

March 11, 2024

Via Electronic Filing

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

Re: NCUC Docket A-41 Sub 23 -- In the Matter of Application of Bald Head Island Transportation, Inc. for Approval of Revisions to Regular Passenger Ferry Schedules to 45-Minute Departures NCUC Docket A-41 Sub 23

Dear Ms. Dunston:

Attached is a *Consumer Statement of Position* in Docket A-41 Sub 23. Should you have any questions, please do not hesitate to contact us.

Respectfully yours,



Robert T. Blau
5 Starrush Trail
Bald Head Island, NC 28461



J. Paul Carey
611 Currituck Way
Bald Head Island, NC 2846

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Consumer Statement of Position

Re: Docket A-41 Sub 23

On February 19, 2024, Bald Head Island Transportation (BHIT) filed an application with the NC Utilities Commission (Commission) requesting permission to reduce the frequency of passenger ferry runs between BHIT's ferry terminals in Southport, NC and Bald Head Island. For many years, BHIT passenger ferries have departed from its Deep Point terminal in Southport on the hour, and from its BHI terminal on the half hour, or every 30 minutes.

BHIT is now proposing to schedule ferry runs every 45 minutes, increasing the amount of time required for a boat to make the round trip from 60 to 90 minutes. This purportedly is being done to improve the passenger ferry's on-time performance (OTP), and to reduce wear and tear on its vessels. During an average week in the summer, however, the proposed schedule changes would reduce the number of available seats/tickets on BHI passenger ferries and trams by over 5,000 seats or 26 percent (see Attachment A). The reduction is particularly troublesome given that demand for passenger ferry tickets is projected to increase 2-3 percent annually over the next 5-10 years.

This statement discusses why we believe BHIT is proposing to reduce its ferry capacity, just prior to Bald Head Island Limited (BHIL) selling the BHI ferry transportation system (System) to SharpVue Capital, a private equity investment company, for \$56M. It also discusses why the proposed ferry schedule changes, if implemented, could seriously harm the community of BHI, and what the Commission should do with BHIT's application.

Please summarize your statement.

BHIT's application to reduce the frequency of ferry runs/capacity by 26 percent is clearly intended to increase the BHI passenger ferry's profitability. Reducing the number of ferry runs would accomplish this by reducing BHIT's operating expenses (e.g., fuel, labor, etc.), while raising the average price paid for ferry tickets. Both developments, however, also would make it more costly, time consuming and difficult to travel to and from Bald Head Island – very possibly to the point of diminishing the attractiveness of BHI as a place to work, vacation, visit, reside, or own property. Should that occur, direct and indirect costs that result from reducing the frequency of ferry runs, particularly during periods of peak demand, would no doubt exceed any conceivable benefits by orders of magnitude.

The Commission should recognize this and put BHIT's application, as well as SharpVue's application to acquire the System, on hold at least until the courts and the Commission have determined how the System will be regulated going forward.

Please explain why running ferry boats every 45 minutes, instead of every 30 minutes, would increase BHIT's profitability.

The reasons for this are twofold. First, reducing the number of ferry/tram runs by 26 percent – in the face of growing demand – would obviously reduce BHIT's operating expenses (e.g., fuel, labor, maintenance, etc.) thereby increasing its operating profit, pretty much dollar for dollar. Second, reducing the frequency of ferry runs also will increase demand for full fare/first class ferry tickets -- relative to discounted/second class tickets -- during peak use periods. This, in turn, will have the practical effect of increasing the average price that all users actually pay for ferry tickets. Higher average ticket prices, of course, also will result in proportional increases in operating revenues, nearly all of which will flow down to BHIT's operating income.

Please explain why reducing the number of ferry runs in the face of growing demand for ferry tickets will increase the average price per ticket as well as BHIT's operating income.

The reasons for this have to do with the hard fact that the BHI passenger ferry is a monopoly that nearly all people going to or from BHI have no choice but to use. The absence of competitive alternatives also means that demand for ferry tickets is relatively inelastic, or insensitive to price increases.

Historically, BHIT has offered discounted ferry tickets (e.g., contractor/employee and “no frills”) to workers and BHI residents. Each of those tickets currently costs \$14, up from \$12.50 in 2022, but still well below the \$23 cost of a full fair fare ticket. Holders of discounted tickets can ride the passenger ferry but cannot make a reservation on a boat scheduled to sail at a specific time. Instead, workers and holders of “no frills” tickets can ride any given ferry but only on a first-come, stand-by basis, when space is available. When space isn't available, those passengers are “bumped” to a later boat.

