

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE: )  
 )  
PETITION OF TENNESSEE ) DOCKET NO. 15-00025  
WASTEWATER SYSTEMS, INC. )  
TO AMEND ITS CERTIFICATE )  
OF CONVENIENCE AND NECESSITY )

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REPLY TESTIMONY OF MATT PICKNEY

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Q. What is your name?

A. Matt Pickney.

Q. What is your job?

A. I am Operations Manager for Tennessee Wastewater Systems, Inc.

Q. Have you previously submitted testimony in this case?

A. Yes. I filed direct testimony with the application.

Q. What is the purpose of this reply testimony.

A. I am responding to the "Consumer Advocate's Statement in Opposition" to our application to provide wastewater service to the Enclave at Dove Lake in Williamson County.

Q. What is your overall impression of the Consumer Advocate's filing?

A. The Consumer Advocate is not sponsoring a witness in this case. Instead, their attorneys have written a brief in which they make a number of statements that are misleading or inaccurate. Of course, a lawyer's argument is not evidence, and we cannot cross-examine the attorneys who have written these arguments, but I will try to set the record straight in this reply testimony.

Q. The Consumer Advocate repeatedly states that TWSI is "merely a shell company" (p. 2), and "appears to be little more than a shell company that holds a CCN and relies on its unregulated affiliates to provide the services for which the CCN is requested" (p. 5). Is that accurate?

A. No, it is not true. TWSI has twelve full time employees and assets of over \$16,000,000, as shown on the annual report filed by TWSI with the TRA. That is hardly a "shell company."

The following is a list of each, full-time TWSI employee, a description of their responsibilities, their qualifications and experience:

<b>Name</b>	<b>Title</b>	<b>Responsibilities and Credentials/Education</b>	<b>Years Exp</b>
Raven Barrientos	Billing Manager	Billing, 1-Call, Work Orders, Customer Service	5.08
Rhea Cason	Accounting	Accounting, Customer Service, Administrative	1.66
Susan Chaffin	Cust Service Mgr	Customer Service, Customer Processing, Work Orders	1.92
John Czahoroski	Maintenance Mgr	Management of field Operations and Maintenance	24.00
Brandon Dotson	Operator	Operator; not yet eligible for certification	New Hire
Stone Hanson	Operator	Operator; Biological/Natural Systems Certification, Collections I Certification, U.S.M.C.	3.00
Jesse Hutcherson	Operator	Operator; Biological/Natural Systems Certification, Collections I & II Certification	3.00
Tracy Nichols	Operator	Operator; Biological/Natural Systems Certification, Collections I & II Certification	5.34
Matt Pickney	Operations Mgr	General Operations; B.S. Electrical & Computer Engineering, Mississippi State University	10.17
Tony Smith	Operator	Operator; Biological/Natural Systems Certification, Class B Certified Driver's License	3.00
Thomas Smithson	Operator	Operator; Biological/Natural Systems Certification	1.75
Jeremy Stewart	Operator	Operator; not yet eligible for certification, U.S. Army	0.92

Q. Are there other individuals who also provide services to TWSI?

A. Yes. Charles Hyatt, our CEO devotes about 40% of his time to TWSI and the rest of his time to other Adenus companies. Suzanne Christman, who handles accounting services for TWSI, devotes about 15% of her time to TWSI and the rest to affiliates. Finally, Roy Denney, who is a licensed professional engineer, devotes about 10% of his time to TWSI and the rest of his time to affiliates.

Q. How does sharing these employees among TWSI and its affiliates benefit TWSI ratepayers?

A. TWSI needs the services of all three of those people each of whom is highly qualified and experienced. But TWSI does not need their services on a full-time basis. Under this sharing arrangement, TWSI only pays that individual for work actually performed for TWSI. If the company had to pay a full time CEO, accountant, and engineer, TWSI's payroll expenses would be substantially higher.

Q. Is most of the work at TWSI done by these shared employees as the Consumer Advocate states?

A. No. The total payroll expense for TWSI is about \$500,000 per year. Of that amount, only about \$40,000 is paid to the shared employees.

