

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. A-41, SUB 21

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

VILLAGE OF BALD HEAD ISLAND,)	
Complainant,)	
v.)	
)	
BALD HEAD ISLAND)	
TRANSPORTATION, INC. and)	
BALD HEAD ISLAND LIMITED,)	
LLC,)	
Respondents.)	

**PUBLIC REDACTED
DIRECT TESTIMONY
OF JAMES LEONARD**

September 8, 2022

1 **PUBLIC REDACTED LEONARD DIRECT TESTIMONY**

2 **Q: Could you please identify yourself for the record?**

3 **A:** My name is James Leonard, and I am a founding partner of Mercator
4 International LLC.

5 **Q: What is Mercator International?**

6 **A:** Mercator International is an independent and experienced advisor to
7 stakeholders across the global transportation sector. It provides services to a
8 diverse group of stakeholders operating in industries across the freight
9 transportation spectrum – from private equity investors looking for appropriate
10 infrastructure assets to carriers, port authorities, terminal operators, industrial real
11 estate developers, and beneficial cargo owners. Mercator regularly works for, and
12 addresses issues relevant to, port authorities, terminal operators, ocean carriers, rail
13 and motor companies, financial institutions, and real estate investors.

14 **Q: Could you describe for the Commission your experience with maritime**
15 **transportation issues?**

16 **A:** I have more than 40 years of experience in the transportation and
17 infrastructure field and have had a particular focus in shipping economics and port
18 strategies as well as the financial and operational analysis of a wide variety of

1 transportation businesses. I have designed and evaluated passenger and freight
2 transportation networks and marine terminals, developed operational and financial
3 models for transportation infrastructure projects, and evaluated and prepared
4 forecasts for cargo markets. I have developed productivity and profitability
5 improvement strategies for carriers and terminal operators, and have been deeply
6 involved in the design and construction of cargo ships.

7 I have considerable experience in shipping, ferry and maritime activities. I
8 provided market research, and commercial and operational planning for the Hawaii
9 Superferry system – an intra-island ferry system for the Hawaiian Islands. I have
10 provided network planning and forecasting for the Panama Canal Authority that
11 aided consideration of shipment volumes and demand for additional terminal
12 capacity, and have advised on financing for more than USD 1.5 billion of recent
13 port developments on the US East Coast.¹ I worked for Macquarie Capital to
14 identify, evaluate, purchase and manage infrastructure assets for Macquarie’s
15 infrastructure funds, and count as clients many leading infrastructure investment
16 funds which are actively investing in and managing transportation assets.

¹ Projects included bond financing of the PNCT expansion at the Port of New York, Seagirt terminal expansion at Port of Baltimore, Port Authority of South Carolina container expansions at Charleston; Georgia Port Authority container capacity expansions at Savannah.

1 I have provided expert testimony before the International Center for the Settlement
2 of Investment Disputes, the World Bank, the ICC International Court of
3 Arbitration, the U.S. Federal Maritime Commission, the Impact Assessment
4 Agency of Canada, and in cases before the United States District Court for the
5 Southern District of Florida.

6 My CV is attached as Exhibit A.

7 **Q: Are you familiar with the assets which are the subject matter of this**
8 **proceeding – the parking and tug/barge systems operated by Bald Head**
9 **Island Limited, LLC (“Limited” or “BHIL”)?**

10 **A:** Very much so. My firm, with me as the lead, conducted a detailed analysis
11 of the parking and tug/barge systems in 2017 as part of an overall analysis of
12 transportation and logistics assets held and operated by Limited as well as those of
13 Bald Head Island Transportation, Inc. (“BHIT”). That work, which involved more
14 than 500 person hours of effort, resulted in a 75-page, January 14, 2018 report,
15 “Bald Head Island Seller’s Due Diligence” that I understand has been produced to
16 all parties as a confidential document in this matter and is attached as Exhibit B.

17 Further, Mercator was subsequently engaged by the Bald Head Island
18 Transportation Authority (“Authority” or “BHITA”) in support of its efforts to
19 acquire the regulated and unregulated assets of BHIL and BHIT. Building on the

1 work performed for the Due Diligence report, Mercator prepared a “Bond
2 Feasibility Study” for the Authority that was designed to aid the efforts of the
3 transaction’s lead financial advisors – Davenport Capital Management and UBS.
4 Our report was aimed at providing assurance that the assets and operations being
5 acquired would allow the Authority to pay off its debts. This report was shared
6 with Standard and Poor’s, which on the basis of our work and their own analysis,
7 assigned an investment grade rating (BBB-) to the prospective debt offering. I
8 understand that the Bond Feasibility Study has been produced to all parties as a
9 confidential document in this matter and is attached as Exhibit C. Because of
10 events outside of Mercator’s control, only a draft of the Feasibility Study exists
11 because of the inability of the Authority to move forward with its acquisition of the
12 BHIL and BHIT assets.

