

**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

September 19, 2023

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

Re: Docket Nos. W-1146, Sub 13 and W-1328, Sub 10 – Application by Red Bird Utility Operating Company, LLC, for Authority to Transfer the Lake Royale Subdivision Water and Wastewater Utility Systems and Public Utility Franchise in Franklin and Nash Counties, North Carolina, and for Approval of Rates

Dear Ms. Dunston,

Attached for filing on behalf of the Public Staff in the above-referenced dockets is the testimony of John R. Hinton.

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

Sincerely,

Electronically submitted  
s/ Megan Jost  
Staff Attorney  
[megan.jost@psncuc.nc.gov](mailto:megan.jost@psncuc.nc.gov)

cc: Parties of Record

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## CERTIFICATE OF SERVICE

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

This the 19th day of September, 2023.

Electronically submitted  
/s/Megan Jost  
Staff Attorney

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. W-1146, SUB 13**

**DOCKET NO. W-1328, SUB 10**

In the Matter of  
Application by Red Bird Utility Operating )  
Company, LLC, 1650 Des Peres Road, )  
Suite 303, St. Louis, Missouri 63131, and )  
Total Environmental Solutions, Inc., P.O. )  
Box 14059, Baton Rouge, LA 70898, for )  
Authority to Transfer the Lake Royale )  
Subdivision Water and Wastewater Utility )  
Systems and Public Utility Franchise in )  
Franklin and Nash Counties, North )  
Carolina, and for Approval of Rates )  
)

**TESTIMONY OF  
JOHN R. HINTON  
PUBLIC STAFF –  
NORTH CAROLINA  
UTILITIES COMMISSION**

**September 19, 2023**

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. My qualifications  
6 and experience are provided in Appendix A.

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

8 A. The purpose of my testimony in this proceeding is to present the  
9 results of my investigation of the application filed on June 7, 2021,  
10 by Total Environmental Solutions, Inc. (TESI), and Red Bird Utility  
11 Operating Company, LLC (Red Bird), for authority to transfer the  
12 water and wastewater systems and public utility franchise serving  
13 Lake Royale Subdivision (Lake Royale) in Franklin and Nash  
14 Counties from TESI to Red Bird and approval of rates as it relates to  
15 the financial viability of Red Bird.

16 **Q. Please describe your investigation.**

17 A. I reviewed Red Bird's application, responses to data requests, the  
18 direct testimony of Company witness Josiah Cox, and the direct  
19 testimony of David Murray filed on the behalf of the Missouri Office  
20 of the Public Counsel in Case No. WR-2023-0006, a rate case filed

1 with the Missouri Public Service Commission by Red Bird's affiliate,  
2 Confluence Rivers Utility Operating Company, Inc.

3 **Q. Please describe the Organizational Chart provided to the Public**  
4 **Staff in response to a data request.**

5 A. The Central States Water Resources Corporate Entity  
6 Organizational Chart attached to this testimony as Public Staff  
7 Hinton Exhibit 1 shows that Red Bird is owned by the North Carolina  
8 CSWR, LLC, in a similar fashion as the other utility operations in the  
9 11 other state jurisdictions. In addition, US Water Systems, LLC, is  
10 the sole member of CSWR, LLC, and it owns 100% of CSWR, LLC.

11 **Q. Do you agree with witness Cox that Red Bird and CSWR, LLC,**  
12 **have the financial capacity to acquire, own, and operate the**  
13 **TESI systems?**

14 A. Yes. Based on data request responses and the testimony of witness  
15 Cox, US Water Systems, LLC, and CSWR, LLC, will provide Red  
16 Bird with sufficient equity capital to acquire and improve its water and  
17 wastewater systems, fund system upgrades, and support other  
18 capital improvements. However, the Public Staff has some concerns  
19 regarding the ongoing viability of CSWR, LLC, because it continues  
20 to report significant losses on its consolidated income statements. As

1 such, the Company's financial viability largely depends on external  
2 infusions of common equity.

