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KPOW.92585

May 27, 2016

**VIA EMAIL & OVERNIGHT DELIVERY:**

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

Re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power General Rate Case  
TRA Docket No.: 16-00001

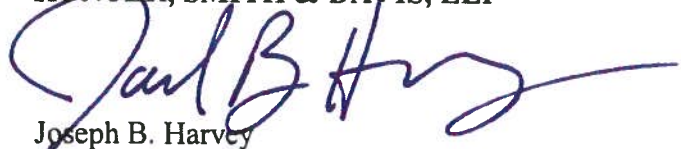
Dear Chairman Hilliard:

We transmit herewith Kingsport Power Company's Responses to Staff's Data Request No. 1 for filing in the captioned docket. The original and four (4) copies are being sent via UPS for overnight delivery.

Please contact the writer with any questions.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**



Joseph B. Harvey

Sharla Dillon, Docket Manager

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Enclosures

c: Monica L. Smith-Ashford, Esq.  
David Foster  
Charles Welch, Jr., Esq.  
Henry Walker, Esq.  
Thad B. Culley, Esq.  
Michael J. Quinan, Esq.  
Wayne Irvin, Esq.  
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William C. Bovender, Esq.

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**Data Request Staff 1-001:**

Complete the attached pro-forma schedules for the attrition period ending December 31, 2016 using the Company's proposed revenue deficiency. For each amount in the schedules provide a workpaper or cite to Kingsport's existing workpapers supporting the amounts. Additionally, please leave the formulas intact.

**Response Staff 1-001:**

See TRA Staff 1-001 Attachment 1 Proforma Schedules on the attached CD. KgPCo Exhibits Nos. 1 - 5 (DRB) provided data to complete the attached schedules. Shaded areas indicate where categories or formulas were changed after discussion with the Staff.

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**Data Request Staff 1-002:**

Provide a rate design spreading the proposed revenue increase equally across the board to each customer class, i.e., an equal percentage increase to each class.

**Response Staff 1-002:**

See TRA Staff 1-002 Attachment 1 - KgPCo COS - DRB Exhib 1-5 - Equal Rev Incr.xlsm on the attached CD for the COS calculations that spread the proposed revenue increase equally across each customer class. See TRA Staff 1-002 Attachment 2 Rate Design and TRA Staff 1-002 Attachment 3 Total Proposed Revenues on the attached CD for individual class results.

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**Data Request Staff 1-003:**

Identify separately the individual amounts of the PPAR and Fuel Clause Adjustments that Kingsport proposes to include in base rates.

**Response Staff 1-003:**

The PPAR included base rates equals \$ 140,809,723, which can be found in Exhibit No. 1-b (DRB). This amount is included in revenue with an offsetting expense. The components of this amount are as follows:

Purchased Power - Generation	\$ 65,604,900
Purchased Power - Transmission	\$ 14,561,875
Purchased Power - Fuel	\$ 60,642,949

The Purchased Power -Fuel amount shown above includes a Fuel Clause amount of \$27,490,631. This amount equals \$27,745,545 as shown on Exhibit No. 2-a, less \$ 254,914 allocated to Street Lighting. The Street light allocated amount is calculated based on the RSALE allocator in the CCOS study which is the allocator applied to fuel clause dollars.

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**Data Request Staff 1-004:**

Complete the attached pro-forma schedules for the attrition period ending December 31, 2016, excluding all amounts related to the PPAR and Fuel Clause Adjustments. For each amount in the schedules provide a workpaper or cite to Kingsport's existing workpapers supporting the amounts. Please leave the formulas intact. Provide a rate design spreading the proposed revenue increase equally across the board exclusive of the PPAR and Fuel Clause Adjustments to each customer class, i.e., an equal percentage increase to each class.

**Response Staff 1-004:**

See TRA Staff 1-004 Attachment 1 Proforma Schedules on the attached CD. See TRA Staff 1-004 Attachment 2 - KgPCo COS - DRB Exhib 1-5 - Equal Rev Incr - Remove PPAR Fuel Rev and Exp.xlsm on the attached CD for the COS calculations that spread the proposed revenue increase equally across each customer class exclusive of PPAR and fuel revenues and expenses. See TRA Staff 1-004 Attachment 3 Rate Design and TRA Staff 1-004 Attachment 4 Total Proposed Revenues on the attached CD for individual class results.