13 **Q: What were the circumstances under which your work that resulted in**
14 **the Due Diligence report was conducted?**

15 **A:** The North Carolina General Assembly had passed, and the Governor had
16 signed into law, a bill that created a regional, multi-jurisdictional Authority to
17 which BHIL intended to sell the unregulated logistics assets at issue in this
18 proceeding – the parking and barge/tug systems – and to which BHIT also intended
19 to sell the ferry and tram systems that are currently regulated by the Commission.

1 **Q: What did you understand was the reason that the analysis and**
2 **conclusions in your report were sought?**

3 **A:** I understood there to be two objectives: 1) to identify any issues that would
4 best be addressed by the sellers (BHIL-BHIT) prior to undertaking a transaction, so
5 that BHIL could take steps to reduce the chance that a buyer would find a problem
6 with the assets or operations that might disrupt a sale process, and 2) to develop an
7 independent valuation of the assets to help the seller better understand the price at
8 which an arms length commercial transaction might be completed. We understood
9 that the need for this “commercial reference” was related to the mandate of the
10 Authority to purchase the assets at a price that reflected reasonable commercial
11 values that were in line with what the operations and assets would receive in a
12 private sale to a commercial buyer or investor.

13 **Q: Was Mercator hired to set the price for a transaction between Limited**
14 **and the Authority?**

15 **A:** No. Our work was undertaken to develop an estimated valuation to help the
16 parties come to an agreement on the market value for the underlying operations
17 and assets. With our report, including our analysis, assumptions, forecasts, and
18 models, the parties gained the tools to make further refinements and decide for
19 themselves on a valuation and transaction price.

1 **Q:** As we sit here today, of course, no sale to the Authority occurred. Has
2 there been any subsequent data that would support or contradict the
3 commercial value estimate you and Mercator developed for the Due Diligence
4 report?

5 **A:** We have not undertaken a new valuation since completing the Due
6 Diligence Report in 2018. Our estimate, based on analysis of then current data and
7 forecasting for future performance of the regulated and unregulated activities of
8 BHIT and BHIL, was that they had a combined, or collective Enterprise Value of
9 **[BEGIN CONFIDENTIAL]** [REDACTED] **[END**
10 **CONFIDENTIAL]**.

11 While passenger and freight traffic and the financial performance of the various
12 operations initially declined during the COVID pandemic, I understand the system
13 has largely returned to the traffic levels that we had forecasted.

14 As a result of the delays to the Authority transaction, some of the capital spending
15 that we had assumed a buyer would undertake, such as for the expansion of
16 parking areas, has already been incurred and paid for by BHIL, which would have
17 the effect of increasing the value.

18 I understand that in a private sale of those same assets to SharpVue Capital, LLC,
19 that is a part of the record of this proceeding, the portion of the \$67.7 million

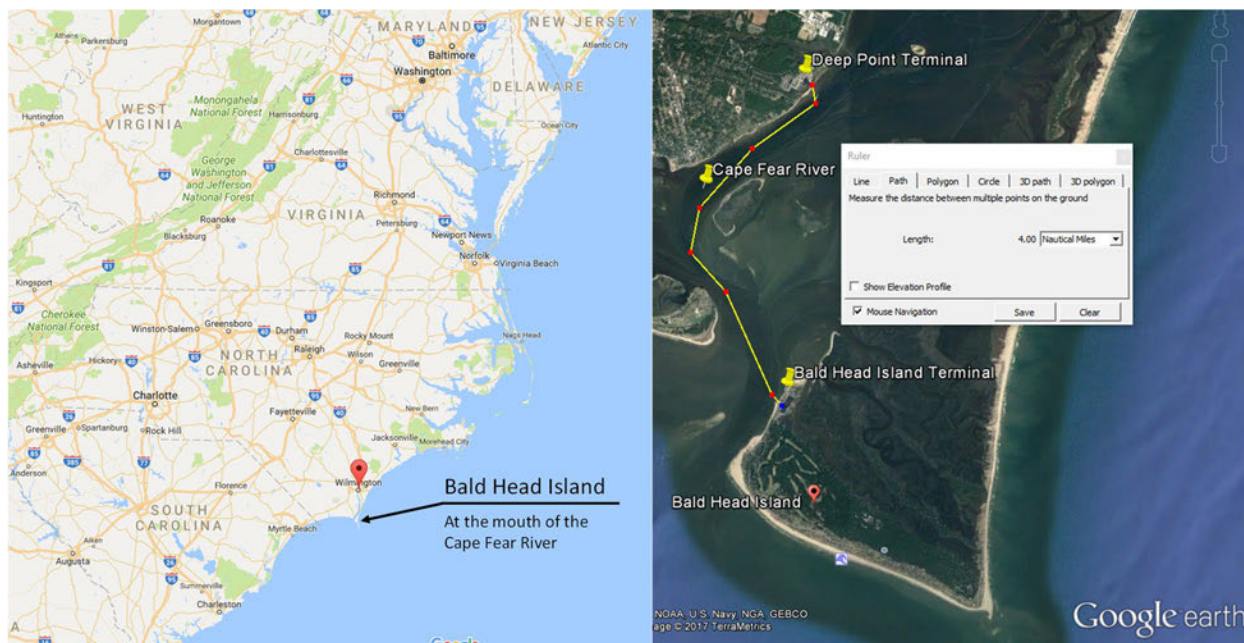
1 transaction between BHIL, BHIT and SharpVue that is allocated to the same assets
2 we valued, and which the Authority would have purchased, is approximately \$56
3 million, effectively the same amount as our estimate.

