requirement that the companies make an annual  
6 goodwill contribution to fund the customer assistance program  
7 until the effective date of rates in CWSNC's next general rate  
8 case (or otherwise ordered by the Commission). It is reasonable  
9 to ask the companies to fund the initial development of the  
10 program, but, once developed with shareholder dollars and  
11 implemented, the program's administration should be funded  
12 through rates.
  - 13 • Condition 36 (Leadership Retention) — we have adjusted the  
14 Condition to require a notification to the Commission within 10  
15 business days after changes to key leadership positions, as  
16 opposed to notification 60 days prior to the change. This allows  
17 for the possibility of changes that are not known as far in advance  
18 as Staff's proposal. We also modified the time period for this  
19 Condition to five years, consistent with the Joint Applicants'  
20 proposal on other Conditions noted above.

<sup>11</sup> See, for example, paragraph 31(f), page 7, in the Commission's Order Appointing Emergency Operator for Mountain Air, Docket No. W-1148 Sub 28.



- 1                   • Condition 7 (Protection Against Decreased Creditworthiness);
- 2                   • Condition 17 (Mergers and Acquisitions); and
- 3                   • Condition 25 (Shared Goods and Services).

4   **Q.   PLEASE WALK THROUGH THE “BUCKET THREE” CONDITIONS**

5           **THAT JOINT APPLICANTS HAVE MATERIALLY MODIFIED AND**

6           **EXPLAIN THE PROPOSED MODIFICATIONS.**

7   A.   The “Bucket Three” conditions which the Joint Applicants have

8           materially modified are briefly summarized below (and provided in full

9           text on Joint Applicants Rebuttal Exhibit 1):

- 10                   • Condition 7 (Protection Against Decreased Creditworthiness) –
- 11                   The Joint Applicants propose modifying this Condition. Joint
- 12                   Applicant witness Lapson addresses Staff-Proposed Condition 7
- 13                   in her rebuttal testimony, and the Joint Applicants address the
- 14                   SRF portion of this Commitment. The Commitment is now
- 15                   consistent with witness Denton’s rebuttal testimony in Docket W-
- 16                   354, Sub 400, wherein CWSNC committed to applying for SRF
- 17                   “when possible and where feasible.”.
- 18                   • Condition 17 (Mergers and Acquisitions) – CWSNC confirms that
- 19                   it will comply with N.C.G.S. § 62-111(a). However, we consider
- 20                   this a Bucket Three modification because it limits the scope of
- 21                   Public Staff’s proposal, which would have required CWSNC to
- 22                   make a Section 62-111(a) application at least 180 days before

1 the proposed closing date of the merger or business combination.  
2 This is not always feasible and, more importantly, not required by  
3 North Carolina law. The Joint Applicants will, of course, comply  
4 with North Carolina law concerning mergers and acquisitions, as  
5 we have done with the current proceeding. But it is unreasonable  
6 to add an extra-statutory requirement that any such application  
7 must be filed 180 or more days before the proposed transaction  
8 closing date. While large mergers or combinations will likely not  
9 close within 180 days, smaller transactions certainly could be  
10 completed in less than 180 days. In addition, as written, Staff's  
11 Condition 17 is overbroad because it could apply to any  
12 acquisition or reorganization upstream from CWSNC that would  
13 neither materially affect nor result in a change in control of  
14 CWSNC. The Joint Applicants propose modifying Staff's  
15 Condition 17 to make clear that the Joint Applicants will comply  
16 with N.C.G.S. § 62-111(a). The Joint Applicants propose  
17 removing the language requiring the filing "at least 180 days  
18 before the proposed closing date..." The modified language will  
19 be sufficient to ensure Joint Applicants' compliance with  
20 applicable North Carolina law.

- 21 • Condition 25 (Shared Goods and Services) – this Condition, as  
22 drafted, would require CWSNC to provide the Commission with a



1 list of shared goods and services, along with the basis for each,  
2 within 90 days of Commission approval of the Staff-Proposed  
3 Conditions. The timing of this proposed Condition is not feasible.  
4 As we stated in our direct testimony, we plan to use existing  
5 affiliate agreements for shared goods and services post-closing  
6 until a new cost allocation methodology is developed and any  
7 applicable changes to existing affiliate agreements are needed.  
8 At that time, a new shared services agreement will be presented  
9 to the Commission for approval, consistent with the requirements  
10 of N.C.G.S. § 62-153. Accordingly, this Condition should be  
11 modified such that its need is obviated by the Joint Applicants'  
12 Condition 30.

