KIAWAH ISLAND UTILITY, INC.

DOCKET NO. DOCKET NO. 2012-252-WS

PRE-FILED TESTIMONY OF STEVE D. HEYBOER

BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

Testimony Prepared: January 16, 2013

Hearing Date: February 21, 2013

THIS TESTIMONY IS FILED PURSUANT TO PSC NOTICE TO FILE PREFILED TESTIMONY DATED AUGUST 19, 2012. THE APPLICANT RESERVES THE RIGHT TO SUPPLEMENT THIS TESTIMONY AND TO PROVIDE REBUTTAL TESTIMONY TO THE TESTIMONY THAT WILL BE PRE-FILED BY THE COMMISSION STAFF, ORS, AND INTERVENER.

MR. WALKER: Mr. Heyboer, would you please provide your full name, business address and position with the Utility?

MR. HEYBOER: My name is Steve D. Heyboer, and my business address is 14 North Adger's Wharf, Charleston, South Carolina, 29401. I am the Chief Financial Officer of the Utility.

MR. WALKER: Do you receive any compensation from the Utility for the services that you perform?

MR. HEYBOER: No. Kiawah Resort Associates, LP receives an annual management fee that covers my services and those of many others who handle business matters for the Utility but are not on its payroll.

MR. WALKER: Do you hold a position with Kiawah Resort Associates, LP?

MR. HEYBOER: Yes. I am also the Chief Financial Officer of Kiawah Resort Associates, L.P., known as KRA. KRA owns all of the outstanding shares of stock in Kiawah Island

Utility, Inc. KRA purchased the shares in the Utility in 1988 when it acquired the real property and other assets of the then-developer of Kiawah Island and took over as developer.

MR. WALKER: Are you familiar with the application filed by the Utility to obtain Commission approval for a loan from Wells Fargo Bank, National Association, to the Utility and the transfer of the outstanding stock in the Utility to Bear Island Holding, LLC?

MR. HEYBOER: Yes. I helped prepare the application. I negotiated the terms of the loan from Wells Fargo and signed the commitment letter from Wells Fargo on behalf of the Utility.

MR. WALKER: Does the Utility currently have a significant loan obligation?

MR. HEYBOER: Yes, as I testified in detail in the Utility's last rate proceeding, Docket Number 2011-317-WS, the Utility has a credit facility with RBC Bank (USA) up to $8,850,000. The outstanding balance of the loan from RBC is approximately $7,500,000. The maturity date of the RBC loan is June 30, 2014.

MR. WALKER: If the Commission approves the loan from Wells Fargo, what will happen to the RBC loan?

MR. HEYBOER: The Utility will pay off the RBC loan.

MR. WALKER: Why did you undertake to apply for and negotiate a loan from Wells Fargo?

MR. HEYBOER: There were several reasons. The RBC loan will be due in a little over a year's time and the Utility needed to secure replacement financing. Additionally, as covered in detail in the Utility's last rate proceeding, the Utility believes it is in the best

interests of its customers to construct a second supply line from St. John's Water Company to its service area on Kiawah Island. The Utility has depended on a single supply line that was constructed 35 years ago and has experienced numerous breaks in recent years. In the last rate preceeding all parties supported installation of a second supply line. The second supply line is projected to cost in the neighborhood of $7,200,000. The new loan has to be in a large enough amount to fund the cost of the new supply line.

MR. WALKER: Did you talk to more than one bank about this new loan?

MR. HEYBOER: Yes. The terms that Wells Fargo offered were the most favorable. Additionally the loan from Wells Fargo will include an additional amount that the Utility could call on in the event it were faced with an emergency or had other capital or operational needs.

MR. WALKER: What are the intended uses of the loan proceeds?

MR. HEYBOER: The Utility will use proceeds from the proposed loan agreement to pay off RBC's existing term debt, to construct a second water supply line from St. Johns Water Company to Kiawah Island, and to fund current and future general working capital needs,

MR. WALKER: What is the total amount of credit that Wells Fargo will be extending to the Utility?

MR. HEYBOER: Up to $19,200,000.

MR. WALKER: Are there conditions to the Wells Fargo loan?

MR. HEYBOER: There are a number of conditions. I will address a couple of the main ones. Wells Fargo is requiring that the Utility enter an interest swap agreement. The Wells Fargo loan is at a variable rate. The interest swap effectively acts as a cap on the interest rate if rates rise. The Utility entered a similar interest rate swap as part of the existing loan with RBC. I believe Wells Fargo's interest rate swap requirement is commercially reasonable and in the best interest of the ratepayers.

