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**August 3, 2009**  
**VIA EMAIL & FEDEX**

AMEP/z.81650

**ATTN: Sharla Dillon, Dockets & Records Manager**  
**Mr. Eddie Roberson, Chairman**  
**Tennessee Regulatory Authority**  
**460 James Robertson Parkway**  
**Nashville, TN 37243-0505**

filed electronically in docket office on 08/03/09

**Re: Appropriateness of Implementation of PURPA**  
**Standard 16 and Standard 17 for Kingsport Power**  
**Company d/b/a AEP Appalachian Power**  
**TRA Docket No.: 09-00062**

Dear Chairman Roberson:

Please find enclosed the Comments of Kingsport Power Company to be filed in the captioned docket. We will forward the original and four copies via overnight mail.

Should there be any questions, please contact the writer.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**

  
William C. Bovender

WCB/slb  
Enclosure

cc: James R. Bacha, Esq. (via email w/enc.)  
Mr. Barry L. Thomas (via email w/ enc.)  
Mr. Garry Simmons (via email w/enc.)  
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Hearing Officer Gary Hotvedt (via email w/enc.)

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**August 3, 2009**

<b>APPROPRIATENESS OF IMPLEMENTATION OF</b>	<b>)</b>	<b>DOCKET NO.</b>
<b>PURPA STANDARD 16 (INTEGRATED</b>	<b>)</b>	<b>09-00062</b>
<b>RESOURCE PLANNING) AND STANDARD 17</b>	<b>)</b>	
<b>(RATE DESIGN MODIFICATIONS) FOR</b>	<b>)</b>	
<b>KINGSPORT POWER COMPANY D/B/A AEP</b>	<b>)</b>	
<b>APPALACHIAN POWER</b>	<b>)</b>	

**COMMENTS OF KINGSPORT POWER COMPANY**

Kingsport Power Company (“KgPCo” or “Company”), a subsidiary of American Electric Power Company, Inc. (“AEP”), files these comments before the Tennessee Regulatory Authority (“TRA” or “Authority”) in response to its determination of the Appropriateness of Implementation of PURPA Standards for Kingsport Power Company D/B/A AEP Appalachian Power, TRA Docket No. 09-00062.

Section 111 of the Public Utility Regulatory Policies Act of 1978 (“PURPA”), 16 U. S. C. § 2621, requires state regulatory commissions to consider certain ratemaking and regulatory standards listed in subsection (d) of that section (“Section 111 (d) standards”) and determine whether it is appropriate to implement these standards. Effective December 19, 2007, PURPA Section 111 (d) was amended by the Energy Independence and Security Act of 2007 (“EISA”), Pub. L. 110-140, 121 Stat. 1492 (2007). Section 532(a) of the EISA adds two new standards to Section 111 (d) for consideration by state commissions, (16) Integrated Resource Planning and (17) Rate Design. Section 1307(a) of the EISA also added two additional standards to Section 111 (d) for consideration by state commissions, (16) Smart Grid Investment and (17) Smart Grid Information.

For the reasons stated below Kingsport urges the TRA to decline adoption of the standards added to Section 111 (d) by Sections 532 and 1307 of EISA.

### **Requirement to Implement**

EISA 2007 does not mandate adoption of the standards by this Authority and does not change the evaluation criteria contained in Sections 111 (a)-(c) of PURPA. Accordingly, the Authority is free to consider the new standards in the same manner as it considered previous Section 111 (d) standards and to decline to implement any or all of the new standards after consideration, again, as it did with the previous standards.<sup>1</sup> These standards have been reviewed or are being reviewed by each state regulatory body which regulates the rates and services of the AEP East utilities. Virginia has not adopted the federal standards proposed by EISA.

### **Integrated Resource Planning**

Kingsport Power owns no generation and obtains its power through a long term wholesale contract with Appalachian Power Company (“APCo”), both of which are affiliates within the AEP System. Due to the fact that Kingsport has no generation, there is no need for the Company to perform its own Integrated Resource Plan (IRP) study, nor to submit it to the TRA. As will be explained further, adequate AEP System information already exists to examine cost effective energy efficiency; and planning occurs for all of its affiliates.

AEP prepares an IRP plan on behalf of APCo and the other AEP East Operating Companies. This IRP allows AEP and its east affiliates to integrate energy efficiency standards into the IRP analysis and to adopt on a company by company basis policies establishing cost-effective energy efficiency as a priority resource. The IRP is quite detailed, contains confidential, sensitive and/or proprietary data and includes, among other things: (a) a long term

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<sup>1</sup> The Tennessee Regulatory Authority, Docket No. 06-00010.

forecast of load; (b) detailed information on existing supply-side resources; (c) an assessment of supply-side resource options; (d) demand-side options; and (e) evaluation of resource options including a cost evaluation that would allow demand-side options to be compared on an equal footing to supply-side options.