4 The Authority and BHIL had reached agreement on a sale of those same assets for
5 approximately \$48 million, about 15% less than our estimate.

6 Our estimated market value and the market reference from SharpVue would seem
7 to confirm that the Authority was poised to acquire them at or below fair market
8 value, satisfying what I understand to be the Authority's statutory obligation with
9 respect to the price to be paid.

10 **Q: So that the Commission has a frame of reference for the various assets**
11 **and operations at issue, could you briefly describe the regulated assets?**

12 **A:** First, of course, BHIT owns and operates a ferry that provides passenger and
13 luggage transport services across the Cape Fear River between terminals in
14 Southport, NC and on Bald Head Island, and a tram operation that transports ferry
15 passengers and their luggage to their ultimate destinations on the Island. BHIT is a
16 privately owned subsidiary of BHIL, and the rates and service of BHIT are
17 regulated by the Commission. For those that may not have visited the Island, or
18 have a frame of reference for how it is situated on the North Carolina coast, Figure
19 1 (*see Exhibit D*), below, illustrates it:



1
2 Figure 1: Location and route of the ferry and freight barge services across the Cape Fear River
3 As noted in Figure 1, a one-way trip is approximately 4 nautical miles and requires
4 about 30 minutes, including loading and discharge time. BHIT’s ferry operations
5 are conducted using four passenger ferries – the *Adventure*, *Sans Souci*, *Patriot*,
6 and *Ranger* – each capable of carrying 150 passengers. BHIT’s ferries typically
7 make a minimum of 17 roundtrip sailings per day during the low season and a
8 minimum of 24 during the summer season. BHIT’s ferries operate on a schedule
9 approved by the Commission, and our observation in producing the Due Diligence
10 report was that the ferry operation was well managed and carefully run, and
11 resulted in a high level of schedule integrity and vessel safety.
12 BHIT also provides tram service that carries passengers between the Island
13 terminal and their Island destination. This tram service is included in some NCUC

1 ticketing/tariff classes and not included in others. Our analysis indicated that on
2 average, no more than about [BEGIN CONFIDENTIAL] [REDACTED] [END
3 CONFIDENTIAL] of ferry passengers use the tram. For those that may not have
4 visited the Island or have a frame of reference for the tram's services, Figure 2 (see
5 Exhibit E), below, shows the typical tram equipment used:



6
7 Figure 2: BHIT tram truck and passenger trailer

8 Trams make one round trip in just under an hour, dropping and picking up
9 passengers along the way. Departing passengers are picked up on the round trip
10 and taken to the Island terminal.

11 **Q: Could you briefly describe the unregulated assets?**

1 A: BHIL operates a parking facility adjacent to the Deep Point Terminal in
2 Southport, as well as a tug/barge operation that operates between Southport and the
3 Island. Neither of these activities has ever been regulated by the Commission. As
4 of the December 2020 draft of the Feasibility Study for the Authority, there were
5 approximately [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]
6 dedicated to the parking operation (although some of these acres are comprised of
7 drive lanes and greenscape separating the terraced lots, and some are not fully
8 developed). Figure 3 (see Exhibit F), below, illustrates the layout of BHIL's
9 parking facilities: [BEGIN CONFIDENTIAL]

10



11

1 [END CONFIDENTIAL]