Q. The Consumer Advocate also states that TWSI is not financially sound because in 2013 the company reported a net operating loss of \$200,000. Is that number correct?

A. TWSI's Annual Report to the TRA for 2013 shows a net operating loss of \$200,000, as a result of unusually large legal and regulatory expenses in that year. On the other hand, TWSI's Annual Report to the TRA for 2014 shows a net operating profit of \$18,473. The Consumer Advocate relied on the number reported in the 2013 Annual Report and did not mention the 2014 Annual Report which is readily available. More importantly, these same reports show that TWSI had retained earnings of \$207,450 in 2013 and \$374,649 in 2014, demonstrating that TWSI is a profitable and growing concern. These numbers are readily available at the TRA.

Q. What is TWSI's annual revenue?

A. According to the most recent UD20 form filed by TWSI with the Authority, the company's annual revenue is \$1,647,942.

Q. Has TWSI met the Authority's financial security requirements?

A. Yes. At the last TRA conference, the Authority approved TWSI's petition to post alternative financial security. TWSI has filed a bond with the Authority with a face value of \$1,248,882, which is 76% of the utility's annual revenue. This bond provides additional assurance that TWSI is financially sound.

Q. Tell us a little more about the history of TWSI.

A. Our company is the oldest and largest provider of standalone wastewater services in Tennessee. We first obtained a certificate from the TRA in 1993. We now provide service at

over seventy locations in Tennessee in thirty counties. Our affiliates also provide service at locations in Alabama and Kentucky. Attached to my testimony as an exhibit is a business overview of TWSI. As stated therein, TWSI is the flagship utility for our industry and created the blueprint for sustainability that many other utility districts, municipalities, and service providers have since adopted. As Mark Lee, the engineer who designed the treatment system for the Enclave at Dove Lake, discusses in his testimony, TWSI has set the standard for this industry from the beginning. Our standards exceed any state or local requirements and we take pride in that.

Q. Does TWSI have the financial, managerial and technical capabilities to provide the services requested by the developer of the Enclave at Dove Lake?

A. Yes. Since 1993, the TRA has found that TWSI has the financial, managerial and technical capabilities to provide service one hundred and twenty-eight times. There is no question that TWSI has the ability to provide service at this location. If TWSI does not meet those statutory requirements, I do not believe that any, investor-owned provider of standalone wastewater service would meet those requirements. Since neither Williamson County nor the Nolensville/College Grove Utility District is willing to serve this development, the developer would be unable to obtain service.

Q. Does this complete your testimony?

A. Yes.

## TWSI Business Overview

*"Providing affordable wastewater service in communities where it is presently unavailable."*

This has been the mission of Tennessee Wastewater since 1993 and continues to be, as we have established service territories in over 30 counties across the state. Our technology allows development to occur in locations where traditional sewer cannot exist due to financial, physical, or political constraints.

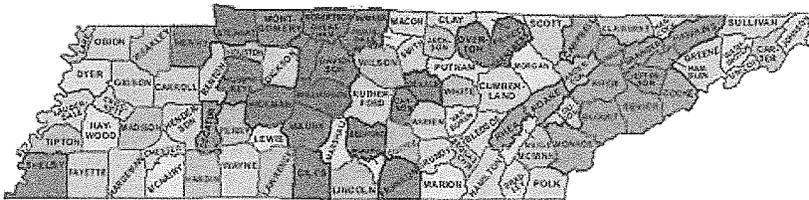
We are more than a wastewater utility. We are a solutions company with the operational and regulatory expertise to navigate through all aspects of a project's watershed/wastewater design and development. We are also the single largest holder of TDEC-issued State Operating Permits (SOPs) in the state. Our affiliate design/engineering department has a national reputation for solving challenging sewer problems and completing projects on time and under budget. Our technology has provided solutions for a diverse range of projects, including:

- school systems
- mountain cabins
- lake homes
- state parks
- marinas
- campgrounds
- traditional subdivisions
- non-traditional (clustered smart growth) subdivisions
- commercial stripmalls
- restaurants

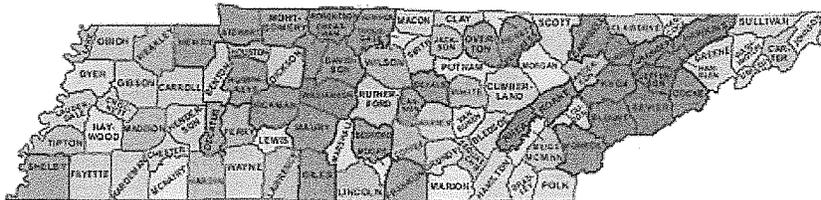
As the flagship utility in our industry, we take our leadership role seriously and are active in policy making within the agencies that regulate us and others like us. We support industry groups like [TOWA](#), educational initiatives like the [Center for Decentralized Wastewater Management](#) at the University of Tennessee-Knoxville, and the development of the [level-5 RME Model](#) as outlined by the [Environmental Protection Agency](#).

Tennessee Wastewater Systems, Inc. is the charter member of the Adenus Utilities Group and has created the blueprint for sustainability that many other utility districts, municipalities and service providers have since adopted. As a subsidiary of the Adenus Group, TWSI has many operational advantages that similarly sized utilities simply could not possess.

TWSI uses a regional model for managing its systems. The middle region is defined as everything west of Fentress County:



The east region is defined as everything east of Rhea County:



At this time, TWSI serves over 2,500 customers across the state. TWSI has 3 full time operators employed to manage the middle Tennessee sites and 3 full time operators employed to manage the east Tennessee sites. We currently serve approximately 1,400 residential customers in middle Tennessee, along with an additional 30 commercial customers which range from amenities buildings in developments to high schools. We currently serve approximately 390 residential customers in east Tennessee, along with an additional 740 commercial cabins and approximately 25 commercial customers that range from banks to strip malls.

As a level 5 RME, TWSI (along with the other members of the Adenus Utilities Group) is at the core of the Adenus "utility solution model" that provides a means for wastewater infrastructure to be created in challenge areas due to one or more barriers that prevent a traditional sewer plant from servicing the project. Adenus has invested heavily in creating the infrastructure that allows for sustainable operations and maintenance of on-site wastewater treatment plants across a decentralized service area.

### **New Projects**

Tennessee Wastewater utilizes its corporate affiliate Adenus Solutions Group (ASG) when navigating through the oft complex process of acquiring new service territory. This provides TWSI with on-demand access to top industry talent without the burden of full cost of ownership of that talent. This has shown to be especially important during periods in the company's history where new project demand was scarce. As a "provider of last resort", TWSI has the burden of proof to show that the developer of a project has engaged the local municipalities and/or utility districts for sewer service and has been turned down. Given that there are unique circumstances regarding nearly every territory that we acquire, there is a premium associated with our acquisition process. We are a stand-alone wastewater utility. We do not have the ability to bundle water services to our customers nor do we currently have the operational economies of scale that our peers in the municipality space can offer. As a privately held public utility, we do not have access to financing products that are offered to governmental or quasi-governmental utilities. All of these factors drove us to the contribution in aid of construction model as the primary method for system expansion.

Adenus Solutions Group is a design/build construction and engineering company with a long established track record of expertise in on-site sewer infrastructure. ASG is responsible for establishing the memorandum of understanding between the developer, TWSI, and ASG that explains the roles each company has in securing wastewater service for a project. Once the project gains all necessary approvals, the developer may choose to use ASG or another design/build company to perform the work in building the plant that is ultimately contributed in aid to TWSI. Regardless of the design/build contractor, TWSI commissions each phase of the plant prior to conveyance to ensure that the finished product meets Adenus/TWSI specification.