Last summer, BHIT also introduced a new electronic ticket/reservation system that, among other things, allows BHIT to prioritize full fare ticket holders over discounted ticket holders during periods of peak use when overall demand for tickets may exceed the 150-person capacity of any given ferry boat. At present, BHIT makes 100 full fare tickets available on any given boat with a specified departure time. Users who are willing to pay the \$23 rate can reserve these tickets as well as one of 36 tram reservations (per scheduled boat) in advance. But holders of contractor/employee and “no frills,” tickets, cannot reserve seats.

By reducing the number of ferry runs – and reducing overall ferry capacity by 26 percent, in the face of growing demand – the likelihood of a ferry rider holding a discounted/second class ticket getting bumped to a later boat will necessarily increase. As it does, demand for full fare tickets relative to discounted tickets will increase since many ferry riders will

choose to “pay up” for full fare tickets in order to avoid being bumped to a later boat which (at best) may arrive 90 minutes later. As demand for full fare tickets increases relative to discounted, second-class tickets, due to increased congestion on individual boats, the average price paid for all ferry tickets sold will increase, along with BHIT’s operating revenue and income.

Would regulatory conditions worked out by the Public Staff and BHIL/SharpVue in Docket A-41 Sub 22 prevent BHIT from “migrating” ferry riders from discounted to full fare tickets if SharpVue ends up acquiring the BHI transportation system for \$56 million?

No, the regulatory conditions for approving SharpVue’s acquisition of the System do not address this issue, or the level of regulated passenger ferry rates currently in effect (e.g., \$23 for a full fare/first class ticket). The decision to purchase a full fare ticket in order to reduce the likelihood of getting bumped to a later boat also would be up to the ticket holder, or in the case of many workers on the island, the various organizations (e.g., Bald Head Island Club, BHI Conservancy, BHI Lighthouse Foundation, the Village of BHI, etc.) who actually pay for their employees’ ferry tickets. Said differently, BHIT need not raise the tariffed price of any given class of ferry tickets in order to migrate ferry riders from less expensive to more expensive tickets, thereby increasing the average price of all ferry tickets sold. It would, however, have to reduce the overall number of available ferry tickets during periods of peak use.

Why would BHIT run the risk of annoying, or inconveniencing a significant portion of its customer base by reducing the number of available ferry tickets by 26 percent?

Increases in BHIT’s operating income that result from reducing operating expenses and increasing average ticket prices could be significant, and of significant importance to SharpVue in ensuring that the System as a whole will generate enough income to compensate SharpVue investors for putting up the \$56M that SharpVue apparently intends to pay BHIL.

To illustrate, consider how much it will cost SharpVue to carry \$56M in debt and equity capital, and then compare those financing costs to how much operating income the passenger ferry, parking and barge operations currently generates. If the former exceeds the latter, SharpVue will have to find ways of increasing the System’s operating income, or end up paying its equity investors less than they may have been promised -- provided the \$56M purchase price is not reduced.

The annual cost of SharpVue financing its proposed \$56M acquisition price for the System should be on the order of \$5.8M, assuming 60 percent of the initial investment is financed with debt capital at an annual cost of 7%, and the remaining 40 percent financed with private equity capital at an annual cost or return of, say, 17.5%.

At these rates and assuming a corporate tax rate of 20 percent, the System (ferry, parking and barge) would need to generate roughly \$7.3M in pretax operating income (EBIT) in order to: 1) cover after-tax interest expenses on its debt capital, 2) provide the required return on its equity capital, and 3) ensure that the System can meet its tax obligations while supporting the investment made by the private equity investors. In addition, of course, the System's operating revenues would need to cover all operating expenses, the cost of on-going capital expenditures, and any other cash outlays needed to sustain the System's operations.

While the System's financial statements remain confidential, its current level of operating income can be estimated from various models that were developed by and for the Bald Head Island Transportation Authority (BHITA) as part of its failed \$56M revenue bond application that BHITA would have used to acquire the System in 2022 for \$47.75M. According to projections BHITA presented to the LGC in a December 2020 *Credit Presentation*, for instance, the System was expected to generate \$13.2M in operating revenues in 2025 and \$5.9M in operating income (EBITDA). Given that the (roughly) \$7.3M in pre-tax operating income needed to service the annual cost of SharpVue's \$56M in debt and equity capital exceeds the System's estimated \$5.9M in operating income for 2025, it is entirely understandable why SharpVue would want to improve the System's profitability prior to acquiring it.

