

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1146, SUB 13
DOCKET NO. W-1328, SUB 10

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	
Application by Red Bird Utility Operating)	
Company, LLC, 1650 Des Peres Road,)	RED BIRD'S OBJECTIONS AND
Total Environmental Solutions, Inc., Post)	RESPONSES TO PUBLIC STAFF'S
Office Box 14056, Baton Rouge, Louisiana)	16 TH SET OF DATA REQUESTS
70898, for Authority to Transfer the Lake)	
Royale Subdivision Water and Wastewater)	
Utility Systems and Public Utility Franchise)	
in Franklin and Nash Counties, North Carolina,)	
and for Approval of Rates)	

NOW COMES Red Bird Utility Operating Company, LLC (“Red Bird”), pursuant to the Order Scheduling Hearings, Establish Discovery Guidelines, And Requiring Notice issued July 11, 2023 in these dockets (“Scheduling Order”), and objects to certain items included in Public Staff’s 16th Set of Data Requests in these dockets served at 4:20 p.m. on September 6, 2023, on the grounds set forth below.

1. **Economics of Scale:** Beginning on page 11, line 13 of his direct testimony, witness Cox lists the areas in which cost efficiencies in the operation of TESI’s water and wastewater systems could be achieved. Please provide the following information:
 - a. A detailed explanation of how cost efficiencies can be achieved in each area and a quantification of the cost savings before and after the transfer of TESI systems.
 - b. A detailed explanation of any analysis performed by Red Bird of the potential rate impact in the next rate case on both TESI customers and existing Red Bird customers if the transfer of the TESI systems to Red Bird is approved.
 - c. Measures Red Bird will implement to minimize the potential negative rate impacts for both existing Red Bird customers and TESI customers if the transfer is approved by the Commission.

- d. A detailed explanation for why the economies of scale Red Bird contends TESI will benefit from if the transfer is approved would not necessarily reflect cost savings compared to TESI's current operations expenses.
- e. Examples of expected capital cost savings through the CSWR's enhanced access to capital. If applicable, such examples could include access to debt capital at lower interest rates with CoBank and the State Revolving Fund for distressed water systems.

Objections and Response: Red Bird objects to DR 16-1 on the basis that it seeks production of information that is neither relevant to any issues that are or may be involved in these dockets, nor reasonably calculated to lead to the discovery of admissible evidence.

Red Bird further and specifically objects to DRs 16-1 through 16-4 to the extent that any of them request information relating to future potential rates or the impact on cost elements used in future potential rate proceedings, based on North Carolina Session Law 2023-67, entitled "An Act to Expedite Transfer of Water or Wastewater Public Utilities," which limits the issues to be decided by the Commission in these dockets, which concern only the proposed transfer of the TESI system to Red Bird and adoption by Red Bird of TESI's existing approved rates, to the following:

[Whether] the proposed grant or transfer, including adoption of existing or proposed rates for the transferring utility, is in the public interest, will not adversely affect service to the public under any existing franchise, and the person acquiring said franchise or certificate of public convenience and necessity has the technical, managerial, and financial capabilities necessary to provide public utility service to the public.

The request for production of information as to the potential impact on future rates is beyond the scope of the matters to be determined by the Commission in a system transfer proceeding and thus this request seeks to require Red Bird to prepare materials and information that it does not currently possess and that are neither relevant to any issues involved in these dockets, nor is the request reasonably calculated to lead to the discovery of admissible evidence.

Subject to and without waiving its objections, Red Bird responds as follows:

a. CSWR has found that many of the benefits that customers have experienced as a result of CSWR's acquisition of systems in North Carolina and other jurisdictions (including an improved quality of service, more timely resolution of customer concerns, and improved environmental compliance due to more experienced operators) may not directly result in cost savings and are difficult to quantify. Cost savings are typically achieved through the realization of economies of scale available at CSWR. These economies of scale are seen through the bidding process utilized by CSWR for the selection of an operations partner as well as the identification of a

construction partner for any necessary process improvements. Finally, cost savings are realized through economies of scale associated with CSWR's management of the system as part of a larger portfolio of water/wastewater systems.

b. Red Bird has not completed any study on the potential rate impact to either TESI's or Red Bird's current customers of the proposed TESI acquisition transaction because too many unknown factors and valuations would affect such a determination.

c. Please refer to the Company's response to subpart b.

d. Please refer to the Company's response to subpart a. As previously noted, TESI has decided to exit the water and wastewater utility business and already has sold its operations in Louisiana and South Carolina to Red Bird affiliates. TESI also has engaged Red Bird as contract operator of its North Carolina system because TESI no longer has personnel or employees to operate the system.

e. Because TESI has decided to exit the water and wastewater utility business altogether, it is doubtful TESI would have future access to capital at any cost. In contrast, as part of a growing utility business in North Carolina, it is believed that Red Bird will have access to reasonably priced debt at some point in the future. This belief is based on the ability of Red Bird's affiliates in Kentucky, Louisiana, and Missouri to obtain reasonably priced debt from CoBank. In addition, Red Bird has access to equity capital provided by CSWR, LLC.