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**Data Request Staff 1-005:**

In Allen Exhibit No. 2, the Company lists Account No. 1823078 as a Deferred Storm Expense Regulatory Asset amounting to \$2,039,409.36 (related to under-recovered 2009 storm costs and deferred 2013 storm costs). Is this deferred asset included in this rate case? If yes, please list the accounts and the amount included in this rate case.

**Response Staff 1-005:**

No, the deferred 2013 storm costs and under-recovered 2009 storm costs recorded on KgPCo's books are not included in this base rate case. Refer to the testimony of Company witness Wright for a discussion of Adjustment OM-12 that excludes the major storm costs incurred in 2013 from the requested four-year average of major storm expense.

The Company will request recovery of the deferred 2013 storm costs and under-recovered 2009 storm costs in a future filing.

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**Data Request Staff 1-006:**

On page seven of William K. Castle's Direct Testimony he states that the Residential Direct Load Control Program will be available to customers with air conditioners and electric heat pumps that use separately installed control devices, and the testimony states that those participants will be subject to the provisions in the Optional Rider R.P.R.P. tariff (Residential Peak Reduction Program). The Optional Rider R.P.R.P. tariff, however, does not mention that the tariff applies to customers with electric heat pumps, that the company will install equipment to control the electric heat pumps, or that the company will manage load for the electric heat pumps. Further, there is not a credit available for customers with electric heat pumps. Please provide the following:

- a. State and clarify whether the tariff applies to electric heat pump customers;
- b. State and clarify whether the Company will install load controlling devices;
- c. State and clarify whether the Company intends to control load for heat pumps; and
- d. Provide the incentive available to electric heat pump customers that participate in the Residential Direct Load Control Program.

**Response Staff 1-006:**

- a. "Central electric cooling units" may be either (electric) central air conditioning units or central electric heat pumps. In cooling mode, the operation of a central heat pump system is identical to that of a central air conditioning system. The Optional Rider R.P.R.P. applies to customers having a central electric cooling system, whether a central air conditioner or a heat pump.
- b. Yes. If the customer elects to participate in the program, the Company or its authorized agents will install load controlling devices for customers having a central heat pump system.
- c. The Company intends to control central electric cooling units, whether heat pumps or central air conditioners, during the summer season as defined in Optional Rider R.P.R.P.
- d. Under Optional Rider R.P.R.P., the incentive for customers having a central heat pump system is identical to the incentive for customers with central air conditioning systems.



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**Data Request Staff 1-007:**

In response to CAPD Data Request 1 Question No. 86, the Company provided membership dues, but failed to provide the purpose for the dues. Please provide the purpose, including an explanation, for the membership dues.

**Response Staff 1-007:**

Per discussion with the Tennessee Staff, the Company is not obligated to provide information for this request.

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**Data Request Staff 1-008:**

Reference Staff Informal 1-24 KgPCo-COS Reve Alloc-2015-DRB Exhibit 1-5 Final.xlsm:  
Provide calculations and source documents for amounts on Workpaper 2-c Adj WP, Column AP,  
Lines 60-91 (totaling \$9,749,409).

**Response Staff 1-008:**

For the referenced Adjustment EP-38, see the Company's responses to Staff Informal 1-24 AWA  
Attachment 16 and CPAD 1-034 for workpapers supporting the amounts included in Adjustment  
EP-38 that total \$9,749,409.

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**Data Request Staff 1-009:**

Reference Staff Informal 1-24 KgPCo-COS Reve Alloc-2015-DRB Exhibit 1-5 Final.xlsm:  
Provide calculations and source documents for amounts on Workpaper 2-c Adj WP, Columns  
AQ-AS, Lines 126-134 (totaling \$4,293,167).

**Response Staff 1-009:**

For the referenced Adjustments AD-39, AD-40 and AD-41, see the Company's responses to Staff Informal 1-24 AWA Attachment 13 (for AD-39), Staff Informal 1-24 AWA Attachment 14 (for AD-40) and Staff Informal 1-24 AWA Attachment 17 (for AD-41) for workpapers supporting the amounts included in Adjustments AD-39, AD-40 and AD-41 that total \$20,516, \$7,988,600 and (\$3,715,949), respectively. See also the response to Staff Informal 1-24 AWA DE-30 & AD-40 Plant Balances Dec 2004-2014 for additional workpapers supporting these adjustments.

