

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 25-00040

DIRECT TESTIMONY

OF

GRADY STOUT

ON

**JOINT PETITION OF TENNESSEE-AMERICAN WATER COMPANY, AMERICAN
WATER WORKS COMPANY, INC., NEXUS REGULATED UTILITIES, LLC, AND
TENNESSEE WATER SERVICE, INC. FOR AUTHORIZATION OF CHANGE OF
CONTROL, APPROVAL OF AGREEMENT AND PLAN OF MERGER AND FOR
ISSUANCE OF A CERTIFICATE OF CONVENIENCE AND NECESSITY**

SPONSORING PETITIONERS' EXHIBITS:

**FORM OF AGREEMENT AND PLAN OF MERGER BY AND AMONG
AMERICAN WATER, TAWC AND TWS, PETITIONERS' EXHIBIT A**

**STOCK PURCHASE AGREEMENT BETWEEN AMERICAN WATER
WORKS COMPANY, INC. AND NEXUS REGULATED UTILITIES, LLC,
PETITIONERS' EXHIBIT C**

SELECT APPENDIX A EXHIBITS

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

2 A. My name is Grady Stout. I am the Vice President of Operations for Tennessee-American
3 Water Company (“Tennessee-American,” “TAWC” or the “Company”). My business
4 address is 109 Wiehl Street, Chattanooga, Tennessee 37403.

5 **Q. WHAT ARE YOUR RESPONSIBILITIES IN THIS POSITION?**

6 A. As Vice President of Operations, I am responsible for leading TAWC’s operations
7 (production, distribution, field services, and construction), water quality/environmental
8 compliance, operational risk management (safety), and business performance
9 (collectively, “Operations”) functions. I lead the Company’s Operations team by
10 providing goals and directions that strive to increase cost effectiveness, performance,
11 customer service and service quality.

12 **Q. PLEASE STATE YOUR PROFESSIONAL AND EDUCATIONAL**
13 **BACKGROUND AND WHETHER YOU ARE A MEMBER OF ANY**
14 **PROFESSIONAL ORGANIZATIONS.**

15 A. I received a B.S. degree in Civil Engineering from Tennessee Technological University in
16 2011. I am a licensed Professional Engineer in the State of Tennessee. Upon graduation
17 from Tennessee Technological University, I began working with Tysinger, Hampton, &
18 Partners, an engineering consultant firm in Johnson City, Tennessee. While with this firm,
19 I served as the inspector over the Little Milligan Water System project, which included the
20 installation of wells, a chemical building, a storage tank, and a distribution system. In 2012,
21 after the Little Milligan Water System project was complete, I became a Construction
22 Project Manager for Bob Stout Construction Company, Inc. In this role, I was the project
23 manager of a 16” water main replacement project. I began working with TAWC in 2013

1 as an Engineer in the Engineering Department. My primary role was to design and manage
2 water main replacements and other production projects in the Chattanooga, Whitwell, and
3 Suck Creek districts of TAWC. In 2016, I was promoted to Project Manager. In this role,
4 I had both engineering and managerial responsibilities, along with managing relationships
5 of key stakeholders, elected officials, and regulators. In 2019, TAWC promoted me to
6 Engineering Manager of TAWC. In May of 2022, I was promoted to Director, Engineering.
7 In February of 2024, I was promoted to my current role, Vice President of Operations.
8 That said, I previously served twice on an interim basis as Vice President of Operations for
9 TAWC, the first from January 2020 – April of 2020, and the second from April of 2021-
10 June of 2021. I am an active member of American Water Works Association (AWWA),
11 American Society of Civil Engineers (ASCE), and served as the 2020 President of the
12 Chattanooga Engineer’s Club. I served as the Chair of the Tennessee AWWA section’s
13 Water Utility Council in 2024.