### **Affordable Service**

Tennessee Wastewater prides itself on providing affordable wastewater service. With an average rate of \$40-45/mo for residential service, we remain very competitively priced for stand alone sewer. Further, due to the nature of being a provider of last resort, we typically are servicing customers in highly desirable locations whose mean home prices (and by extension, mean household incomes) are significantly higher than the local average.

### **Solution Model**

Each treatment facility is permitted and regulated by TDEC and consists of 3 distinct phases that operate independently of one another. The collection design is specific to each project and must be engineered according to the topography of the area. The collection phase concerns the infrastructure in the back yard of a residential home including the tank and some combination of effluent filter, pump, float valve, and control panel (dependent on the need for an effluent pump), service connections, water shutoff assembly, tank access riser and lid, collection trunk mains and any pumping stations as required by engineering design. The treatment phase is selected from a host of options based on what best fits the capacity, footprint, and permit requirements of that project. TWSI is currently permitted to operate approximately a half dozen different treatment technologies. The Recirculating Sand Filter (RSF) is the most common option for serving a medium to large sized development on-site and is the proposed treatment solution for the Enclave at Dove Lake. The dispersal phase is driven by the TDEC permit requirements for the system and is almost always performed by subsurface discharge. TWSI typically will utilize an independent control panel for each pumping station and a controls building that houses the master control panel, pumps, flushing assembly and any required ultraviolet treatment for operation of the treatment plant and dispersal system.

### **Operations**

Plant operation is guided by TDEC permit requirements, in particular the testing requirements and the requirements for maintenance of the dispersal field areas. TWSI operators are required to complete monthly site visit forms and sign the log book which is located in the controls house. Operators can view plant conditions, status and settings, and operational logs by use of a touch screen HMI located in the controls house or through a built in webserver that is accessible via smartphone across a VPN tunnel. TWSI utilizes HAWK Monitoring System SCADA to remain informed of alarm conditions, communications integrity and key performance indicators. TWSI also uses a work order ticket dashboard for each operator to keep track of their outstanding service calls, line locates and tank inspections. TWSI Operators use a rotating on-call calendar to ensure that there is 24/7 coverage for emergency maintenance issues or line locates.

### **Line Locates**

As a member of Tennessee 811, we participate in line locating for our wastewater infrastructure. This is a service that is almost entirely handled by our operators.

### **Customer Service**

TWSI customers can speak to a live customer service representative during normal business hours (7:30AM-4:30PM M-F) by using the toll-free numbers posted on the tennesseewastewater.com website or on their monthly billing statements. Customers also have the ability to use a 24/7 maintenance hotline that will relay a message to on-call staff. We offer customers several payment conveniences including the Customer Web Portal (CWP) where users can check their balance, payment history, current statement, contact information, and pay their bill online. We also offer expedited online billpay and ACH bank draft payment options, and paperless billing.

### **Rate Making**

TWSI is regulated by the Tennessee Regulatory Authority (TRA) on all matters related to rates for service, service territory acquisition, and utility regulatory compliance. Rates are divided into the residential, commercial (with food), commercial (without food), and commercial cabin/overnight rental rate classes. The base sewer rate for each service category is determined by periodic rate review as requested by TWSI. An escrow account is maintained to act as a built in savings account for the utility to replace the components of the system that wear out over time. TWSI also charges vacant lot owners in developments we serve with an annual access fee designed to help offset fixed operational expenses tied to plants that have yet to serve a critical mass of customers.

### **Bonding**

TWSI maintains a letter of credit serving as a bond to act as an instrument of financial security in the event of a failure to perform. This bond would be called to bridge the service gap between the time of failure and the time an alternate provider could reasonably begin providing service.

### **Staffing Model**

TWSI utilizes a hybrid staffing model to fulfill its operational, managerial and technical needs. The hybrid approach is by far the most cost effective means of providing full service professional management to a utility of our current size. We employ several full time operators and full time managers but also outsource additional operators, management, corporate support, customer service, IT/technical development, engineering, inventory/component supply and general counsel from Adenus. As TWSI continues to grow we will continue to hire on full time staff members as the workload demands dictate.