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**Data Request Staff 1-010:**

Reference Staff Informal 1-24 KgPCo-COS Reve Alloc-2015-DRB Exhibit 1-5 Final.xlsm:  
Provide source and calculations for amounts in Workpaper 2-a JCOS, Column D, lines 68-107  
(totaling \$168,219,638). Provide support and the calculations demonstrating this is a 13 month  
average.

**Response Staff 1-010:**

The Company used end of test year (i.e. December 31, 2014) balances for its Total Company per  
books rate base, and did not calculate a 13-month average. The referenced \$168,219,638 is total  
Electric Utility Plant exclusive of capital leases found on the the Company's Balance Sheet as of  
December 31, 2014. The Balance Sheet is provided in KgPCo Exhibit No. 2 (AWA).  
Additional detail for these accounts can be found in Staff Informal 1-24 DRB - Workpaper 5 -  
JCOS - EPIS 1010001 & 1060001.xls and Staff Informal 1-24 DRB - Workpaper 7 - JCOS -  
KgPCo CWIP by Function.xls.

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**Data Request Staff 1-011:**

Reference Staff Informal 1-24 KgPCo-COS Reve Alloc-2015-DRB Exhibit 1-5 Final.xlsm:  
Provide source and calculations for amounts in Workpaper 2-a JCOS, Column D, lines 116-136  
(totaling \$-63,736,410). Provide support and the calculations demonstrating this is a 13 month  
average.

**Response Staff 1-011:**

The Company used end of test year (i.e. December 31, 2014) balances for its Total Company per  
books rate base, and did not calculate a 13-month average. The referenced \$-63,736,410 is total  
Accumulated Depreciation and Amortization exclusive of Provision-Leased Assets found on the  
Balance Sheet as of December 31, 2014. The Balance Sheet is provided in KgPCo Exhibit No. 2  
(AWA). Additional detail for these accounts can be found in Staff Informal 1-24 DRB -  
Workpaper 6 - JCOS - KgPCo Depr & Amort.xls.

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**Data Request Staff 1-012:**

Reference Staff Informal 1-24 KgPCo-COS Reve Alloc-2015-DRB Exhibit 1-5 Final.xlsm:  
Provide source and calculations for amounts in Workpaper 2-a JCOS, Column D, lines 143-148  
(totaling \$7,758,058). Provide support and the calculations demonstrating this is a 13 month  
average.

**Response Staff 1-012:**

The Company used end of test year (i.e. December 31, 2014) balances for its Total Company per  
books rate base, and did not calculate a 13-month average. The referenced \$7,758,058 is  
Working Capital Requirements consisting of Materials and Supplies and Prepayments exclusive  
of FAS 158 contra accounts found on the Balance Sheet as of December 31, 2014. The Balance  
Sheet is provided in KgPCo Exhibit No. 2 (AWA). Additional detail for these accounts can be  
found in Staff Informal 1-24 DRB - Workpaper 10 - JCOS - KgPCo Various Workpapers.xls.

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**Data Request Staff 1-013:**

Reference Staff Informal 1-24 KgPCo-COS Reve Alloc-2015-DRB Exhibit 1-5 Final.xlsm:  
Provide source and calculations for amounts in Workpaper 2-a JCOS, Column D, lines 153-157  
(totaling \$-26,574,342). Provide support and the calculations demonstrating this is a 13 month  
average.

**Response Staff 1-013:**

The Company used end of test year (i.e. December 31, 2014) balances for its Total Company per  
books rate base, and did not calculate a 13-month average. The referenced \$-26,574,342 is other  
rate base offsets primarily related to accumulated deferred taxes and includes Accounts 2530124,  
2350001, 2550001, 282.1, 283.1 and 190.1 found on the Balance Sheet as of December 31, 2014.  
The Balance Sheet is provided in KgPCo Exhibit No. 2 (AWA).

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**Data Request Staff 1-014:**

Reference Staff Informal 1-24 KgPCo-COS Reve Alloc-2015-DRB Exhibit 1-5 Final.xlsm:  
Provide source and calculations for amounts in Workpaper 2-a JCOS, Column D, line 122  
(totaling \$-1,194,253). Provide support and the calculations demonstrating this is a 13 month  
average.

