

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 23-00066

DIRECT TESTIMONY

OF

GRADY STOUT

ON

**JOINT PETITION OF TENNESSEE-AMERICAN WATER COMPANY AND
CATOOSA UTILITY DISTRICT AUTHORITY FOR THE
APPROVAL OF A SPECIAL CONTRACT**

1 **Q. PLEASE STATE YOUR NAME AND PLACE OF EMPLOYMENT.**

2 A. My name is Grady Stout. I am the Director, Engineering and Business Development for
3 Tennessee-American Water Company (“TAWC”).

4 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS OR ANY**
5 **OTHER UTILITY COMMISSION?**

6 A. Yes. I submitted testimony in a number of Tennessee Public Utility Commission (“TPUC”
7 or “Commission”) matters, including Docket Nos. 20-00011, 20-00128, 21-00030,
8 22-00021 and 22-00049.

9 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
10 **BACKGROUND.**

11 A. I received a B.S. degree in Civil Engineering from Tennessee Technological University in
12 2011. I am a licensed Professional Engineer in the State of Tennessee. Upon graduation
13 from Tennessee Technological University, I began working with Tysinger, Hampton, &
14 Partners, an engineering consultant firm in Johnson City, Tennessee. While with this firm,
15 I served as the inspector over the Little Milligan Water System project that included the
16 installation of wells, a chemical building, a storage tank, and distribution system. In 2012,
17 after the project was complete, I became a Construction Project Manager for Bob Stout
18 Construction Company, Inc. In this role I was the project manager of a 16” water main
19 replacement project. I began working with TAWC in 2013 as an Engineer in the
20 Engineering Department. My primary role was to design and manage water main
21 replacements and other production projects in the Chattanooga, Whitwell, and Suck Creek
22 districts of TAWC. In 2016, I was promoted to Project Manager. In this role I had both
23 engineering and managerial responsibilities, along with managing relationships of key

24 stakeholders, elected officials, and regulators. In 2019, I was again promoted to
25 Engineering Manager of TAWC. I have also served twice on an interim basis as Vice
26 President of Operations for TAWC, the first from January 2020 – April of 2020, and the
27 second from April of 2021- June of 2021. After serving as VP of Operations, I returned to
28 my duties of Manager of Engineering. In May of 2022, I was promoted to my current role,
29 Director, Engineering. I am an active member of American Water Works Association
30 (AWWA), American Society of Civil Engineers (ASCE), and served as the 2020 President
31 of the Chattanooga Engineer's Club.

32 **Q. WHAT WERE YOUR DUTIES AS INTERIM VICE PRESIDENT OF**
33 **OPERATIONS?**

34 A. My primary responsibilities were managing and supporting water quality, field operations,
35 production, and maintenance operations within the state. In this role, I had eleven direct
36 reports that in turn manage the different areas of the operation. I provided strategic and
37 tactical responsibility for all operations and financials.

38 **Q. WHAT ARE YOUR DUTIES AS DIRECTOR, ENGINEERING AND BUSINESS**
39 **DEVELOPMENT?**

40 A. I am responsible for the coordination and administration of the TAWC Engineering
41 Department. This includes the planning, development, and implementation of all aspects
42 of construction projects. My responsibilities include working with developers for all new
43 main extensions, replacement of existing mains, water treatment plant upgrades and
44 modifications, new construction, and improvement to network facilities. I also coordinate
45 technical assistance to all other TAWC departments as needed and oversee the capital
46 budget development and implementation. I am also responsible for business development

opportunities for TAWC, including acquisitions and sale for resale customers. I report directly to the President of TAWC.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?

A. The purpose of my testimony is to provide information to support the Joint Petition filed by TAWC and Catoosa Utility District Authority (“CUDA” or “Catoosa”) for the approval of the special contract between TAWC and CUDA (the “Special Contract” or “Agreement”). On behalf of TAWC, I was involved in the negotiations that led to the Agreement. The Agreement between TAWC and CUDA is attached to the Joint Petition as **Exhibit A.**

Q. CAN YOU SUMMARIZE CUDA’S CURRENT SERVICE AREA?

A. CUDA was established in 1945 for the purpose of providing residents of Catoosa County, Georgia, with safe, potable drinking water. Catoosa provides service to approximately 21,000 residents. Catoosa is a current TAWC customer pursuant to a November 1998 water purchase agreement.

