

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. A-41, SUB 22

In the Matter of		
Joint Application of Bald Head Island)	
Transportation, Inc., and Bald Head Island Ferry)	
Transportation, LLC, for Approval of Transfer)	THE VILLAGE'S NOTICE OF
of Common Carrier Certificate to Bald Head)	AMENDMENT TO
Island Ferry Transportation, LLC, and)	TESTIMONY
Permission to Pledge Assets)	

NOW COMES the Village of Bald Head Island (the "Village") and gives notice of amendments to the pre-filed Direct Testimony of Kevin O'Donnell as to be adopted by Julie Perry. In support of this Motion, the Village respectfully shows the Commission the following:

1. On February 20, 2023, the Village filed the testimony and exhibits of Mr. O'Donnell. One of Mr. O'Donnell's exhibits was the Affidavit of Julie G. Perry.

2. On March 2, 2023, the Village moved for leave to allow Village witness Julie G. Perry to substitute for Kevin W. O'Donnell and to allow Ms. Perry to adopt the pre-filed testimony and exhibits of Mr. O'Donnell.

3. On March 2, 2023, the North Carolina Utilities Commission granted the Village's motion.

4. In reviewing Mr. O'Donnell's testimony and exhibits in advance of the hearing, Ms. Perry identified two errors. First, the Exhibit A to Ms. Perry's affidavit (which is attached to Mr. O'Donnell's testimony and labeled as KWO-2) omits a relevant transfer case that she had identified: Frontier Natural Gas Company and FR Bison Holdings, Inc., for Approval of Acquisition of Stock of Gas Natural, Inc., Docket No G-40, Sub 136

(2017). Second, there was an error in an Excel formula used to calculate the return on investment shown in Table 1 of Mr. O'Donnell's testimony. When corrected, the return on investment for the consolidated transportation system is 26.50%. The correction is reflected in amendment to pages 10 and 11 of Mr. O'Donnell's testimony and in Exhibit KWO-3.

5. For reference, the Village attaches the amended Exhibit A to Ms. Perry's affidavit (KWO-2), the amended pages 10 and 11 of testimony, and the amended KWO-3.

6. When Ms. Perry testifies, she will adopt Mr. O'Donnell's testimony with the exception of the above describe amendments made to account for the corrections.

WHEREFORE, the Village provides notice of these amendments to the pre-filed Direct Testimony of Kevin O'Donnell as to be adopted by Julie Perry.

This 6th day of March, 2023.

By: /s/ Craig D. Schauer
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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing THE VILLAGE'S NOTICE OF AMENDMENT TO TESTIMONY have been served this day upon all parties of record in this proceeding, or their legal counsel, by registered or certified mail or by hand delivery.

This the 6th day of March, 2023.

By: /s/ Craig D. Schauer
Craig D. Schauer

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EXHIBIT A

Acquisition Premiums Not Allowed in the Following Merger/Transfer Proceedings:

Duke Power Company and PanEnergy Corp -Docket Nos. E-7, Sub 596 (1997)

Dominion Resources, Inc., and Consolidated Natural Gas Company, Docket No. E-22, Sub 380 (1999)

Carolina Power & Light Company and North Carolina Natural Gas Corporation, Docket Nos. E-2, Sub 740 and G-21, Sub 377 (1999)

Carolina Power and Light Company and Florida Progress Corporation, Docket No. E-2, Sub 760 (2000)

Piedmont Natural Gas Company & NUI North Carolina Gas Service -Docket Nos. G-9, Sub 466/G-3, Sub 251 (2002)

Piedmont and North Carolina Natural Gas Corporation and Eastern NCNG Merger - G-9, Sub 470, G-21 Sub 439, and E-2, Sub 825 (2003)

Duke Energy Corporation - Cinergy in Docket No. E-7 Sub 795 (2005)

Duke and Progress Energy, Inc. Merger in Docket Nos. E-2, Sub 998 and E-7, Sub 986 (2012)

Duke Energy Corporation (Duke) and Piedmont Merger in Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682 (2016)

