

**Direct Testimony of Dr. Julius A. Wright
On Behalf of the Village of Bald Head Island**

This case is not the usual certificate transfer proceeding. First, the transportation system is a monopoly and the lifeblood of Bald Head Island in that the Island is completely dependent—in every way—on this system. Until now, the system has always been owned and operated by entities affiliated with the Island’s developer, ensuring that all parties’ interests are aligned. On the other hand, I believe it is important to note that there is no evidence of widespread public support for this proposed transaction.

In its evaluation of this type of proposed transaction, this Commission has established a three-part test. I believe that SharpVue has failed to meet its burden of proof related to this three part test and, consequently, for this reason alone the Commission should deny the transfer of the certificate as proposed.

First, there is reason for concern that the transaction will have an adverse impact on service. **[BEGIN AEO CONFIDENTIAL]** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **[END AEO CONFIDENTIAL]**

As regards the second factor – whether ratepayers would be protected as much as possible from potential costs and risks of the transfer – SharpVue has declined to commit that it will not seek to recover an acquisition premium from ratepayers. This creates the possibility that SharpVue will seek to burden ratepayers with the excess purchase price amounts that are above net book or historic costs of the assets.

As regards the third factor – whether the transfer would result in sufficient benefits to offset potential costs and risks – while there may be benefits to SharpVue and the current

ferry system owners, I fail to see any real benefits to the third party in this transaction, the using and consuming public.

Finally, one of the factors that the Commission historically considers in evaluating transactions of this nature is whether effective regulation of the merging utilities can be maintained. SharpVue's appeal from the Sub 21 Order creates legal uncertainty regarding the scope of the Commission's authority over the parking and barge operations and, potentially, over other ancillary assets. Should the Commission wish to proceed and agree to the certificate transfer, I believe it should only do so with SharpVue's express acquiescence to the Commission's jurisdiction and authority over parking, barge, and any other ancillary assets.

Notwithstanding my position that the application should be denied, my testimony discusses other concerns with the proposed transaction.

First, I believe the evidence shows that SharpVue intends to seek to recover an acquisition premium from ferry passengers, barge passengers, and parking in the next rate case. The purchase price is likely well above the value that would be reflected in a rate base determination. Because of this, I recommend that the Commission make clear in its Order—and consistent with Commission precedent—that, if the transaction is approved, the Commission is not approving the purchase price and SharpVue will not be permitted to recover an acquisition premium in the next rate case.

Next I review SharpVue's corporate structure and why this type of corporate structure imposes some regulatory oversight issues on the Commission and ratepayers. There are two things that stand out to me. First, the multiple affiliates and the related overlapping management illustrate a need, if the certificate transfer is approved, for the

Commission to require various affiliate transaction conditions. The second troubling aspect of SharpVue's proposal is that it is proposing that the only regulated assets owned by BHIFT are the ferry boats, the tug and barge boats, the island tram, and I assume the parking operation's ticket machine and parking gate. None of the underlying real estate of the parking facilities, none of the real estate at either ferry terminal, neither of the ferry terminal buildings, and no other ferry operations buildings or other assets, are owned by the proposed regulated affiliate.

I recommend that, if the Commission were to approve the transfer, it declare that BHIFT, SharpVue, and SharpVue's affiliates in this transaction (including, Pelican Legacy Holdings, LLC, SVC Pelican Partners, LLC, Pelican IP, LLC, Pelican Logistics, LLC, and Pelican Real Properties, LLC) are public utilities under North Carolina G.S. Chapter 62. This does not mean the Commission will regulate these entities, but rather that their books and the records of transactions between BHIFT and its related SharpVue affiliates are open to inspection and the potential that some of the affiliate-related costs may be disallowed for recovery in regulated rates by this Commission.

I further recommend that, if the Commission approves the transfer, its Order require the following. First, that SharpVue file an affiliate Code of Conduct that covers each of its affiliates that supply services or collect fees from the regulated passenger ferry, parking and barge operations. Second, that it notifies SharpVue and its affiliates that any proposed change to the current ferry and parking regulated tariffs would require a rate proceeding and could trigger an investigation of and a report related to justification for the current or proposed affiliate costs. And third, that indicates the current level of any affiliate related costs are not being approved in this Order and that these costs will be examined and

adjudicated in the ferry system's next filed rate case.

In addition, I recommend the Commission's Order, if this ownership proposal goes forward, should indicate (1) that the utility-related real estate (i.e., parking) and terminal buildings assets cannot be sold or leased absent Commission approval, (2) that any financial arrangements made between parties owning or leasing these real estate and terminal buildings assets cannot be assumed or payments made by the regulated operations be assumed absent Commission approval of said payments, and (3) based on both ownership and on the impact on regulated rates, as it did with BHIT and BHIL, this Commission should indicate that in any sale or lease of these assets the purchaser or leasing party shall be declared a public utility and subject this Commission's authority under G.S. Chapter 62.

Also, it is unclear to me which assets SharpVue is proposing to encumber for the proposed financing. Until this information is made clear, I do not think the Commission is in a position to make a determination on the request for approval to pledge regulated assets – particularly for an acquisition that involves SharpVue's proposed ownership split of unregulated real estate and buildings and regulated boats and barges.

Finally, should the transaction be approved, I would recommend that the same filings that are required of the passenger ferry be required of both the parking and barge operations in the future and I recommend the Commission have the Public Staff, or its representative, initiate a study investigating the ferry system service quality issues.

In sum, I recommend that the Commission deny the application because SharpVue has failed to meet its burden of proof that the proposed certificate transfer is in the public interest. I also believe SharpVue's proposed regulated and unregulated asset ownership is

not in the public interest and this is another reason the Commission may wish to deny the certificate transfer application.

This completes the summary of my direct testimony.