

**DIRECT TESTIMONY OF
A. WAYNE ALLEN
ON BEHALF OF KINGSPORT POWER COMPANY
D/B/A AEP APPALACHIAN POWER
BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
DOCKET NO. 17-____**

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

2 A. My name is A. Wayne Allen. My business address is 1 Riverside Plaza,
3 Columbus, Ohio 43215. I am a Regulatory Accounting Case Manager for
4 American Electric Power Service Corporation (AEPSC), a wholly owned
5 subsidiary of American Electric Power Company, Inc. (AEP). AEP is the parent
6 company of Kingsport Power Company (KgPCo or the Company).

7 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT**
8 **BACKGROUND.**

9 A. I graduated summa cum laude with a Bachelor of Science Degree in Accounting
10 from Radford University in 1985. I received a Master of Business Administration
11 Degree with a concentration in Finance from Virginia Polytechnic Institute and
12 State University (Virginia Tech) in 1988. I was employed at Bell Atlantic (now
13 Verizon Communications) in 1988 as an assistant manager in the Corporate
14 Accounting department. In 1990, I joined Appalachian Power Company (APCo)
15 in Roanoke, Virginia as an Associate Staff Accountant. In 1995, I was promoted
16 to Staff Accountant, with my primary responsibility being the development of
17 accounting information for base rate case filings in Virginia and West Virginia
18 including the preparation of schedules and ratemaking adjustments and the
19 development of jurisdictional federal income taxes. In 1998, I transferred to the

1 Regulatory Services department of APCo as a Rate Analyst. My responsibilities
2 included the development of jurisdictional cost of service studies and associated
3 allocation factors for APCo. In 2000, I transferred to the AEPSC as a Staff
4 Accountant in the Accounting Policy and Research department where I was
5 responsible for researching Generally Accepted Accounting Principles (GAAP),
6 developing the accounting for new transactions and designing accounting policies.
7 In 2002, I joined the Regulatory Accounting Services Department of Corporate
8 Accounting as a Staff Assistant and in 2004 I was promoted to the position of
9 Administrator in that same Department. In 2006, I was promoted to Principal
10 Regulatory Accounting Consultant and in 2007, I was promoted to my current
11 position.

12 **Q. WHAT ARE YOUR RESPONSIBILITIES AS A REGULATORY**
13 **ACCOUNTING CASE MANAGER?**

14 A. My responsibilities include providing the AEP electric operating subsidiaries,
15 such as KgPCo, with accounting support for regulatory filings including the
16 preparation of cost of service adjustments, accounting schedules and testimony.
17 Also, I monitor regulatory proceedings and legislation for accounting implications
18 and assist in determining the appropriate regulatory accounting treatment.

19 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY**
20 **REGULATORY PROCEEDING?**

21 A. Yes. I presented testimony on behalf of KgPCo in Docket No. 16-00001 and on
22 behalf of APCo in numerous cases before the Virginia State Corporation
23 Commission including the most recent Virginia biennial review Case No. PUE-

1 2014-00026. I have also submitted testimony on behalf of Indiana Michigan
2 Power Company (I&M) before the Michigan Public Service Commission. Like
3 KgPCo, APCo and I&M are electric operating subsidiaries of AEP.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. The purpose of my testimony is to:

- 7 • Describe the accounting for the costs that the Company is requesting to
8 recover through the proposed rider discussed by Company witness Castle.
- 9 • Discuss the basis for deferring unrecovered costs related to KgPCo's
10 proposed distribution Targeted Reliability Plan (TRP), which is described
11 by Company witness Wright, and major storms.
- 12 • Describe the accounting for the over/under-recovery of TRP and major
13 storm costs to be recovered through the requested rider.
- 14 • Discuss how costs will be determined for inclusion in the rider beginning
15 with the Company's first annual "true-up" filing.

16 **Q. WHAT EXHIBITS ARE YOU SPONSORING?**

17 A. I am sponsoring the following exhibits:

- 18 • KgPCo Exhibit No. 1 (AWA) is the Company's accounting
19 policy/procedure for the costs of clearing land and rights-of-way and
20 trimming trees;
- 21 • KgPCo Exhibit No. 2 (AWA) is an example of over/under recovery
22 accounting related to the proposed rider.

1 **Q. PLEASE DESCRIBE THE TYPES OF COSTS THAT THE COMPANY IS**
2 **REQUESTING TO RECOVER THROUGH THE PROPOSED RIDER.**

3 A. The proposed rider will include the recovery of two categories of costs: (1) costs
4 of the proposed TRP and (2) major storm costs. For the TRP, the proposed rider
5 will recover the following types of costs not currently in base rates: 1)
6 incremental operations and maintenance (O&M) expenses; and, 2) a return of
7 (through depreciation) and a return on (using the rate of return approved by the
8 Tennessee Public Utility Commission (TPUC) in Docket No. 16-00001) new
9 capital investments. The major storm costs to be included in the development of
10 the rider (as either an increase for costs above the annual level in base rates or a
11 decrease for costs below the annual level in base rates) are proposed to be
12 incremental O&M costs only, as KgPCo has not historically included capital-
13 related storm restoration costs in its requests for storm cost recovery riders.