14 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
15 **TENNESSEE PUBLIC UTILITY COMMISSION?**

16 A. Yes. I have submitted testimony in several Tennessee Public Utility Commission (“TPUC”
17 or “Commission”) matters, including Docket Nos. 20-00011, 20-00128, 21-00030, 22-
18 00021, 22-00049, 23-00066, 24-00011 and 24-00032.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?**

20 A. The purpose of my testimony is to provide information to support the Joint Petition filed
21 by TAWC, American Water Works Company, Inc. (“American Water”), Nexus Regulated
22 Utilities, LLC (“Nexus”), and Tennessee Water Service, Inc. (“TWS”). TAWC is seeking
23 the approval of the acquisition of TWS by AWWC and the grant of a CCN with its

1 accompanying privilege and franchise to TAWC for the merger of TWS into TAWC and
2 for TAWC to provide service to the current TWS customers.

3 **Q. WHY HAVE TAWC, AMERICAN WATER, NEXUS AND TWS FILED THE JOINT**
4 **PETITION?**

5 A. TAWC, American Water, Nexus, and TWS are seeking regulatory approval of the
6 acquisition of TWS by AWWC and a Certificate of Convenience and Necessity (“CCN”)
7 to allow TAWC to acquire by merger all stock of TWS and take over all operations of TWS
8 in Tennessee. TWS’s parent entity is Nexus. On May 19, 2025, American Water and Nexus
9 entered into a Purchase and Sale Agreement (the “Stock Purchase Agreement”) for all of
10 the issued and outstanding equity interests in specified entities that own regulated water
11 and wastewater systems located in various states, including TWS in Tennessee. A copy of
12 the Stock Purchase Agreement is attached the Joint Petition as **Exhibit C**.

13 **Q WHAT WILL HAPPEN WHEN THE TRANSACTION IN THE STOCK**
14 **PURCHASE AGREEMENT CLOSES?**

15 A. Once the approval sought in this docket is obtained and the closing of the transaction
16 contemplated in the Stock Purchase Agreement occurs, a change in control of TWS will
17 occur. At that time, American Water proposes to immediately merge the equity interest of
18 TWS into TAWC. A draft form of the Agreement and Plan of Merger by and among
19 American Water, TWS and TAWC is attached to the Joint Petition as **Exhibit A**. I have
20 been involved in and am familiar with TAWC’s proposed merger and operation of the
21 water system presently operated by TWS to serve the customers of Chalet Village North
22 in Sevier County, Tennessee (the “System”).

1 TAWC allowing TAWC to take over the operations of TWS as TWS exits its water
2 operations in Tennessee.

3 **Q. CAN YOU PROVIDE A BRIEF OVERVIEW OF TAWC’S SERVICE AREAS?**

4 A. TAWC has owned and operated the water system in our current footprint since 1887 and
5 represents more than 85,000 customer connections in and around, Chattanooga, Tennessee,
6 including surrounding areas of Hamilton County and North Georgia. Moreover, in 2007,
7 Suck Creek’s water system was purchased by TAWC. Of the total number of customer
8 connections, approximately 245 are located in Suck Creek. In 2014, the City of Whitwell’s
9 water system was acquired by TAWC with an additional 2,955 customer connections. In
10 2021, Thunder Air Inc.’s Jasper Highlands water system was acquired by TAWC, and that
11 system currently serves approximately 508 customers.

12 **Q. CAN YOU SUMMARIZE TWS’ CURRENT SERVICE AREA?**

13 A. Yes. TWS provides water service to Chalet Village North in Sevier County. TWS was
14 granted its original Certificate of Convenience and Necessity in TPUC Docket No. U-83-
15 7240.