Since the Commission has access to the System's financial statements as well as SharpVue's financial projections, including its expected cost of financing a \$56M purchase price, it can obviously go through these same calculations with a good deal more certainty than we have. We hope the Commission will do so, if it hasn't already.

We also would encourage the Commission to ask itself the following question. *Should SharpVue be permitted to further improve, or pad, the System's operating income by reducing the frequency of ferry runs -- in order to ensure that SharpVue's creditors and equity investors realize a favorable return on a \$56M investment for which there is no basis other than how much income SharpVue believes the Commission will allow the System to generate going forward?* In our view, this is what BHIT's application comes down to and how it should be judged. The application is certainly not about improving on-time performance.

Why would SharpVue agree to a \$56M purchase price if that, as you suggest, would effectively incent or require it to sharply reduce BHIT's ferry capacity in order ensure that the System generates sufficient operating income to pay SharpVue investors?

We are not convinced that the \$56M purchase price was arrived at through an arms-length negotiation between an independent buyer and seller that typically would determine the fair market value of a business in a transaction such as this. If for instance, the current owner of BHIL, the Mitchell family, turns out to be a principle SharpVue investor, it may effectively be selling the System, or at least a portion of it, to itself. That, of course, could

distort any subsequent price negotiation between BHIL and SharpVue, most likely in a manner that would result in an inflated purchase price.

If the System were operating in a competitive market environment the latter possibility would not really matter much. If SharpVue paid too much for the System, and increased rates or reduced service quality as a result, System users would simply turn to a competitive, more efficient provider. In this instance, however, the System has no competitors and its captive customers will have no choice but to accept whatever pricing or scheduling arrangements that SharpVue proposes and the Commission approves.

At this point, both the Public Staff and the Commission should know exactly who is putting up SharpVue's initial \$56M investment and under what terms and conditions. We would simply ask that the Commission evaluate BHIT's application to sharply reduce the number of its ferry runs with these arrangements in mind.

How many BHI ferry riders would be adversely affected if the Commission approved BHIT's application to reduce its ferry capacity by 26 percent?

Virtually all ferry riders would be adversely affected since it will take longer get to and from the island on ferry boats that will be more congested and more time consuming to load and unload passengers and their luggage. How much more time, aggravation and expense users experience as a result of the 26 percent reduction in ferry capacity also will depend on how many ferry riders typically get on a boat during peak use periods when the number of available tickets is close to or exceeds the 150-person limit. Here again, BHIT has the customer use data to analyze this issue, but like its financial statements, has elected to keep these data under wraps.

The Commission should ask for the data and make it publicly available. It also should ask BHIT what steps it might take to alleviate congestion during peak use periods given that reducing the frequency of ferry runs will only serve to aggravate the problem.

How would the proposed 26 percent reduction in ferry capacity affect BHI and surrounding communities more generally?

There is absolutely no question that any "benefits" that could conceivably result from reducing ferry capacity by 26 percent, certainly including BHIT's enhanced profitability or better on-time performance, will pale in comparison to the costs – direct and indirect -- incurred by ferry riders, the BHI community as well as surrounding communities where BHI workers and their families reside.

Bald Head Island is an expensive place to work, vacation, live, own property, or even visit for the day in part because of the time and cost involved in moving people and products to and from the mainland and the island. The System also is a vitally important choke point to the island's economic and financial viability and wellbeing. As such, the community of BHI remains hostage, in no small measure, to how efficiently or inefficiently the transportation System operates.

As but one case in point, the BHI Club is the largest employer on BHI and one of the largest in Brunswick County. In a March 5, 2024 letter to the Commission, the President of the BHI Club's Board and its Chief Executive Officer made the following observation about BHIT's application:

Multiple hardships would be created by the proposed reduced (ferry) schedule.... [M]any island employees end up on the passenger ferry when the contractor ferry is full (or isn't running). Potential island employees, already facing a difficult commute, may be even less inclined to take jobs on BHI. This will have a negative effect on Brunswick County and New Hanover County residents who depend on BHI for their livelihood. If island businesses find hiring even more difficult than it is now, they will be forced to pass on their costs to their customers.

When viewed in this context, reducing the number of ferry runs, and creating far more congestion on boats when they do run, is clearly not in the island's best interest. In our view, it's also very disingenuous for BHIT, and SharpVue, to assert otherwise.

What would you propose that the Commission do in response to BHIT's application to reduce the capacity of the passenger ferry (and trams) by 26 percent?

