



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

March 6, 2024

Ms. A. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. W-1049, Sub 25 and W-1328, Sub 2 – Application for
Transfer of Public Utility Franchise from A&D Water Service to Red
Bird Water and for Approval of Rates

Dear Ms. Dunston,

Attached for filing on behalf of the Public Staff in the above-referenced
docket is the testimony and exhibit of John R. Hinton, Director of the Economic
Research Division of the Public Staff – North Carolina Utilities Commission.

By copy of this letter, we are forwarding a copy to all parties of record by
electronic delivery.

Sincerely,

Electronically submitted
/s/ James Bernier, Jr.
Staff Attorney
james.bernier@psncuc.nc.gov

/s/ Davia Newell
Staff Attorney
davia.newell@psncuc.nc.gov

cc: Parties of Record

Executive Director
(919) 733-2435

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Economic Research
(919) 733-2267

Energy
(919) 733-2267

Legal
(919) 733-6110

Transportation
(919) 733-7766

Water/Telephone
(919) 733-5610

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1049, SUB 25

DOCKET NO. W-1328, SUB 2

In the Matter of)	TESTIMONY OF
Application by A&D Water Services, Inc., and)	JOHN R. HINTON
Red Bird Utility Operating Company, LLC, d/b/a)	PUBLIC STAFF –
Red Bird Water for Transfer of Public Utility)	NORTH CAROLINA
Franchise and for Approval of Rates)	UTILITIES COMMISSION

March 6, 2024

1 **Q. Please state your name, business address, and present**
2 **position.**

3 A. My name is John R. Hinton, and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am the Director of the
5 Economic Research Division of the Public Staff – North Carolina
6 Utilities Commission (Public Staff). My qualifications and experience
7 are provided in Appendix A.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony in this proceeding is to present the
10 results of my investigation of the application filed on October 9, 2020,
11 by Red Bird Utility Operating Company, LLC (Red Bird), in Docket
12 No. W-1328, Sub 2, and A&D Water Services, Inc. (A&D), in Docket
13 No. W-1049, Sub 25, for transfer of the assets of the water and/or
14 wastewater utility systems serving the Buffalo Meadows, Camelot,
15 Cinnamon Woods, High Vista, Hunters Glen, Kirk Glen, Mountain
16 Valley, Rolling Oaks Estates, Sherwood Forest, Skyview Park, and
17 White Oak Village subdivisions, in Ashe, Henderson, Buncombe,
18 Transylvania and Gaston Counties, North Carolina from A&D to Red
19 Bird and approval of rates (Application) as it relates to the financial
20 viability of Red Bird.

1 **Q. Please describe your investigation.**

2 A. I reviewed Red Bird's application, responses to data requests, the
3 direct testimony and exhibits of Company witness Josiah Cox, and
4 the direct testimony of David Murray filed on the behalf of the
5 Missouri Office of the Public Counsel in Case No. WR-2023-0006, a
6 rate case filed with the Missouri Public Service Commission by Red
7 Bird's affiliate, Confluence Rivers Utility Operating Company, Inc. In
8 addition, I was present during Mr. Cox's testimony in the October 24,
9 2023 evidentiary hearing in the transfer proceeding involving Red
10 Bird and Total Environmental Solutions, Inc., in Docket Nos. W-1146,
11 Sub 13 and W-1328, Sub 10 (TESI proceeding), and I reviewed the
12 transcript of witness Cox's testimony in the evidentiary hearing in the
13 transfer proceeding involving Red Bird and Etowah Sewer Company,
14 Inc., in Docket Nos. W-933, Sub 12 and W-1328, Sub 0.

15 **Q. Please describe the Organizational Chart filed as Cox Direct**
16 **Exhibit 1 in this docket.**

17 A. The Central States Water Resources Corporate Entity
18 Organizational Chart filed by Red Bird as Cox Direct Exhibit 1, which
19 is also attached to this testimony as Public Staff Hinton Exhibit 1,
20 shows that Red Bird is owned by North Carolina CSWR, LLC
21 (CSWR), in a similar fashion as the other utility operations in the 11
22 other state jurisdictions. In addition, U.S. Water Systems, LLC (U.S.