16 **Q. WHAT PORTION OF TWS’ CURRENT SERVICE AREA DOES TAWC**
17 **PROPOSE TO SERVE POST-ACQUISITION?**

18 A. TAWC proposes to serve the entire area currently served by TWS.

19 **Q. CAN YOU PROVIDE A BRIEF DESCRIPTION OF THE TWS SYSTEM?**

20 A. Yes. Generally, TWS services the Chalet Village North and approximately 440 water
21 connections. TWS delivers safe and reliable water service to its customers through the
22 pumping and treatment of ground water via two (2) public water supply wells, as well as
23 via an interconnect with the municipal system of the City of Gatlinburg. Additionally, the

1 system is made up 60 hydrants, 2 water treatment plants, 2 storage tanks, 2 pump stations,
2 and 14 miles of main. The location of TWS's water system is shown on the map attached
3 to the Joint Petition as **Exhibit B** (collectively the "System"). Forty-six percent (46%) of
4 the System's water was purchased from the City of Gatlinburg's Water Department in
5 2024. TWS expects a customer growth rate for the System of approximately ten (10) new
6 customers per year until the Chalet Village North is fully built out at about 650 total
7 connections.

8 **Q. CAN YOU PROVIDE ADDITIONAL DETAILS ABOUT THE WATER**
9 **FACILITIES?**

10 A. Yes. The System consists of 14 miles of water main, two public water supply wells, 60
11 hydrants, a water treatment plant, a storage tanks and two pump stations. Well #1 has a
12 capacity of 57,600 gallons per day and well #2 has a capacity of 129,600 gallons per day.
13 The water treatment plant is located at 827 Wattle Bloom Drive and the water storage tank
14 is located at 907 Piney Butt Way.

15 **Q. DOES TWS PURCHASE WATER FROM THE CITY OF GATLINBURG?**

16 A. Yes, TWS buys approximately 46% of its water supply from the City of Gatlinburg.

17 **Q. HOW MANY RESIDENTIAL, COMMERCIAL OR OTHER TYPES OF**
18 **CUSTOMERS CURRENTLY RECEIVING WATER SERVICE FROM TWS?**

19 A. There are approximately 440 residential customers served by TWS. All customers will be
20 transferred to TAWC consistent with the Joint Petition stating that TAWC will be the
21 exclusive water provider within the service area.

1 **Q. CAN YOU PROVIDE A COPY OF THE CONTRACT OR APPLICATION FOR**
2 **WATER SERVICE THAT CUSTOMERS MUST SIGN IN ORDER TO RECEIVE**
3 **OR CONTINUE TO RECEIVE WATER SERVICE FROM TAWC?**

4 A. There is not a contract or application for water service that customers sign that would be
5 required by TAWC for water service at an existing service location. Current TWS
6 customers will have data transferred from their current billing information.

7 **Q. ARE ALL CUSTOMER LOCATIONS EQUIPPED WITH WATER METERS? IF**
8 **SO, PLEASE INDICATE THE METER SIZE.**

9 A. Yes. All existing water customers of TWS are metered. The majority of the meters are
10 5/8" meters.

11 **Q. HOW DOES TAWC INTEND TO OPERATE AND MAINTAIN THE SYSTEM?**

12 A. Generally, TAWC intends to continue to operate the System as TWS has with the use of a
13 contractor.

14 **Q. PLEASE DISCUSS HOW TAWC WILL ALLOCATE EXPENSES TO THE**
15 **SYSTEM.**

16 A. The System will be kept separate and apart from TAWC's existing system for purposes of
17 accounting and ratemaking. Further, the System will be operated by TAWC as a separate
18 business unit in the TAWC accounting system. All labor utilized to operate and maintain
19 the System will be charged accordingly, as will all maintenance and other operational
20 expenses. TAWC is proposing to create a separate cost center for the System.

21 **Q. WHAT IS THE PURCHASE PRICE OF TWS' WATER SYSTEM?**

22 A. The allocated purchase price is \$3,865,574.00.

23 **Q. HOW DID THE PARTIES ARRIVE AT THE PURCHASE PRICE?**

1 A. The purchase price is an allocated portion of the overall \$315M of the Stock Purchase
2 Agreement between Nexus and American Water.

