

SANFORD LAW OFFICE, PLLC
Jo Anne Sanford, Attorney at Law

July 31, 2023

Ms. A. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
Dobbs Building
430 North Salisbury Street
Raleigh, North Carolina 27603

Via Electronic Filing

Re: Supplemental Testimony of Brian D. Bahr, Dante M. DeStefano,
and Donald H. Denton, III
Docket No. W-354, Sub 412

Dear Ms. Dunston:

Attached for filing in this docket, please find the Joint Supplemental Testimony of Joint Applicants' witnesses Dante M. DeStefano, Brian D. Bahr, and Donald H. Denton, III.

Please feel free to contact us if there are questions or suggestions.

Sincerely,

/s/ Jo Anne Sanford
N.C. State Bar No. 6831
Sanford Law Office, PLLC
Attorney for Carolina Water
Service, Inc. of North Carolina

/s/ Mary Lynne Grigg
McGuireWoods LLP
N.C. State Bar # 19048
Attorney for SW Merger
Acquisition Corp.

cc: Parties of Record

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-354, SUB 412

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	JOINT APPLICANTS'
Application by Carolina Water Service,)	SUPPLEMENTAL
Inc. of North Carolina, along with Corix)	TESTIMONY OF
Infrastructure (US) Inc. and SW Merger)	BRIAN D. BAHR,
Acquisition Corp., for Approval of a)	DANTE M. DESTEFANO,
Business Combination Transaction)	AND
)	DONALD H. DENTON, III

JOINT APPLICANTS'
SUPPLEMENTAL TESTIMONY

OF

BRIAN D. BAHR
DANTE M. DESTEFANO
DONALD H. DENTON, III

JULY 31, 2023

1 Q. MR. BAHR, PLEASE STATE YOUR FULL NAME, TITLE, AND
2 BUSINESS ADDRESS.

3 A. My name is Brian D. Bahr, and I am Director of Rates and Regulatory Affairs
4 for SouthWest Water Company (“SouthWest”), a subsidiary of SW Merger
5 Acquisition Corp. (“SWMAC”). My business address is 1620 Grand Avenue
6 Parkway, Suite 140, Pflugerville, Texas 78660.

7 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

8 A. Yes. I filed direct testimony on November 23, 2022 and rebuttal testimony
9 on July 14, 2023.

10 Q. MR. DESTEFANO, PLEASE STATE YOUR FULL NAME, TITLE, AND
11 BUSINESS ADDRESS.

12 A. My name is Dante M. DeStefano, and I am the Director of Regulatory Affairs
13 for Corix Infrastructure Inc. (“CII”). My business address is 500 W. Monroe,
14 Suite 3600, Chicago, Illinois 60661.

15 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

16 A. Yes. I filed direct testimony on November 23, 2022, and rebuttal testimony
17 on July 14, 2023.

18 Q. MR. DENTON, PLEASE STATE YOUR FULL NAME, TITLE, AND
19 BUSINESS ADDRESS.

20 A. My name is Donald H. Denton III, and my business address is 5821 Fairview
21 Road, Suite 401, Charlotte, North Carolina 28209. I am Senior Vice
22 President, East Operations for CII. I oversee the operations of Carolina
23 Water Service, Inc. of North Carolina (“CWSNC”), Blue Granite Water

1 Company in South Carolina, and Sunshine Water Services Company in
2 Florida, all of which are subsidiaries of Corix Regulated Utilities (US) Inc.
3 (“CRU US”). In addition, I serve as President of CWSNC and Blue Granite
4 Water Company.

5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

6 A. Yes. I filed direct testimony on November 23, 2022 and rebuttal testimony
7 on July 14, 2023.

8 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

9 A. The purpose of our supplemental testimony in this proceeding is to support
10 CWSNC’s, along with Corix Infrastructure (US) Inc. (“Corix US”) and
11 SWMAC (collectively, “Joint Applicants”), position on the Agreement and
12 Stipulation of Settlement (“Stipulation”) filed by the Joint Applicants and the
13 Public Staff – North Carolina Utilities Commission (“Public Staff”), in this
14 docket on July 31, 2023 for consideration by the North Carolina Utilities
15 Commission (“Commission”).

