

From: ROBERT BLAU [blaur@bellsouth.net]
Sent: 1/31/2022 4:55:24 PM
To: Scott Gardner [stgardner55@gmail.com]
Subject: Re: CONFIDENTIAL AND PRIVILEGED

GARDNER CROSS-EXAMINATION EXHIBIT 3
A-41 SUB 21

OFFICIAL COPY

Oct 12 2022

Scott,

I started my career at the Federal Communications Commission in 1975 initially as an industry economist and later as a special assistant/policy advisor to the Chief of the FCC's Common Carrier Bureau who was responsible for regulating all of interstate and international telecom services in the U.S. - including those provided by AT&T before its breakup. I worked for Comsat (international satellite carrier) from 1979-1983 and for Bell Labs on Federal regulatory matters from 1983-1985 when I joined BellSouth. From 1996-2008, when I retired, I ran BellSouth's Federal regulatory operations in Washington DC. In that capacity I had several dealing with numerous state regulatory commissions and, trust me, I understand how they work and how they think.

I was educated at DePauw University, the London School of Economics, and Indiana University where I obtained a PhD in 1978. I am also a Chartered Financial Analyst (CFA).

I knew what would happen with the Ferry Transportation Authority Act when I read the initial draft in 2017 and wrote a memo to the Village Council explaining why it should oppose the legislation. They ignored the obvious and here we are.

That said, you would not want to put me on the stand as an expert witness since, as my wife would tell you, it is highly unclear what I might say or do next. Besides that the Village could not afford my hourly rate!

The Village does need to hire an expert who understands the "ins and outs" of rate of return regulation and, very preferably, someone who has worked with and is favorably viewed by the NCUC staff.

I listened to the tail end of Chad Paul's remarks to the BHA on Saturday and I think I heard him say that the Mitchells have decided to sell the Transportation system to another commercial operator (i.e., private equity investor) on expectations that the system would continue to operate under the current regulatory framework (I.e., parking and barge rates would remain unregulated and subject to monopoly pricing abuse).

The Village should not discount the latter possibly and press the NCUC to subject all 3 components of the transportation system to rate-of-return regulation. Even though the case for doing so is compelling, the Village also needs to assume that the UC will not be overjoyed about extending its jurisdiction to include BHIL's parking or barge operations. As mentioned in my email last night, from a regulatory standpoint, the BHI system involves relatively small \$\$ amounts (e.g., compared to a Duke Energy rate case) and the UC may be remiss to commit staff resources for that reason. Even so, regulation or even the threat of regulation represents the best/only available means of keeping the transportation system's sales price at a reasonable level, regardless of who acquires it.

Similarly, since the failure to regulate also could prove very costly to BHI over time, the Village should not skimp on retaining the experts it will need to make its case to the UC.

Bob

Sent from my iPad

> On Jan 31, 2022, at 10:50 AM, Scott Gardner <stgardner55@gmail.com> wrote:

>

> Bob - excellent input! Sending on to Trathen. Could you refresh my memory on the key points of your resume, especially those roles that add credence to your weighing in here? And finally, would you consider serving as an expert witness if the need arises based on your qualifications? No promises here, just testing your interest and qualifications. If this doesn't work, you will still have the opportunity to make comment at an upcoming public hearing.

>

>> On Jan 30, 2022, at 10:01 PM, ROBERT BLAU <blaur@bellsouth.net> wrote:

>>



VBHI_0003514

From: ROBERT BLAU [blaur@bellsouth.net]
Sent: 7/28/2022 10:07:00 AM
To: Gerald Maggio [gsmaggio@aol.com]
Subject: BHITA

GARDNER CROSS-EXAMINATION EXHIBIT 3
A-41 SUB 21

OFFICIAL COPY

Oct 12 2022

I thought the meeting conveyed more than a fair share of disinformation which would be good to correct. Much of this relates to steps the NC Utility Commission would take in setting rates if they decide to regulate the entire system. Chad suggested at one point that rates could actually go up since, as he put it, the UC would calculate the system's "new" regulated rate base based on how much SharpVue pays for it (\$56M) vs it's current/ "old" rate base (i.e., netbook value of its existing plant which is approx. \$20M). The difference - \$36M - would be booked for rate making purposes as goodwill. And since state regulators generally do not allow utilities to earn a rate of return on goodwill, user fees for parking, barge and ferry service would go down, not up. That, however, could be problematic for the Island. If SharpVue overpays for the system and is not allowed (by regulators) to earn a reasonable return on its actual investment, much needed capital spending on system improvements going forward would likely go south along with service quality. Again, this is why it is very important that the UC act favorably on the Village's petition before ownership of the system changes hands.

I fully expect Chad and Roberts both understand this and that if the UC did act favorably on the Village's petition, the price that SharpVue or another commercial operator would end up paying Limited would go down commensurate with the reduction in the system's overall earnings that would result from regulating all 3 piece parts. If it did, BHI property owners might be best served if the system remained commercially owned (whether by SharpVue or some other investor) since that would preclude any need for either the Village or the BHITA to incur a large amount of public debt needed to acquire the system outright.

I wouldn't worry too much about who will end up buying the system. The important thing is to get the sales price down to a reasonable level, recognizing that regulating the barge and parking is the best and only practical way of doing that. If the price were low enough, SharpVue or another investor could buy the system and lease operating rights to the ferry barge and parking back to either the Village or, heaven forbid, BHITA. Either of whom could arguably finance the system's operations (or most of it) out of its existing cashflow - thereby avoiding the need for an excessively large bond issue and all the default risk that would entail. In that scenario, SharpVue would end up owning the land and either the Village or BHITA would end up owning everything else, including all the operating risk. Similarly, under North Carolina law, I believe (but am not certain) that if either the Village or BHITA owned everything but the land on which the transportation system sits, they, not the UC, would set users fees and decide how the system operates. We don't get there, however, unless the UC determines first that if, and as long as the system remains commercially owned, the whole shebang will be rate-base, rate-of-return regulated.

This is not rocket science. But we do need to keep our eyes on the ball.