**Response Staff 1-014:**

The Company used end of test year (i.e. December 31, 2014) balances for its Total Company per  
books rate base, and did not calculate a 13-month average. The referenced amount in the  
question should have been \$-11,194,253 instead of \$-1,194,253 and this amount relates to  
transmission plant accumulated depreciation that was part of the Company's response to TRA  
Staff 1-011.



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**Data Request Staff 1-015:**

Reference Staff Informal 1-24 KgPCo-COS Reve Alloc-2015-DRB Exhibit 1-5 Final.xlsm:  
Provide source and calculations for amounts in Workpaper 2-a JCOS, Column D, line 129  
(totaling \$-1,244,614 and -1,244,614). Provide support and the calculations demonstrating this is  
a 13 month average.

**Response Staff 1-015:**

The Company used end of test year (i.e. December 31, 2014) balances for its Total Company per  
books rate base, and did not calculate a 13-month average. The referenced \$-1,244,614 relates to  
general plant accumulated depreciation and was part of the Company's response to TRA Staff 1-  
011.

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**Data Request Staff 1-016:**

Reference Staff Informal 1-24 KgPCo-COS Reve Alloc-2015-DRB Exhibit 1-5 Final.xlsm:  
Provide source and calculations for amounts in Workpaper 2-a JCOS, Column D, lines 143-147  
(totaling \$7,758,058). Provide support and the calculations demonstrating this is a 13 month  
average.

**Response Staff 1-016:**

Same question as TRA Staff 1-012. See the Company's response to TRA Staff 1-012.

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**Data Request Staff 1-017:**

Provide the basis, rationale, the underlying assumptions and the detailed calculations for allocation factors on KgPCo Exhibit No. 2-b (DRB), page 1 of 1.

**Response Staff 1-017:**

The allocation factors on KgPCo Exhibit No. 2-b (DRB) apply to the Company's jurisdictional cost-of-service (JCOS) study, KgPCo Exhibit No. 2-a (DRB). The purpose of the JCOS study is to determine the Company's cost of providing service to the KgPCo retail regulatory jurisdiction. The Demand, Energy, and Number of Customers Allocation Factors are 100% related to the KgPCo retail jurisdiction and are reflected as such in the KgPCo Jurisdictional Cost of Service Study KgPCo Exhibit No. 2-b (DRB), page 1 of 1. Therefore, allocation of all Jurisdictional Cost of Service items that are allocated based upon these allocation factors were 100% allocated to the retail jurisdiction.

Production Plant, Total Transmission Plant, Distribution Plant, General Plant, CWIP, Total Gross Plant, and Total Net Plant Allocation Factors were derived internally in the Jurisdictional Cost of Service. For example, as reflected on page 2, line 5 of KgPCo Exhibit No 2-a (DRB), there is no Production Plant in the Rate Base. Therefore the allocation to the KgPCo retail jurisdiction is zero. On page 2, line 8 of KGPCo Exhibit No. 2-a (DRB) all Transmission Plant is allocated to the PJM Transmission Owner. Therefore, the allocation to the KgPCo retail jurisdiction is zero. The Distribution Plant Allocation Factor is based upon total Distribution Plant shown on page 2, line 23, which is 100% related to the retail jurisdiction. Similarly, the General Plant, CWIP, Total Gross Plant, and Total Net Plant Allocation Factors are based upon the percentage of total of each of these Rate Base items that is applicable to the retail jurisdiction. The Payroll Labor Factor Allocation Factor is based upon data from the 2014 FERC Form 1, page 354. The allocation factor calculation is reflected on page 10 of the KgPCo Jurisdictional Cost of Service Study, KgPCo Exhibit No. 2-a (DRB).

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**Data Request Staff 1-018:**

Provide workpapers reconciling the Company response to CAPD 1-6, pages 5 through 8, to KgPCo Exhibit No. 1-b (DRB) lines 30 through 34.