2 Figure 3: Deep Point Ferry landing terminal layout with developed parking lots

3 There were then [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]

4 paved/striped parking stalls in the Deep Point terminal lots when Mercator

5 conducted its analyses. Those [BEGIN CONFIDENTIAL] [REDACTED] [END

6 CONFIDENTIAL] parking stalls were segregated among several categories that

7 are associated with differing price levels and distances from the terminal, as set

8 forth, below, in Figure 4: [BEGIN CONFIDENTIAL]

General Lot	[REDACTED]
Premium Lot	[REDACTED]
Contractor Lot	[REDACTED]
Employee Lot	[REDACTED]
Total Stalls	[REDACTED]

9

10 [END CONFIDENTIAL]

11 Figure 4: Parking facilities at Deep Point Marina in 2020 (number of paved / striped stalls)

12 Since completion of the second Mercator report, parking capacity at Deep Point

13 has extended to [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]

14 after accounting for additional parking spaces recently added but not yet paved, as

15 reflected in Figure 5, below (see Exhibit G): [BEGIN CONFIDENTIAL]



(a) Lot also used by employees in winter and as overflow lot during summer.

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[BEGIN CONFIDENTIAL]

Figure 5: Parking facilities at Deep Point Marina (total spaces, 2022)

When the ferry system experienced its peak historical ridership in 2019, it resulted in a parking lot utilization of about [BEGIN CONFIDENTIAL] [REDACTED] [BEGIN CONFIDENTIAL] across the year, and approximately [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] during the June through August peak period ([BEGIN CONFIDENTIAL] [REDACTED] [BEGIN CONFIDENTIAL] during July). During certain peak periods, some cars are parked in unstriped or unpaved spaces, which allows reported utilization to exceed 100 percent.

The parking system run by BHIL is part of a larger Deep Point Terminal campus with a total area of approximately 76 acres. Within that larger tract, the terminal and associated ferry, parking and barge facilities (current and planned parking lots,

1 the maintenance and repair facility, the tug/barge operations area, dredge spoils
2 area, ferry marina, and other miscellaneous areas, cover approximately 57.4 of the
3 76 acres.

4 In addition to the Deep Point parking areas, BHIL also owns the parking lots that
5 previously served ferry operations at another site in Southport – Indigo Plantation.
6 Indigo Plantation had been the mainland terminus for the ferry until the Deep Point
7 Terminal opened in June 2009. Since then, BHIL has not had to utilize the Indigo
8 lots for overflow parking accessible via furnished shuttle, but could do so until that
9 property is re-developed.

10 As previously noted, BHIL also operates a tug and freight barge system that
11 provides year round, five day a week service between the Deep Point area and the
12 Bald Head Island Marina. This service utilizes a tugboat, the *Captain Cooper*, and
13 a 100-foot by 30-foot barge, the *Brandon Randall*. Round trip voyages require
14 approximately two hours, and demand is generally met by a schedule of four or
15 five sailings per day, five days per week. The barge is a roll-on/roll-off type –
16 carrying only vehicles, in varying sizes, up to and including large highway trucks
17 and construction vehicles. Space on the barge is sold for each six lane feet of space
18 taken up by the vehicle (i.e., larger vehicles can purchase 12-feet, 18-feet, or 24-
19 feet lengths, as needed).

1 **Q: How did you approach your analysis of the regulated and unregulated**
2 **assets in the process of examining them for potential purchase by the**
3 **Authority?**

4 **A:** As mentioned above, we approached the work from the perspective of an
5 infrastructure investor because we were interested in knowing what such a
6 commercial buyer would be willing to pay for the assets. We applied a
7 methodology commonly used by such investors, which is to model the operational
8 and investment cashflows for the various businesses and calculate the Net Present
9 value of those cash flows. Doing this required us to independently forecast ferry
10 passenger, barge traffic, and parking demand, and to calculate the associated cost
11 of operating, growing and maintaining the system over the 30-year analysis period.
12 The three distinct operations had been independently and separately operated by
13 BHIL and BHIT, and separate financial accounts at a fairly detailed level had been
14 maintained for each of the lines of business (ferry and on-island tram, freight barge
15 and parking), and so we built our revenue and cost models for each business along
16 the same accounting structure that was in use.

17 **Q: Did Mercator make a detailed analysis of whether the parking and**
18 **barge operations were conducted separate and apart from the ferry and tram**
19 **systems?**

1 **A:** Not specifically. In our engagements, we were not closely inspecting the
2 corporate boundaries of the entities because it was not relevant to our objectives.
3 Because the assets were all slated to be purchased by the Authority, a public entity
4 that would own and operate each of those business lines free of any oversight or
5 regulation by the Commission, there was no need to focus on the differentiation of
6 ownership. Our principal focus was to understand the drivers of revenues and
7 costs so that we had clean and transparent cash flow models, that reflected as
8 accurately as possible expected revenues and costs and that could be understood by
9 and relied upon by prospective investors, lenders, and ratings agencies.

