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KPOW.89998

September 15, 2015

VIA EMAIL & FEDEX

ATTN: Sharla Dillon, Dockets & Records Manager
Herbert Hilliard, Chairman
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Re: Petition of Kingsport Power Company d/b/a
AEP Appalachian Power; **Docket No. 15-00024**

Dear Chairman Hilliard:

Enclosed with this letter is Kingsport Power Company's Rebuttal Testimony for filing in the captioned docket. We are shipping the original and four copies of the Rebuttal Testimony via FedEx for overnight delivery.

If you have any questions, please do not hesitate to contact the writer.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender

William C. Bovender
Counsel for Kingsport Power Company

Enclosure

ATTN: Sharla Dillon, Dockets & Records Manager

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c: Erin Merrick, Esq. (via email)
William Castle (via email)
James R. Bacha, Esq. (via email)
Hector Garcia, Esq. (via email)
Larry Foust (via email)
Garry Simmons (via email)
Janice Venable (via email)

**REBUTTAL TESTIMONY OF
GARRY H. SIMMONS
ON BEHALF OF KINGSPORT POWER COMPANY
D/B/A AEP APPALACHIAN POWER
BEFORE THE
TENNESSEE REGULATORY AUTHORITY
DOCKET NO. 15-00024**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND PRESENT**
2 **POSITION.**

3 A. My name is Garry H. Simmons. My business address is Three James Center,
4 1051 E. Cary Street, Suite 1100, Richmond Virginia 23219. I am employed by
5 Appalachian Power Company (APCo) as a Regulatory Consultant of Regulatory
6 Services VA/TN. Appalachian Power Company (“APCo”) and Kingsport Power
7 Company (“Kingsport”, “KgPCo” or “the Company”) are wholly owned
8 subsidiaries of American Electric Power Company, Inc. (AEP).

9 **Q. ARE YOU THE SAME GARRY H. SIMMONS WHO PROVIDED DIRECT**
10 **TESTIMONY IN THIS PROCEEDING?**

11 A. Yes.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
13 **PROCEEDING?**

14 A. I will address the allocation and recovery of the storm recovery costs proposed by
15 William H. Novak on behalf of the Consumer Advocate and Protection Division
16 of the Tennessee Attorney General’s Office.

17

1 **Q. WHAT STORM RECOVERY COSTS ARE THE SUBJECT OF THIS**
2 **PROCEEDING?**

3 A. The \$2,039,395 of storm recovery costs included in this proceeding are from two
4 separate storms. One storm occurred in 2009 and the second storm occurred in
5 2013. The \$90,333 of 2009 storm costs that are included were approved for
6 recovery in a prior proceeding, Docket 12-00051, and represent the remaining
7 unrecovered costs resulting from that proceeding. The remaining \$1,949,062 of
8 storm costs that are included were incurred in the 2013 storm. All of these storm
9 costs were incurred to repair the distribution facilities of the Company.

10 **Q. MR. NOVAK MAKES THE STATEMENT THAT “...NO PARTICULAR**
11 **EXPENSE OR INVESTMENT CAN BE SAID TO BE THE SOLE**
12 **RESPONSIBILITY OF ANY ONE PARTICULAR CUSTOMER CLASS AS**
13 **THE COMPANY APPEARS TO ALLEGE”. DO YOU AGREE WITH**
14 **THAT STATEMENT?**

15 A. I do not. Certain expenses can be the sole responsibility of a particular class. For
16 example, costs recorded in Federal Energy Regulatory Commission (FERC)
17 accounts 585- Street Lighting & Signal System Expense and 596 – Maintenance
18 of Street Lighting & Signal Systems should only be allocated to the Street
19 Lighting class, as they would have been incurred solely for the benefit of street
20 lighting customers. In this proceeding, however, the Company is not alleging that
21 storm recovery expense is the sole responsibility of a particular customer class.
22 Rather, because the specific storm recovery costs in this case were incurred solely
23 to repair distribution facilities damaged by storms, in its cost allocation process

1 the Company allocated the storm recovery cost to all customer classes except
2 those classes that take service at the transmission level.

3 **Q. DO YOU AGREE WITH MR. NOVAK'S RECOMMENDATION THAT**
4 **ALL OF KINGSPORT'S CUSTOMERS SHOULD BEAR A RATABLE**
5 **PORTION OF THE STORM DAMAGE RESTORATION COSTS?**

6 A. No. All of the restoration costs incurred for these storms are related to damaged
7 distribution facilities and since customers that take service at the transmission
8 level do not use distribution facilities, they should not be allocated a portion of
9 those costs.

10 **Q. IS THE COMPANY'S POSITION REGARDED AS THE TRADITIONAL**
11 **METHOD?**

12 A. Yes. The National Association of Regulatory Utility Commissioners (NARUC)
13 Electric Utility Cost Allocation Manual states "...few analysts seriously question
14 the standard that service should be provided at cost."¹ It also states "Cost studies
15 are therefore used by regulators for the following purposes: To attribute costs to
16 different categories of customers based on how those customers cause costs to be
17 incurred..."². Further, it defines the cost allocation procedure step of cost of
18 service studies as "The total revenue requirement is attributed to the various
19 classes of customers in a fashion that reflects the cost of providing utility service
20 to each class."³

¹ Electric Utility Cost Allocation Manual, National Association of Regulatory Utility Commissioners, January 1992, page 12

² Ibid, page 12

³ Ibid, page 13

1 In addition, Bonbright's Principles of Public Utility Rates comments on the
2 commonality of the cost principle of ratemaking by stating "But even more
3 significant is the widespread adherence to cost, or to some approximation of cost,
4 as a basis of ratemaking under public ownership."⁴

5 **Q. WAS THE COMPANY'S METHOD ACCEPTED BY THE AUTHORITY**
6 **IN THE COMPANY'S LAST STORM COST RECOVERY PROCEEDING?**

7 A. Yes. No costs approved for recovery through the Storm Damage Rider Tariff in
8 Docket 12-00051 were allocated to transmission customers.

9 **Q. WHAT IS THE EFFECT OF MR. NOVAK'S RECOMMENDATION TO**
10 **ADOPT A UNIFORM RATE SURCHARGE?**

11 A. As can be directly computed from Mr. Novak's Attachment WHN-6, transmission
12 customers would pay for nearly \$824,000 (815,491,816 x 0.00101), or over 40%
13 of the storm costs which were incurred solely on behalf of the Company's
14 distribution customers.

15 **Q. DO YOU CONSIDER MR. NOVAK'S PROPOSAL EQUITABLE FOR**
16 **ALL CUSTOMERS?**

17 A. Absolutely not. It would not be equitable for transmission customers to be
18 charged for costs incurred solely for the benefit of distribution customers.

19 **Q. WHAT IS YOUR RECOMMENDATION?**

20 A. I recommend that the Company's proposal be adopted.

21 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 A. Yes.

⁴ Principles of Public Utility Rates, James C. Bonbright, 1961, page 67.