3 **Q. Does CSWR, LLC depend only on equity capital that is, in part,**  
4 **provided by private equity?**

5 A. No. CSWR, LLC, has been approved for three loans with CoBank in  
6 other state jurisdictions and Red Bird's eventual plans are to  
7 rebalance its capital structure from being comprised of 100% equity  
8 to offsetting equity with 40% to 50% debt capital.

9 **Q. Has the Public Staff observed any ongoing issues with any of**  
10 **Red Bird's North Carolina operations that suggest sufficient**  
11 **capital is not available?**

12 A. No. My understanding is that Public Staff witness Houser is unaware  
13 of any plant and operational problems that stem from a lack of  
14 capital. However, it should be noted that Red Bird has not owned its  
15 systems in North Carolina for very long. The Public Staff will continue  
16 to monitor capital investment in the acquired systems.

17 **Q. In view of your financial concerns, do you have any**  
18 **recommendations?**

19 A. Yes. I recommend that Red Bird meet with the Public Staff on an  
20 annual basis to discuss Red Bird's North Carolina water and  
21 wastewater utility operations and address any concerns with its

1 financial condition. I propose that these meetings continue until the  
2 Company's capital structure has been rebalanced to acceptable  
3 levels and all viability concerns have been resolved.

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

5 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. In 1986, 1989, and 1992, I developed the long-range forecasts of peak demand for electricity in North Carolina. 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 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.

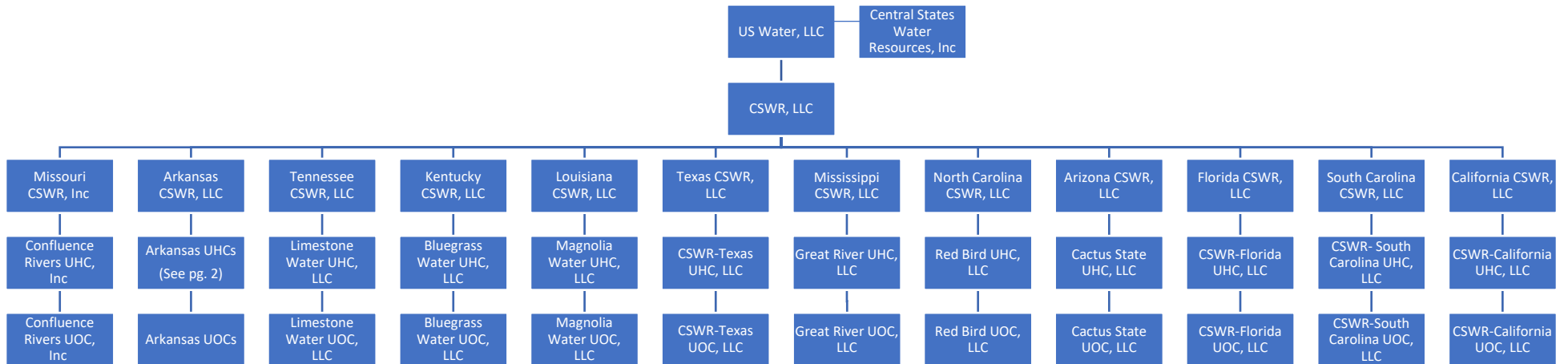
I have filed testimony on the issue of fair rate of return in Docket Nos. E-22, Subs 333 412, and 532; P-26, Sub 93; P-12, Sub 89; G-21, Sub 293; P-31, Sub 125; P-100, Sub 133b; P-100, Sub 133d (1997 and 2002); G-21, Sub 442; G-5, Subs 327, 386; and 632; G-9, Subs 351, 382, 722 and Sub 781, G-39, Sub 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, 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 of 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.

**Central States Water Resources Corporate Entity Organizational Chart**



**Arkansas CSWR Organizational Chart Detail**