**Response Staff 1-018:**

The Company assumes TRA Staff is referring to CPAD 1-6 Attachment 1.pdf. Pages 5 - 8 of this attachment provide data on Electric Plant in Service (Distribution, Transmission, General, and Intangible accounts). The "Balance at End of Year" for these accounts in this Attachment tie to these plant values in Staff Informal 1-24 KgPCo-COS Reve Alloc-2015-DRB Exhibit 1-5 Final.xlsm: Workpaper 2-a JCOS, Column D. Column D in this Workpaper is prior to adjustments and assignments. The values in KgPCo Exhibit No. 1-b (DRB), Column D are after adjustments and assignments (shown on Workpaper 2-a JCOS, Column I). The data in pages of 5 - 8 of the referenced attachment is included in line 30 of KgPCo Exhibit No. 1-b (DRB).

<b>Total Electric Plant in Service:</b>	
Total Company Per Books Before Assignment	
KgPCo Exhibit No 2-a (DRB) Page 2 of 10, line 28 column (2)	164,962,545
Agrees with CPAD 1-6 Page 8 of 28, Line 104, column (g)	
PJM Transmission Owner	
KgPCo Exhibit No 2-a (DRB) Page 2 of 10, line 28 column (4)	29,864,333
Total for Rate Making Before Adjustments	
KgPCo Exhibit No 2-a (DRB) Page 2 of 10, line 28 column (5)	135,098,212
Total Fixed, Known & Measurable Adjustments	
KgPCo Exhibit No 2-a (DRB) Page 2 of 10, line 28 column (6)	9,749,409
Total Company after Adjustments & Assignment	
KgPCo Exhibit No 2-a (DRB) Page 2 of 10, line 28 column (7)	144,847,621
<b>Plant Held for Future Use</b>	
KgPCo Exhibit No 2-a (DRB) Page 2 of 10, line 34 column (7)	34,829
<b>Construction Work in Progress</b>	
KgPCo Exhibit No 2-a (DRB) Page 2 of 10, line 41 column (7)	2,208,640
<b>Total Electric Utility Plant</b>	
KgPCo Exhibit No 2-a (DRB) Page 2 of 10, line 43 column (7)	147,091,090
Agrees with KgPCo Exhibit No. 1-b (DRB) line 30, column 2	

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**Data Request Staff 1-019:**

Provide workpapers reconciling the Company response to CAPD 1-32, Attachment 1, page 2 of 7, Beginning and Ending Balances, to CAPD 1-6, pages 5 through 8.

**Response Staff 1-019:**

The Company's response to CPAD 1-32, Attachment 1, page 2 of 7 presents 2014 Accumulated Depreciation. The Company's response to CPAD 1-6, page 5 through 8 presents 2014 Electric Plant in Service. For example, KgPCo has a beginning balance of \$124,786,846 of Distribution Plant (Company's response to CPAD 1-6, page 7, line 75, column (b)) with an associated beginning balance Accumulated Depreciation of \$47,585,501 (Company's response to CPAD 1-32, Attachment 1, page 2, line 3). In total, KgPCo has a 2014 Total Electric Plant in Service ending balance of \$164,962,545 (Company's response to CPAD 1-6, page 8, line 104, column (g)) with an associated ending balance of Accumulated Depreciation of \$63,627,128 (Company's response to CPAD 1-32, Attachment 1, page 2).

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**Data Request Staff 1-020:**

Provide a copy of all cost of service studies prepared in accordance with paragraph 3 of the Street Lighting Agreement submitted as MC EXHIBIT 2 with the Response to Consumer Protection and Advocate Division's Motion to Compel on March 11, 2016.

**Response Staff 1-020:**

In accordance with the Company's record retention policy, Street Lighting cost of service studies for the twelve months ending December 31, 1995 and December 31, 1997 are no longer available. Street Lighting cost of service studies for the twelve months ending December 31, 1999, December 31, 2001, and December 31, 2003 are attached as TRA Staff 1-020 Attachments 1, 2, and 3. These cost of service studies were prepared on a mainframe computer and are not available in electronic form.

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**Data Request Staff 1-021:**

Provide all City of Kingsport Street Lighting Rate Design Schedules in effect since March 13, 1995.

**Response Staff 1-021:**

Please see TRA Staff 1-021 Attachment 1.

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**Data Request Staff 1-022:**

Provide the Tennessee Public Service Commission Order approving the cost of service methodology as referenced in paragraph 3 of the Street Lighting Agreement submitted as MC EXHIBIT 2 with the Response to Consumer Protection and Advocate Division's Motion to Compel on March 11, 2016.

