

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

November 9, 2017

IN RE:	)	
	)	
PETITION OF KINGSPORT POWER COMPANY	)	DOCKET NO.
D/B/A AEP APPALACHIAN POWER FOR	)	17-00032
APPROVAL OF ITS TARGETED RELIABILITY	)	
PLAN, AND ITS TRP & MS RIDER, AN	)	
ALTERNATIVE RATE MECHANISM AND	)	
MOTION FOR PROTECTIVE ORDER	)	

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ORDER GRANTING *PETITION*

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This matter came before Chairman David F. Jones, Vice-Chairman Robin L. Morrison and Commissioner Kenneth C. Hill of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on August 15, 2017, to hear and consider the *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for Approval of Its Targeted Reliability Plan and Its TRP & MS Rider, an Alternative Rate Mechanism* (“*Petition*”) filed on April 19, 2017 by Kingsport Power Company d/b/a AEP Appalachian Power (“KPC”, “Kingsport” or the “Company”).

**PROCEDURAL BACKGROUND**

KPC is a public utility, subject to TPUC jurisdiction, engaged in the business of distributing electric power service to approximately 48,000 customers in its service area, which includes portions of Sullivan, Washington and Hawkins Counties, Tennessee, the City of Kingsport, Tennessee, and the Town of Mount Carmel, Tennessee. On April 19, 2017, the

Company filed the *Petition* seeking approval of an alternative rate mechanism(s) (“ARM”) pursuant to Tenn. Code Ann. § 65-5-103(d).

The *Petition* requested approval of recovery of two ARMs that address the following Company initiatives: (1) the Target Reliability Plan (“TRP”) which consists of the Vegetation Management Program and the System Improvement Program and (2) the Major Storm (“MS”) recovery mechanism. The proposed mechanisms are intended to recover or refund costs associated with the TRP and recovery from major storm events. The *Petition* also requests the Company be allowed to account for over/under recovery of TRP and MS costs beginning the month after approval of the *Petition*.

On May 5, 2017, the East Tennessee Energy Consumers (“ETEC”), a group of large industrial customers served by the Company, filed a petition to intervene which was granted by the Hearing Officer.<sup>1</sup> On May 18, 2017, the Consumer Protection and Advocate Division of the Office of the Tennessee Attorney General and Reporter (“Consumer Advocate”) filed a petition to intervene which was also subsequently granted.<sup>2</sup> The parties engaged in discovery and the filing of pre-filed direct testimony pursuant to a procedural schedule. Prior to the hearing in this matter, on August 10, 2017, ETEC withdrew as an intervenor and stated it would no longer participate in the docket or introduce the testimony it previously filed.<sup>3</sup>

## **THE POSITION OF THE PARTIES**

### **THE *PETITION***

KPC seeks to recover costs for TRP and MS under Tenn. Code Ann. § 65-5-103(d)(2)(A)(ii) and (iii); and this filing and future true-up filings will use the same billing

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<sup>1</sup> *Order Granting Petition to Intervene Filed by East Tennessee Energy Consumers* (June 2, 2017).

<sup>2</sup> *Order Granting Petition to Intervene Filed by the Consumer Advocate* (June 2, 2017).

<sup>3</sup> *Notice of Withdrawal of East Tennessee Energy Consumers* (August 10, 2017), *Order Granting Notice to Withdraw* (August 11, 2017).

determinants and Rate of Return (“ROR”) that was approved in TPUC Docket No. 16-00001, the Company’s most recent rate case. The ARM will initially be set to zero, and annual filings will seek to recover or return any expenses in excess or below those included in base rates over a specified period of time. Pursuant to the agreement of the parties in Docket No. 16-00001, program costs will be allocated to customers’ rates in the same manner that costs were allocated in that docket. KPC reserves the right to propose changes to this allocation manner in the future.<sup>4</sup> Mr. William K. Castle, a KPC witness, states that base rates set by the Commission in the Company’s last rate case include \$903,372 in distribution reliability Operating and Maintenance (“O&M”) expenses and \$392,381 for major storm related O&M expenses. The proposed ARM component related to major storms is designed to recover or return any actual costs above or below these amounts to customers through the annual ARM filing.<sup>5</sup>