2. **Financial Capacity:** Beginning on page 17, line 12 of his direct testimony, witness Cox describes Red Bird's financial capacity to acquire, own, and operate the TESI systems. Please provide the following information:

- a. An estimation of when Red Bird's initial rate case will be filed with the Commission.
- b. Assuming the transfer is approved, an estimation of the total working capital necessary to operate the TESI systems from the approval of the transfer until rates are approved by the Commission in Red Bird's initial rate case .
- c. A listing of each category of expense needed to operate the TESI systems and an estimate of the working capital needed for each category.
- d. A listing of the source(s) of funding Red Bird will use to pay for the estimated working capital listed in response to 2.b and 2.c.
- e. Plans and actions Red Bird will take if the existing financial sources are not sufficient to fund the working capital listed in response to 2.b and 2.c.
- f. An estimation of when Red Bird plans to pursue debt financing from non-affiliated commercial sources and the reason for doing so.
- g. Examples of sources of debt capital of other water and wastewater systems among the larger group of CSWR-affiliated utility companies. This response should identify the various source(s) of debt capital, and the jurisdiction, such

as the Cobank's loans identified in the Missouri Public Service rate case, WR-2023-0006, involving Confluence Rivers Utility Operating Company, Inc.

Objections and Response: Red Bird objects to DR 15-1 on the basis that it seeks production of information that is neither relevant to any issues that are or may be involved in these dockets, nor reasonably calculated to lead to the discovery of admissible evidence.

Subject to and without waiving its objections, Red Bird responds as follows:

a. Red Bird estimates that it will file an initial rate case within 24 months of the closing of the proposed TESI acquisition transaction, although that estimate depends on a number of factors – e.g., if and how quickly other pending acquisition applications are approved – over which process Red Bird has little or no control.

b. Please see the 5 Year Budget the Company filed as Attachment K to its Transfer Application. The “Funds Provided By Owner” line item represents an estimation of the working capital needed for this system.

c. Please see the 5 Year Budget the Company filed as Attachment K to its Transfer Application as well as the response to subpart b above. No further analysis has been conducted.

d. Red Bird will utilize equity capital provided by CSWR, LLC.

e. The Company has made no such plans and does not believe such plans are necessary.

f. The Company plans to pursue debt financing as soon it has achieved the cash flows necessary for banks to be willing to provide debt financing. Red Bird expects this to be achieved sometime following its first rate case.

g. Red Bird's utility operating company affiliates in Kentucky, Louisiana, and Missouri have each obtained debt financing from CoBank.

3. **Allocation of Cost:** Beginning on page 19, line 13 of his direct testimony, witness Cox describes services and duties that would be performed by personnel at CSWR's St. Louis office. Please provide the following information:

- a. A listing of each category of expense that are incurred by or directly assigned to Red Bird for its exclusive benefit.
- b. A listing of each category of expense that are charged to CSWR, LLC but benefit Red Bird in a directly identifiable way, in addition to insurance expense and software services listed on the allocation manual.
- c. A listing of each category of expense that are incurred by CSWR, LLC which must be indirectly charged to Red Bird.

- d. Changes in allocation percentages for the shared cost before and after Red Bird acquires the TESI systems. Please provide a workpaper to support the response.
- e. If the allocation percentage for the shared cost increases for Red Bird customers Red Bird after acquires the TESI systems, the actions Red Bird will take to protect all of its customers (both the existing Red Bird customers and former TESI customers).

Objections and Response: Red Bird objects to DR 15-1 on the basis that it seeks production of information that is neither relevant to any issues that are or may be involved in these dockets, nor reasonably calculated to lead to the discovery of admissible evidence.

Subject to and without waiving its objections, Red Bird responds as follows:

a. The Company does not allocate costs on a line-item basis. Categories that are allocated from CSWR, LLC to individual utility operating companies are detailed in the company's Cost Allocation Manual. Please find attached CSWR's Cost Allocation Manual, which outlines the process by which costs are allocated or directly assigned to all CSWR affiliates, including Red Bird.

b. Please refer to Red Bird's response to subpart a.

c. Please refer to Red Bird's response to subpart a.

d. Please refer to Red Bird's response to subpart a. Allocation percentages will vary depending on factors described in the Cost Allocation Manual.

e. Information requested by this subpart is unclear.

4. **Due Diligence Cost:** Please provide the following information regarding due diligence expenses incurred by the Company:
 - a. The account number and description in the Uniform System of Accounts to capitalize the due diligence expense.
 - b. Depreciation rates and the supporting documentation for the capitalization of the due diligence expenses.

Objections and Response: Red Bird objects to DR 15-1 on the basis that it seeks production of information that is neither relevant to any issues that are or may be involved in these dockets, nor reasonably calculated to lead to the discovery of admissible evidence.

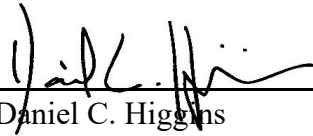
Subject to and without waiving its objections, Red Bird responds as follows:

a. See attached DR 16-4 Lake Royale Due Diligence List updated through 7/31/23. See Column E for USOA account number and column F for account description.

b. Due diligence cost are capitalized to 331.00, Transmission and Distribution Mains, at a depreciation rate of 2% for water, and 361.00, Collection Sewers, at a depreciation rate of 2% for sewer. In the 1996 version of the USOA-Water, page 72 section 183, Preliminary Survey and Investigation Charges states, "This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged."

Respectfully submitted, this the 9th day of September, 2023.

BURNS, DAY & PRESNELL, P.A.



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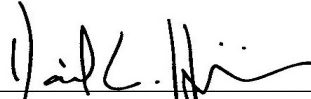
Attorneys for Red Bird

CERTIFICATE OF SERVICE

I certify that I have served a true and exact copy of the foregoing document on counsel of record for all parties to these dockets in accordance with Commission Rule R1-39, by United States mail, first class postage prepaid; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 9th day of September, 2023.

BURNS, DAY & PRESNELL, P.A.

By:  _____
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