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TENNESSEE-AMERICAN WATER COMPANY, INC

DOCKET NO. 23-00018

DIRECT TESTIMONY

OF

GRADY STOUT, P.E.

ON

CHANGES TO THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDERS, AND THE SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER AND IN SUPPORT OF THE CALCULATION OF THE 2023 CAPITAL RIDERS RECONCILIATION

SPONSORING PETITIONER'S EXHIBIT:

PETITIONER'S EXHIBIT - 2022 SCEP RESULTS - GS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Grady Stout, and my business address is 1500 Riverside Drive, Chattanooga, Tennessee 37406.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Tennessee-American Water Company ("TAWC" or "Company"). My current role is Director, Engineering.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS OR ANY OTHER COMMISSION?

A. Yes. I have previously provided testimony before the Tennessee Public Utility Commission in TPUC Docket Nos. 20-00011, 20-00128, 21-00030, 22-00021, 22-00049 and 22-00072.

Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a B.S. degree in Civil Engineering from Tennessee Technological University in 2011. I am a licensed Professional Engineer in the State of Tennessee. Upon graduation from Tennessee Technological University, I began working with Tysinger, Hampton, & Partners, an engineering consultant firm in Johnson City, Tennessee. While with this firm, I served as the inspector over the Little Milligan Water System project that included the installation of wells, a chemical building, a storage tank, and distribution system. In 2012, after the project was complete, I became a Construction Project Manager for Bob Stout Construction Company, Inc. In this role I was the project manager of a 16" water main replacement project. I began working with TAWC in 2013 as an Engineer in the Engineering Department. My primary role was to design and manage water main replacements and other production projects in the Chattanooga, Whitwell, and Suck Creek

districts of TAWC. In 2016, I was promoted to Project Manager. In this role I had both engineering and managerial responsibilities, along with managing relationships of key stakeholders, and regulators. In 2019, I was promoted to Manager of Engineering of TAWC. I have also served twice as VP of Operations for TAWC, the first from January 2020 – April of 2020, and the second from April of 2021- June of 2021. After serving as VP of Operations I returned to my duties of Manager of Engineering. In May of 2022 I was promoted to Director, Engineering. I am an active member of American Water Works Association (AWWA), American Society of Civil Engineers (ASCE), and served as the 2020 President of the Chattanooga Engineer's Club.

Q. WHAT ARE YOUR DUTIES AS DIRECTOR, ENGINEERING?

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

Q. WHAT TOPICS WILL YOUR TESTIMONY ADDRESS?

A. I will discuss the process for determining TAWC's capital investment plan, the oversight for expenditures and changes to the plan, the level of capital expenditures for 2022, and variances from the projected amounts in Docket No. 22-00072.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes I am. I am sponsoring the following exhibit:

Petitioner's Exhibit – 2022 SCEP Results - GS

I will discuss this exhibit in further detail in my testimony below.

Q. WERE THE PETITIONER'S EXHIBITS LISTED ABOVE PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

Q. WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE PETITIONER'S EXHIBITS LISTED ABOVE?

A. The data used to prepare the exhibits was acquired from the books of account and business records of TAWC, the officers and associates of TAWC with knowledge of the facts based on their job responsibilities and activities, and other internal sources which I examined in the course of my investigation of the matters addressed in this testimony.

Q. CAN YOU DESCRIBE THE PROCESS FOR DETERMINING THE CAPITAL INVESTMENT PLAN?

Yes. Capital planning needs are addressed in both the short term (one year) and longer term (five years). Projects are prioritized using objective criteria that validate the need for a project and assess the risk of not performing the project. A key component of this planning technique is that it is flexible and can be adjusted when required to address new needs, such as unplanned equipment failures, large or sudden growth of a service area, or new regulatory requirements. TAWC's Engineering Department develops a proposed capital budget with input from Operations Supervisors and Project Managers and then shares the plan with the TAWC President and Vice President of Operations for their review and approval. The proposed capital budget is also shared with the Service Company for review of the reasonableness of the projects proposed and their forecasted costs. Although

the Service Company may make suggestions with respect to that budget, TAWC ultimately determines the Capital Investment Plan and approves the plan. This process is the basis for the capital expenditures reflected in the Company's Investment Plan.