3 **Q. HOW WAS THE ALLOCATED PURCHASE PRICE DETERMINED FOR THE**
4 **TWS SYSTEM?**

5 A. In addition to TWS' operations, American Water is acquiring the equity interests of Nexus
6 in the following states: Illinois, Indiana, Kentucky, Maryland, New Jersey, Pennsylvania,
7 and Virginia. Allocations to each American Water state subsidiary are based on state
8 capitalization compared to the overall capitalization.

9 **Q. WHAT IS THE CURRENT RATE BASE OF THE TWS SYSTEM?**

10 A. The current rate base of the TWS System is \$2,010,732.00.

11 **Q. IS TAWC ASKING FOR A CHANGE TO RATE BASE IN THIS PROCEEDING?**

12 A. No. TAWC is not asking for any adjustment to rate base in this proceeding.

13 **Q. CAN YOU EXPLAIN TAWC'S PROPOSED REGULATORY TREATMENT OF**
14 **THE PURCHASE PRICE?**

15 A. Based upon the unique and intricate circumstances presented, TAWC intends to record the
16 difference between the purchase price and rate base as a goodwill adjustment on its books.

17 **Q. CAN YOU EXPLAIN WHY THE PROPOSED REGULATORY TREATMENT OF**
18 **THE PURCHASE PRICE IS APPROPRIATE WITH RESPECT TO THIS**
19 **ACQUISITION?**

20 A. Yes, the Company is recording the difference between the purchase price and the rate base
21 as a goodwill adjustment which ensures that rates are aligned with the regulated asset value.
22 Based upon the unique and intricate circumstances presented, the Company is not
23 requesting an acquisition adjustment as allowed under Section 1220-04-14-.04. As a result,
24 there is no need to amortize such an adjustment as allowed under Section 1220-04-14-

1 .04(3). Going forward, customers' rates will be based on the current regulated rate base of
2 TWS, the depreciated original cost of the assets.

3 **Q. PLEASE ADDRESS WHETHER, AND IF SO HOW, SUCH TREATMENT IS**
4 **CONSISTENT WITH ACCEPTED REGULATORY PRINCIPLES?**

5 A. TAWC's proposed regulatory treatment is fully consistent with accepted regulatory
6 principles and consistent with Tennessee law and the rules of the TPUC. TAWC is seeking
7 to only include in rate base the depreciated original cost of the assets being acquired.
8 Existing rates for TWS customers will continue to be based on the current rate base;
9 original cost of the investments less accumulated depreciation,

10 **Q. IS THE COMPANY PROPOSING TO RECOVER ITS DUE DILIGENCE,**
11 **TRANSITION, TRANSACTION AND CLOSING COSTS ASSOCIATED WITH**
12 **THIS TRANSACTION?**

13 A. Yes. These expenses are appropriate and prudently incurred cost of acquiring assets and
14 merging TWS into TAWC.¹

15 **Q. HOW IS THE COMPANY PROPOSING TO RECOVER ITS DUE DILIGENCE,**
16 **TRANSITION, TRANSACTION AND CLOSING COSTS ASSOCIATED WITH**
17 **THIS TRANSACTION?**

18 A. TAWC is proposing these necessary and reasonable expenses (due diligence, transaction
19 and closing costs) associated with the acquisition be recorded to a regulatory asset to be
20 amortized over ten (10) years beginning with the Company's first appropriate rate
21 proceeding following the close of the acquisition, subsequent to Commission review and
22 approval in such rate proceeding. The final due diligence, transaction and closing costs

¹ See TPUC Rule 1220-04-14-.06.

1 will be filed with the Commission no later than 60 days following the acquisition close.
2 The costs will be incurred during the closing to safeguard the assets of the Company, thus
3 protecting the interests of both the shareholders and customers. While there may be a
4 number of ways to address these costs, TAWC is proposing a method that is fair to both
5 customers and the Company, while providing an opportunity for full review of the costs
6 themselves in a future rate case as well.

