

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:)	
)	
PETITION OF TENNESSEE)	DOCKET NO. 14-00136
WASTEWATER SYSTEMS, INC.)	
FOR APPROVAL OF)	
CAPITAL IMPROVEMENT)	
SURCHARGES AND FINANCING)	
ARRANGEMENTS)	

REBUTTAL TESTIMONY
OF
CHARLES PICKNEY, JR.

ON BEHALF OF TENNESSEE WASTEWATER SYSTEMS, INC.

August 19, 2015

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14
15

16 **Q. What is your name?**

17 A. Charles Pickney, Jr.
18

19 **Q. What is your current job?**

20 A. I am the Chairman of the Board of Adenus Group, LLC. At the time the 2008 rate case
21 (Docket 08-00202), I was the President of Tennessee Wastewater Systems, Inc. ("TWSI").
22

23 **Q. Have you previously submitted testimony in this case?**

24 A. No.
25

26 **Q. What is the purpose of this reply testimony?**

27 A. I am responding to the Supplemental Testimony of William H. Novak, pages 7-9. Many
28 of the assumptions made in Mr. Novak's testimony have no factual basis. I want specifically to
29 respond to the implication that unregulated sales of capacity by Adenus Capacity are somehow
30 inappropriate or have resulted in higher rates for TWSI's customers. I also want to address the

1 implication that TWSI has not been completely forthcoming with the TRA about these
2 unregulated sales of capacity.

3
4 **Q. Mr. Novak focuses on TWSI's response to Question 7 of the Second Data Request**
5 **from the TRA Staff. What was the Staff's question?**

6 A. The complete question is quoted in Mr. Novak's testimony. In sum, the Staff asked about
7 revenues since 1999 from sales of "tap fee credits/capacity" connected with any system owned
8 by TWSI or its predecessor.

9
10 **Q. Did TWSI provide the requested information?**

11 A. It is my understanding from Charles Hyatt that TWSI provided the requested information
12 on all capacity sales since 2009, the date of the company's last rate case, Docket 08-00202
13 ("Order Approving Revised Settlement Agreement," July 8, 2009). At the time of the 2008 rate
14 case, I was the President of TWSI. Prior to and during that case, we responded to all of the
15 questions from the Staff and the Consumer Advocate, including questions about the sale of
16 capacity. This is confirmed by the testimony in Docket 08-00202 and in this case of Mr. Robert
17 T. Buckner who was a witness for the Consumer Advocate in the 2008 rate case.

18
19 **Q. Did the TRA and the Consumer Advocate investigate the sales of capacity as part of**
20 **the 2008 rate case?**

21 A. Yes. In early 2006 I met with Ms. Darlene Standley, who was then the head of the TRA
22 Energy and Water Division, to discuss the scope and structure of a proposed rate case that we
23 hoped to file at a later date. For the last fifteen years or so, I have kept a daily journal of my

1 activities. I still have notes of those discussions between Ms. Standley and me. The topic of
2 related companies was discussed at length. One of those companies was On-Site Capacity
3 Development Co. (Later Adenus Capacity, LLC).

4 I explained to Ms. Standley that over time we had received several requests from county
5 and municipal officials requesting wastewater service. There would usually be some immediate
6 identifiable need such as a school or businesses but invariably the county or city officials needed
7 a sewer facility that could serve an area and help create economic activity and jobs. Tennessee
8 Wastewater Systems did not have access to the necessary capital to invest in the sewer system
9 with the needed capacity. To try to do so would have increased rates tremendously.

10 To try to meet this need, the owners of Tennessee Wastewater Systems worked with the
11 county and municipal officials to find local partners with a business interest in the community
12 that would make an investment in a sewer system. The investors would acquire land and build a
13 sewer system that had the capability of serving that area. (Capacity would be sold as the
14 community needed it.) The owners of Adenus Capacity and the other investors raised the capital
15 to build the community "capacity" sewer systems knowing that the chances of breaking even in
16 the first ten years was low. The main motivation for those involved was to help the community
17 to get the sewer system they needed. Unfortunately for the owners of Adenus Capacity, after
18 investing in a few systems it was not viable to continue to create new "capacity" systems due to
19 financial constraints. No new "capacity" systems have been created in the last five years and no
20 new ones are likely.

21
22 **Q. Did you go over the finances of these investments with the TRA Staff?**

1 A. Yes. We looked at what was going on with it, the finances of it, and the reality is that
2 there was a considerable amount of debt involved, a considerable amount of cost, and as of the
3 time we reviewed this, not a single one of these capacity projects was above water. Every one of
4 them was in a deficit situation.

5 And then the question comes, well, does Tennessee Wastewater want to take this on,
6 because the ratepayers are going to have to deal with paying debt and the costs of construction of
7 this additional capacity. We all agreed that it just didn't make any sense to include those
8 investments with the regulated operations of TWSI.

9
10 **Q. Please respond to Mr. Novak's testimony at page 7 that it is "very likely" that**
11 **treating the investment in and sales of capacity as unregulated operations "has caused the**
12 **current utility rates to be higher than they otherwise would have been."**

13 A. The statement made by Mr. Novac that TWSI is funneling away revenues from capacity
14 sales to recover higher rates is false. Just the opposite is true. Rate payers would be hurt if the
15 costs and revenues from these systems were the responsibility of rate payers. The basic facts of
16 these "capacity" systems have been known to the TRA since I discussed them with Darlene
17 Standley in 2006. At the request of the TRA or the Consumer Advocate, our company has
18 consistently provided the books and financial records of our affiliated companies to the TRA.
19 We provided them in Docket 08-00202 and have provided them in this case. The reviews of
20 those financial records have supported the facts as I have presented them here.

1 **Q.** Does this conclude your testimony?

2 **A.** Yes.

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AFFIDAVIT

I, Charles Pickney, Jr., hereby certify that the attached testimony is true and correct to the best of my knowledge.


CHARLES PICKNEY, JR.

Sworn to and subscribed before me,
this 18 day of August, 2015.


NOTARY PUBLIC

My Commission Expires: 2/20/2018