MR. WALKER: In its application, the Utility has requested approval of the transfer of its stock by its parent, Kiawah Resort Associates, LP ("KRA"), to Bear Island Holdings, LLC. Does this relate to another condition imposed by Wells Fargo?

MR. HEYBOER: Yes. As part of the loan commitment, Wells Fargo has required as additional collateral a pledge of the stock in the Utility and that the stock be held in a separate Special Purpose Entity ("SPE"). As KRA has multiple other business assets, liabilities and distinct operations, it clearly doesn't qualify as a SPE and is also not a viable candidate for a parent company stock pledge. Bear Island Holdings was selected to be utilized as it has no other current operations or liabilities and satisfies the requirements of Wells Fargo.

MR. WALKER: Is it unusual for a bank to require such a transfer of stock and pledge of stock in a transaction such as this?

MR. HEYBOER: No, not in my experience. The requirement of a SPE and stock pledge are common loan underwriting requirements, consistent with other Wells Fargo loans, and are therefore not unique to this loan. These requirements do not result from any information that is specific or unique to either the Utility or KRA. The Bank has

required these items as additional financial safeguards to eliminate the remote possibility of the Utility being subject to the business risks of KRA. These safeguards also protect the Utility's customers from those business risks, remote as they may be. I would also add that the transfer of the stock would eliminate the supposed concerns expressed by interveners in previous rate cases that KIU is subject to the business risk of KRA because of either cross collateralization of loans to KRA or KRA's ownership of the stock in the Utility.

MR. WALKER: Who are the owners of Bear Island Holdings, LLC?

MR. HEYBOER: The ownership of Bear Island Holdings. LLC is the same as KRA. That is one of the reasons we selected Bear Island Holdings, LLC as the SPE.

MR. WALKER: Does Bear Island Holdings, LLC have other current business operations?

MR. HEYBOER: No, it has no operations. It merely owns land on the east end of Kiawah Island called Little Bear Island that is under a conservation easement.

MR. WALKER: Will the transfer of the stock from KRA to Bear Island Holdings, LLC have any effect on the operations of the Utility, the level of service it provides, the licenses it holds or any other aspect of its business?

MR. HEYBOER: None. Everything will remain the same with the Utility. It will not result in any change in management or operations.

MR. WALKER: Will the transfer of the stock from KRA to Bear Island Holdings, LLC have any effect on the rates and charges to the ratepayers?

Mr. HEYBOER: No. The stock transfer is at the level of ownership of the Utility and has no effect on the revenues and expenses of the Utility.

MR. WALKER: Do other conditions of the loan work to the benefit of the customers?

MR. HEYBOER: Yes, Wells Fargo is requiring several safeguards in the form of loan covenants that function to maintain the financial stability and integrity of KIU.

MR. WALKER: Did Wells Fargo impose an expiration date on its loan commitment?

MR. HEYBOER: Yes, it did. Even though time is of the essence and we are concerned that the more time that goes by, the more chance there is that Wells Fargo may change the terms, we have managed to obtain an extension from Wells Fargo.

MR. WALKER: Do you believe the proposed loan with Wells Fargo and the transfer of the Utility's stock from KRA to Bear Island Holdings, LLC to be reasonable and in the best interests of the Utility and its customers?

MR. HEYBOER: Yes, the loan from Wells Fargo is critical to the financial structure of the Utility with the RBC loan coming due next year and the additional capital needs of the Company. The rate of interest of the loan and other terms are not only reasonable and competitive but more favorable to the Utility than those of the existing RBC loan. The Utility cannot proceed with the construction of the second supply line without the Wells Fargo loan. Additionally there will be a cushion in the amount of loan that KIU could draw on if there was a natural disaster, emergency or other capital needs. The availability of this additional credit helps assure that our customers will continue to receive high quality water and sewer service.

END OF DIRECT TESTIMONY

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2012-252-WS

Request of Kiawah Island Utility, Inc. for Determination Regarding Internal Transfer of Stock	)	**CERTIFICATE OF SERVICE**

This is to certify that I, Christine Morrow, have this date served one (1) copy of the Pre-Filed Testimony of Steve D. Heyboer in the above-referenced matter to the person(s) named below by electronic mail or U.S. Mail as indicated below:

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BY: _____
Christine Morrow

January 16, 2013

Charleston, South Carolina