Q. CAN YOU DESCRIBE HOW THE CAPITAL INVESTMENT PLAN IS MONITORED DURING THE YEAR?

A. Since 2003, the entire American Water system has used a process for the development and review of capital expenditures that has incorporated industry best practices. TAWC, like its sister companies, has benefitted from that process. The process includes a regional Capital Program Management Committee ("CPMC") to ensure capital investment plans meet the strategic intent of the business. In turn, this process ensures that capital expenditure plans are integrated with operating expense plans and provides more effective controls on budgets and individual capital projects.

The CPMC includes the TAWC President, Vice President of Operations, Engineering Manager, Engineering Project Managers, Financial Analyst, and Capital Coordinator. The CPMC meets monthly. The CPMC receives capital expenditure plans from project managers and approves them as required by the process. Once budgets are approved, the CPMC meets monthly to review capital expenditures compared to budgeted levels. Discussions are held on variances to budgets that include the reason for the variance and suggestions to bring the budget lines back in line with the approved budget.

If changes in the budgets are required due to changes in priorities or unexpected expenditures, the CPMC reviews the request for changes and, if appropriate, approves the movement of available capital from other budget lines to offset the changes in the capital spend. All projects, including normal recurring items, have an identified project manager

responsible for processing the stages of the project. The focus of the CPMC, along with the monthly meetings, has allowed TAWC to be more flexible with changes that inevitably occur during the course of implementation of projects while providing oversight on capital expenditures.

As an added level of coordination, a Functional Review Meeting ("FRM") Committee meets monthly to sign-off on projects and review spending. This committee includes the TAWC Vice President of Operations, the TAWC Engineering Manager, TAWC Engineering Project Managers, TAWC Operations Specialists and the appropriate Operation supervisors and project managers. The purpose of the committee is to review projects that are moving forward to the next step of approval, or that require a change. This allows the project manager and operational area supervisors to communicate about the project on a monthly basis and help coordinate projects from initial development through in-service as compared to the approved budget and spending plan.

Both of these committees allow a continuous review of capital expenditures as unexpected projects arise or the need to adjust projects to offset delays in other projects. The use of the CPMC and FRM process allows TAWC to immediately address an increase or decrease in projected spending in each line and make appropriate adjustments to maintain the overall capital spend.

Q. HOW DOES TAWC HIRE CONTRACTORS?

A. All significant construction work done by independent contractors and significant purchases are completed pursuant to a bid solicitation process. We maintain a list of qualified bidders, and we believe that our construction costs are very reasonable. American Water Works (AWW) takes competitive bids for material and supplies that are either

manufactured or distributed regionally and nationally through its centralized procurement group. We have the advantage of being able to purchase these materials and supplies on an as-needed basis at favorable prices. In the past ten years, AWW also has undertaken a number of procurement initiatives for services and materials to reduce costs through either streamlined selection or utilization of large volume purchasing power. Some of the initiatives that have directly influenced capital expenditures include the use of master services agreements with pre-qualified engineering consultants, national vehicle fleet procurement, and national preferred vendor identification.

Q. ARE YOU FAMILIAR WITH THE FACILITIES AND ENGINEERING OPERATIONS OF THE COMPANY IN EACH OF ITS SERVICE AREAS?

A. Yes.

Q. WHAT CONTROLS ARE IN PLACE TO REVIEW THE PROGRESS OF A PROJECT?

A. The CPMC and FRM meetings described above are used to oversee the progress of projects from inception to completion. Along with the review of the capital expenditures, the committee also reviews potential Customer impacts and the requirements of an investment project to ensure that the projects meet the business need for expenditure and usefulness. The process includes five stages of project review: 1) a Preliminary Need Identification defining the project at an early stage; 2) a Project Implementation Proposal that confirms all aspects of the project are in a position to begin work; 3) Project Change Requests, if needed (if the cost changes more than 5% or $100,000); 4) a Post Project Review; and 5) Asset Management. TAWC personnel handle all stages, with oversight by the CPMC and FRM Committees.

