

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 398

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Carolina Water Service,) DIRECT TESTIMONY OF
Inc. of North Carolina For Election to) DONALD H. DENTON III ON
Establish Rate Base for Carteret County) BEHALF OF CAROLINA WATER
Water System Under Fair Value) SERVICE, INC. OF NORTH
Methodology Authorized by N.C.G.S. §) CAROLINA
62-133.1A)

July 25, 2022

Direct Testimony of Donald H. Denton III

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INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Donald H. Denton III, and my business address is 4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Senior Vice President, East Operations for Corix. I oversee the operations of Carolina Water Service, Inc. of North Carolina (“CWSNC” or “Company”), Blue Granite Water Company (“BGWC”) in South Carolina, and Sunshine Water Services in Florida, all of which are subsidiaries of Corix Regulated Utilities (“CRU”). In addition, I serve as President of CWSNC and BGWC.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I hold a Bachelor of Aerospace Engineering from The Georgia Institute of Technology as well as an Executive Masters in Business Administration from Queens University in Charlotte, North Carolina. I have worked in the utility sector for over 24 years in multiple capacities ranging from engineering to strategic planning and major project execution.

Q. WHAT ARE YOUR DUTIES AS PRESIDENT OF CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA?

1 A. I am responsible for the Company’s regulated water and sewer operations
2 in North Carolina, including facility operations, finance, business
3 development, safety, compliance, regulatory affairs, and customer service.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. My testimony explains the object and purpose of this Application and
7 addresses how the public interest is served by the acquisition by CWSNC
8 of the Carteret County Water System. This is specifically responsive to
9 Commission Rule R7-41(d), which reads in pertinent part:

10 In addition to providing the information required pursuant to
11 G.S. 62-133.1A in the completed application form, the
12 application shall contain a narrative explanation of the object
13 and purposes desired by the application and how the public
14 interest is served by the acquisition, along with any other
15 information required by the Commission. The application shall
16 be accompanied by the testimony of the acquiring utility’s
17 president or another person employed by the utility who is
18 personally familiar with the contents thereof and who verifies
19 that the contents of the application are true and accurate.
20

21 **Q. PLEASE DESCRIBE THE OBJECT AND PURPOSE OF THIS**
22 **APPLICATION.**

23 A. The purpose of the filing is to comply with the statutory and rule-based
24 requirements for determining the rate base value of a governmental utility,
25 when it is being acquired by a regulated public utility, by use of a “fair value”
26 based methodology, rather than by use of the “original cost” method.
27 Specifically, CWSNC wishes to purchase the Carteret County Water

1 System. In order to make the transaction feasible, the “fair value”
2 methodology must be employed in order to capture the reasonable, realistic
3 value of this system as it migrates from ownership by a governmental entity
4 to ownership by a utility regulated by the North Carolina Utilities
5 Commission (“NCUC” or “Commission”). Absent the ability to establish a
6 realistic level of “market” value of such assets, there is an insurmountable
7 obstacle to purchases of governmental systems by utilities that are
8 regulated under Chapter 62 of the General Statutes. If limited, for rate base
9 purposes, to recognition only of the original cost of the Carteret County
10 Water System, CWSNC could not justify as prudent a purchase price that
11 would reflect a fair, reasonable, or realistic value for the asset. CWSNC is
12 eager to effectively use this new statutory tool to enter municipal, county,
13 and other governmental markets, and is pleased to bring this case of first
14 impression in the use of N.C.G.S. § 62-133.1A.

15 **Q. HOW IS THE PUBLIC INTEREST SERVED BY THE USE OF N.C.G.S. §**
16 **62-133.1A TO FACILITATE TRANSFERS OF OWNERSHIP BETWEEN**
17 **GOVERNMENTAL UTILITY PROVIDERS AND REGULATED PUBLIC**
18 **UTILITIES?**

19 A. The “Fair Value” Statute (N.C.G.S. § 62-133.1A) was carefully developed
20 by the legislature and was thoughtfully implemented in the subsequent
21 regulatory rulemaking proceeding before the Commission (NCUC Docket

1 No. W-100 Sub 60). The statute established a mechanism by which willing
2 sellers of governmental water and wastewater systems and willing buyers
3 in the regulated public utility sector could overcome a primary barrier to sale
4 that has historically hindered transfers that could be squarely in the public
5 interest. This historical barrier has consisted of an inability to correlate fair
6 purchase prices with the rate base values of the asset to the regulated
7 utility. This method, referred to herein as the "Fair Value" mechanism,
8 combines independent business evaluations by the governmental
9 providers, prudent decisions by the regulated public utilities, participation
10 on behalf of customers by the Public Staff, valuations by qualified
11 appraisers, and comprehensive regulatory oversight by the Commission.

