

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. A-41, SUB 21

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

DIRECT TESTIMONY OF
KEVIN W. O'DONNELL, CFA
ON BEHALF OF
VILLAGE OF BALD HEAD
ISLAND

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. A-41, SUB 21

Direct Testimony of Kevin W. O'Donnell, CFA

On Behalf of the Village of Bald Head Island

August 9, 2022

1 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS**
2 **FOR THE RECORD.**

3 A. My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants, Inc.
4 My business address is 1350 SE Maynard Rd., Suite 101, Cary, North Carolina
5 27511.

6
7 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. I am testifying on behalf of the Village of Bald Head Island.

10

11 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
12 **RELEVANT EMPLOYMENT EXPERIENCE.**

13 A. I have a Bachelor of Science in Civil Engineering from North Carolina State
14 University and a Master of Business Administration from Florida State University.
15 I earned the designation of Chartered Financial Analyst ("CFA") in 1988. I have
16 worked in utility regulation since September 1984, when I joined the Public Staff

1 [REDACTED]
2 [REDACTED] [END AEO CONFIDENTIAL] Second, I also know that the issue
3 of whether the parking should be regulated was a topic of debate in the last rate
4 case (2010), and it is logical that Limited did not want to address the issue again
5 before a proposed sale was announced.

6
7 **Q. WHY DO YOU SAY THAT LIMITED MAY NOT HAVE WANTED THE**
8 **PARKING ISSUE TO BE RAISED BEFORE A SALE WAS ANNOUNCED?**

9 A. The valuation of a regulated asset is different from the valuation of an unregulated
10 asset. Specifically, a regulated asset is typically valued at the net book value of the
11 utility assets as it is only these assets that comprise the rate base upon which the
12 utility is allowed to make a return.

13 Now, it is possible that an investor could pay a price greater than the net
14 book value of the utility. However, in my experience, it is rare that regulators allow
15 a price greater than net book value to be the basis upon which rates, and
16 correspondingly future cash flows, are determined. Therefore, investors are
17 unlikely to pay more than an asset's net book value because the cash flows of the
18 regulated asset will not justify a higher valuation.

19 In contrast, in a competitive enterprise that is not regulated, the cash flows
20 of the asset are not limited to the authorized return on the asset's net book value.
21 Thus, the valuation of an unregulated asset is set at whatever the buyer and seller
22 believe is a fair price based upon the maximum cash flows the asset can produce.

1 In addition, with the obvious exception of antitrust concerns, there is generally no
2 regulator that oversees the financial valuation of the entity being acquired. The
3 result is that an unregulated asset can be sold for a greater premium over a regulated
4 asset.

5 Limited may have declined to file a rate case and elected instead to absorb
6 the losses seen in the ferry division based on the fear that a filed rate case may
7 prompt the Commission to determine the parking needs to be regulated. Such a
8 determination by the Commission would limit the value of the parking division—
9 which would be a particular concern to a company seeking to sell the asset.

10

11 **Q. HAVE YOU SEEN ANY DOCUMENTS THAT SUPPORT YOUR THEORY**
12 **THAT LIMITED HAS AVOIDED A RATE CASE IN ORDER TO**
13 **MAXIMIZE THE VALUATION OF THE PARKING ASSETS?**

14 A. Yes. We can look at how SharpVue Capital, LLC is valuing the purchase of the
15 transportation assets. [BEGIN AEO CONFIDENTIAL] [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]⁷ [REDACTED]

21 [REDACTED]

⁷ SharpVue Project Pelican Investment Opportunity January 2022, at 24 (Exhibit JAW-7).