Public Service Dominion Energy, Inc. (Dominion Energy) and SCANA Corporation (SCANA) - Docket Nos. E-22, Sub 551 and G-5, Sub 585 (2018)

Ullico Infrastructure Hearthstone Holdco, LLC Acquisition of GEP Bison Holdings Inc., Including Frontier Natural Gas Company - Docket No G-40, Sub 160 (2021)

Frontier Natural Gas Company and FR Bison Holdings, Inc., for Approval of Acquisition of Stock of Gas Natural, Inc. - Docket No G-40, Sub 136 (2017)

1
2 **Q. WHAT WAS YOUR CALCULATION OF RATE BASE AND THE RATE**
3 **OF RETURN OF THE OVERALL TRANSPORTATION OPERATIONS?**

4 A. Based on the information provided in discovery, I was able to calculate the
5 following return on Limited's estimated rate base for 2021. Below are my
6 calculations in Table 1. These are the same calculations as those that I presented in
7 my rebuttal testimony in Docket No. A-41, Sub 21.

8 **Table 1: Consolidated Operations Rate of Return**
Dec. 31, 2021

	Total Parking, Barge, & BHIT
Income Before Interest and Income Taxes	\$3,092,106
Interest Expense on Rate Base	<u>\$307,684</u>
Taxable Income	\$2,784,422
Composite Income Tax Rate	<u>22.975%</u>
Computed Income Taxes	<u>\$639,721</u>
Net Operating Income for Return	<u>\$2,452,385</u>
 Total Rate Base	 <u>\$9,253,667</u>
 Return on Investment	 <u>26.50%</u>

9 The details for these calculations can be seen in Exhibit KWO-3, attached hereto.²

10 As can be seen in the above values, the estimated overall rate of return is

² The rate base calculation was based on the financial information available in the 2021 audited financial statements for BHIL's barge and parking departments, BHIT's 2021 fourth quarter financial report filed with the Commission, and BHIL's discovery responses. I have provided copies of these three financial statements as Exhibit KWO-4 and the discovery response as Exhibit KWO-5.

1 26.50%. This table shows that Limited is already earning a tremendous profit –
2 significantly above that which would typically be permitted in a rate proceeding –
3 from its investment in the transportation assets serving Bald Head Island.

4
5 **Q. WOULD YOU PLEASE EXPLAIN HOW THE RETURN ON**
6 **INVESTMENT SHOWN ON EXHIBIT KWO-3 WAS DETERMINED?**

7 A. The calculation of the return on investment shown on Exhibit KWO-3 was prepared
8 by the Village's Consultants, Peedin and Perry Consulting, LLC. I have reviewed
9 and agree with their calculations of the return on investment.

10
11 **Q. IS THE METHODOLOGY REFLECTED IN EXHIBIT KWO-3**
12 **CONSISTENT WITH THE METHODOLOGY NORMALLY EMPLOYED**
13 **BY THE PUBLIC STAFF IN CALCULATING RATE OF RETURN IN**
14 **RATE CASES?**

15 A. Yes, it is consistent with the quarterly surveillance earnings reports filed with the
16 Commission for the large gas and electric utilities in the State and is similar to the
17 methodology used by the Public Staff to calculate the earnings for Bald Head Island
18 since its last rate case. The primary difference is that Exhibit KWO-3 uses an end
19 of period rate base amount as of December 31, 2021, as is done in rate case filings
20 instead of using a 13-month average as is typically done in the Public
21 Staff's/Commission's surveillance report earnings calculations.