**Response Staff 1-022:**

The Company is unable to find an Order of the Tennessee Public Service Commission approving the referenced cost of service methodology. See, however, the Company's response to TRA Staff 1-23.



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**Data Request Staff 1-023:**

Provide the Order of the Tennessee Public Service Commission Order approving the Street Lighting Agreement submitted as MC EXHIBIT 2 with the Response to Consumer Protection and Advocate Division's Motion to Compel on March 11, 2016. In the alternative, provide the Order of the Tennessee Public Service Commission finding the Street Lighting Agreement and rates contained therein as unregulated and/or non-jurisdictional.

**Response Staff 1-023:**

The Company is unable to find an order of the Tennessee Public Service Commission approving the 1995 Street Lighting Agreement provided as MC Exhibit 2. See TRA Staff 1-23, Attachment 1, for a copy of the Tennessee Public Service Commission's (TPSC) order in the Company's last base rate case, the Administrative Judge's initial order, and the settlement agreement approved. The TPSC's order finds that the Administrative Judge's initial order should be adopted and the settlement agreement approved. Per the settlement agreement approved by the TPSC's order, none of the agreed-upon increase in base rates was allocated to the Company's street lighting customers, with whom the Company had contracts that were predecessors to the 1995 street lighting agreement that was provided as MC Exhibit 2.

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**Data Request Staff 1-024:**

Provide a copy of all Pole Attachment Agreements with any party in effect since January 1, 2013 to the present including any Joint Use Agreements. Provide the number of poles billed under each agreement by month since January 1, 2013 through December 31, 2015.

**Response Staff 1-024:**

See TRA Staff 1-024 Confidential Attachments 1-10 for copies of the Pole Attachment Agreements. These documents are being provided pursuant to the protective order. See TRA Staff 1-024 Confidential Attachment 11 for the number of poles that are tracked and billed annually.

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**Data Request Staff 1-025:**

Are the charitable donations listed on MC Exhibit 5 in the Response to the Motion to Compel direct from Kingsport Power or allocated from AEP? If allocated, what is the basis of the allocations?

**Response Staff 1-025:**

A portion of the charitable donations listed on MC Exhibit 5 (TRA Staff Informal 1-48) are allocated from AEP Service Corporation (AEPSC). The Journal ID column values beginning with "SCBBIL" are allocated charges from AEPSC based on "Total AEPSC Bill Dollars Less Interest and/or Income Taxes and/or Other Indirect Costs" and account for \$2,372.17. The remaining \$7,448.79 of the donations are KgPCo direct costs.

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**Data Request Staff 1-026:**

Provide the NOAA reports for the Kingsport weather station showing the daily high temperature, daily low temperature, daily heating degree days, and daily cooling degree days that were relied upon by Kingsport when calculating and forecasting the service revenues used in this case.

**Response Staff 1-026:**

Per discussion with the Tennessee Staff, the Company is not obligated to provide information for this request.

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**Data Request Staff 1-027:**

See Kingsport's Response to CPAD 1-09 Attachment 1.xlsx filed on March 24, 2016. The Company has assumed that all ratepayers will pay within 15 days to receive the prompt discount payment. The prompt discount payment is then reduced from the Company's total booked revenue for each class. Please explain and provide support for the Company's rationale that 100% of its customers will receive a prompt discount payment. Provide historical evidence for each of the past five years by customer class indicating the percentage of customers that received the prompt payment discount. Also, identify the account that prompt discounts are booked, and include the year end balances for each of the past five years.

**Response Staff 1-027:**

The Company does not assume 100% of its customers receive a prompt payment discount. Included in Other Operating Revenue are Forfeited Discounts. This line item accounts for the additional revenue received from customers that do not take advantage of the prompt payment discount. In addition, the proposed increase is also adjusted (lowered) to account for additional revenue that will be received from customers not taking advantage of the prompt payment discount.

See TRA Staff 1-027 Attachment 1 - Forfeited Discounts on the attached CD. The Attachment provides the net discount by tariff code and by rate class, the percentage discount, and the General Ledger account numbers.