Q. CAN YOU PROVIDE A BRIEF OVERVIEW OF TAWC’S SERVICE AREA?

A. TAWC has owned and operated the water system in our current footprint since 1887 and serves approximately 86,820 total customer connections. Of these, 83,243 are in Chattanooga, Tennessee, including surrounding areas of Hamilton County and North Georgia. In 2007, Suck Creek’s water system was purchased by TAWC. Of the total number of customer connections, approximately 239 are located in Suck Creek. In 2013, the City of Whitwell’s water system was acquired by TAWC. Of the total number of customer connections, there are currently about 2,923 customer connections in the City of Whitwell. In 2020, the water system serving Jasper Highlands was acquired by TAWC. Of

the total number of customer connections, approximately 415 are located in Jasper Highlands.

Q. WHAT IS CUDA’S CURRENT WATER SOURCE THAT IT USES TO PROVIDE SERVICE TO ITS CUSTOMERS?

A. CUD provides water to its distribution system from a few different sources. It owns and operates a groundwater plant and has interconnections with TAWC, Eastside Utility District, the City of Dalton, and the City of Lafayette.

Q. HAVE TAWC AND CUDA PREVIOUSLY OPERATED UNDER A SPECIAL CONTRACT?

A. Yes. Catoosa is a current TAWC customer pursuant to a 1998 water purchase agreement.

Q. WHAT LEAD TO THE DISCUSSIONS AND SUBSEQUENT NEGOTIATIONS BETWEEN TAWC AND CUDA FOR THIS SPECIAL CONTRACT?

A. With the existing agreement between TAWC and Catoosa approaching the expiration of its term, in or about June of 2023, TAWC contacted CUDA and inquired about renewing or continuing the 1998 arrangement.

Q. DURING THESE DISCUSSIONS AND NEGOTIATIONS, DID CUDA REFERENCE ITS ABILITY TO OBTAIN THE WATER NECESSARY TO SERVE ITS CUSTOMER BASE FROM A SOURCE OTHER THAN TAWC.

A. Yes. Further, CUDA is aware that TAWC lost a sale for resale customer, namely Walden’s Ridge. Based upon its existing operations, CUDA believes it can simply eliminate its arrangement with TAWC. While CUDA values the operational efficiency and flexibility that the TAWC-provided water gives it, CUDA believes it can provide reliable and safe water via its own groundwater plant and other sources.

93 **Q. HAS TAWC HAD SALE FOR RESALE CUSTOMERS DISCUSS, PURSUE AND**
94 **ULTIMATELY OBTAIN WATER FROM A SOURCE OTHER THAN TAWC?**

95 A. Yes. Walden's Ridge was a TAWC sale for resale customer either via our general tariff or
96 under a special contract from 2003 to 2015. In 2014, Walden's Ridge approached TAWC
97 for a special contract rate. TAWC and Walden's Ridge engaged in negotiations towards a
98 special contract rate, but the negotiations were not successful. Thereafter, Walden's Ridge
99 ceased obtaining water from TAWC and entered into an agreement to obtain water from
100 Hixson Utility District.

101 **Q. AT THAT TIME, DID TAWC HAVE ANY KNOWLEDGE, OR REASON TO**
102 **BELIEVE, THAT HIXSON UTILITY DISTRICT WOULD MAKE THE CAPTIAL**
103 **INVESTMENT NECESSARY TO SERVE WALDEN'S RIDGE?**

104 A. No.

105 **Q. IS TAWC AWARE OF ANY POTENTIAL ALTERNATIVE SOURCES OF**
106 **WATER FOR CUDA?**

107 A. Yes. As I noted above, CUDA is interconnected with a number of water sources other than
108 TAWC. Further, CUDA has its own groundwater plant.

109 **Q. IS TAWC AWARE OF WHETHER CUDA HAS ANY ANALYSES, REVIEWS,**
110 **STUDIES, REPORTS OR PLANS RELATIVE TO ALTERNATIVE WATER**
111 **SOURCES OTHER THAN TAWC?**

112 A. It is our understanding from CUDA that it does have such studies and considers and treats
113 them as confidential and proprietary.

114 **Q. WAS TAWC AWARE OF WHETHER WALDEN'S RIDGE HAD ANY**
115 **ANALYSES, REVIEWS, STUDIES REPORTS OR PLANS RELATIVE TO**

**ALTERNATIVE WATER SOURCES OTHER THAN TAWC WHEN WALDEN'S
RIDGE DECIDED TO NO LONGER OBTAIN WATER FROM TAWC?**

A. TAWC was not aware of any such formal information at that time. But Walden's Ridge did reference during negotiations that it had options other than TAWC and that it was willing and ready to pursue the alternatives available to it in the event an agreement could not be reached with TAWC. Here, with respect to CUDA, we are aware that in our evaluation it can safely conduct its operations and meet its capacity needs without its arrangement with TAWC.

Q. WHEN WALDEN'S RIDGE DECIDED TO OBTAIN ITS WATER REQUIREMENTS FROM A SOURCE OTHER THAN TAWC, DID THIS HAVE A DETRIMENTAL IMPACT UPON TAWC AND TAWC'S CUSTOMERS? IF SO, PLEASE EXPLAIN.