The IRP provides a discussion on the utility's goals and plans with regard to energy efficiency, energy conservation, demand side and demand response programs, and the provision of electricity from renewable energy resources. In Virginia, for example, the IRP filing is prepared in response to directive of Section 56-599 of the Code of Virginia and can include the following basic steps:

- The development of an energy and peak demand forecast for internal load, as well as an estimate of current Demand-side Management impacts;
- Evaluation of physical and economic factors, including those that may affect the continued operation of any of the system's current generation resources;
- Consideration of RTO or zonal requirements concerning sufficiency of capacity planning reserves;
- Matching existing and currently planned capacity resources against total requirements (load plus reserve requirements) to determine projected future needs;
- Consideration of various methods of potential capacity resources to address need, including: market purchases of firm capacity, generating unit additions utilizing various technology options and alternatives, and purchase of existing generating assets. Also includes consideration of demand reduction options and energy efficiency measures; and
- Consideration of the analytically-optimal resource technology and fuel-source diversity "mix", as well as optimal timing of new capacity resources within the planning period, all assessed under various economic risk factors.

Similar information on APCo's West Virginia operations is also submitted annually as part of the West Virginia Public Service Commission oversight and processes.

On the basis that Kingsport is a non-generating affiliate of AEP, and the on-going actions required by other states, and as complied with by AEP operating companies, there is no need for the TRA to adopt the new IRP standard. Likewise, Kingsport obtains the benefit of the planning process that is performed on a system-wide basis for all the AEP affiliates.

Further, the TRA already has the authority under existing statutes to promote resource planning by electric utilities. Under Section 65-4-117, T.C.A., the Authority may fix just and reasonable standards, practices, and services to be observed and followed by public utilities. It has the power to specifically consider the efficiency of the services furnished by the public utility. Section 65-5-103, T.C.A. It has broad, general supervisory and regulatory authority over public utilities. Section 65-4-104, T.C.A. Thus, under existing law, the TRA has the authority to regulate in areas involving the same goals to which the federal standard on integrated resource planning seeks to achieve. Adoption of the federal standard is unnecessary.

### **Rate Design**

The Authority currently has sufficient authority under its general ratemaking authority to design rates that encourage energy efficiency and promote energy efficiency investments on both the demand-side and the supply-side. This occurs both within its general approval of filed tariffs as well as its authorities to allow implementation of special contracts. Rule 1220-4-1-.07 gives the Authority supervision, regulation and control over special contracts between public utilities and certain customers as to rates, services, and practices not covered or permitted in general tariffs, schedules or rules filed by such utilities. Further, the Authority is granted statutory power to consider the adequacy and efficiency of services furnished by public utilities in determining whether rates are just and reasonable. Section 65-5-103, T.C.A. Therefore, the Authority has broad ratemaking authority. Section 65-5-101, T.C.A.

Additionally, the Authority is granted broad general powers by statute to regulate public utilities. For example, § 65-4-107, T.C.A. grants the authority the power to impose conditions on public utilities as to the maintenance, service or operation as the public convenience and interest may reasonably require. Section 65-4-117, T.C.A. grants the Authority the power to “fix

just and reasonable standards, classifications, regulations, practices or services to be furnished, imposed, observed and followed thereafter by any public utility.” Tennessee law further specifically recognizes the value of alternative energy sources and requires public utilities to treat customers who use such sources reasonably and equitably. Section 65-4-105, T.C.A.

Appalachian Power, in other states, and Kingsport Power in Tennessee have voluntarily undertaken a number of rate design steps designed to encourage energy efficiency and promote energy efficiency as well as demand management by customers. These steps currently exist in the Companies’ filed tariffs and special contracts. Traditional rate design steps include continued movement toward full cost-based rates including customer charges, demand charges and commercial and industrial tariffs which encourage customers to improve their load factors. This is evidenced by several features of the Company’s approved tariff. Currently, Kingsport’s approved tariff contains mandatory time of day rates encouraging off peak utilization for all of its large industrial customers. The tariff also includes Load Management Provisions for load controlled water heating and non-water heating load management uses for residential customers. Similar tariff schedule features exist for small and medium general service schedules and a separate time of day tariff exists for medium general service customers. Another approved cost-based pricing component is the current Purchased Power Adjustment Rider provision which requires updating of appropriate class allocation factors and purchased power costs rates for classes reflecting each class’s appropriate share of the power supply cost. In addition, the Company has entered into a net metering agreement with a government customer, and has recently revised its contract with a large industrial customer to permit that customer to optimize its new generation facilities through participation and receipt of market based pricing in the PJM market for such generation.

Both APCo and Kingsport, as part of the AEP systems integrated planning efforts, are evaluating implementation of Smart Grid systems and concepts that would be compatible with and support additional programs and tariff pricing options and provisions such as direct load control, more dynamic time-of-use tariffs and critical peak pricing. For example, APCo has filed an application for approval of a Demand Response program in Virginia and Kingsport is evaluating offering a similarly structured pricing option to its larger Tennessee customers in the relatively near term.

Therefore, the Company is already taking substantial steps toward promoting greater energy efficiency both in the way energy is delivered to and utilized by its customers. The stated purpose of EISA is presently being fulfilled by both Kingsport and APCo (as Kingsport's wholesale provider) and nothing further could be gained by layering on of a separate set of federal requirements which simply duplicate what is already being done.