10 In the course of interviewing the current operators and studying the historical
11 financial reports, we were nonetheless able to make several observations that relate
12 to your question. In a general sense, we did not observe any abnormalities that
13 raised red flags with respect to whether the separate business lines were, in fact,
14 being conducted separately. Our analysis included an examination of the finances
15 of the involved business lines (to extract the cost data and cost relationships needed
16 to construct our model), and we did not identify concerns about whether each of
17 the activities was appropriately accounting for its costs. The activity with the
18 greatest potential for misallocation of costs between operating groups was the
19 marine maintenance and repair (M&R) department of BHIT that supports both the

1 passenger ferry operation and the tug and freight barge system. We did not uncover
2 issues that gave us concern.

3 The M&R facility is shown in Figure 5 (*see* Exhibit H), below:



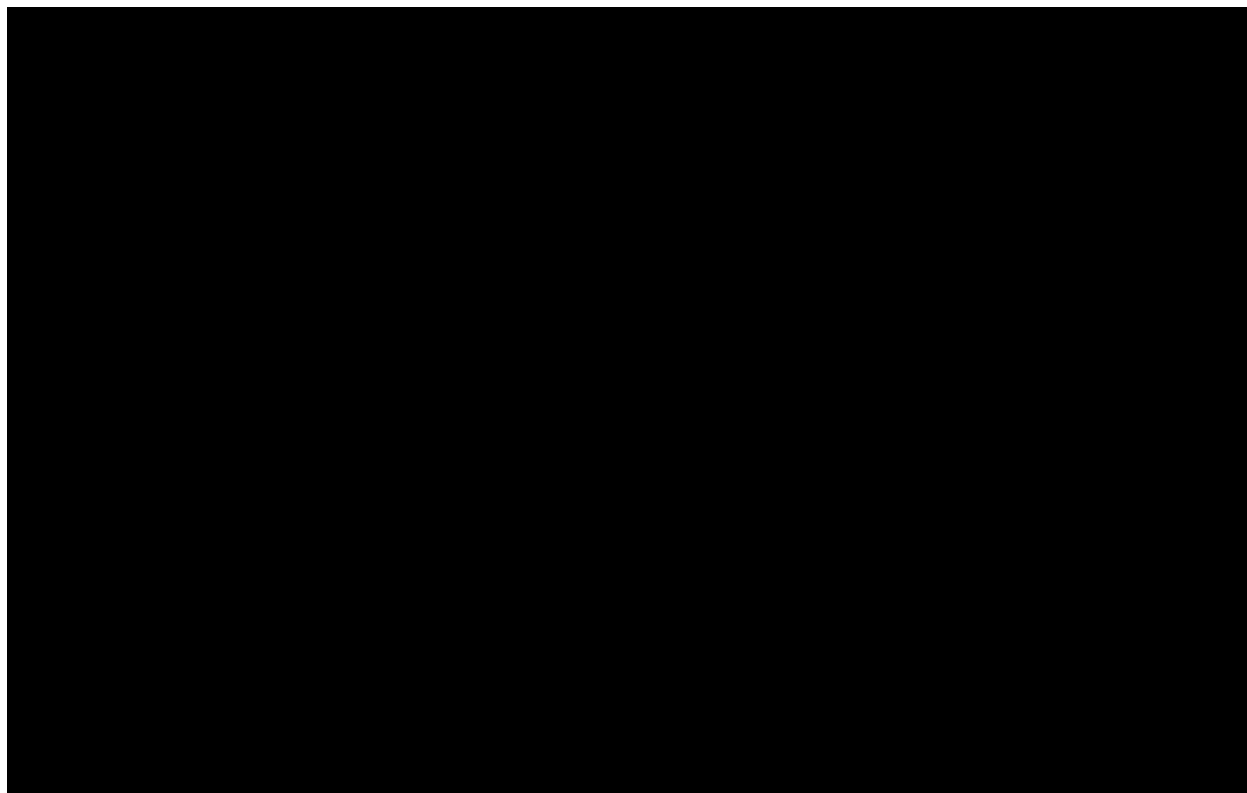
4
5 **Figure 5: The Marine Maintenance Facility at Deep Point**

6 Because the maintenance work required by the ferry fleet and the tug/barge fleet is
7 so similar, it is natural to use the same staff and shop resources to support both
8 operations, and this is what BHIL and BHIT did. The dedicated facility shown in
9 Figure 5 is located immediately adjacent to the Deep Point Marina piers where the
10 ferries and the tug and freight barge are kept when not in active service.