Bald Head Island Transportation
Docket No. A- 41, Sub 7

For the Period Ending December 31, 2021

	Parking Facilities	Barge Facilities	BHI Ferry Transportation	Total Parking, Barge, & BHIT	BHI Ferry Transportation w/ Parking
Income Before Interest and Income Taxes	\$2,485,954 [1]	\$820,282 [7]	(\$214,130) [8]	\$3,092,106	308,967 Rate Case - Imputed \$523,097 in parking Revenues
Interest Expense on Rate Base	\$131,636 [2]	\$48,061 [2]	\$127,988 [2]	\$307,684	126,750
Taxable Income	\$2,354,318	\$772,221	(\$342,118)	\$2,784,422	182,217
Composite Income Tax Rate	22.975% [3]	22.975% [3]	22.975% [3]	22.975%	22.975%
Computed Income Taxes	\$540,905	\$177,418	(\$78,602)	\$639,721	41,864
Net Operating Income for Return	\$1,945,049 [4]	\$642,864 [4]	(\$135,528) [4]	\$2,452,385	\$267,103
Total Rate Base	\$3,958,975 [5]	\$1,445,434 [5]	\$3,849,258 [5]	\$9,253,667	3,849,258
Return on Investment	49.13% [6]	44.48% [6]	-3.52% [6]	26.50%	6.94%

[A] Rate Base: Per the Village of Bald Head Island Data Request No. 6, Request 1,2,3,4 and 5 in Docket No A-41, Sub 21, unless otherwise noted.

Plant in Service	\$10,225,330	\$2,765,525	\$6,737,006 [8]	\$19,727,861	\$6,737,006
Less: Accumulated Depreciation	(\$6,447,301)	(\$1,406,191)	(\$3,597,515) [8]	(\$11,451,007)	(\$3,634,740)
Net Plant in Service	\$3,778,029	\$1,359,334	\$3,139,491	\$8,276,854	\$3,102,267
Cash Working Capital (formula approach)	\$184,012	\$87,967	\$794,304	\$1,066,283	\$794,304
Tax Accruals (formula approach)	(\$3,066)	(\$1,866)	(\$70,188)	(\$75,120)	(\$70,188)
Accumulated Deferred Taxes	\$0	\$0	(\$14,350)	(\$14,350)	(\$14,350)
Total Rate Base	\$ 3,958,975	\$ 1,445,434	\$ 3,849,258	\$ 9,253,667	\$ 3,812,033

[B] ROE Calculations for Each Segment Based on Prior Rate Case Capital Structure & Debt Cost

Parking Facilities	Average Capital Structure	Average Rate Base	Last Rate Case Embedded Cost/Return %	Net Operating Income
Debt	50.00%	\$1,979,488	6.65%	\$131,636
Common Equity	50.00%	\$1,979,488	91.61%	\$1,813,413
Total	100.00%	3,958,975	49.13%	\$1,945,049
Barge Facilities	Average Capital Structure	Average Rate Base	Last Rate Case Embedded Cost/Return %	Net Operating Income
Debt	50.00%	\$722,717	6.65%	\$48,061
Common Equity	50.00%	\$722,717	82.30%	\$594,803
Total	100.00%	\$1,445,434	44.48%	\$642,864
BHI Ferry Transportation	Average Capital Structure	Average Rate Base	Last Rate Case Embedded Cost/Return %	Net Operating Income
Debt	50.00%	\$1,924,629	6.65%	\$127,988
Common Equity	50.00%	\$1,924,629	-13.69%	(\$263,516)
Total	100.00%	\$3,849,258	-3.52%	(\$135,528)

BHI Ferry Transportation - with imputed Parking Revenues

	Average Capital Structure	Average Rate Base	Last Rate Case Embedded Cost/Return %	Net Operating Income
Debt	50.00%	\$1,924,629	6.65%	\$127,988
Common Equity	50.00%	\$1,924,629	7.23%	\$139,115
Total	100.00%	\$3,849,258	6.94%	\$267,103

- [1] Bald Head Island Limited, LLC - Parking Department Financial Report; December 31, 2021.
[2] Section B reflects the interest expense assigned to rate base for each segment.
[3] Composite Tax Rate. 21% FIT and 2.5% SIT.
[4] Income Before Interest and Income Taxes less Computed Income Taxes.
[5] Section [A] which reflects calculation of rate base per the financials for each segment.
[6] Net Operating Income for Return divided by Total Rate Base.
[7] Bald Head Island Limited, LLC - Barge Department Financial Report; December 31, 2021.
[8] BHIT: Quarterly Financial Report of Monthly Information, Docket No. A-41, Sub 7.