

**DIRECT TESTIMONY  
OF  
ISAAC J. WEBB  
ON BEHALF OF KINGSPORT POWER COMPANY D/B/A  
AEP APPALACHIAN POWER  
BEFORE THE  
TENNESSEE REGULATORY AUTHORITY  
DOCKET NO. 15-\_\_\_\_\_**

1   **I.    INTRODUCTION**

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

3   A.    My name is Isaac J. Webb. My business address is 420 Riverport Road, Kingsport,  
4        Tennessee 37660. My title is Manager - Distribution System for Kingsport Power  
5        Company (Kingsport, KgPCo or Company) which is registered to do business in the State  
6        of Tennessee as AEP Appalachian Power. KgPCo purchases all of its electric power  
7        requirements from Appalachian Power Company (APCo) at wholesale rates that are  
8        subject to the jurisdiction of the Federal Energy Regulatory Commission.

9   **Q.    PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
10   **PROFESSIONAL EXPERIENCE.**

11   A.    I earned a Bachelor of Science degree in Electrical Engineering from Virginia  
12        Polytechnic Institute and State University and I am a registered Professional Engineer in  
13        the Commonwealth of Virginia. I have been employed in the electrical power industry  
14        for 38 years, where the last 35 years have been with AEP in increasing roles of  
15        responsibility throughout the distribution organization in Roanoke, VA; Gate City, VA;  
16        Bluefield, WV; Logan WV; and for the last 19 years, Kingsport, TN.

1 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.**

2 A. I manage the Kingsport District, which constructs, maintains, and operates distribution  
3 facilities serving approximately 47,000 customers in Tennessee.

4 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY AS A WITNESS**  
5 **BEFORE ANY REGULATORY COMMISSION?**

6 A. Yes. I previously presented testimony on behalf of KgPCo in Tennessee Regulatory  
7 Authority (TRA) Docket Nos. 10-00144 and 15-00024.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. I will provide an overview of Kingsport's filing, including its request for an increase in  
10 its base rates to recover increases in both capital investments and expenses. I will discuss  
11 the upcoming request for a single, consolidated Variable Cost Rider (VCR or Rider) that  
12 will seek to defer and recover differences between certain actual costs, and the levels  
13 reflected in base rates, including those costs from the Tennessee Reliability Strategy  
14 (TRS) and Demand-Side Management (DSM) initiatives the Company proposes to  
15 implement for the benefit of Tennessee customers. I also identify the other witnesses  
16 presenting testimony on behalf of the Company in support of this application and provide  
17 a synopsis of each testimony.

18  
19 **II. KINGSPORT OVERVIEW**

20 **Q. PLEASE DESCRIBE KINGSPORT'S SERVICE TERRITORY.**

21 A. Kingsport serves approximately 47,000 customers in Northeast Tennessee, in a service  
22 territory that includes the City of Kingsport and the surrounding area. The Company has  
23 been providing electric service since 1926 and is the largest investor-owned electric

1 utility in the state. Kingsport and its affiliates have approximately 70 full-time  
2 employees in Tennessee. KgPCo is operated by APCo, which is headquartered in  
3 Charleston, West Virginia. APCo and KgPCo are subsidiaries of American Electric  
4 Power Company, Inc., (AEP), headquartered in Columbus, Ohio.

5 **Q. WHAT IS THE COMPANY SEEKING IN THIS PROCEEDING?**

6 A. Kingsport is requesting an increase to its base rates to reflect updated levels of capital  
7 investment and expenses, increased spending for vegetation management to improve  
8 customer reliability, and the recovery of costs for current and proposed DSM programs.  
9 The Company proposes setting base rates on a 2014 test year, with adjustments for a  
10 2016 rate year. In a future filing, the Company will also request the approval to utilize  
11 deferral accounting for specific costs and their subsequent recovery through a single  
12 consolidated “rider” that trues up “variable” costs relative to the level in base rates and  
13 which adjusts annually. The Company will seek the approval of a method to recover  
14 emerging costs, as discussed by Company witness Castle.

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16 **III. FINANCIAL ASPECTS OF THE COMPANY’S REQUEST**

17 **Q. WHY IS THE COMPANY REQUESTING AN INCREASE TO ITS BASE**  
18 **RATES?**

19 A. The Company’s filing proposes an increase in base rates to allow it to enhance  
20 distribution reliability, address the expansion of DSM, and implement other planned  
21 initiatives that will increase customer satisfaction. This increase will allow the Company  
22 to earn a fair and reasonable rate of return on its investment and recover reasonable  
23 going-level costs.

1 **Q. WHAT WILL BE THE RATE IMPACT TO KINGSPORT CUSTOMERS?**

2 A. The Company is seeking an increase in revenues of approximately \$12.1 million, or  
3 7.76%. Each customer class has been allocated a share of the increase. The Company is  
4 proposing a 6-year transition period to equalize the rates of return among the classes as  
5 more fully described in the testimonies of Company witnesses Buck and Castle. This  
6 approach is designed to ease the hardship of those classes receiving the largest increases  
7 and better align rates with the Company's cost-of-service.

8 **Q. WHAT ROE DOES THE COMPANY REQUEST WITH THIS APPLICATION?**

9 A. Company witness Daves has determined the appropriate return on equity (ROE) for  
10 Kingsport. He explains the need for Kingsport's authorized ROE to reflect a level that is  
11 competitive with other investments of comparable risk in order to maintain access to  
12 capital on reasonable terms. As Dr. Daves shows, an ROE of 10.66% is fair. Most  
13 importantly, the proposed ROE will help the Company maintain its financial health.