1 Moreover, our analysis included a detailed inspection and examination of the Deep
2 Point terminal, which serves as the base for several BHIT and BHIL operations.
3 Our inquiry showed the custom and practice of BHIL and BHIT was to allocate
4 costs and expenses among the appropriate entities. I understand those issues are
5 further discussed in the direct testimony of BHIL's CFO Shirley Mayfield.

6 **Q: In the course of preparing the Due Diligence and Bond Feasibility**
7 **studies, did Mercator make assessments about the relative values of the**
8 **involved business lines conducted by BHIL and by BHIT as they related to the**
9 **overall evaluation to support purchase by the Authority?**

10 **A:** Yes, with our 2018 analysis, we concluded that nearly [BEGIN
11 CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] of the value of the
12 overall enterprise to be sold by BHIL and BHIT was accounted for by the parking
13 system operated by BHIL. Approximately [BEGIN CONFIDENTIAL] [REDACTED]
14 [REDACTED] [END CONFIDENTIAL] of the value was attributable to the tug and
15 freight barge operations, with the remaining approximately [BEGIN
16 CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] accounted for by the
17 ferry and tram business. Those segment valuations are charted in Figure 6 (*see*
18 Exhibit I), below: [BEGIN CONFIDENTIAL]



1

2 **[END CONFIDENTIAL]**3 **Figure 6: Enterprise Value Segments of BHIT's Regulated and BHIL's Unregulated Assets**4 **Q: What is the primary driver of the [BEGIN CONFIDENTIAL]**

5 **[REDACTED] [END CONFIDENTIAL] percentage value of the parking**
6 **and lease activity as opposed to the tug and freight barge or the ferry and**
7 **tram systems?**

8 **A:** As mentioned earlier, our valuation was developed using the discounted cash
9 flow method. The ferry has positive and growing EBITDA (earnings before
10 interest, taxes, depreciation and amortization), but it also has a substantial
11 requirement for new capital expenditures, including the replacement of ferries and
12 the upgrading and renovation of terminal and wharf facilities. The parking

1 business has positive and growing cash flows, with a lower capital requirement for
2 future capital expenditures. I would also note that in our 2018 report, we assumed
3 that the “parking and terminal” segment became the owner of the Deep Point
4 campus, and so became the recipient of the [BEGIN CONFIDENTIAL] [REDACTED]
5 [REDACTED] [END CONFIDENTIAL] lease payment that has historically been made
6 by BHIT to BHIL. If we had assumed that after the sale the regulated ferry
7 business became the owner of the terminal, then the value of the terminal would
8 have been reflected in the ferry valuation.

9 I would also mention that the 2018 parking segment valuation of [BEGIN
10 CONFIDENTIAL] [REDACTED] [BEGIN CONFIDENTIAL] was checked using
11 the “capitalization rate” approach that is commonly applied to income generating
12 real estate assets. Applying a 7% capitalization rate (which we had found at the
13 time to be a reasonable rate for real estate that was used for parking operations) to
14 the expected 2018 EBITDA of [BEGIN CONFIDENTIAL] [REDACTED] [END
15 CONFIDENTIAL] yielded a value of [BEGIN CONFIDENTIAL] [REDACTED]
16 [END CONFIDENTIAL] for the terminal and parking sector alone, which
17 confirmed as conservative the valuation we had derived using our discounted cash
18 flow model.

1 We did not undertake a “highest and best use” analysis for the Deep Point land,
2 which may have shown that development of the 40+ acre waterfront property for
3 use as something other than a ferry terminal parking lot (such as a mixed use
4 residential / retail / entertainment property, for example), yielded a higher value,
5 but rather assumed that the property would continue to be used to support a
6 parking operation.

7 **Q. Do you consider maritime transportation and parking to be similar**
8 **businesses?**

9 **A.** The scheduling and operational complexity, importance of operational
10 execution and need for highly trained staff, capital requirements and maintenance
11 requirements, the revenue streams, safety risks for people and assets, etc. of ferry
12 operations are quite different than for parking operations, so I would not consider
13 them to be similar businesses.

14 **Q: Based on your review of market participants, and arrangements for**
15 **parking for ferry passengers across the country, do you have an opinion as to**
16 **whether ferry services and parking services are so integrated that they must**
17 **be regulated as if they were a single operation?**

18 **A:** My observations and experience in maritime transportation and my research
19 into the industry has afforded me the opportunity to contrast and compare some of

1 the similarities and differences in ferry and parking arrangements. The functional
2 relationships that we see between BHIL’s parking and BHIT’s ferry operations
3 suggest that these business lines are commercially complementary. We do not have
4 the same ridership and parking data for other ferry systems around the country that
5 we have for BHIL, but we would expect relationships to be similar.

