

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**December 22, 2008**

**IN RE:**

**NOTICE OF KINGSPORT POWER COMPANY d/b/a  
AEP APPALACHIAN POWER RELATIVE TO  
CHANGES IN ITS PURCHASED POWER  
ADJUSTMENT RIDER**

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**DOCKET NO.  
08-00213**

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**ORDER GRANTING CHANGES TO PURCHASED POWER ADJUSTMENT RIDER**

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This matter came before Chairman Tre Hargett, Director Eddie Roberson, and Director Sara Kyle of the Tennessee Regulatory Authority (“TRA” or the “Authority”), the voting panel assigned to this Docket, at a regularly scheduled Authority Conference held on December 15, 2008, for consideration of the *Notice of Kingsport Power Company d/b/a AEP Appalachian Power Relative to Changes in its Purchased Power Adjustment Rider* (“*Petition*”) filed on November 14, 2008 by Kingsport Power Company d/b/a AEP Appalachian Power (“Kingsport” or “Company”).

**BACKGROUND**

Kingsport, a public utility with its principal office in Kingsport, Tennessee, is engaged in the business of furnishing electric power services to retail customers in its service delivery area which includes parts of Sullivan, Washington and Hawkins County, Tennessee, the City of Kingsport, Tennessee, and the Town of Mt. Carmel, Tennessee. Kingsport purchases all of its electric power requirements from Appalachian Power Company (“APCo”). This is considered

an interstate purchase; therefore, the Federal Energy Regulatory Commission (“FERC”) has jurisdiction over the tariff and the rates.

In Docket No. 92-04425, the Tennessee Public Service Commission (“TPSC”) directed Kingsport to develop a tariff that would permit recovery of FERC approved rate changes without the need for a rate case.<sup>1</sup> The TPSC approved Kingsport’s current Purchased Power Adjustment Rider (“PPAR”) in Docket No. 94-04283.

On November 14, 2008, Kingsport filed its *Petition*, including pre-filed testimony of William A. Bosta and Larry C. Foust. On December 1, 2008, the Authority filed a *Notice of Hearing* setting a hearing in this matter for December 15, 2008 during the regularly scheduled Authority Conference. On December 3, 2008, Kingsport filed proof of its notice to the public as required by TRA Rule 1220-4-1-.05. On December 8, 2008, the East Tennessee Energy Consumers (“ETEC”) filed its *Petition to Intervene of East Tennessee Energy Consumers (“ETEC Intervention”)*. On December 10, 2008, Kingsport filed the Letter Order issued by FERC on December 8, 2008 in which FERC accepted the First Revised FERC Rate Schedule No. 23, including the new rates contained therein, for filing. Also on December 10, 2008, Edward L. Petrini, attorney for ETEC, filed a *Motion to Appear Pro Hac Vice (“Pro Hac Vice Motion”)*.

#### **THE PPAR AND PROPOSED CHANGES**

Currently, Kingsport purchases power from APCo under an agreement entered into on November 19, 1954 (“1954 Agreement”) and amended from time to time. On March 28, 2008, APCo filed with the FERC a cost-based formula rate agreement for service to Kingsport that would replace the 1954 Agreement in its entirety and under which rates would be updated

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<sup>1</sup> See *In Re: Petition of Kingsport Power Company to Implement a Purchased Power Adjustment Rider*, Docket No. 94-04283, *Order*, p.2 (December 29, 1994).

annually on June 1. ETEC, a group of Kingsport's retail industrial customers, protested the filing. The FERC approved APCo's request to withdraw the filing in order to work with the ETEC to address their concerns.<sup>2</sup> On November 13, 2008, APCo filed an Amended and Restated 1954 Agreement ("Amended Agreement") with the FERC. The Amended Agreement, negotiated between APCo and the ETEC, provides for three annual rate increases in APCo's generation rates to Kingsport.<sup>3</sup>

The *Petition* requests approval of new PPAR surcharge amounts<sup>4</sup> as well as changes to the PPAR allocation factors<sup>5</sup> and the addition of a demand component to the Large General Service and Industrial PPAR.<sup>6</sup> In the alternative, Kingsport requests approval of the new PPAR surcharge amounts under the current PPAR.

### **THE HEARING**

The Hearing was held during the regularly scheduled Authority Conference on December 15, 2008. Appearing on behalf of Kingsport was William A. Bosta, Director of Regulatory Services for Virginia/Tennessee and William C. Bovender, Counsel. Appearing on behalf of ETEC was Edward L. Petrini, Counsel. As preliminary matters, the panel granted both the *ETEC Intervention* and the *Pro Hac Vice Motion*.

Mr. Bosta summarized his pre-filed testimony in which he set out Kingsport's recent rate history, the major provisions of FERC Revised Rate Schedule 23, and comparison of rates to neighboring electric utilities. Mr. Petrini stated that ETEC supported Kingsport's filing. The panel sought public comment, but none was offered.

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<sup>2</sup> *Petition*, pp. 4-5.

<sup>3</sup> *Petition*, pp. 5-6.

<sup>4</sup> The new surcharges are contained in Section 7 of the PPAR.

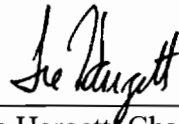
<sup>5</sup> The allocation factors are contained in Section 2 of the PPAR.

<sup>6</sup> The new demand component would be added to Section 3 of the PPAR.

Based upon the testimony presented, statements of counsel, the entire record, and the approval of FERC, the panel voted unanimously to approve Kingsport's new PPAR. The panel also voted to approve the proposed modifications to Sections 2 and 3 of the PPAR. Finally, the panel directed the Company to file an updated cost of service study with new allocation factors, along with the two subsequent PPAR filings, only if a customer is added to or removed from the Large General Service or Industrial classes.

**IT IS THEREFORE ORDERED THAT:**

1. The new Purchased Power Adjustment Rider of Kingsport Power Company d/b/a AEP Appalachian Power is approved.
2. The proposed modifications to Sections 2 and 3 of the new Purchased Power Adjustment Rider of Kingsport Power Company d/b/a AEP Appalachian Power are approved.
3. The Company is directed to file an updated cost of service study with new allocation factors, along with the two subsequent Purchased Power Adjustment Rider filings, only if a customer is added to or removed from the Large General Service or Industrial classes.



Tre Hargett, Chairman



Eddie Roberson, Director



Sara Kyle, Director