KPC uses the System Average Interruption Frequency Index (“SAIFI”) and the System Average Interruption Duration Index (“SAIDI”) to gauge system reliability. Using a twelve month rolling period provides the Company an index of how the system operates during normal operating conditions, absent major events. The lower the index, the better reliability. Based on these indices from 2010 through 2016, KPC states the Company’s customers have experienced an increase in the number of service interruptions and time without power. KPC asserts data for this same time period demonstrates that vegetation growth is the leading cause of power outages, with equipment failures being the second highest cause.<sup>6</sup>

According to Mr. Phillip A. Wright, a KPC witness, the Company’s service area consists of approximately 297 square miles with 1,570 circuit miles serving approximately 48,000 retail customers. In order to improve system reliability Kingsport proposes to implement the TRP

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<sup>4</sup> William K. Castle, Pre-filed Direct Testimony, pp. 4-6 (April 19, 2017).

<sup>5</sup> *Id.* at 4.

<sup>6</sup> Philip A. Wright, Pre-filed Direct Testimony, pp. 4-8 (April 19, 2017).

which consists of a Vegetation Management Program incorporating a proactive four-year cycle-based management program and a System Improvement Program consisting of circuit improvements, circuit inspections and maintenance and station improvements. Affiliates of Kingsport utilize a four-year cycle vegetation program which the Company claims reduces outages thus providing greater benefits to customers. The vegetation program will entail pruning and removal of trees, clearing brush and applying herbicides on each distribution circuit end-to-end. The transition to a cycle-based approach will require additional contract vegetation management resources as well as incumbent oversight employees.<sup>7</sup>

Mr. Castle explains that getting to a four-year vegetation management cycle will require an accelerated effort of rights-of-way clearing. Once this initial cycle is complete, the Company will have in place a vegetation management program that “systematically addresses each circuit, end-to-end every four years.”<sup>8</sup> The estimated costs of the Vegetation Management Program are based upon actual costs, vegetation management contractor rates, and the amount of vegetation management work to be performed. The estimate also includes an inflation factor for labor and equipment. The Company estimates the first year costs of implementing the Vegetation Management Program will be \$5.45 million, consisting of \$3.69 million in O&M expense and \$1.76 million of new capital expenditures. The total estimated expenditures of the Vegetation Management Program for ten years are estimated to be \$43 million, consisting of \$31 million in O&M expense and \$12 million of new capital expenditures.<sup>9</sup>

According to the Company, the System Improvement Program will allow for additional circuit inspections and maintenance including overhead facilities and underground structures. Wood poles will be reinforced and treated as necessary while others will be replaced with larger

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<sup>7</sup> *Id.* at 9-11.

<sup>8</sup> William K. Castle, Pre-filed Direct Testimony, p. 3 (April 19, 2017).

<sup>9</sup> Philip A. Wright, Pre-filed Direct Testimony, pp. 12-16 (April 19, 2017).

poles. The System Improvement Program will facilitate the rebuilding of selected stations with structural upgrades. The Company also plans on installing the Distribution Supervisory Control and Data Acquisition (“SCADA”) at all substations in the territory to allow operation of the systems in real time.<sup>10</sup>

KPC plans on implementing the TRP in stages throughout a ten-year period. Initially the Company will focus on vegetation management, circuit inspections and maintenance and sectionalizing activities under the circuit improvement program. The remaining circuit improvement and station improvement will begin in year five. SAIDI and SAIFI improvements will be made after year ten. Due to labor demand, needed specialized skills, customer needs and expectations, storms, reprioritization of projects and other factors KPC will need to respond and change its strategy accordingly.<sup>11</sup>

KPC projects improvement in the SAIDI and SAIFI indices similar to what was achieved in Virginia and West Virginia if the proposed TRP is approved and implemented in Tennessee.<sup>12</sup> Assuming major storm costs do not exceed the amount already in base rates, the Company projects a residential customer will pay an additional \$1.90 per month for the TRP after a twelve-month period. However, KPC maintains major storm expense is highly volatile and fluctuates yearly, and for the last eight years the expense has ranged from \$0 to \$1.9 million per year.<sup>13</sup> The Company estimates it will take approximately three months to start the program and approximately twelve months following it will file to implement a true-up of the TRP cost and revenues.<sup>14</sup>

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<sup>10</sup> *Id.* at 13-15.