A. Yes. TAWC's sale for resale customers contribute to common overhead and fixed costs, which impacts the rates of all other TAWC customers. When TAWC loses a sale for resale customer, such as Walden's Ridge, it loses such contributions, which has a negative impact upon the rates of all other TAWC customers. Further, the Agreement will benefit TAWC's existing ratepayers, as the additional water sales gained by TAWC pursuant to the Agreement will offset certain declining use experienced by TAWC as well.

Q. WHAT ARE THE TERMS OF THE PROPOSED SPECIAL CONTRACT BETWEEN TAWC AND CUDA THAT IS THE SUBJECT OF THE JOINT APPLICATION?

A. TAWC will provide potable water to CUDA at such delivery points and in such quantities as outlined more specifically in the Agreement. We expect the location of interconnect to

139 remain the same – on the Southern portion of TAWC’s system. The Agreement is a
140 requirements contract, so CUDA may not reduce its purchases from TAWC during the
141 term of the Agreement. The water purchased by CUDA from TAWC shall be used solely
142 for resale to CUDA’s customers within its service area. Such water may not be sold by
143 CUDA to any other water utility without the express, prior written consent of TAWC. The
144 initial term of the Agreement is five (5) years, with one (1) automatic five (5) year renewal
145 absent termination by either party. As set forth in the Agreement, CUDA shall pay “the
146 then-applicable rate in Utility’s Rates, Rules, Regulations and Conditions of Water Service
147 on file with and approved by the TPUC.” Consistent with the terms of the existing
148 agreement, coupled with the Parties’ conduct under the existing agreement between TAWC
149 and Catoosa¹ and TPUC Docket No. 22-00049 (TAWC/Walker County Special Contract),²
150 this Agreement’s rates continue to also include adding TAWC’s then-existing Capital
151 Recovery and PCOP Riders (and/or other applicable mechanism approved by the
152 Commission) on top of Catoosa’s base rate.

153 **Q. CAN YOU CONFIRM HOW THE PARTIES CALCULATE THE RATES UNDER**
154 **THE EXISTING/EXPIRING AGREEMENT AND AFFIRM HOW THE PARTIES**
155 **INTEND ON CALCULATING THE RATES UNDER THE PROPOSED**
156 **AGREEMENT?**

¹ *TAWC’s Responses to Second Discovery Requests of the CAD*, DR 2-2 TPUC Docket No. 22-00049 (Aug. 29, 2022) (Catoosa’s Base Rate (\$1.624598) *plus* the then-Capital Recovery Rider Surcharge (\$0.540341), the then-PCOP Surcharge (\$0.008772) and *minus* the then-Tax Sur-credit (\$0.181305) for a then-total of \$1.992406)).

² *Order Initially Denying Special Contract and, Upon Verbal Request for Reconsideration by the Parties, Granting Approval of an Amended Special Contract, Contingent Upon Filing that Conforms to Panel Decision*, TPUC Docket No. 22-00049 (Dec. 2, 2022) (Commission directing TAWC to apply the CRR and PCOP riders to its proposed Walker County special contract in the same manner as such CRRs are applied to TAWC’s existing special contracts, including the existing Catoosa special contract.).

157 A. Certainly. Presently under the existing agreement between Catoosa and TAWC, the rate
158 applied is Catoosa's Commission-approved base rate of \$1.624598 *plus* the Company's
159 then-applicable Capital Recovery and PCOP Riders minus the Tax Sur-credit. Applying
160 the exact same terms and conditions in the Agreement that appear in the existing
161 agreement, the parties propose to calculate the rates the same as before, starting with
162 Catoosa's Commission-approved base rate of \$1.624598.

163 **Q. IS THE COMPANY'S BASE RATE FOR CATOOSA OF \$1.624598 IN TAWC'S**
164 **TARIFFS?**

165 A. Yes. The base rate of \$1.624598 per 1,000 gallons is expressed or delineated as \$1.2152
166 per CCF in the Company's tariff.

167 **Q. ARE THE RATES IN THE SPECIAL CONTRACT BETWEEN TAWC AND CUD**
168 **THE HIGHEST RATES THAT COULD BE NEGOTIATED?**

169 A. Yes, for the reasons discussed above. And further, TAWC believes the Agreement
170 reflecting a continuation of tariffed rates is just, reasonable, and not unduly discriminatory.

171 **Q. WHAT DO YOU RECOMMEND WITH REGARD TO THIS PETITION?**

172 A. Consistent with the public interest, I recommend that the Joint Petition be approved.

173 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

174 A. Yes.