A number of Smart Grid- related rate designs may become more feasible as the elements of any Smart Grid initiative unfold. However, such rate and pricing options can be relatively costly based upon their relationship to a required Smart Grid infrastructure. These pricing and other Smart Grid-related options must evolve as technology develops and based upon regulatory and public policy considerations. The Company believes that, as with other rate and pricing options, the Authority has adequate regulatory oversight to review the appropriateness of such matters.

### **Smart Grid Investment**

AEP has voluntarily begun consideration of smart grid programs. For instance, Kingsport along with Appalachian Power as operating company subsidiaries of AEP are participating in the on-going development of AEP's smart grid initiative, known as



*gridSMART<sup>SM</sup>*. This program is a multi-year initiative by AEP and its operating companies that includes consumer programs, new energy delivery system technologies, integrated future generation and storage devices, and advanced internal system efficiencies. The main components of AEP's *gridSMART<sup>SM</sup>* initiative align directly with the EISA 2007's definition of a smart grid. These include advanced meter infrastructure, distribution automation, distribution grid management, and home area networks.

The Company contemplates that under existing general statutory authority, the reasonableness of any Smart Grid investment that KpPCo undertakes on behalf of its customers will have to be demonstrated before the Authority when KpPCo seeks any appropriate implementation approvals or cost recovery of those measures.

Finally, the Company would note that sound regulatory and recovery policies are important components of an appropriate and cost-effective implementation of gridSmart programs for Tennessee. The Company does not believe that it is necessary to adopt the Federal EISA standards to accomplish adoption of sound policies for Tennessee, but that sound analysis and case-by-case review of specific plans and proposals under the Authority's general regulatory and special contract authorities are sufficient to accomplish a reasonable implementation of Smart grid related measures. It should be further noted that Smart grid systems will likely require large investments and, depending upon when undertaken, some premature obsolescence of existing facilities. These issues create the necessity of a utility being assured of its ability to earn a return on and to recover their investments in these facilities and suggests that a more case-by-case review process will provide the flexibility and opportunity for better regulatory and policy decisions to occur. Sound recovery policies are critical to ensuring that appropriate programs are implemented in Tennessee.



### **Smart Grid Information**

KgPCo should not be required to provide customers with direct access to information such as price, usage, sources, and intervals and projections as would be mandated under the federal standard. AEP has already voluntarily accomplished these requirements such that customers already have access to the required information through various portals, in a manner that is both practical and consistent with the customers needs under existing tariffs or special contract. The Company will continue to facilitate availability of necessary information as new non-traditional tariff offerings become available.

AEP, KgPCo's parent, is a member of PJM Interconnection, a regional transmission organization. Wholesale sales of energy and capacity are scheduled and settled at market prices through the PJM Interconnection. Information regarding market wholesale prices is available to wholesale purchasers through PJM Interconnection or to Kingsport retail customers who might choose to participate in various components of the PJM market process. In addition, quarterly wholesale sales, including prices, are reported to the Federal Regulatory Commission and available to the public.

Unlike wholesale sales of capacity and energy or participation by customers in PJM markets, retail sales are made through Kingsport, and regulated by this Authority. Information concerning Kingsport's rates, including on-peak/off-peak and traditional rates are available around the clock through the Company's website and call centers. Customers can also access up to 12 months prior usage through the Company's website. Retail customers already have access to the most-current information regarding pertinent retail prices as required by the federal standard. Thus any requirement to provide such information would require a duplication of the information already available.

Providing real-time cost or pricing information to all retail customers, most of whom may not even be seeking this information, would likely substantially increase customer costs and would not be in the public interest. Currently there has not been broad interest in this type of price information from Kingsport customers; and where that interest has developed, it has been satisfied through currently available sources. Therefore, any alleged improvement in the type of cost information, beyond what is already desired by customers and provided by APCo and KgPCo would require additional investment or on-going costs, of which Kingsport would seek recovery of its respective share.

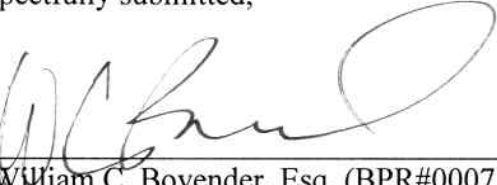
Therefore, the Company believes that the Authority already has jurisdiction over and regulates information transfer issues related to rates, costs and prices consistent with filed tariffs or special contract conditions; and that adoption of the Federal standard would not improve a customer's ability to obtain information.

### **Conclusion**

KgPCo appreciates the opportunity to provide comments regarding this matter. As previously stated, the TRA is only required to consider the new standards created by the Energy Information and Security Act of 2007; and it is free to decline to implement any or all of the new standards. In addition, it may be premature for the TRA to implement the PURPA standards since Tennessee legislation has begun the process of addressing the issues related to these topics. Based upon the above, the Company respectfully encourages the Authority to decline to adopt the Federal standards predicated upon its existing state statutory authority to regulate the issues identified in the Federal standards, in addition to other measures that the Company has taken, and will continue to take to improve service to its customers.

Respectfully submitted,

By:

  
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