<sup>11</sup> *Id.* at 15-17.

<sup>12</sup> *Id.* at 11.

<sup>13</sup> *Id.* at 17-18.

<sup>14</sup> William K. Castle, Pre-Filed Direct Testimony, pp. 7-8 (April 19, 2017).

Mr. A. Wayne Allen, a KPC witness, states that O&M expenses and depreciation of capital expenditures will be recovered for the TRP while only O&M expenses will be recovered for MS costs. TRP O&M expenses will be tracked and recorded in Federal Energy Regulatory Commission (“FERC”) sub-accounts.<sup>15</sup> Mr. Allen states TRP costs that are capitalized will initially be recorded in the Construction Work in Progress Account. Upon completion, the accounting classification will be in accordance with the Company’s account policy for “Accounting for Costs of Clearing Land and Rights-of-Way and Trimming Trees.”<sup>16</sup> These capitalized costs will be depreciated using the depreciation rates approved in TPUC Docket No. 16-00001.<sup>17</sup> KPC will establish sub-accounts within Accounts 593 (expenses), 1823 (asset) and 2540 (liability) for tracking of costs to be recovered from or credited to the proposed ARM beginning the month after approval of the ARM.<sup>18</sup>

Mr. Allen testifies the Company’s planned deferral of any unrecovered costs related to the proposed ARM is in accordance with Tenn. Code Ann. § 65-5-103(2) (A) and (B). These deferred costs would be maintained until recovered through a true-up filing. The Company plans on using traditional over/under accounting of comparing actual costs related to the TRP and MS restoration incurred to what was included in base rates to arrive at the incremental amount to be recovered or refunded. Once the collection process begins, KPC will compare the revenues collected to the costs to be recovered to determine any overage or shortfall to be included in the next true-up. KPC maintains this is in accordance with the FERC Uniform System of Accounts.<sup>19</sup>

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<sup>15</sup> A. Wayne Allen, Pre-filed Direct Testimony, pp. 4-5 (April 19, 2017).

<sup>16</sup> *Id.* at Exhibit No. 1.

<sup>17</sup> *Id.* at 5-6.

<sup>18</sup> *Id.* at 7-8.

<sup>19</sup> *Id.* at 8-10.

### ***POSITION OF THE CONSUMER ADVOCATE***

On behalf of the Consumer Advocate, Mr. William H. Novak submitted pre-filed direct testimony. In his testimony, Mr. Novak asserts the Consumer Advocate is not opposed to KPC's request to recover the incremental costs of the TRP above the \$903,372 included in the Company's last rate case. The Consumer Advocate, however, questions the cost effectiveness and immediacy of the need for the Vegetation Management Program and System Improvement Program.<sup>20</sup> Mr. Novak explains the best gauge for assessing the need for these programs is through the SAIDI and SAIFI. According to the data presented in Mr. Novak's testimony, KPC falls within the range of its peer group for both of these indices, thereby raising concerns over the immediate need for the ARM.<sup>21</sup>

Based on the filing and compilation of the data submitted by the Company, Mr. Novak asserts residential customers will initially pay \$1.90 per month surcharge for the Vegetation Management Program and System Improvement Program which will increase to \$4.45 per month in the tenth year.<sup>22</sup> He recommends the Commission implement an annual review of the Vegetation Management Program and System Improvement Program components of the ARM to determine the accuracy of the calculations and prudence of the programs. Given the ten-year costs associated with these programs of \$27 million in O&M expense and \$54 million in capital, the Consumer Advocate has concerns regarding the cost and ongoing benefits of the programs.<sup>23</sup>

To assist in this annual review, Mr. Novak proposes a series of metrics and targets for the Company to utilize in providing information for the annual review. He recommends the TPUC require the Company to provide this information for "(a) the year for which KgPCO files, (b) at

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<sup>20</sup> William H. Novak, Pre-filed Testimony, p. 8 (July 10, 2017).

