

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)

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 billion¹ 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

¹ 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.