6 As summarized in the table set forth in Exhibit J, passenger ferries exist in a
7 variety of settings. For example, the ferries serving Catalina Island in California,
8 Fire Island in New York, and some of the Rhode Island-based ferries that serve
9 Block Island operate with no parking at all that is controlled or offered by the ferry
10 operator. Parking facilities are provided by third-party parking operations. In
11 some markets, the ferry operator does operate the parking facilities, often with
12 differentiated levels of price and service (valet / on dock / near dock / offsite,
13 shuttle served). We see this, for example, in the Mackinac Island market in
14 Michigan. In some markets, notably from Cape Cod to Nantucket and Martha’s
15 Vineyard, the ferry operator offers parking alongside third-party lots, each serving
16 the same passenger base.

17 I also see that in some markets, such as Catawba OH to Put-in-Bay OH, parking
18 costs are low or even “free” for daytrip riders (which is to say included in the price

1 of the ferry ticket, which in this case is over \$50 per passenger), but with a charge
2 for overnight parking.

3 It is also interesting to take note of the range of parking rates (prices) that exist
4 across North America, which range from free or nearly free for day-use to more
5 than \$30 per night. My research revealed rates of \$45/night at Star Line in
6 Michigan; \$25/day at Davis Park in New York; up to \$30/day at Newport Beach,
7 California.

8 What I take away from my canvassing of ferry operations around the country is
9 that parking can be provided to ferry riders in a number of ways. We also note that
10 we found no evidence that parking rates were being regulated in any of these ferry
11 markets, whether or not ferry operators were subject to regulation of passenger
12 fares or not.

13 The existence of multiple parking supply models indicates that the two activities
14 are NOT so integral to one another that they should be regulated as one, despite the
15 fact that the past economic success of the parking operation can be linked to the
16 existence and usage of a ferry system. Indeed, in Long Beach, for example, where
17 the ferry is operated by Catalina Express, the operator of a parking lot used by the
18 ferry's passengers (the commercial parking operator ABM Parking Services)

1 would find it quite a surprise that its rates should be regulated by the same
2 authorities that regulate a transportation utility.

3 **Q: If the Commission should determine that the operation of parking lots is**
4 **integral to the delivery of ferry service, are there issues you would commend**
5 **to its attention with regard to the continued operation of a parking system?**

6 **A:** What I believe to be critical for ferry riders is that there is reasonable access
7 to a sufficient amount of suitable parking facilities. Based on our observation of
8 other systems, the parking does not need to be provided by the ferry system
9 operator, and it does not need to be located at the ferry terminal. Remote parking
10 served by shuttle is a common solution for passenger ferries and could be an option
11 for the BHI ferry, just as it is at airports all across North America.

12 The concern I heard during the BHITA's public meetings in early 2021 (when the
13 Authority was seeking approval to issue bonds for the acquisition of the system)
14 and that I read in the submitted comments, was not centered on the cost of parking
15 but rather was focused on the availability of parking and the ability to expand
16 parking capacity as and when needed. Economic principles tell us that a good way
17 to reduce the supply of a good or service is to drive down its price, and so it would
18 seem that price regulation of parking would run counter to the desire that more
19 parking be created. Although capacity has been expanded since 2021, a change in

1 how parking is operated and priced could of course have an impact on future
2 capacity additions.

3 Given that many other ferries operate successfully with remote parking that is
4 efficiently served by shuttle, it would seem reasonable that the Commission not
5 regulate parking, but rather that it ensure that parking is available *either* at the
6 terminal or in convenient community locations, and that independent parking
7 operators be allowed to access the market.

8 **Q: Did Mercator identify in its research that the parking system operated by**
9 **BHIL has experienced frequent, or large, price increases?**

10 **A:** No. Based on data provided by BHIL, parking rates have increased only
11 modestly since 2009 when the ferry operation moved to Deep Point from Indigo
12 Plantation. There was a \$1/day increase in 2019 and another \$1/day increase in
13 2021, each applicable to the daily lots that I understand account for about [BEGIN
14 **CONFIDENTIAL**] [REDACTED] [END CONFIDENTIAL] of parking revenue.
15 Considering the price increases from 2009 to 2021, I calculate that parking rates
16 for all categories except contractors have increased at well below the rate of
17 inflation. An historical accounting of BHIL's parking rates is included as Exhibit
18 K.