16 **Q. HOW DID THE STIPULATION WITH THE PUBLIC STAFF COME**
17 **ABOUT?**

18 A. After the Joint Applicants filed the Application pursuant to Gen. Stat. § 62-
19 111(a) and Commission Rule R1-5 for authority to engage in the proposed
20 business combination transaction (“Merger” or “Proposed Transaction”), the
21 Public Staff engaged in an extensive audit and discovery process directed
22 at investigating the public convenience and necessity of the proposed
23 Merger. This discovery process involved the issuance of approximately 160

1 formal data and document requests, plus additional informal data requests,
2 to the Joint Applicants. The Public Staff filed its joint testimony on June 30,
3 2023, proposing 37 regulatory conditions. The Joint Applicants filed the
4 joint rebuttal testimony of Mr. DeStefano, Mr. Denton, and Mr. Bahr, as well
5 as the rebuttal testimony of Ellen Lapson, on July 14, 2023. Following filing
6 of rebuttal testimony, Joint Applicants and the Public Staff turned to
7 settlement negotiations. The negotiations involved substantial compromise
8 by all parties on numerous issues. This process culminated in the
9 Stipulation, including Appendix A - Regulatory Conditions, which was filed
10 with the Commission on July 31, 2023.

11 **Q. PLEASE DESCRIBE SOME OF THE OVERALL BENEFITS ACHIEVED**
12 **BY THE MERGER.**

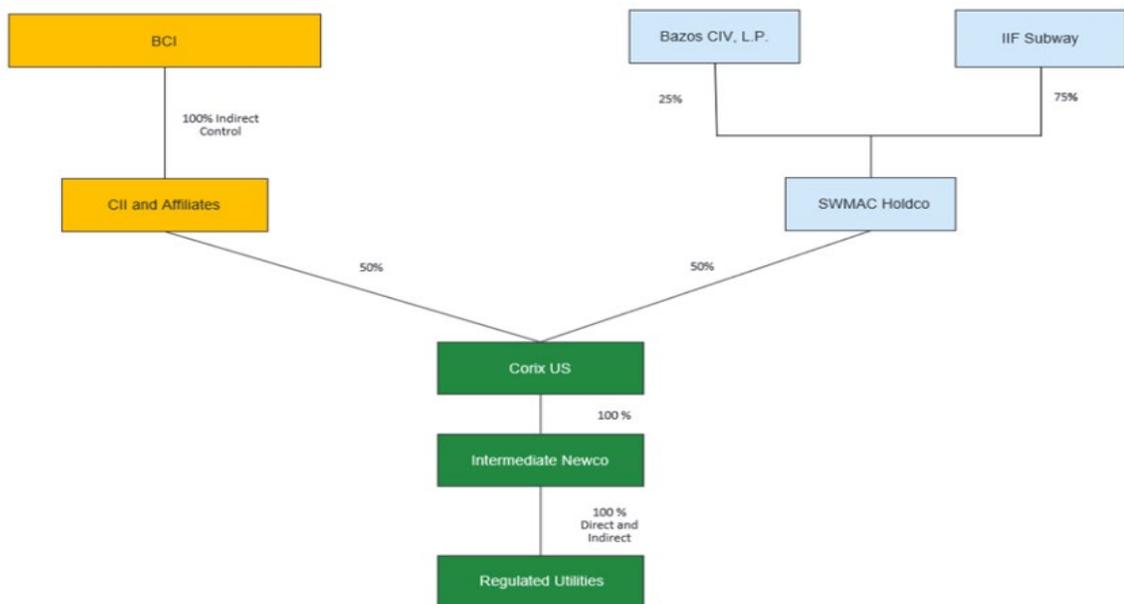
13 A. As the Joint Applicants explained in their case-in-chief, the Proposed
14 Transaction combines two similarly situated water and wastewater
15 businesses that share values and a common mission. The combined
16 company will have additional scale and will be positioned to make the long-
17 term investments needed to collect and dispose of wastewater and deliver
18 water safely, reliably, and sustainably to customers in North Carolina. While
19 the Proposed Transaction is not driven by synergies, the Joint Applicants
20 anticipate that the business combination will improve efficiency and the
21 integration of administrative and general functions should eventually result
22 in cost savings. The integration of CII's water, wastewater, and related
23 businesses with SWMAC's water and wastewater business will be a

1 significant, prolonged undertaking. The Joint Applicants acknowledge that
2 costs and benefits associated with integration will be addressed in future
3 ratemaking proceedings.