Q. ARE CONSIDERATIONS UNDERTAKEN TO EVALUATE WHETHER PROPOSED PROJECTS SERVE PUBLIC INTEREST?

A. Yes. Through the budgeting and planning process, a broad and comprehensive review of facility needs is conducted to establish a general guide for needed improvements over a short-term horizon. These improvements are prioritized by TAWC to allow it to provide safe, adequate, and reliable service to its customers to meet their domestic, commercial, and industrial needs; provide flows adequate for fire protection; satisfy all regulatory requirements; and enhance economic growth. The plan provides a general scope of each project along with a preliminary design. The criteria for evaluating the various system improvements include engineering requirements; consideration of national, state, and local trends; environmental impact evaluations; and water resource management.

The engineering criteria used are accepted engineering standards and practices that provide adequate capacity and appropriate levels of reliability to satisfy residential, commercial, industrial, and public authority needs, and provide flows for fire protection. The criteria are developed from regulations, professional standards, and company engineering policies and procedures.

Q. OVERALL, HOW DID TAWC DO WITH REGARD TO ITS CONSTRUCTION BUDGET COMPARED TO ACTUAL EXPENDITURES?

A. For 2022, TAWC ended the year with net capital expenditures of $19,599,434 compared to an approved budget of $20,425,117, resulting in a total capital expenditure underspend of $825,683 or -4.04% of the originally approved budget.

Q. HOW DID TAWC PERFORM WITH REGARD TO ITS ACTUAL EXPENDITURES COMPARED TO THE BUDGETED CAPITAL EXPENDITURES FOR THE QIIP RIDER?

A. The 2022 QIIP Rider expected spend was projected at $13,078,106 with an actual spend of $13,549,953, resulting in a total QIIP expenditure overspend of $471,847 or 3.6% more than the original QIIP forecasted budget.

Q. HOW DID TAWC DO WITH REGARD TO ITS ACTUAL EXPENDITURES COMPARED TO THE BUDGETED CAPITAL EXPENDITURES FOR THE EDI RIDER?

A. The EDI expected spend was projected at $743,210 with an actual spend of $758,996, resulting in an overspend of $15,786 or 2.1% of the projected Budget Capital Expenditures.

Q. HOW DID TAWC PERFORM WITH REGARD TO ITS ACTUAL EXPENDITURES COMPARED TO THE BUDGETED CAPITAL EXPENDITURES FOR THE SEC RIDER AND PROVIDE THE PRIMARY CAUSE OF ANY VARIANCES?

A. The original SEC expected spend was projected at $6,603,801 with an actual spend of $5,290,334, resulting in an underspend of $1,313,316 or 19.9% under the originally projected amount. The underspend in the SEC Rider was caused largely by the Whitwell Raw Water Intake Improvements project. This project was divided into two projects. The first project was an intake structural improvements that was completed and placed into service in 2022. The second project was a pumping and electrical improvements project

that was delayed due to supply chain issues. The pumping and electrical project was delayed until 2023, thus the reduced spend for 2022.

Q. CAN YOU PROVIDE FURTHER INFORMATION ABOUT THE ACTUAL CAPITAL EXPENDITURES COMPARED TO THE BUDGETED CAPITAL EXPENDITURES?

A. Yes. I have attached to my testimony **Petitioner's Exhibit 2022 SCEP Results – GS**. This exhibit provides a comparison of the 2022 Strategic Capital Expenditures Plan with Actual Capital Expenditures by recurring project lines and investment project lines.