13 **Q. DOES THIS CONCLUDE YOUR PREPARED REBUTTAL**  
14 **TESTIMONY?**

15 **A.** Yes, it does. However, we reserve the right to supplement this testimony  
16 as necessary if new information becomes available.

## SUMMARY OF DESTEFANO/BAHR/DENTON REBUTTAL TESTIMONY ,

The panel's rebuttal testimony discusses that of the 37 Staff-Proposed Conditions, the Joint Applicants agreed with five of them as proposed and with twenty-nine of them subject to minor, non-substantive modifications or clarification. The Joint Applicants did not outright reject any of the Staff-Proposed Conditions but respectfully asserted that three of the Staff-Proposed Conditions are agreeable only if modified substantively. The panel's rebuttal testimony explained why certain modifications were needed and offered a list of proposed modified regulatory conditions for the Commission's and Public Staff's consideration.

1 MS. SANFORD: Thank you. We also are asking  
2 for leave to ask two additional questions. Bear with  
3 me for one second and let me find my questions. And  
4 these are just questions for clarification based upon  
5 other testimony this morning. We want to be sure that  
6 the questions are -- that the answers are jointly  
7 understood.

8 CHAIR MITCHELL: I will allow that request.

9 MS. SANFORD: Thank you very much.

10 BY MS. SANFORD:

11 Q Is SouthWest publicly rated.

12 A (Mr. Bahr) Just for -- to ensure clarity of the  
13 record, SouthWest is privately rated, SouthWest  
14 Water Company.

15 Q SouthWest Water Company is privately rated.  
16 Thank you very much. And secondly, could you  
17 describe the commitments in 7(A) and 7(C), that's  
18 Reg. Conditions 7(A) and 7(C) with respect to  
19 ratings?

20 A (Mr. DeStefano) Yes. So the Companies, the  
21 parties have committed to analyzing credit  
22 worthiness and maintenance of the capital  
23 structure profile and investment rate profile and  
24 Intermediate Newco in (A) and CRU US in (C). The

1 last line of each clarifies that the companies,  
2 those entities are not committing to get rated,  
3 publicly or privately rated, but that this  
4 process is allowing for an analysis of credit  
5 worthiness without a rating.

6 MS. SANFORD: Thank you. We have no more  
7 questions.

8 CHAIR MITCHELL: Let me see if there are  
9 questions from Commissioners?

10 Just one clarifying question.

11 EXAMINATION BY CHAIR MITCHELL:

12 Q Mr. Bahr, you said SouthWest Water Company.  
13 Where -- just get me oriented on the org chart.  
14 I'm sorry, not on the org chart but on the  
15 figures, Figure 1 and Figure 2, included in the  
16 Application. Where is SouthWest Water Company on  
17 those, within those entities identified on  
18 those --

19 MS. GRIGG: May I approach?

20 CHAIR MITCHELL: You may. Go ahead.

21 MS. GRIGG: I've got it right here.

22 A (Mr. Bahr) Figure 1 and Figure 2. On Figure 1  
23 and Figure 2, the boxes denominated "Regulated  
24 Utilities", that's where SouthWest Water would

1 be.

2 Q Okay. Did you-all hear the testimony given by  
3 Public Staff Witness Hinton regarding Carolina  
4 Water's cost of debt?

5 A (Mr. Denton) Yes.

6 A (Mr. DeStefano) Yes.

7 Q Can you respond to the concerns expressed  
8 regarding high cost of debt relative to the other  
9 large water/wastewater provider in North  
10 Carolina?

11 A Yes. As Mr. Hinton noted, we have existing cost  
12 of debt that we've maintained over time. In  
13 recent years we've had new cost of debt. This is  
14 all at the CRU US Corix regulated utility's US  
15 level, which is the direct parent of CWSNC. New  
16 debt has come in as interest rates have dropped  
17 and we've had new issuances that have lowered our  
18 overall cost of debt substantially in the past  
19 several rate cases.