12 In the event that a governmental unit determines that its water (or
13 wastewater) service can be provided in a more reliable, economical,
14 efficient, and/or compliant way by a regulated public utility, it can be in the
15 public interest of its customers and community to sell the system. Similarly,
16 if a regulated public utility can increase its economies of scale, allocate its
17 overhead more efficiently, grow its systems and revenues, and/or
18 strengthen its internal capacities by purchasing a governmental utility at
19 reasonable cost, then that too can serve the public interest. More specific
20 discussion of the application of those principles to the facts of this case
21 follows.

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Q. HOW IS THE PUBLIC INTEREST SERVED BY THIS ACQUISITION?

A. The purpose of this Application is to facilitate the transfer of Carteret County’s water system assets to CWSNC at fair value, and to reflect that value in the calculation of rate base. The purpose of this testimony is to explain how this transfer of ownership is in the public interest of the customers of both Carteret County and CWSNC. N.C.G.S. § 62-133.1A provides a path through which the interests of all customers can be advanced and safeguarded, the benefits of expanded rate base and economies of scale on the CWSNC system can be realized, and the expertise contained in CWSNC’s multi-state, professional, experienced organization can be extended to the various governmental systems to support the provision of safe and reliable service to customers.

This purchase, the first undertaken under N.C.G.S. § 62-133.1A, is a watershed launch of the supervised development of deliberate convergence between portions of the public and private provider markets in North Carolina. The statutory and regulatory safeguards in place will ensure protection for consumers in both markets.

Q. ARE THERE SPECIFIC PROTECTIONS FOR CUSTOMERS OF THE COMBINED SYSTEMS?

A. Yes. CWSNC emphasizes, in support of this filing, that the “Fair Value” statute is replete with tools whereby the Commission can

1 protect ratepayers and maintain the public interest. The NCUC retains the
2 authority to set rates for the acquired system in future rate cases, has the
3 discretion to classify the acquired system as a separate rate entity in future
4 rate cases, and has the authority to adjust the “fair value” as the
5 Commission deems appropriate and in the public interest.

6 **Q. CAN YOU DESCRIBE SOME SPECIFIC OPERATIONAL BENEFITS**
7 **THAT FLOW FROM THIS ACQUISITION?**

8 A. Yes. CWSNC contends that allowing a “fair value” method as a component
9 of the determination of rate base for property purchased by a public utility
10 from a governmental-owned system will realize many operational benefits.
11 The transfer of ownership facilitated by N.C.G.S. § 62--133.1A will provide
12 an opportunity for Carteret County and its existing customers to benefit from
13 CWSNC’s operational service expertise. Given the size and scope of the
14 CWSNC organization, it is equipped to consistently achieve a high degree
15 of compliance with health and environmental standards, is able to achieve
16 efficiencies in procedures due to the advantages in economies of scale, can
17 shift resources among systems as needed, and has a proven record as a
18 reliable service provider. CWSNC specializes in water industry operations
19 with a primary focus on small and medium-sized communities and is able
20 to perform support functions such as management, billing, collections, and
21 customer service through existing, consolidated resources.

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CWSNC has a strong local presence in the Carteret County area, with a highly qualified work force to provide an optimal level of service through enhanced efficiency and depth of experience. We plan on operational continuity by looking to maintain existing operational support. Carteret County and its customers will benefit from CWSNC's access to financial capital, which is used to ensure that necessary and prudent investments are made on a timely basis, in order to provide safe, reliable, and compliant service.

CWSNC's ability to attract capital to fund investment in infrastructure will benefit the operation of the Carteret County system in other ways. The County's operating expenses have exceeded water service revenues in recent years and the deficits have been subsidized by tax revenues generated from supplemental taxes. CWSNC's ownership will provide the financial and operational resources needed to manage Carteret County's water system efficiently and safely.

Q. PLEASE DESCRIBE HOW THE ACQUISITION BENEFITS CWSNC'S EXISTING CUSTOMERS.

A. CWSNC's existing customers will also realize benefits from the acquisition of Carteret County's utility system. The additional customers gained by this transfer will provide economies of scale by spreading existing fixed costs over a larger customer base. Carteret County and CWSNC's customers

1 will also experience the advantages of operating within a uniform group of
2 ratepayers which includes smoother rate adjustments, regulatory and
3 operational cost efficiencies, and shared access to support for vital capital
4 needs.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A. Yes.**