7 **Q. ARE THERE ANY OTHER ACCOUNTING ADJUSTMENTS BEING PROPOSED**
8 **POST-CLOSING?**

9 A. Yes, TAWC proposes to adopt the current TAWC's depreciation rates and CIAC
10 amortization rates as approved by the Commission in TPUC Docket No. 24-00032 for
11 TWS, upon closing.

12 **Q. CAN YOU DISCUSS GENERALLY HOW ACQUISITIONS PROVIDE OVERALL**
13 **BENEFITS?**

14 A. Strategic, quality acquisitions can provide immediate revenue benefits for both utilities (the
15 buyer and the seller) and therefore for both customer bases as well (existing customers and
16 the newly acquired customers). Consolidating systems provides a larger customer base on
17 which to distribute fixed costs, provides opportunities for operating efficiencies and
18 utilization of economies of scale, and serves to mitigate future rate increase impacts.
19 TAWC is in a unique position within the State of Tennessee as a part of American Water.
20 American Water, with its solid financial performance, has affordable access to capital
21 necessary for infrastructure investments. American Water, through its economies of scale
22 and nationally recognized expertise in water treatment and distribution, provides that same

1 level of service and expertise to all of its customers no matter how large or small the
2 individual system.

3 **Q. ARE THERE SPECIFIC BENEFITS FOR THE TWS CUSTOMERS FROM THIS**
4 **ACQUISITION?**

5 A. TWS customers will benefit from becoming part of the American Water organization.
6 American Water's size and scale position it well to be able to address the needs of TWS's
7 customers well into the future. TAWC's affiliation with the American Water family of
8 companies allows it to leverage the expertise, purchasing power and financial strength of
9 the larger organization. TAWC, along with its public utility affiliates, has exclusive access
10 to highly trained professionals who possess expertise in various specialized areas and are
11 dedicated to providing necessary, cost-effective, value-added service that supports the
12 provision of safe, reliable and affordable water service in a manner consistent with the
13 long-term best interest of customers. This centralized expertise drives knowledge sharing,
14 standardization, process transparency and operational efficiency among American Water's
15 subsidiaries, including TAWC.

16 This includes a central laboratory that supports research and water compliance efforts
17 through sophisticated testing and analysis. American Water's central laboratory processes
18 more than 30,000 sample events each year, is certified in 17 states and territories, and
19 performs testing using 35 methodologies for over 220 compounds. The lab has a history of
20 being on the forefront of monitoring, testing, identifying and controlling analytes in
21 advance of federal regulations, and regularly collaborates with the USEPA to help develop
22 federal drinking water standards and regulations. Our highly sophisticated analytical and
23 research capabilities are why the USEPA regularly taps into our lab and our research team

1 to help develop federal drinking water standards and regulations. American Water's
2 customer service organization ("CSO") is dedicated to enhancing and enriching the lives
3 of customers through high-quality service and self-service options using industry-leading
4 technology. From starting service, to handling customer questions and concerns, billing
5 and collections-related inquiries, collaborating with operations teams in every state and
6 even gauging customer feedback on services, the CSO works diligently to keep customers
7 informed and supported. This includes, among other things, being available around the
8 clock seven days a week in the event of an emergency. The size and breadth of American
9 Water allows the organization as a whole to continue to increase its purchasing power and
10 obtain significant discounts on the necessary goods and services at prices that TAWC
11 otherwise would be unable to obtain were it a separately owned water system. All goods
12 and services purchased that can be leveraged across the entire American Water enterprise
13 are done so in order to maximize the purchasing power of the entire American Water
14 enterprise. Such goods and services include but are not limited to water treatment
15 chemicals, pipe valves and fittings, meters, engineering services, consulting services,
16 professional services and employee benefits. The value realized from this work are a
17 benefit to all American Water subsidiaries. The water industry also faces the need to
18 comply with increasingly stringent environmental standards, while also rehabilitating and
19 replacing aging water and wastewater system infrastructure. This has created major
20 demands for capital investment by water utilities. The financial resources and backing of
21 American Water will enhance the ability of TWS to access capital markets, which will be
22 a benefit to the former TWS customers in the replacement of infrastructure and compliance
23 with environmental laws and regulations. TAWC and its customers also benefit from