Q. CAN YOU SUMMARIZE THE COMPANY'S PERFORMANCE ON THE QIIP, EDI AND SEC?

A. Yes. As described previously, TAWC overspent in the QIIP and EDI Riders by $471,847 and $15,786, respectively. Spend on the SEC Rider was $1,313,316 under projected. Taking all three Riders into account, TAWC was able to effectively manage Capital Recovery Rider spend in 2022 with an underspend of $825,683. As I explained earlier, this underspend was actively monitored, necessary and reasonable.

Q. WHY ARE CERTAIN PROJECTS SOMETIMES DELAYED AND CHANGES OCCUR IN THE ACTUAL CAPITAL EXPENDITURES COMPARED TO THE BUDGETED EXPENDITURES?

A. During any given year, unexpected changes in priorities may occur due to outside influences, or recognition of unfavorable trends that are occurring and affect the infrastructure or ability to serve the customer. The majority of such unexpected changes are caused by conflicts between the company's infrastructure and outside agencies' projects or changes that occur in the community that effect the schedule or scope of a

planned project. In both of these cases, a previously unbudgeted new priority project is initiated to address the need or an existing project effort is increased or decreased. Since these changes were not identified during the original budgeting process, the need to offset the new efforts expected cost is required to ensure that the overall company budget is maintained. As a result, projects that were originally identified within the budget are changed or delayed to make room for the new, unexpected projects or a change in an existing project.

Q. WHAT IS THE PROCESS FOR APPROVING THESE CHANGES?

A. Throughout the year, TAWC actively manages each budget line to ensure the overall spending is consistent with the approved budget levels. The management of the budget lines is carried out during monthly CPMC meetings that compare the current capital expenditures to the budged levels. If changes in the budgets are required due to changes in priorities or unexpected changes in projects, the committee reviews the need for the changes and approves or disapproves, as the case may be, the movement of available capital from other budget lines to offset the changes in capital spend and maintain the overall projected spend for the year.

Q. CAN YOU PROVIDE THE OVERALL AMOUNT OF IN SERVICE PLANT FOR 2022?

A. Yes. TAWC was able to ensure that capital spending on projects led to those projects being implemented and placed in service. TAWC utilized the FRM process to manage projects and make sure that approved capital spending was utilized on projects that would be placed in service in a timely manner. With regard to the Capital Recover Riders and the projected level of expenditures compared to those projects that were implemented and placed in

service, the overall variance with projects placed in service compared with the projected spend for all three riders was 0.22% under the expected average year to date spend. This is the cumulative plant additions, and is reflected in **Petitioner's Exhibit Capital Riders Reconciliation -RCL** attached to Mr. Robert Lane's testimony.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Tennessee-American Water Company
Case No. 2023-XXXXX
2022 Capital Rider Reconciliation
2022 Actual vs Budget Capital Expenditures