4 **Q. PLEASE PROVIDE AN OVERVIEW OF THE STIPULATION REACHED**
5 **WITH THE PUBLIC STAFF.**

6 A. The Regulatory Conditions, set forth in Appendix A to the Stipulation,
7 represent commitments by the Joint Applicants as a precondition to
8 approval by the Commission of the Merger. The parties to the Stipulation
9 request that the Regulatory Conditions be incorporated into any
10 Commission order approving the Merger.

11 The commitments in the Regulatory Conditions are made by Corix
12 US, Intermediate Newco, and CWSNC. The Stipulation provides that the
13 Regulatory Conditions shall be interpreted so as to protect CWSNC's
14 customers from any known adverse effects, to protect customers as much
15 as possible from potential costs and risks of the Merger, and to allow
16 customers to receive sufficient benefits to offset Merger-related potential
17 costs and risks. The commitments are also acknowledged by and
18 consented to by the parent entities – CII, British Columbia Investment
19 Management Corporation ("BCI"), Bazos CIV, L.P., IIF Subway Investment
20 LP ("IIF Subway"), and SWMAC Holdco. As a reminder, below is an
21 illustration of the post-closing corporate organization structure:
22



1 The 36 agreed-upon Regulatory Conditions can be roughly divided
 2 into the following categories: (1) costs and benefits (Conditions 1 through
 3 5); (2) financial protections (Conditions 6 through 11); (3) regulatory
 4 oversight (Conditions 12 through 18, 20, and 21); (4) affiliate issues
 5 (Conditions 19 and 25 through 30); and (5) local operations (Conditions 22
 6 through 24, and 31 through 36). Notably, these Regulatory Conditions are
 7 in addition to the Customer Protection Commitments made by the Joint
 8 Applicants in their case-in-chief. (See Joint Application, ¶ 24.)

9 **Q. WHAT ARE THE BENEFITS TO NORTH CAROLINA CUSTOMERS OF**
 10 **THE STIPULATION, INCLUDING THE REGULATORY CONDITIONS?**

11 A. There are benefits for CWSNC's North Carolina customers in each of the
 12 categories of Regulatory Conditions. The conditions in the cost and benefits
 13 category address merger-related expenses and capital costs, the costs to
 14 achieve Merger savings, non-consummation of the Merger, the inclusion of

1 cost savings in future rate proceedings, and the hold harmless commitment
2 made by Corix US, Intermediate Newco and CWSNC. With respect to the
3 hold harmless commitment, Corix US, Intermediate Newco and CWSNC
4 agree that the Proposed Transaction shall be effectuated in a manner
5 designed to prevent harm to CWSNC's customers.

6 In the category of financial protections, the Regulatory Conditions
7 address: distributions; protection against decreased creditworthiness; notice
8 of certain investments; notice of certain Intermediate Newco investments;
9 notice by CWSNC of default or bankruptcy of an Affiliate¹; and common
10 equity capital. The financial conditions accomplish several objectives,
11 including requiring CWSNS to maintain a 45% equity capitalization ratio, and
12 limiting its dividends to 100% of net income. Also, Intermediate Newco shall
13 be established with a target investment grade capital structure profile and
14 operated in a way that is consistent with maintaining an investment grade
15 profile.

16 In the category of regulatory oversight, the Regulatory Conditions
17 address: post-closing financial information; meetings with Public Staff;
18 access to books and records; changes to boards of directors; notice to Public
19 Staff regarding proposed structural and organization changes; mergers and
20 acquisitions; financial statements; and capital budgets. This category will
21 allow for the Commission and Public Staff to continue to have access to the

¹ "Affiliate" shall mean Corix US and any business entity of which ten percent (10%) or more of the voting securities or interests are owned, directly or indirectly, by Corix US, including but not limited to CWSNC and Intermediate Newco.

1 books and records of CWSNC and its Affiliates in accordance with and to the
2 extent provided by North Carolina law. In addition, the regulatory oversight
3 category of Regulatory Conditions provides that CWSNC shall maintain a
4 level of capital and operational support in North Carolina necessary to
5 provide safe, efficient, and reliable service at reasonable rates.