1 Water), is the sole member of CSWR and it owns 100% of CSWR.
2 The Company has stated that U.S. Water is the sole source of
3 financing for CSWR.¹ In supplemental testimony filed by witness Cox
4 in the TESI proceeding, he states that U.S. Water gets its funds from
5 capital raised by private equity firm, Sciens Capital Management,
6 LLC.

7 **Q. Do you agree with witness Cox that Red Bird and CSWR have**
8 **the financial capacity to own and operate the Meadowlands**
9 **system?**

10 A. Yes. Based on data request responses, the Commission's records in
11 other dockets involving Red Bird, and the testimony of witness Cox,
12 I believe that Red Bird will have sufficient equity capital to own and
13 operate the Meadowlands wastewater system, fund system
14 upgrades, and support other capital improvements. However, the
15 Public Staff has some concerns regarding the ongoing viability of
16 CSWR because it continues to report significant losses on its
17 consolidated income statements. As such, the Company's financial
18 viability largely depends on external infusions of common equity that
19 are supplied by private equity.

¹ Docket Nos.W-1146, Sub 13 and W-1328, Sub 10, Rebuttal Testimony of Todd Thomas, p. 26.

1 **Q. Does CSWR depend only on equity capital that is, in part,**
2 **provided by private equity?**

3 A. No. CSWR has been approved for three loans with CoBank in other
4 state jurisdictions and Red Bird' has indicated that it eventually plans
5 to rebalance its capital structure from being comprised of 100%
6 equity to offsetting equity with 40% to 50% of debt capital.

7 **Q. Are you aware of any instances involving Red Bird's North**
8 **Carolina operations or other utilities owned by CSWR that**
9 **suggest sufficient capital is not available?**

10 A. No. While it is too early to make an informed observation about the
11 access to capital of the utilities recently acquired by Red Bird in North
12 Carolina, I am unaware of instances outside of North Carolina where
13 the lack of available capital is a hindrance to CSWR's utility
14 operations. My understanding from other regulatory analysts who are
15 knowledgeable about CSWR's operations in Missouri and Louisiana
16 is that there is not any evidence of any plant and operational
17 problems that stem from a lack of investment capital. In view of the
18 Company's business plan and its record of acquiring non-viable
19 systems, raising additional equity capital, and making necessary
20 capital investments, and without evidence to the contrary, it is my

1 opinion at this time that CSWR has sufficient capital resources to be
2 considered financially viable.

3 **Q. In view of your financial concerns, does the Public Staff have**
4 **any plans to monitor Red Bird's financial condition?**

5 A. Yes. Pursuant to the Settlement Agreement and Stipulation between
6 Red Bird and the Public Staff in the TESI proceeding, Red Bird and
7 key leadership from CSWR will meet annually to discuss the
8 Company's financial condition, among other topics.

9 **Q. Does this conclude your testimony?**

10 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

JOHN R. HINTON

I received a Bachelor of Science degree in Economics from the University of North Carolina at Wilmington in 1980 and a Master of Economics degree from North Carolina State University in 1983. I joined the Public Staff in May of 1985. I filed testimony on the long-range electrical forecast in Docket No. E-100, Sub 50 which included an independently produced peak demand and energy sales forecast. This forecast and two other peak demand forecasts published in 1989 and 1992 were provided to the NC Utilities Commission and the Governor. I filed testimony on electricity weather normalization in Docket Nos. E-7, Sub 620, E-2, Sub 833, and E-7, Sub 989. I filed testimony on the level of funding for nuclear decommissioning costs in Docket No. E-2, Sub 1023; Docket Nos. E-7, Sub 1026 and E-7, Sub 1146. I have filed testimony on the Integrated Resource Plans (IRPs) filed in Docket No. E-100, Subs 114 and 125, and I have reviewed numerous peak demand and energy sales forecasts and the resource expansion plans filed in electric utilities' annual IRPs and IRP updates.

I have been the lead analyst for the Public Staff in numerous avoided cost proceedings, filing testimony in Docket No. E-100, Subs 106, 136, 140, 148, and Sub 158. I have filed a Statement of Position in the arbitration case involving EPCOR and Progress Energy Carolinas in Docket No. E-2, Sub 966. I have filed testimony in avoided cost related to the cost recovery of energy efficiency programs and demand side management programs in Dockets Nos. E-7, Sub 1032, E-7, Sub 1130, E-2, Sub 1145, and E-2, Sub 1174.