<sup>21</sup> *Id.* at 9-11.

<sup>22</sup> *Id.* at 11-12.

<sup>23</sup> *Id.* at 11-13.

least five years prior to the first annual filing for those items with available data, and (c) for all years in which the TRP and MS ARM is effective.”<sup>24</sup> Mr. Novak points out that completion of these metrics and targets should highlight a reduction in the current SAIDI and SAIFI index of Kingsport due to the extra expense and effort of the programs. If not, Kingsport should be required to provide a full explanation.<sup>25</sup>

While not opposing the MS ARM, Mr. Novak does recommend that upon approval the Company be required to provide the same full accounting and allocation of major storm cost to Tennessee along with the TRP ARM and MS ARM that it now provides in storm cost deferral dockets.<sup>26</sup> Mr. Novak concurs with the cost components, filing dates, the outlined calculation procedures and allocation procedures outlined in the proposed ARM tariff.<sup>27</sup>

#### **KINGSPORT’S REBUTTAL**

Mr. Castle filed pre-filed rebuttal testimony on July 31, 2017, in part to respond to the position of ETEC’s witness, Mr. Stephen Baron.<sup>28</sup> With respect to the Consumer Advocate’s proposals, the Company agreed to provide the requested information and metrics and an attestation for annual true-up filings.<sup>29</sup> During the Company’s last rate case, base rates were set that included \$392,381 in expenses for major storm costs. Kingsport reiterated that the MS ARM would provide credits of up to \$392,381 if there are no major storms during the review period.<sup>30</sup>

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<sup>24</sup> *Id.* at 14.

<sup>25</sup> *Id.* at 14.

<sup>26</sup> *Id.* at 15-16.

<sup>27</sup> *Id.* at 16-25.

<sup>28</sup> ETEC withdrew from participation in the Docket, including its previously filed testimony, prior to the hearing. *Order Granting Notice to Withdraw* (August 11, 2017).

<sup>29</sup> William K. Castle, Pre-filed Rebuttal Testimony, pp. 7-8 (July 31, 2017).

<sup>30</sup> *Id.* at 7.



## **THE HEARING**

The Hearing on the *Petition* was held before the voting panel assigned to this docket on August 15, 2017, as noticed by the Commission on August 4, 2017. Participating in the Hearing were:

Kingsport Power Company d/b/a AEP Appalachian Power – William C. Bovender and Joseph B. Harvey, Esq., Hunter, Smith & Davis LLP, Post Office Box 3740, Kingsport, Tennessee 37664; James R. Bacha, Esq., American Electric Power Service Corporation, Post Office Box 16637, Columbus, Ohio 43216

Consumer Protection and Advocate Division – Wayne Irvin, Esq., Post Office Box 20207, Nashville, Tennessee 37202-4015

During the Hearing, Mr. William K. Castle, Mr. Phillip Wright, Mr. Wayne Allen and Mr. William H. Novak summarized their pre-filed testimony and were subject to questioning before the panel. Mr. Novak recommended approval of the *Petition* with the additional provisions for monitoring performance and an attestation requirement which KPC had previously agreed to provide in the Company's pre-filed rebuttal testimony.<sup>31</sup> Members of the public were given an opportunity to offer comments, but no one sought recognition to do so.

## **STANDARD FOR COMMISSION APPROVAL**

Tenn. Code Ann. § 65-5-103(d)(2) states:

(A) A public utility may request and the commission may authorize a mechanism to recover the operational expenses, capital costs or both, if such expenses or costs are found by the commission to be in the public interest, related to any one (1) of the following:

- (i) Safety requirements imposed by the state or federal government;
- (ii) Ensuring the reliability of the public utility plant in service; or
- (iii) Weather-related natural disasters.

(B) The commission shall grant recovery and shall authorize a separate recovery mechanism or adjust rates to recover operational expenses, capital costs or both associated with the investment in such safety and reliability facilities, including the return on safety and reliability investments at the rate of return approved by the commission at the public utility's most recent general rate case pursuant to § 65-5-

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<sup>31</sup> Transcript of Commission Conference, p. 119 (August 15, 2017).