1 Furthermore, Contractors and employees may now take advantage of the new “90
 2 Use Daily Exit Pass” that was introduced in 2019 and which dramatically reduced
 3 parking costs. With the new multi-use ticket, the cost per day for frequent daily
 4 users of the parking lots is reduced to about 50% of the normal daily price.² That
 5 pricing innovation reduces costs for both contractors and employees who pay their
 6 own costs to travel to the Island for work, and for the businesses who pay these
 7 costs for their employees.

8 Current parking rates at the Deep Point Facility are summarized in Figure 7 (*see*
 9 Exhibit L), below:

DEEP POINT PARKING RATES				
Class	Premium	General (a)	Contractor	Employee
Annual Pass	\$1,350.00	\$1,200.00	\$700.00	\$650.00
General Daily	n/a	\$12.00	n/a	n/a
Contractor Daily	n/a	n/a	\$10.00	n/a
QR Exit Pass Coupon	n/a	n/a	\$6.00	\$6.00

10 (a) *First 2-hours free.*

11 Figure 7: Deep Point Parking Rates (2022)

12 As shown in Figure 7, the Deep Point Terminal parking rates are less than or equal
 13 to \$12/day.³ To put this in perspective, I looked at rates at more than 30 other
 14 parking operations that support ferry terminals, and my canvassing revealed that

² The “90 Use Daily Exit” pass was introduced with a cost of \$5/day in 2019, and increased to \$6/day in 2021.

³ There is also an option to pay half this much by purchasing a 90-exit pass.

1 24-hour parking rates are typically \$12-15 or more, with some charging more than
2 \$20. All-in-all, I find the parking rates at Deep Point to be reasonable and in-line
3 national references.

4 **Q: In your view, should the Commission be concerned that BHIT's**
5 **regulated ferry operation exists within a BHIL corporate structure that**
6 **includes other, more profitable non-regulated businesses?**

7 **A:** From the standpoint of a regulatory agency looking at the situation of an
8 entity having regulated and nonregulated activities operating under its broader
9 umbrella, the concern would typically run in the other direction. That is, a
10 regulator would have heightened concern about a parent siphoning off revenues to
11 its nonregulated business lines in a manner that could "lower" the income of the
12 regulated entity and occasion an illusory need for rate increases.

13 Here, the opposite has occurred. In the 2010 Rate Case, for instance, a settlement
14 was reached and approved by the Commission under which revenues from one of
15 BHIL's nonregulated businesses (parking) was "imputed" to BHIT for the express
16 purpose of lowering the required revenue target so that the ferry's rate increase
17 could be smaller.

18 **Q: In examining matters in this docket, have you identified any issues that**
19 **may be of concern to the Commission that arise from the valuation work**

1 **Mercator did in connection with a potential sale of these assets to the**
2 **Authority?**

3 **A:** Access to the terminal is freely available to taxis, busses, shuttles,
4 pedestrians, personal vehicles, etc. and has, to my knowledge, never been
5 restricted. Thus, third-party parking operators could have established operations to
6 serve ferry passengers and delivered them directly to the terminal building if they
7 had chosen to do so. Given that many other ferries operate successfully with
8 remote parking that is served by shuttle, and that there is nothing to prevent such
9 operators from serving passengers at Deep Point, I think it is fair to conclude that
10 the Deep Point parking lot is not a natural monopoly, and that alternative parking
11 can develop if in the future there is inadequacy or dissatisfaction with the Deep
12 Point parking lot.

13 Historically, parking services have been provided for over thirty years without rate
14 regulation. This particular land has been used by BHIL for parking for over 15
15 years. I understand that BHIL did not purchase it for regulated utility operations
16 (except via the lease of the terminal building), and it has never been included in
17 any rate base for ratemaking purposes. Based upon my review of the financial
18 records, it appears BHIT never requested a regulated rate of return on the land nor
19 ever sought or recovered any depreciation expense for its improvements to the land

1 as a component of its rates. Today, the land on which BHIL's parking operation
2 resides has a very considerable fair market value as indicated in our valuation
3 work, by the values implicit in the arms-length purchase of these assets by
4 SharpVue, and as contained in the real estate appraisals that have been obtained by
5 the BHITA for the property. If the Commission decided to include parking assets
6 in the rate base of the regulated ferry and tram systems -- for the first time, since
7 that land had never been part of regulated utility operations in the past and thus had
8 never previously been included in ratemaking -- that situation would be analogous
9 to an initial purchase of a new, useful asset by a utility to be added to its rate base.
10 Thus, the operator's (SharpVue's) basis in the newly purchased land should be
11 equal to its fair market value, presumably as reflected by the amount actually paid.

12 Rate regulation for the parking function would be a dramatic change in the
13 regulatory treatment of the asset and in the size of the rate base of the utility, which
14 could have considerable consequences to the rates and to consumers.