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**Data Request Staff 1-028:**

Provide the worksheet demonstrating how the thirteen month average was calculated for all rate base line items on KgPCo Exhibit 1-b (DRB). Provide documentation tying or reconciling all amounts on the worksheet to the trial balance provided in response to Staff Informal 1-22, Attachment 24. (Provide in Excel format)

**Response Staff 1-028:**

The Company's cost-of-service study rate base is based on year-end balances; therefore, thirteen-month averages were not calculated. The process used to reconcile the data found in the referenced attachment, which provides data as of December 31, 2014, to KgPCo Exhibit 1-b (DRB) is demonstrated in the Company's response to TRA Staff 1-018. Using this process, balance sheet items in the referenced attachment can be reconciled to KgPCo Exhibit 1-b (DRB). To make the process easier, the Company recommends using the KgPCo Balance Sheet, KgPCo Exhibit No. 2 (AWA), as references for the data used in Exhibit No. 2-a (DRB) of the cost-of-service study.

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**Data Request Staff 1-029:**

Provide the following information concerning adjustment OR-1 discussed on page eight of the Direct Testimony of Douglas R. Buck. Specifically, as discussed in the response to CPAD Discovery Request 1-009, provide all documentation describing the statistical model that generates regression parameters  $\beta_{CDD}$  and  $\beta_{HDD}$  for each customer class. In the response include the functional form of each regression equation including parameters estimates related to seasonal adjustment factors, binary variables or ARMA error structures, all regression diagnostics including goodness-of-fit measures, information on all alternative models considered for the generation of weather coefficients, information used to select the model used relative to other candidate models and all source code used to perform the statistical analysis. In a comma separated file, provide the data used to calculate parameters  $\beta_{CDD}$  and  $\beta_{HDD}$  for each customer class. It is not acceptable to submit any information requested in a format that requires the use of SAS software.

**Response Staff 1-029:**

See TRA Staff 1-029 Attachment 1 (also provided to CPAD as CPAD 2-043 Supplemental Attachment 1), which contains all of the measure of fit statistics produced by the SAS ARIMA Procedure for the models that produced the weather coefficients used by the Company in the computation of weather impacts for the test year 2014 sales data. In addition, see TRA STAFF 1-029 Attachment 2 Model Data.xls on the attached CD which contains the input data used in the models.

The documentation referenced above includes all information for the three class models used to develop the weather coefficients which were then used to compute the weather adjustment for OR-1. The residential model is a linear regression of monthly kWh sales-per-customer on cooling and heating degree days ("bcdd65" and "bhdd55" respectively) as well as the average number of days billed ("MET\_DAYS"). Both the dependent and independent variables are differenced by 12 periods. The resulting residual terms are then modeled using an ARMA approach with the use of a moving average term lagged 12 periods ("MA1,1"), as well as autoregressive terms for lags 1 and 3 ("AR1,1" and "AR1,2" respectively). The commercial model is a linear regression of kWh sales-per-customer on cooling and heating degree days ("bcdd65" and "bhdd55" respectively) as well as the average number of days billed ("MET\_DAYS") and four indicator variables ("Com1 – Com4"). Both the dependent and independent variables are differenced by 12 periods. Indicator variables Com1 – Com3 isolate data for the months April 2004, May 2004, and May 2007 as outliers. Indicator variable Com4 isolates data for the months of May 2011 and June 2011 as reversing accounting entries. The resulting residual terms are then modeled using a factored ARMA approach with the use of four autoregressive terms. Terms for lags 1 and 2 ("AR1,1" and "AR1,2" respectively) make up one factor and terms for lags 12 and 24 ("AR2,1" and "AR2,2") make up the second factor. Finally,

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**Response Staff 1-029: (continued)**

the other retail model is a linear regression of kWh sales-per-customer on cooling and heating degree days (“bcdd65” and “bhdd55” respectively) as well as the average number of days billed (“MET\_DAYS”) and an indicator variable (“OR1”). Both the dependent and independent variables are differenced by 12 periods. Indicator variable “OR1” isolates data for the month April 2004 as an outlier. The resulting residual terms are then modeled using a factored ARMA approach with the use of two moving average terms and two autoregressive terms. Moving average terms for lags 2 and 3 (“MA1,1” and “MA1,2” respectively) make up the single moving average factor. Autoregressive terms for lags 1 and 12 (“AR1,1” and “AR2,1”) make up separate factors.