I have filed testimony on the issuance of certificates of public convenience and necessity (CPCN) in Docket Nos. E-2, Sub 669, SP-132, Sub 0, E-7, Sub 790, E-7, Sub 791, and E-7, Sub 1134.

I filed testimony on the merger of Dominion Energy, Inc. and SCANA Corp. in Docket Nos. E-22, Sub 551, and G-5, Sub 585.

I have filed testimony on the issue of fair rate of return in Docket Nos. E-22, Subs 333 412, and 532; P-26, Sub 93; P-12, Sub 89; G-21, Sub 293; P-31, Sub 125; P-100, Sub 133b; P-100, Sub 133d (1997 and 2002); G-21, Sub 442; G-5, Subs 327, 386; and 632; G-9, Subs 351, 382, 722 and Sub 781, G-39, Sub 47, W-778, Sub 31; W-218, Subs 319, 497, and 526; W-354, Subs 360; 364, 384, and 400 and in several smaller water utility rate cases. I have filed testimony on credit metrics and the risk of a downgrade in Docket No. E-7, Sub 1146.

I have filed testimony on the hedging of natural gas prices in Docket No. E-2, Subs 1001, 1018, 1031, and 1292. I have filed testimony on the expansion of natural gas in Docket No. G-5, Subs 337 and 372. I performed the financial analysis in the two audit reports on Mid-South Water Systems, Inc., Docket No. W-100, Sub 21. I testified in the application to transfer the CPCN from North Topsail Water and Sewer, Inc. to Utilities, Inc., in Docket No. W-1000, Sub 5. I have filed testimony on rainfall normalization with respect to water sales in Docket No. W-274, Sub 160.

I was a member of the Small Systems Working Group that reported to the National Drinking Water Advisory Council with the EPA and I have published an article in the

National Regulatory Research Institute's Quarterly Bulletin entitled Evaluating Water Utility Financial Capacity and filed testimony on the financial viability of water and wastewater utilities, including Docket No. W-1328, Subs 0, 3, 8, 10, 13, and 15.

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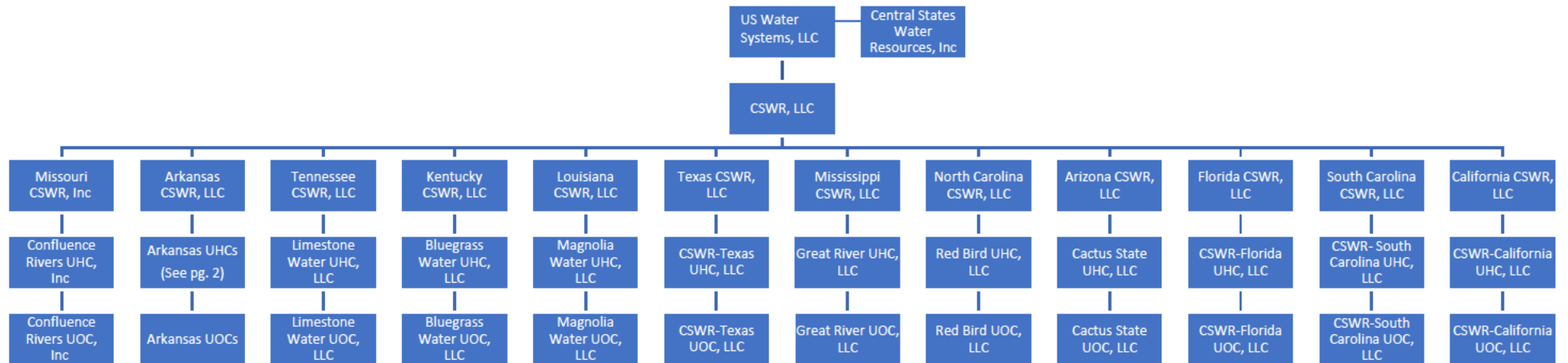
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Central States Water Resources Corporate Entity Organizational Chart



CERTIFICATE OF SERVICE

I certify that a copy of this Public Staff testimony has been served on all parties of record, or their attorneys, or both, in accordance with Commission Rule R1-39, by United States mail, postage prepaid, first class; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 6th day of March, 2023.

Electronically submitted
/s/ Davia Newell
Staff Attorney