20 In going forward, as mentioned  
21 in Ms. Lapson's testimony, we will -- we  
22 anticipate having a broader range of debt  
23 providers available to the Company as we merge  
24 and pool our resources, and that we should be

1           able to facilitate lower cost of debt going  
2           forward than we currently have -- or currently --  
3           than we would have otherwise, excuse me, without  
4           the merger.

5    Q       Thank you for that testimony, Mr. DeStefano.  
6           Just one follow up there. I heard Mr. Hinton  
7           testify as to certain terms of that high-cost  
8           debt an older placement that the Company has not  
9           been able to refinance as a result of certain  
10          terms of that issuance. Did you-all hear that  
11          same testimony?

12   A       Yes.

13   Q       And as I understood his testimony, there's a  
14          buyout provision that makes refinance  
15          uneconomical for the Company. Did I  
16          understand -- did you-all understand his  
17          testimony the same way I did?

18   A       Yes. There's a make-whole provision on that  
19          particular issuance.

20   Q       And is that an -- in issuances in which the  
21          Company has participated post that particular  
22          high-cost transaction, just to identify it so we  
23          understand what we're talking about, are there  
24          similar terms on issuances that have occurred

1 since that high cost?

2 A To my knowledge, no, but I'm not 100 percent  
3 sure about that. I know that's the one that has  
4 come up, again from Mr. Hinton's testimony in  
5 rate filings and so forth, so that's been the  
6 focus as opposed to the other issuances.

7 Q Okay. And what I understood your testimony this  
8 morning to be that post that high-cost issuance  
9 the Company has engaged in subsequent issuances  
10 that has been at lower costs; is that correct?

11 A Correct. They've been -- yes. And just to  
12 clarify that initial issuance or the first one  
13 we're talking about was in 2006 and we've  
14 supported that that was a reasonable cost at the  
15 time based on the market conditions at the time.

16 Q Okay, understood. I just want to -- the way I  
17 understand your testimony today, Mr. DeStefano,  
18 is that the potential, the transaction for which  
19 you-all seek approval would allow the combined  
20 Company to access a larger pool of issuers; is  
21 that correct?

22 A Correct. Ms. Lapson supported that in her  
23 testimony in this case. Yes.

24 Q And do I understand your testimony today

1           correctly?

2    A       Yes, we agree with that.

3    Q       With the potential to provide more competitive or  
4           at least competitive cost of debt as a result; is  
5           that correct?

6    A       Yes. It puts us in a better position to manage  
7           the cost of debt going forward.

8                   CHAIR MITCHELL: Any additional questions  
9    from Commissioners? Go ahead, Commissioner  
10   Clodfelter.

11   EXAMINATION BY COMMISSIONER CLODFELTER:

12   Q       Mr. DeStefano, I remember very well the  
13           discussion about that high-cost debt. I think it  
14           was two rate cases ago. But what I don't  
15           remember, and so I'll ask you to refresh my  
16           recollection, what's the final maturity of that  
17           debt?

18   A       (Mr. DeStefano) I believe it's 2031 but we're  
19           paying down \$9 million every year on it. So it's  
20           becoming a much smaller -- again, and as we have  
21           new issuances, it's becoming a much, much smaller  
22           piece of the total debt.

23   Q       I just couldn't remember the final maturity. As  
24           I recall, though, the make-whole provision



1 doesn't terminate any sooner than final maturity  
2 so you carry that millstone all the way to the  
3 final maturity, correct?

4 A That's my understanding. But we do regularly  
5 reevaluate it to see if our position or economics  
6 have changed.

7 Q You do?

8 A Yes. We evaluate -- because the make-whole  
9 provision depends on the market conditions, so we  
10 do reevaluate it periodically to see if it --

11 Q Can you defease that debt? If market conditions  
12 should support a substitute issuance, could you  
13 defease it or does that trigger the make-whole  
14 also?

15 A Well, I would have to refer to the agreement on  
16 that. I'm not quite sure.

17 Q It's not that critical I just thought you might  
18 have the details off the top of your head. Thank  
19 you.

20 A Sure.

21 CHAIR MITCHELL: Let's see if there are any  
22 questions on the Commissioners' questions or on the --  
23 Ms. Culpepper, specifically on the two additional  
24 questions that Ms. Sanford asked of the witnesses.