1 access to short-term loans, long-term borrowings, and cash management services at very
2 competitive rates; rates that TAWC would not be able to obtain on its own. Through
3 American Water, TAWC has access to public debt markets that provide lower all-in interest
4 rates via lower credit spreads than can typically be achieved in the private placement
5 market by a significantly smaller entity such as TAWC. American Water also achieves
6 economies of scale by spreading debt issuance costs across all of its regulated subsidiaries
7 rather than TAWC incurring issuance costs for stand-alone debt financing. TAWC benefits
8 from economies of scale in getting these services and expertise on a shared basis at cost.

9 **Q. CAN THIS ACQUISITION BE EFFICIENTLY INTEGRATED INTO THE**
10 **COMPANY?**

11 A. Yes. TAWC intends to operate as TWS did with use of a contractor. Shared resources
12 through management and operations of the system creates efficiencies that are passed along
13 to customers through expense saving. The customers will benefit from TAWC economies
14 of scale.

15 **Q. CAN YOU FURTHER ELABORATE ON THE BENEFITS TO TAWC'S**
16 **CUSTOMERS FOR THE COMPLETION OF THIS TRANSACTION?**

17 A. Yes. TAWC continuously seeks opportunities for efficiencies through reduced costs,
18 increased revenues, or otherwise enhance its business to keep customer costs low and
19 mitigate rate increases. Strategically expanding TAWC's customer base, supports the
20 interests of both TAWC and its existing customers.

21 **Q. WHAT DUE DILIGENCE HAS BEEN UNDERTAKEN BY TAWC?**

22 A. TAWC has completed a preliminary review of the assets involved in the transaction and
23 the TWS operations. In addition, environmental regulatory information reported to the

Tennessee Department of Environment Conservation was reviewed. Publicly available financial information associated with the System was also reviewed. Finally, TAWC evaluated its ability to operate the System efficiently.

Q. WHAT IS THE RATE STRUCTURE THAT IS PROPOSED BY TAWC ONCE IT ACQUIRES THE SYSTEM?

A. TAWC proposes that the TWS customers remain on the Commission-approved basic water service and volumetric rates for TWS customers at the close of this acquisition. The current TWS rates were approved under Docket No. 24-00028, effective September 1, 2024. TWS is expected to submit its ARRM filing on or about May 31, 2025.

Q. PLEASE DISCUSS THE FEES AND CHARGES THAT TAWC PROPOSES TO ASSESS.

A. TAWC proposes that the Chalet Village North customers be subject to all other fees and charges outlined in TAWC's approved tariffs under TPUC Docket No. 24-00032, effective January 21, 2025. These fees include TAWC's late payment fees, activity, reconnection, insufficient funds, and meter tampering fees.

Q. WILL TWS CUSTOMERS BE NOTIFIED OF THE ACQUISITION AND OF THE ABOVE PROPOSED CHARGES?

A. Yes. TWS customers will be notified of the acquisition and these specific proposed charges via a posting of the Joint Petition at TWS's Tennessee business operations and via a posting on TWS's website. Further, the Joint Petitioners will provide further notice to TWS customers, including these specific proposed changes, when an additional public notice is provided with the hearing date. Joint Petitioners will also provide direct notice to TWS's customers either through the regular mail or electronically.

1 **Q. DOES TWS CURRENTLY OPERATE UNDER AN ARRM MECHANISM?**

2 A. Yes. TWS requested and was granted approval for an ARRM filing in TPUC Docket No.
3 23-00046.

4 **Q. WHAT DOES TAWC PROPOSE REGARDING THE CURRENT TWS ARRM**
5 **MECHANISM?**

6 A. TAWC proposes that the TWS ARRM mechanism end at the close of the acquisition, as
7 contemplated in the Commission's order approving the ARRM in Docket No. 23-00046,
8 in which the ARRM is declared non-transferable. TWS filed a petition in TPUC Docket
9 No. 25-00031 that indicates it expects to make an ARRM filing on May 31, 2025, adjusting
10 rates.