14 **Q. HOW WILL THE COMPANY IDENTIFY AND ACCOUNT FOR COSTS**
15 **RELATED TO THE PROPOSED TRP?**

16 A. KgPCo currently uses specific projects to identify and track the costs associated
17 with various Tennessee distribution reliability activities including vegetation
18 management and circuit inspections, and the Company plans to use these same
19 projects to identify and track the costs of the proposed TRP as applicable to
20 similar activities. For example, KgPCo has charged its vegetation management
21 costs to Project No. 000009172 and circuit inspection costs to Project No.
22 EDN100579 for a number of years. The Company plans to use these same project
23 numbers to charge additional distribution reliability costs incurred under the

1 proposed TRP. For new TRP programs such as station improvements described
2 by Company witness Wright, KgPCo will establish new projects to identify and
3 track the costs of these programs upon approval of the TRP.

4 For the TRP project costs that are charged to O&M expense, the Company
5 will record such costs on its books in unique expense accounts (*e.g.*, Account
6 593XXXX) that will be established to separately identify the TRP expenses. As
7 an example, the O&M expenses related to circuit inspection and replacement
8 activities under the TRP will likely be charged to several FERC accounts based
9 on the work involved including Account 583, Overhead Line Expenses, Account
10 593, Maintenance of Overhead Lines, and Account 594, Maintenance of
11 Underground Lines. The Company plans to establish new O&M expense
12 subaccounts under each of the FERC accounts that are expected to be charged
13 with costs of the TRP.

14 For the TRP project costs that are capitalized, the Company will record
15 such expenditures initially in Account 107, Construction Work in Progress
16 (CWIP), before being classified to the appropriate 300-level Electric Plant
17 Account within Account 101, Electric Plant in Service. The determination of the
18 accounting classification of TRP costs as expense or capital related to vegetation
19 management will be in accordance with the Company's accounting
20 policy/procedure for "Accounting for Costs of Clearing Land and Rights-of-Way
21 and Trimming Trees", which I have attached to my testimony as KgPCo Exhibit
22 No. 1 (AWA).

1 **Q. HOW WILL THE IN-SERVICE CAPITALIZED TRP COSTS BE**
2 **DEPRECIATED?**

3 A. The Company will use the depreciation rates for distribution property included in
4 the revenue requirement approved by the TPUC in its Order Approving
5 Stipulation and Settlement Agreement in Docket No. 16-00001 for purposes of
6 calculating depreciation expense and accumulated depreciation related to TRP
7 capital costs. KgPCo will record the capitalized TRP costs placed in-service to
8 the appropriate 300-level Electric Plant Chart of Accounts in accordance with the
9 FERC Uniform System of Accounts (USofA) electric plant instructions based on
10 the nature of the capital work. For example, capitalized vegetation management
11 program costs will principally be recorded in Electric Plant Account 365,
12 Overhead Conductors and Devices, and the Company will depreciate these costs
13 using the TPUC approved 2.99 percent annual depreciation rate for this account.

14 **Q. HOW DOES THE COMPANY IDENTIFY AND ACCOUNT FOR COSTS**
15 **RELATED TO MAJOR STORM RESTORATION?**

16 A. The Company establishes a separate project and work order for each major storm
17 event in its service territory that are used to charge and track all storm restoration
18 work related to that specific major storm. During an emergency situation, such
19 as a major storm, the appropriate split of costs between capital and expense is not
20 known until after the storm restoration work is completed. Therefore, the
21 Company performs a review of storm related work after the restoration is finished
22 to verify the classification of expenditures between capital and expense accounts.

1 For major storm costs that are charged to O&M expense, the Company
2 will record such costs on its books to the appropriate FERC account based on the
3 work involved, with almost all of such major storm O&M expense expected to be
4 recorded in Account 593, Maintenance of Overhead Lines, based on past
5 experience. As I noted earlier, the Company will only include major storm O&M
6 expense in its proposed rider, notwithstanding that some portion of major storm
7 costs will likely be capitalized in accordance with the Company's capitalization
8 policy. The Company follows FERC guidelines to determine when expenditures
9 should be classified as capital and considered additions or retirements to electric
10 plant.

11 **Q. DOES THE COMPANY INTEND TO USE ANY OTHER UNIQUE**
12 **ACCOUNTS TO TRACK THE COSTS AND THE RELATED RECOVERY**
13 **THROUGH THE PROPOSED RIDER?**

14 A. Yes. KgPCo intends to establish a separate subaccount in Account 593, which
15 historically has included most reliability and major storm costs, and unique
16 regulatory asset and liability subaccounts within Accounts 1823 and 2540,
17 respectively, to be used in the over/under recovery deferral accounting for all
18 costs to be recovered from or credited to the proposed rider beginning in the
19 month after approval of the rider.