101 and subsection (a), upon a finding that such mechanism or adjustment is in the public interest.

The Company's previous rate case pursuant to Tenn. Code Ann. § 65-5-101 was resolved in TPUC Docket No. 16-00001.<sup>32</sup>

## **FINDINGS AND CONCLUSIONS**

Kingsport filed a petition pursuant Tenn. Ann. Code § 65-5-103(d), requesting approval of two alternative regulatory mechanisms: (1) the TPR which consists of the Vegetation Management and System Improvement programs and the (2) the MS recovery mechanism for major storm damage. Initially, Kingsport will track and defer TRP costs for approximately one year then submit a filing designed to recover those costs above the amount included in base rates or refund any costs below the amount that has been included in base rates.

Based upon a review of the evidentiary record, the panel found the ten-year TPR consisting of a Vegetation Management and System Improvement should improve service and the reliability of Kingsport's infrastructure at reasonable costs to consumers. The panel further found the MS recovery mechanism to be a reasonable approach to account for and recover future costs related to storm damages. The proposed ARMs allow Kingsport timely recovery of investment and related expenses while ensuring safe and reliable electric service, primarily through enhanced maintenance of its main distribution system – a system of utmost importance to any community.

In addressing system reliability through the alternative ratemaking process, the panel found customers should benefit through reduced rate case and legal expenses that would otherwise result through expensive rate case proceedings to address such issues. Additionally, in order to measure the on-going benefits of the TRP, Kingsport has agreed to provide an annual

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<sup>32</sup> See *In re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power for a General Rate Case*, Docket No. 16-00001, *Order Approving Stipulation and Settlement Agreement* (October 19, 2016).

reporting of measurements and metrics proposed by the Consumer Advocate, which are set forth in attachments to William H. Novak's testimony.<sup>33</sup> Kingsport agreed, at the request of the Consumer Advocate, to provide an attestation with the annual true-up filings stating that the costs and expenses included in the alternative mechanisms are complete and accurate and reflect amounts on the Company books and records. The panel found that the measurements and metrics proposed by the Consumer Advocate, along with a requirement for an attestation, are reasonable and should assist the Commission in evaluating the mechanisms on a going-forward basis and voted unanimously to adopt the measurements and metrics in total.

Further, the panel found that the annual cost and recovery calculation methodology contained in the *Petition* and set forth in the Company's tariff is reasonable and appropriate for recovery of costs associated with the individual programs. In conjunction with approval of the proposed programs, the panel directed the Company to submit tariff provisions consistent with the panel's ruling. In light of the evidentiary record, the panel found the proposed mechanisms to be in the public interest and otherwise in compliance with Tenn. Code Ann § 65-5-103(d) and voted unanimously to approve the *Petition*. Finally, although not set forth in the proposed tariff, the panel ordered the Company to submit pre-filed testimony with each annual filing to support and fully explain its calculations for cost recovery and any other issue that arises.

**IT IS THEREFORE ORDERED THAT:**

1. The *Petition of Kingsport Power Company d/b/a AEP Appalachian Power For Approval of Its Targeted Reliability Plan and TRP and MS Rider Alternative Rate Mechanism* filed on April 19, 2017, by Kingsport Power Company d/b/a AEP Appalachian Power is approved.

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<sup>33</sup> William H. Novak, Pre-filed Direct Testimony, Ex. WH-2 (July 10, 2017).

2. Going forward, Kingsport Power Company d/b/a AEP Appalachian Power shall provide the information and metrics agreed to in this docket as recommended by the Consumer Advocate and Protection Division of the Office of the Attorney General.

3. Kingsport Power Company d/b/a AEP Appalachian Power shall provide an attestation and pre-filed testimony supporting each annual filing for the mechanisms approved herein.

4. Any person who is aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen days from the date of this Order.

5. Any person who is aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty days from the date of this Order.

**Chairman David F. Jones, Vice-Chairman Robin L. Morrison, and Commissioner Kenneth C. Hill concur.**

**ATTEST:**

  
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**Earl R. Taylor, Executive Director**