11 **Q. DOES TAWC HAVE COMMISSION APPROVED ALTERNATIVE**
12 **REGULATORY METHODS?**

13 A. Yes, TAWC employs the use of an expense rider for Production Cost and Other Pass
14 Throughs ("PCOP"), which was approved by the Commission on April 14, 2014, in Docket
15 No. 13-00130. In addition, TWAC employs the Incremental Capital Recovery Rider
16 ("ICRR"), which was approved by the Commission on December 11, 2023, in Docket No.
17 19-00103. The ICRR is an alternative rate mechanism for eligible TWAC projects under
18 its Qualified Infrastructure Investment Program ("QIIP"), its Economic Development
19 Investment Rider ("EDI") and its Safety and Environmental Compliance Rider ("SEC").

20 **Q. WHAT DOES TAWC RECOMMEND REGARDING TWS CUSTOMERS AND**
21 **THE ICRR AND PCOP?**

22 A. TAWC recommends that TWS customers be included in future ICRR and PCOP filings,
23 and that applicable rates apply as with all other TAWC customers. The Company's current

1 proposed ICRR rate is 0%. In TPUC Docket No. 25-00016, the parties propose that the
2 Company will not submit an ICRR Tariff filing in 2026, with an automatic restart in 2027.
3 Assuming the Commission approves the recommended proposal, the former TWS
4 customers would be included in the anticipated 2027 filing. For the PCOP, upon close of
5 the acquisition the Company would determine the production costs in base rates and
6 include those amounts in TAWC's subsequent PCOP filings.

7 **Q. IS THE APPLICATION OF THE INCREMENTAL CAPITAL RECOVERY**
8 **RIDER TARIFF AND THE PCOP RIDER SUBSEQUENT TO THE MERGER**
9 **CONSISTENT WITH ESTABLISHED PRACTICE?**

10 A. Yes. The practice of previously applying the Legacy Capital Riders and the PCOP Rider,
11 and now the ICRR and PCOP, surcharges across the entire customer base has been in place
12 since 2014. For instance, the surcharges were applied to the customers of the Whitwell
13 acquisition when that transaction was completed.² Indeed, the rider tariffs provide that the
14 charges will apply to all customers in all service territories.

15 **Q. IF THE ACQUISITION IS APPROVED, WILL IT RESULT IN TAWC'S**
16 **EXISTING CUSTOMERS SUBSIDIZING THE RATES OF TWS'S CUSTOMERS?**

17 A. No. It is not the intent of TAWC to have its existing customers subsidize the rates of TWS.

18 **Q. IF TAWC'S EXISTING CUSTOMERS WILL NOT SUBSIDIZE THE RATES OF**
19 **TWS' CUSTOMERS, PROVIDE A COMPREHENSIVE ANALYSIS OF HOW**
20 **TWS CUSTOMERS WILL BENEFIT FROM TAWC'S ECONOMIES OF SCALE.**

² *Transcript of Proceedings*, In Re: Petition of Tennessee-American Water Company Regarding the 2015 Investment and Related Expenses Under Qualified Infrastructure Investment Program Rider, the Economic Development Investment Rider, and the Safety and Environmental Compliance Rider, TPUC Docket No. 14-00121, p. 162,11 14-16 (April 20,2015) (TAWC Witness Bridwell confirming that the CRRs and the PCOP Rider were applied to Whitwell customers pursuant to the tariffs).

1 A. The existing customers of TWS will benefit from TAWC's economies of scale in a number
2 of ways. As discussed above, TWS customers will benefit from both Tennessee American
3 and American Water's expertise and existing support systems for management and
4 administration of billing, collections, customer service and emergency response with 24/7
5 access to the American Water call center and additional operational support during
6 emergencies including severe weather events.

