

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. A-41, SUB 21

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of:

Village of Bald Head Island,)
)
Complainant,)
)
v.)
)
Bald Head Island Transportation, Inc.)
and Bald Head Island Limited, LLC,)
)
Respondents.)

**TESTIMONY SUMMARY
OF JAMES LEONARD
ON BEHALF OF
RESPONDENTS**

James Leonard Testimony Summary

Docket No. A-41, Sub 21

My name is James Leonard, and I am a founding partner of Mercator International LLC.

I have more than 40 years of experience in the transportation and infrastructure field and have had a particular focus in shipping economics and port strategies as well as the financial and operational analysis of a wide variety of transportation businesses. Mercator's clients have included infrastructure investment funds and pension funds, private equity, carriers, port authorities, terminal operators, industrial real estate developers, and beneficial cargo owners.

My testimony is intended to lend context to the Commission's consideration of issues regarding the parking and barge operations conducted by Bald Head Island Limited, LLC and the ferry and tram operations conducted by Bald Head Island Transportation, Inc. My appearance here is not to argue against the regulatory actions sought by the Village of Bald Head Island. Instead, my purpose is to familiarize the Commission with the assets and their operation in the marketplace.

My testimony draws on more than 500 person hours of time that I, my colleagues, and other retained consultants at our direction spent analyzing the Limited and BHIT operations. That work resulted in a January 2018 report, "Bald Head Island Seller's Due Diligence," that was designed to provide information to Limited about how an arm's length buyer would assess and evaluate the assets and their operation. Limited was preparing for an anticipated sale of the assets to the Bald Head Island Transportation Authority (the "Authority"), but our work was aimed at providing a market assessment for Limited that did not depend on the identity of the buyer.

At the invitation of UBS, one of the lead financial advisors working for the Authority, Mercator was later asked to provide a Bond Feasibility Study designed to provide assurance that the assets and operations being acquired would allow the Authority to pay off its debts. When we

were hired by the Authority, I understood that the Authority and Limited already had negotiated a sale price for the assets. I understand that our due diligence and feasibility documents have been produced to the parties in this docket.

In this docket, I was asked by Limited and BHIT to share information and observations from our extensive analysis of the assets involved here, and to offer some context about how the ferry and parking operations compare with other systems across North America.

As an aid to the Commission, I offer a brief summary of our investigatory findings and the conclusions we reached that hopefully can inform its consideration of the issues in this docket.

First, Limited prices its parking modestly, has avoided significant increases, and affords rates that are less than or similar to reference costs I have examined. Indeed, Limited appears to have made a special point of keeping parking prices quite low for its most regular users: workers on the Island, contractors that help it develop and grow, and residents.

Second, in surveying ferry systems and parking solutions in many markets, I conclude there is no one-size-fits-all formula. Parking can be on-site or adjacent to ferry terminals, as well as off-site. Moreover, parking can be provided by the ferry company itself, private concerns, or through municipal lots or garages. I did not identify any ferry operations in connection with which a parking lot, garage or operation was regulated. In some jurisdictions there are governmental providers of parking, but that presence as a provider does not connote a regulatory overlay.

Third, the absence of regulation in ferry-associated parking is indicative of conditions in which market solutions are working and regulatory intervention has not been required.

Fourth, the Village and its witnesses have suggested that a lack of parking alternatives in the City of Southport demonstrates the existence of excessive market power for Limited. Instead,

what it indicates is a lack of need. The pricing and availability of parking for ferry riders have been satisfactory, if not better, and have not afforded an attractive competitive opening. With market entry commitments likely limited to land, lot administration, and perhaps shuttle transportation, I would expect that inadequate or high-cost parking would attract competitors as has been the case at airports around the country, but this has not happened with respect to Bald Head Island.

Fifth, our due diligence guidance to Limited in advance of any sale included market-based valuation estimates for the assets that were later closely paralleled by the arm's length purchases negotiated by the Authority and subsequently by SharpVue Capital. There is no evidence to suggest that these three, independent analyses of the market value of the assets were skewed or inflated by abusive pricing or practices by Limited.

Sixth, our evaluation of Limited and BHIT, and their structures and operations, showed no evidence of any failure to account for the activities and finances of the regulated and unregulated activities separately and appropriately. Construction of our model required us to extract data and cost relationships from all departments of Limited and BHIT, and we discovered no misallocation of costs between operating groups.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Testimony Summary of James Leonard has been served by electronic mail, hand delivery, or by depositing a copy of same in the United States Mail, postage prepaid, properly addressed to parties and counsel of record as shown on the Commission’s Service List in docket A-41, Sub 21, and has also been provided to Commission’s Counsel and to the appropriate members of the NC Public Staff.

This 11th day of October, 2022.

ls/ Bradley M. Risinger
Bradley M. Risinger