At the very least, BHIT's application should be tabled until on-going litigation over how the entire BHI transportation system will be regulated going forward is eventually resolved. At the end of the day, the market value of BHIL's transportation assets will depend on how profitable the Commission allows the System, including the passenger ferry, to operate at least as long as it remains commercially owned.

We continue to believe that the best way of figuring this out is for the Commission to ask the parties of interest (i.e., BHIL, SharpVue and the three intervenors in Dockets A-41 Sub 21 and Sub 22) to negotiate a revenue requirement, along with rate and ferry/barge departure schedules for the System as whole. Those negotiations also should include any mutually agreeable changes to the set of regulatory conditions currently being proposed in Docket A-41 Sub 22 that would be conducive to SharpVue undertaking capital improvements that need to be made to the System.

The fundamental issue in all of these proceeding is not who will end up owning and operating the BHI transportation system. The key issue is how to reasonably balance the Mitchell family's interest in selling the System to a new owner/operator at a price that is both fair and conducive to meeting the transportation needs of the island. In our view, that can best be accomplished by the Commission telling all parties with "skin in the game" to work things out. And, more importantly, to establish a process for fine tune ratemaking, ferry/tram scheduling, and capital spending on System improvements as circumstances warrant. Stakeholders on BHI are in a far better position to do this than the Public Staff or the Commission itself, particularly in view of the cost of litigating regulatory issues before the Commission. This is not rocket science, or at least it shouldn't be.


Are there other issues the Commission should consider prior to addressing BHIT's petition to reduce the frequency of ferry runs?

As we have pointed out in prior Statements in Dockets A-41 Sub 21 and Sub 22, circumstances surrounding the transportation System's transfer of ownership have been, and remain cloaked in secrecy. The same was true of BHITA's bond application which failed precisely for that reason. Had BHITA's process been more transparent and open to public review and input, its proposed \$56M revenue bond application that was needed to pay BHIL \$47.75M for the System would very likely have been negotiated down. Had that occurred, BHITA's bond application would probably have been approved by the LGC, and the System would have been completely deregulated under the terms of BHITA's enabling legislation. But it wasn't approved for one very good reason: \$56M is much more than captive users of the System should reasonably be asked to pay.

Instead, BHI is now faced with a situation whereby SharpVue may pay BHIL and the Mitchell family, \$56M, and subsequently be allowed by the Commission to place all of the System's real estate into an unregulated affiliate which, in turn, would lease the land back to SharpVue's regulated entity (i.e., BHIFT). SharpVue could then sell BHIFT's ferry, parking, and barge operations -- minus the land -- either to the Village of BHI, or possibility to BHITA, in an effort to offload (and socialize) financial risks that come with operating the System. SharpVue also could sell its land and any remaining System assets to a real estate investment trust (REIT) and exist the business altogether within the next 3-5 years.

What might happen to transportation services to/from BHI as a result of all of this is anybody's guess. It's a good bet, however, that the quality of BHI ferry service will continue to deteriorate, just as the cost of service will continue to increase. It is not coincidental, after all, that SharpVue's first major initiative after agreeing to acquire the System for \$56M will be to reduce ferry capacity by 26 percent in the face of growing demand! We understand why SharpVue would want to do that, but we do not understand how it could possibly be construed by the Public Staff as somehow being in the public's interest.

We are certainly not opposed to BHIL, or the Mitchell family, selling the system to a new commercial owner/operator. We do not believe, however, that captive System user should be asked, or effectively required, to pay for an excessive and unreasonable purchase price simply because \$56M is what BHIL thinks the System is worth. In our view, that would be both completely unnecessary and patently unfair.



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Appendix A

Proposed Ferry Schedule High Season								
	Passengers				Tram Seats			
	Current	Proposed	Change	% Change	Current	Proposed	Change	% Change
Monday	2,550	1,800	(750)	-29%	612	432	(180)	-29%
Tuesday	2,550	1,800	(750)	-29%	576	432	(144)	-25%
Wednesday	2,400	1,800	(600)	-25%	576	432	(144)	-25%
Thursday	2,400	1,800	(600)	-25%	576	432	(144)	-25%
Friday	2,700	1,800	(900)	-33%	612	432	(180)	-29%
Saturday	3,750	2,850	(900)	-24%	864	684	(180)	-21%
Sunday	3,600	2,850	(750)	-21%	864	684	(180)	-21%
	19,950	14,700	(5,250)	-26%	4,680	3,528	(1,152)	-25%