Project Code	Brief Description of Proposed Expenditures	%	Rider	Year to Date Actual (4)	Year to Date Original Budget (3)	Year to Date Original Variance (4-3)
DV	Projects Funded by Others (Contrib. /Adv./ Refunds)		-	3,689,456	3,784,030	(94,574)
A	Mains - New		EDI	(50,064)	0	(50,064)
B	Mains - Replaced / Restored		QIIP	3,706,518	2,250,000	1,456,518
C	Mains - Unscheduled		QIIP	2,150,845	1,709,415	441,430
D	Mains - Relocated		QIIP	(11,903)	46,149	(58,052)
E	Hydrants, Valves, and Manholes - New		EDI	272,828	181,075	91,753
F	Hydrants, Valves, and Manholes - Replaced		QIIP	964,739	750,000	214,739
G	Services and Laterals - New		-	2,766,598	2,389,472	377,127
H	Services and Laterals - Replaced		QIIP	805,962	553,556	252,406
I	Meters - New		-	216,925	141,973	74,951
J	Meters - Replaced		QIIP	1,848,207	1,852,352	(4,145)
K1	ITS Equipment and Systems		-	465,790	476,094	(10,304)
L	SCADA Equipment and Systems		SEC	161,686	85,590	76,097
M	Security Equipment and Systems		SEC	378,084	200,000	178,084
N	Offices and Operations Centers		-	45,855	15,290	30,565
O	Vehicles		-	1,139,421	1,005,212	134,208
P	Tools and Equipment		-	241,904	172,938	68,966
Q	Process Plant Facilities and Equipment		SEC	2,352,006	1,620,040	731,966
R	Capitalized Tank Rehabilitation / Painting		QIIP	1,088,529	1,886,318	(797,789)
S	Engineering Studies		-	55,745	93,978	(38,233)
T	Enterprise T&I Solutions		-	1,953,559	1,735,008	218,551
	TOTAL RECURRING PROJECTS DV - T			**24,242,689**	**20,948,490**	**3,294,199**
	TOTAL RECURRING PROJECTS A - T			**20,553,234**	**17,164,460**	**3,388,773**
I26-020051	Replace Switch Gear - Citico		SEC	423,860	315,000	108,860
I26-020060	Replace High Svc Header Valve - Cit		QIIP	354,152	412,015	(57,864)
I26-020062	Filter House #2 Rehab		QIIP	60,866	72,596	(11,730)
I26-020063	River Gorge Transmission Mains		QIIP	(4,443)	(283)	(4,160)
I26-020064	River Gorge Booster Station		QIIP	1,774	(5,816)	7,589
I26-020067	Lookout Valley Redun - Citico Tank		QIIP	9,752	412,450	(402,698)
I26-020068	Lookout Valley Redun - River Crossing		QIIP	251,400	664,000	(412,600)
I26-020069	Lookout Valley Redun - Piping Upgrade		QIIP	733,132	813,376	(80,244)
I26-020071	Black Creek Tank		EDI	536,233	512,135	24,098
I26-020073	Citico Plant Generator Installation		SEC	75,203	2,800	72,403
I26-020074	Bonny Oaks Main Relocation		QIIP	0	0	0
I26-020076	The Bend Phase 1 - Main Ext		EDI	0	50,000	(50,000)
I26-050001	Raw Water Intake Improvements - Whitwell		SEC	1,709,785	4,215,371	(2,505,586)
I26-050003	Whitwell Clearwell		SEC	189,860	165,000	24,860
I26-050008	Magnolia Main Extenstion		QIIP	263,576	223,000	40,576
I26-050009	Dunlap Interconnect		QIIP	516,113	742,167	(226,054)
I26-050006	Hwy 283 Main Ext		QIIP	(1,189)	(1,189)	0
I26-020045	Removal WBS		QIIP	0	0	0
I26-020077	Lookout Valley Redun - Booster Station		QIIP	811,926	698,000	113,926
	TOTAL INVESTMENT PROJECTS			**5,931,998**	**9,290,622**	**(3,358,624)**
	TOTAL GROSS			**30,174,687**	**30,239,112**	**(64,424)**
	Contributions			(1,020,810)	(102,713)	(918,097)
	Advances			(2,808,605)	(1,540,764)	(1,267,841)
	Refunds			350,000	367,538	(17,538)
	Net Advances, Refunds, and Contributions			**(3,479,415)**	**(1,275,940)**	**(2,203,475)**
	Net US GAAP			**26,695,272**	**28,963,172**	**(2,267,900)**

STATE OF Tennessee)
)
COUNTY OF Hamilton)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Grady Stout, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Public Utility Commission, and if present before the Commission and duly sworn, his testimony would be as set forth in his pre-filed testimony in this matter.

Grady Stout

Sworn to and subscribed before me
this 28 day of Feb, 2023.

Kathryn Robinson
Notary Public

Kathryn Robinson
STATE OF TENNESSEE NOTARY PUBLIC
COUNTY OF HAMILTON

My Commission Expires: 10/20/2024