6 In the category of affiliate issues, the Regulatory Conditions address:
7 obligations with affiliates; Cost Allocation Manual (“CAM”); charges for and
8 allocations of the costs of affiliate transactions; transfer pricing between
9 affiliates; transfer of services, function, departments or assets; affiliate
10 agreements; and affiliate transaction reports. With respect to affiliate
11 transactions, CWSNC agreed that it will not make a loan to any affiliate or
12 issue a guarantee for an obligation of any Affiliate. CWSNC also agreed to
13 keep on file with the Commission a CAM with respect to goods or services
14 provided between and among CWSNC and its affiliates. CWSNC will also
15 file an annual report of affiliated transactions with the Commission in a format
16 prescribed by the Commission.

17 In the category of local operations, the Regulatory Conditions
18 address: regulatory and operational staffing; customer surveys; overall
19 service quality; service area reporting; geographic information system
20 mapping; emergency operator systems; a customer assistance program;
21 leadership retention; and operator development and retention. With regard
22 to the customer assistance program, CWSNC, at its own cost, shall develop
23 a low-income customer assistance program. Regarding regulatory and

1 operational staffing, CWSNC will use prudent business practices to maintain
2 sufficient adequately trained personnel to ensure that regulatory
3 requirements are complied with in a timely and accurate manner. Regarding
4 leadership retention, CWSNC, acting in good faith, shall, when possible,
5 notify the Commission before, and in no event more than 10 days after, a
6 change to any officer of CWSNC, Intermediate Newco, or Corix US occurs.

7 **Q. DOES THE STIPULATION PROVIDE FINANCIAL PROTECTIONS FROM**
8 **MERGER-RELATED COSTS FOR THE JOINT APPLICANTS AND THEIR**
9 **CUSTOMERS?**

10 A. Yes, Merger-related expenses and capital costs – including Merger-related
11 bonuses, change-in-control payments made to terminated executives,
12 incentive payments, retention payments, severance payments, and
13 regulatory process costs – will be excluded from the revenue requirement of
14 CWSNC for Commission financial reporting and ratemaking purposes. (See
15 Stipulation, Appendix A, Regulatory Condition 1.) Also, for purposes of future
16 general rate case proceedings of CWSNC, CWSNC may seek to recover
17 costs to achieve Merger savings to the extent there are Merger savings or
18 cost savings resulting from the Merger. (See Stipulation, Appendix A,
19 Regulatory Condition 4.)

20 **Q. ARE THE JOINT APPLICANTS MAKING ANY OTHER COMMITMENTS**
21 **IN CONNECTION WITH THE MERGER?**

22 A. Yes, as mentioned above, the Joint Applicants made a number of Customer
23 Protection Commitments in their Joint Application which, among other

1 things: reiterate CWSNC's commitment to high quality service; reiterate
2 CWSNC's commitment to North Carolina; and provide other customer and
3 employee protections. (See Joint Application, para. 24.)

4 **Q. IN YOUR OPINION, DO THE MERGER AND STIPULATION SERVE THE**
5 **PUBLIC INTEREST AND AFFORD BENEFITS AND PROTECTIONS FOR**
6 **NORTH CAROLINA CUSTOMERS?**

7 A. Yes. The Joint Applicants are confident that the Merger will produce
8 qualitative and quantitative benefits for North Carolina customers and is
9 consistent with the public convenience and necessity. As described above,
10 the Stipulation and agreed-upon Regulatory Conditions provide numerous
11 additional protections for CWSNC's customers. The Joint Applicants' initial
12 conditions, plus the Stipulation's Regulatory Conditions, support the
13 conclusion that there will be no adverse impact on any of the criteria
14 identified in N.C. G.S. § 62-111(a) and related Commission precedent
15 (competition, rates, employment and service to customers), and there will
16 be positive benefits as well. The Joint Applicants respectfully request that
17 the Commission approve the Stipulation in its entirety and approve the
18 Merger.

19 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

20 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that I have today served a copy of the foregoing Joint Supplemental Testimony (Bahr, DeStefano, and Denton) in accordance with North Carolina Utilities Commission Rule R1-39, by means of electronic delivery upon agreement of the receiving party.

This the 31st day of July, 2023

Electronically Submitted
/s/ Jo Anne Sanford
N.C. State Bar No. 6831

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