In the course of documenting the Company’s models, it was discovered that parameters from less-than-optimal models were inadvertently selected for the purpose of computing weather impacts for the test year 2014. As a result, many of the statistics shown in TRA Staff 1-029 Attachment 1 do not meet the standards typically employed by the Company. The Company re-estimates these models on an annual basis in developing its annual sales forecast and weather normalization computations. The Company has provided, in the attached spreadsheet TRA Staff 1-029 Attachment 3 KNG Stats Comparison.xls, a comparison of corresponding model statistics over the last four annual forecasts for both the residential and commercial classes using very similar models to those specified above. The subsequent forecast models since the model labelled “Jun 2013” have produced fit statistics that meet the standards for optimal model specifications as set by the Company. The resulting weather-related parameter estimates for the variables “BCDD65” and “BHDD55” are shown. It can be seen that the coefficient estimates from the “Jun 2013” model are, in fact, within the range of the subsequent estimates. The Company has determined that, despite the use of weather coefficients from the less-than-optimal June 2013 models, the weather adjustments in OR-1 are reliable.



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**Data Request Staff 1-030:**

With respect to Exhibit No.5 of the Direct Testimony of Dr. Phillip Daves, provide a printout of the webpages at [bonds.yahoo.com](http://bonds.yahoo.com) to show the data used to calculate median BBB Corporate bond rates.

**Response Staff 1-030:**

See TRA Staff 1-030 Attachment 1.

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**Data Request Staff 1-031:**

With respect to Exhibit No. 10 of the Direct Testimony of Dr. Phillip Daves and the response to CPAD Discovery request 1-53, please show the calculation of the weighted average cost of debt  $r_D$ , debt ratio  $w_D$  and equity ratio  $w_E$  for Kingsport as stated in the re-levering assumptions. Provide a comparison of the values used in Exhibit No. 10 of the Direct Testimony of Dr. Phillip Daves for re-levering to values from the recommended capital structure and recommended debt costs found in the Direct Testimony of Patrick M. Bourke.

**Response Staff 1-031:**

**Explanation for calculation of average cost of debt,  $r_D$ .**

Book value of LT Debt = 20,000

Book value of advances = 22,039

Rate on Kingsport Notes = 4.52%

Rate on Kingsport short-term debt = 0.29%

$r_D = 4.52\% * 20000 / (20000 + 22039) + 0.29\% * 22039 / (22039 + 20000) = 2.30\%$

**Explanation for calculation of equity ratio**

The regulatory percent of equity in the capital structure is 47% as provided to me by Kingsport Power, which is the value I used. There is no calculation to be made.

Unlevered and levered costs of equity for Kingsport Power using Mr. Bourke's costs of debt and capital structure. These are the values that would appear in Panel B of Exhibit 10 if Mr. Bourke's values were used in the calculation.

Mr. Bourke's recommended cost of debt and capital structure

Long-Term Debt cost = 3.94%, weight = 54.78%

Short-Term Debt cost = 0.29%, weight = 2.79%

Common Equity cost = 10.66%, weight = 42.43%

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**Table 10. Unlevered and Levered Costs of Equity for the 8 companies, AEP, and Kingsport using Mr. Bourke's Recommended Cost of Debt and Capital Structure**

	Excluding AEP				
	<u>Mean</u>	<u>33%</u>	<u>Median</u>	<u>67%</u>	<u>AEP</u>
DCF $r_u$	6.31%	6.28%	6.85%	7.11%	6.20%
CAPM $r_u$	5.67%	5.57%	5.61%	5.73%	5.30%
Average of DCF and CAPM	5.99%	5.93%	6.23%	6.42%	5.75%
Kingsport $r_L$ based on:					
DCF $r_u$	9.78%	9.71%	11.03%	11.64%	9.51%
CAPM $r_u$	8.26%	8.03%	8.12%	8.41%	7.37%
Average of DCF and CAPM	<b>9.02%</b>	<b>8.87%</b>	<b>9.58%</b>	<b>10.03%</b>	<b>8.44%</b>

Mr. Bourke's Assumptions--used in the table above

Kingsport w-equity	42.43%
Kingsport w-debt	57.57%
Kingsport weighted $r_d$	3.76%
Market risk premium	5.750%