14 **Q. WILL KINGSPORT BE MAKING ANY OTHER FILINGS ASSOCIATED WITH**  
15 **THIS PROCEEDING?**

16 A. Yes. As more fully described by Company witness Castle, Kingsport plans to file with  
17 this Authority approximately 120 days prior to the anticipated completion date of this  
18 filing, a Petition for a Variable Cost Rider (VCR) within the definition of an alternative  
19 regulatory method as reflected in T.C.A. § 65-5-103(d). In conjunction with the  
20 establishment of the new VCR, KgPCo will propose to eliminate its current Fuel  
21 Adjustment Clause (FAC) and Purchased Power Adjustment Rider (PPAR). In  
22 anticipation of this filing, fuel, purchased power, and transmission costs have been  
23 included in base rates. As a result, the initial level of cost to be recovered through the

1 VCR will be set to zero dollars, and it will be designed, annually thereafter, to either  
2 collect from, or credit to, customers the incremental cost of specific items above or below  
3 what is actually recovered through base rates.

4 **Q. WHAT COSTS ARE EXPECTED TO BE RECOVERED IN THE VCR?**

5 A. The Company will propose in the VCR petition to defer and recover incremental costs  
6 associated with fuel, purchased power, transmission, DSM, distribution reliability, and  
7 major storm recovery, as well as emerging costs such as cyber and physical security.

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9 **IV. PROPOSED PROGRAMS AND INITIATIVES**

10 **Q. PLEASE DESCRIBE THE PROPOSED ENHANCED DISTRIBUTION**  
11 **RELIABILITY PROGRAM.**

12 A. As Company witness Wright explains in his direct testimony, the Company has identified  
13 opportunities to enhance distribution reliability within its service territory. The Company  
14 has developed a TRS that consists of four primary programs addressing vegetation  
15 management and equipment failures over a ten-year period. These programs will include  
16 cycle-based vegetation management, distribution circuit inspections and maintenance,  
17 circuit improvements, and station improvements. Ongoing O&M expense needed for the  
18 TRS is included in the base rate request in this proceeding. The Company will propose  
19 that incremental O&M expense of, and any incremental return on and of capital  
20 investments for, the programs that are not recovered in base rates, be recovered in the  
21 VCR as discussed by Company witness Castle.

1 **Q. PLEASE DESCRIBE THE DSM PROGRAM PROPOSED IN THIS**  
2 **APPLICATION.**

3 A. The Company requests the Authority's approval of two DSM programs, described in the  
4 testimony of Company witness Castle, which are designed to help our customers control  
5 their energy consumption and provide an opportunity to lower their bill. These DSM  
6 programs, the Residential Direct Load Control Program and the Residential Low Income  
7 Program, target our residential customers and are designed to reduce energy and demand  
8 requirements.

9  
10 **V. WITNESSES**

11 **Q. PLEASE IDENTIFY THE OTHER WITNESSES PRESENTED BY THE**  
12 **COMPANY IN SUPPORT OF THIS APPLICATION.**

13 A. The Company is presenting the testimony of 9 other witnesses:

- 14 • William K. Castle, Director of Regulatory Services, VA/TN, describes the  
15 background and rationale supporting the Company's filing including how the  
16 Company is addressing changes to rates within each rate class, the conditions for the  
17 VCR, and the proposed expansion to the DSM program. Mr. Castle also sponsors the  
18 DSM economic analysis.
- 19 • Philip A. Wright, Vice President of Distribution Operations, supports Distribution &  
20 Reliability costs. Mr. Wright also describes the Company's enhanced distribution  
21 reliability programs and associated costs.
- 22 • A. Wayne Allen, Manager of Regulatory Accounting Services, sponsors the per  
23 books financial statements and certain accounting and ratemaking adjustments. Mr.  
24 Allen also discusses the regulatory accounting to be used to account for recovery of  
25 costs subject to true-up in the VCR.
- 26 • Jason A. Cash, Staff Accountant Accounting Policy and Research (AP&R), supports  
27 the revised depreciation accrual rates for KgPCo's electric plant in service based on a  
28 depreciation study for electric utility plant in service at December 31, 2014.

1 • Dr. Phillip R. Daves, Associate Professor of Finance at The University of Tennessee  
2 in Knoxville, supports the rate of return on common equity of the Company.

3 • Patrick M. Bourke, Corporate Finance Analyst, sponsors Kingsport's proposed capital  
4 structure, cost of debt and overall rate of return.

5 • Douglas R. Buck, Staff Regulatory Consultant, Regulated Pricing and Analysis,  
6 supports the Jurisdictional Cost-of-Service Study, the Class Cost-of-Service Study,  
7 certain revenue and expense adjustments, and presents the revenue increase  
8 calculation among classes and the rate realignment annual adjustments.

9 • Teresa A. Caudill, Staff Regulatory Consultant Regulated Pricing and Analysis,  
10 sponsors modifications to the Company's tariffs and the rate design supporting the  
11 charges included in those tariffs.

12 • Garry H. Simmons, Staff Regulatory Consultant, addresses proposed changes in the  
13 Terms and Conditions of the Company's Standard Service in the Company's tariff.

14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 **A. Yes.**