1 MS. CULPEPPER: No questions.

2 CHAIR MITCHELL: Okay. Questions on  
3 Commissioners' questions?

4 MS. SANFORD: No questions. Thank you.

5 CHAIR MITCHELL: With that then, gentlemen,  
6 you-all may step down. Thank you for your  
7 participation in this proceeding and for being with us  
8 this morning.

9 (COURT REPORTER NOTE: Per Chair Mitchell's  
10 directive on page 36, lines 9-13, the prefiled  
11 rebuttal testimony of Ellen Lapson will be included at  
12 this point.)

13 (WHEREUPON, the prefiled  
14 rebuttal testimony of ELLEN  
15 LAPSON is copied into the  
16 record as if given orally  
17 from the stand.)

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STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. W-354, SUB 412

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	)	REBUTTAL TESTIMONY OF
Application by Carolina Water Service,	)	ELLEN LAPSON ON BEHALF
Inc. of North Carolina, along with Corix	)	OF JOINT APPLICANTS
Infrastructure (US) Inc. and SW Merger	)	
Acquisition Corp., for Approval of a	)	
Business Combination Transaction	)	

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1 **I. WITNESS INTRODUCTION AND BACKGROUND**

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

3 **A.** My name is Ellen Lapson, CFA. My business address is 370 Riverside  
4 Drive, New York, New York 10025.

5 **Q. ARE YOU THE SAME ELLEN LAPSON WHO PREVIOUSLY FILED**  
6 **DIRECT TESTIMONY ON NOVEMBER 23, 2022, IN THIS**  
7 **PROCEEDING?**

8 **A.** Yes.

9 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

10 **A.** My testimony responds to the testimony filed by the Public Staff – North  
11 Carolina Utilities Commission (“Public Staff”). More specifically, I  
12 address Public Staff’s proposed Regulatory Conditions Nos. 7 and 19  
13 filed as Public Staff Exhibit 1 (“Staff-Proposed Conditions”) to the Joint  
14 Testimony of Public Staff witnesses Lynn Feasel, June Chiu, Lindsay Q.  
15 Darden, and John R. Hinton on June 30, 2023.

16  
17 **II. RESPONSE TO PUBLIC STAFF’S PROPOSED CONDITIONS**

18 **Q. PLEASE PROVIDE YOUR OPINION CONCERNING PUBLIC**  
19 **STAFF’S REGULATORY CONDITION 7.**

20 **A.** I have several concerns with this proposed regulatory condition. First,  
21 the pro-forma financial ratio of 10.2% FFO to Debt that Public Staff cites  
22 – and then presses into service as a threshold ratio – is merely a pro-  
23 forma of 2021 financial ratios of two different companies which were

1 unrelated companies in 2021. Pressing the pro-forma ratio into service  
2 as a benchmark is both arbitrary (why assume that 2021 should  
3 constitute the threshold?) and hypothetical (i.e., the combined company  
4 is an entity that has never existed and never borrowed any money or  
5 raised any capital).

6 Second, we have no basis to imagine that the investors who lent  
7 money to either of the merger partner companies in the past based their  
8 investment decisions upon an expectation of FFO to Debt of  
9 10.2%. There is no reason to expect that Intermediate Newco's future  
10 cost of borrowing would be greater if the level of FFO to Debt is less  
11 than 10.2%. That is an entirely artificial threshold not based on any  
12 factual basis.

13 Third, when financial ratios are used as representations of  
14 creditworthiness in loan covenants or in merger conditions, it is  
15 conventional that the level of the threshold ratio allows leeway for a  
16 decline in the ratio, since financial ratios naturally vary from period to  
17 period. The threshold ratio should not be set at a level that admits no  
18 leeway. If the North Carolina Utilities Commission (the "Commission")  
19 wishes to establish a lower debt coverage threshold, I would naturally  
20 look to the S&P financial ratio benchmarks. It might be reasonable to  
21 establish a lower threshold at the border between the range that S&P  
22 calls "Aggressive" and the range called "Highly Leveraged." That border

1 is the ratio of FFO to Debt of less than 6%. Falling below 6% FFO to  
2 Debt would be an indicator of adverse credit implications.