7 **Q. DOES TAWC HAVE THE FINANCIAL, MANAGERIAL, AND TECHNICAL**
8 **EXPERTISE TO OPERATE THE SYSTEM?**

9 A. Yes. As the Vice President of Operations, I am responsible for the day-to-day operations
10 of all of our production and field services employees in TAWC. As reflected in the
11 agency's official records, TAWC has the financial, managerial and technical expertise to
12 operate the System. TAWC proudly employs over 105 water professionals with experience
13 in the areas of operations, finance and engineering. Our professionals bring the necessary
14 knowledge to manage and operate the System. TAWC has averaged around \$31 million in
15 capital investments on a yearly basis. The capital plan is developed and managed by a
16 group of high level and skilled engineering professionals. I have complete confidence in
17 all employees at TAWC to provide excellent customer service, while delivering high
18 quality affordable water to our customers.

19 **Q. IS TAWC REQUESTING A CCN FROM THE COMMISSION IN ORDER TO**
20 **OWN AND OPERATE THE SYSTEM?**

21 A. Yes. The request for a CCN, with its accompanying privilege and franchise, to serve the
22 TWS entire service area is outlined in the Joint Petition. As outlined above and below and

1 also in the Joint Petition, TAWC has established that the present and future public
2 convenience and necessity is served by the Company owning and operating the System.

3 **Q. ARE YOU AWARE OF ANY OPPOSITION OR OBJECTIONS TO TAWC'S**
4 **REQUEST FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY FROM**
5 **THOSE CURRENTLY SERVED BY THE SYSTEM.**

6 A. No, I am not.

7 **Q. WILL THE APPROVAL OF THIS PETITION SERVE THE PUBLIC INTEREST?**

8 A. Yes. Water utilities are one of the most capital-intensive utilities in the industry. In properly
9 maintaining and supporting a water system, the owner and operator thereof is confronted
10 with a host of pressures, primary of which are increasing costs, enhanced water quality
11 regulations and the ever-recurring need for capital investments. Aging infrastructure and
12 technological advances must be consistently studied and appropriately addressed. TAWC
13 has a proud 130+ year history of providing safe, reliable drinking water to its customers.
14 As noted in my testimony, this transaction will benefit the customers of the System through
15 the professional management, long-term planning, and sustained investment by TAWC and
16 will also benefit our existing customers as well. The approval of the Joint Petition is
17 necessary and proper for the public convenience and to properly conserve and protect the
18 public interest.

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

20 A. I recommend that the Joint Petition be approved.

1 **Q. IF THE JOINT PETITION IS APPROVED, CAN YOU EXPLAIN THE NEXT**
2 **STEPS?**

3 A. Yes. Upon the Commission's approval and once regulatory approval has been received
4 from all of the state Commissions, American Water and Nexus will proceed to close the
5 transaction contemplated in the Stock Purchase Agreement. TAWC, American Water and
6 TWS will then proceed to finalize and execute the form of Agreement and Merger attached
7 to the Joint Petition as **Exhibit A**. TWS will be merged into TAWC and TAWC will take
8 over the operation the System.

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

10 A. Yes.

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**


**PETITION OF TENNESSEE-
AMERICAN WATER COMPANY TO
XXXXXXXXXX**

DOCKET NO. 25-00XXX

VERIFICATION

STATE OF Tennessee)
COUNTY OF Hamilton)

I, GRADY STOUT, being duly sworn, state that I am authorized to testify on behalf of Tennessee-American Water Company in the above-referenced docket, that if present before the Commission and duly sworn, my testimony would be as set forth in my pre-filed testimony in this matter, and that my testimony herein is true and correct to the best of my knowledge, information, and belief.



GRADY STOUT

Sworn to and subscribed before me
this 30th day of May, 2025.



Notary Public

My Commission Expires: 2/28/28

