

**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. 16-_____**

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 costs from the Tennessee Reliability Strategy (TRS) and Demand-Side Management
12 (DSM) initiatives the Company proposes to implement for the benefit of Tennessee
13 customers. I also identify the other witnesses presenting testimony on behalf of the
14 Company in support of this application and provide a synopsis of each testimony.

15
16 **II. KINGSPORT OVERVIEW**

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

18 A. Kingsport serves approximately 47,000 customers in Northeast Tennessee, in a service
19 territory that includes the City of Kingsport and the surrounding area. The Company has
20 been providing electric service since 1926 and is the largest investor-owned electric
21 utility in the state. Kingsport and its affiliates have approximately 70 full-time
22 employees in Tennessee. KgPCo is operated by APCo, which is headquartered in

1 Charleston, West Virginia. APCo and KgPCo are subsidiaries of American Electric
2 Power Company, Inc., (AEP), headquartered in Columbus, Ohio.

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

4 A. Kingsport is requesting an increase to its base rates to reflect updated levels of capital
5 investment and expenses, increased spending for vegetation management to improve
6 customer reliability, and the recovery of costs for current and proposed DSM programs.
7 The Company proposes setting base rates on a 2014 test year, with adjustments for a
8 2016 rate year.

9
10 **III. FINANCIAL ASPECTS OF THE COMPANY'S REQUEST**

11 **Q. WHY IS THE COMPANY REQUESTING AN INCREASE TO ITS BASE**
12 **RATES?**

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

18 **Q. WHAT WILL BE THE RATE IMPACT TO KINGSFORT CUSTOMERS?**

19 A. The Company is seeking an increase in revenues of approximately \$12.1 million, or
20 7.76%. Each customer class has been allocated a share of the increase. The Company is
21 proposing a 6-year transition period to equalize the rates of return among the classes as
22 more fully described in the testimonies of Company witnesses Buck and Castle. This

1 approach is designed to ease the hardship of those classes receiving the largest increases
2 and better align rates with the Company's cost-of-service.

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

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

10
11 **IV. PROPOSED PROGRAMS AND INITIATIVES**

12 **Q. PLEASE DESCRIBE THE PROPOSED ENHANCED DISTRIBUTION**
13 **RELIABILITY PROGRAM.**

14 A. As Company witness Wright explains in his direct testimony, the Company has identified
15 opportunities to enhance distribution reliability within its service territory. The Company
16 has developed a TRS that consists of four primary programs addressing vegetation
17 management and equipment failures over a ten-year period. These programs will include
18 cycle-based vegetation management, distribution circuit inspections and maintenance,
19 circuit improvements, and station improvements. Ongoing O&M expense needed for the
20 TRS is included in the base rate request in this proceeding.

21 **Q. PLEASE DESCRIBE THE DSM PROGRAM PROPOSED IN THIS**
22 **APPLICATION.**

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

7
8 **V. WITNESSES**

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

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

- 12 • William K. Castle, Director of Regulatory Services, VA/TN, describes the
13 background and rationale supporting the Company's filing including how the
14 Company is addressing changes to rates within each rate class and the proposed
15 expansion to the DSM program. Mr. Castle also sponsors the DSM economic
16 analysis.
- 17 • Philip A. Wright, Vice President of Distribution Operations, supports Distribution &
18 Reliability costs. Mr. Wright also describes the Company's enhanced distribution
19 reliability programs and associated costs.
- 20 • A. Wayne Allen, Manager of Regulatory Accounting Services, sponsors the per
21 books financial statements and certain accounting and ratemaking adjustments.
- 22 • Jason A. Cash, Staff Accountant Accounting Policy and Research (AP&R), supports
23 the revised depreciation accrual rates for KgPCo's electric plant in service based on a
24 depreciation study for electric utility plant in service at December 31, 2014.
- 25 • Dr. Phillip R. Daves, Associate Professor of Finance at The University of Tennessee
26 in Knoxville, supports the rate of return on common equity of the Company.
- 27 • Patrick M. Bourke, Corporate Finance Analyst, sponsors Kingsport's proposed capital
28 structure, cost of debt and overall rate of return.

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

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

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

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.