3 Finally, the remedy cited in Staff-Proposed Condition No. 7 is  
4 vague and unworkable because it does not consider that financial  
5 markets change over time, and there could be higher or lower costs of  
6 debt in the future because of changes in market conditions. It would be  
7 difficult or perhaps even impossible to segregate how much the future  
8 interest cost is affected by change in “creditworthiness” versus how  
9 much is a product of changed market environment. This would set the  
10 stage for a regulatory dispute over how much the change in future  
11 interest costs results from a change in “creditworthiness” versus other  
12 factors.

13 **Q. HOW DO THE JOINT APPLICANTS PROPOSE TO MODIFY STAFF-**  
14 **PROPOSED REGULATORY CONDITION NO. 7?**

15 **A.** The Joint Applicants propose to simplify this condition to require that  
16 Intermediate Newco be established with a target investment grade  
17 capital structure and operated so as to maintain an investment grade  
18 profile, consistent with the commitment in the Joint Application. In  
19 addition, the Joint Applicants are willing to commit to, within 3 years after  
20 closing, evaluate the costs and benefits of (a) obtaining a credit rating  
21 for Corix US, and (b) accessing debt through public debt markets rather  
22 than private placements. Finally, the Joint Applicants are willing to  
23 commit to use reasonable efforts to obtain grants or revolving fund

1 loans. It is my understanding that this latter commitment would be in  
2 addition to a commitment in CWSNC's last rate case (Docket No. W-354  
3 Sub 400) to seek State Revolving Funds for certain projects.

4 It is my opinion that the Joint Applicants' proposal to modify Staff-  
5 Proposed Condition No. 7 adequately protects CWSNC's customers. As  
6 modified by the Joint Applicants, the condition ensures that Intermediate  
7 Newco is operated in a manner that is consistent with maintaining an  
8 investment grade profile. It ensures that Corix Regulated Utilities (US)  
9 Inc. – CWSNC's direct parent company and the company to which  
10 CWSNC looks for the purposes of setting its capital structure and cost  
11 of debt in rate setting proceedings – will analyze the costs and benefits  
12 of obtaining a credit rating and using public instead of private debt  
13 markets. Finally, CWSNC is committed to applying for SRF “when  
14 possible and where feasible.” Accordingly, I recommend that the  
15 Commission adopt the Joint Applicants' modifications to Staff-Proposed  
16 Condition No. 7.

17  
18 **Q. HAVE YOU A RESPONSE TO ANY OTHER STAFF CONDITIONS?**

19 **A.** Yes. Staff-Proposed Regulatory Condition No. 19 relates to obligations  
20 with affiliates. The Joint Applicants commit that, without the  
21 Commission's prior approval, CWSNC will not guarantee any debt or  
22 credit instruments of Intermediate Newco or any Affiliate, unless such  
23 debt is incurred for the specific purpose of CWSNC's system or



1 operations. Also, the proceeds of any debt incurred by CWSNC will be  
2 used only for purposes specific to its system or operations. This  
3 modification will enable joint or consolidated financings while protecting  
4 CWSNC customers by ensuring any CWSNC debt guarantees are  
5 limited to debt to be used for the CWSNC system for the benefit of  
6 CWSNC customers. In my view, this is a reasonable approach that is  
7 consistent with preserving CWSNC's creditworthiness.

8 **Q. DOES THIS CONCLUDE YOUR PREPARED REBUTTAL TESTIMONY?**

9 **A.** Yes, it does. However, I reserve the right to supplement this testimony  
10 due to new information becoming available.

1 CHAIR MITCHELL: We have come to the  
2 conclusion of this hearing. Any -- before I get to  
3 post-hearing filings, any other matters from the  
4 parties?

5 MS. SANFORD: No, ma'am.

6 MS. CULPEPPER: (Shakes head no).

7 CHAIR MITCHELL: Well, we'll call for  
8 post-hearing filings 30 days from the notice of  
9 issuance of the transcript. You-all may file them as  
10 early as you'd like but no later than 30 days. And  
11 with that, we will be adjourned. Thank you very much.

12 (The proceedings were adjourned)

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C E R T I F I C A T E

I, KIM T. MITCHELL, do hereby certify that the Proceedings in the above-captioned matter were taken before me, that I did report in stenographic shorthand the Proceedings set forth herein, and the foregoing pages are a true and correct transcription to the best of my ability.

Kim T. Mitchell

Kim T. Mitchell