20 **Q. DOES THE COMPANY PLAN TO DEFER UNRECOVERED TRP AND**
21 **MAJOR STORM COSTS PRIOR TO THE RECOVERY OF SUCH**
22 **COSTS?**

1 A. Yes. As discussed by Company witness Castle, the Company plans to defer
2 unrecovered TRP and major storm costs on its books as such costs are incurred
3 after approval of the proposed rider. These deferred costs would be maintained
4 until recovered through rider billings as a result of future annual "true-up" filings.

5 **Q. WHAT IS THE BASIS FOR THE COMPANY'S PLANNED DEFERRAL**
6 **OF ANY UNRECOVERED COSTS RELATED TO THE PROPOSED**
7 **RIDER?**

8 A. Tennessee Code Annotated § 65-5-103 (2)(A) and (B) ¹ establishes the probable
9 future recovery of costs through a separate recovery mechanism that are found by
10 the TPUC to be in the public interest, related to the reliability of utility plant and
11 major storm restoration. Specifically, Subsections A and B state:

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

17
18 (i) Safety requirements imposed by the state or federal
19 government;

20
21 (ii) Insuring the reliability of the public utility plant in
22 service; or

23
24 (iii) Weather-related natural disasters.

25
26 (B) The authority shall grant recovery and shall authorize a
27 separate recovery mechanism or adjust rates to recover

¹ Public Chapter 94 of the Tennessee Code, effective the fourth day of April, 2017, amended various sections of the Code by substituting "Tennessee Public Utility Commission" for "Tennessee Regulatory Authority," "commissioner(s) of the Tennessee Public Utility Commission" for "director(s) of the Tennessee Regulatory Authority," "commission" for "authority," "commissioner(s)" for "director(s)," "commission's" for "regulatory authority's," and the like.

1 operational expenses, capital costs or both associated with the
2 investment in such safety and reliability facilities, including
3 the return on safety and reliability investments at the rate of
4 return approved by the authority at the public utility's most
5 recent general rate case...upon a finding that such mechanism
6 or adjustment is in the public interest.

7 Financial Accounting Standards Board (FASB) Accounting Standards
8 Codification (ASC) 980, Regulated Operations, requires deferral accounting when
9 incurred costs are: (1) probable of future recovery from inclusion of that cost in
10 allowable costs for ratemaking purposes and (2) future revenue will be provided
11 to permit recovery of the previously incurred cost rather than to provide for
12 expected levels of similar future costs. Upon the TPUC's approval of the
13 Company's proposed rider, both of the above requirements will be met and as a
14 result, the Company intends at that time to practice deferral accounting for its
15 unrecovered TRP and major storm costs.

16 **Q. PLEASE EXPLAIN HOW THE COMPANY PLANS TO ACCOUNT FOR**
17 **ANY UNDER-RECOVERY OR OVER-RECOVERY OF COSTS**
18 **RELATED TO THE PROPOSED RIDER.**

19 A. The Company plans to practice traditional over/under recovery deferral
20 accounting by initially comparing the actual costs related to the TRP and major
21 storm restoration incurred after approval of the rider to amounts reflected in
22 Kingsport's base rates to arrive at actual incremental costs. Once the Company
23 begins to recover such costs through the rider, the Company will also compare
24 actual incremental costs to the revenues collected through the rider. KgPCo will
25 defer monthly, as a regulatory asset in Account 1823, Other Regulatory Assets,

1 any under-recovery of costs subject to true-up under the rider or as a regulatory
2 liability in Account 254, Other Regulatory Liabilities, any over-recovery of costs
3 subject to true-up under the rider. Any net under-recovery or net over-recovery of
4 rider costs will be included for recovery from customers or credited to customers,
5 respectively, in future true-up filings.

6 **Q. IS DEFERRAL ACCOUNTING IN ACCORDANCE WITH THE FERC**
7 **USofA?**

8 A. Yes. The FERC USofA requires that regulatory assets and regulatory liabilities
9 imposed on the utility by the ratemaking actions of regulatory agencies be
10 included in Account 182.3 and Account 254, respectively.

11 **Q. ARE THERE COSTS FOR DISTRIBUTION RELIABILITY ACTIVITIES**
12 **AND MAJOR STORMS CURRENTLY IN BASE RATES?**

13 A. Yes. KgPCo's current base rates include a total of \$1,295,753 of annual O&M
14 expenses related to distribution reliability activities and major storms, broken
15 down as follows: \$903,372 for reliability activities, and \$392,381 for major
16 storms, as identified in the Stipulation and Settlement Agreement approved in
17 Docket No. 16-00001.

18 **Q. THE \$903,372 YOU REFERENCED IN THE PRIOR ANSWER IS**
19 **DESCRIBED IN THE APPROVED STIPULATION AS RELATED TO**
20 **"VEGETATION MANAGEMENT." DID THE \$903,372 INCLUDE**
21 **OTHER O&M RELIABILITY ACTIVITIES IN ADDITION TO**
22 **VEGETATION MANAGEMENT?**

1 A. Yes. I have replicated below Figure 2 of page 6 in Company witness Wright's
2 direct testimony in Docket No. 16-00001:

3 **Figure 2 – Adjusted Ongoing O&M Expense for Reliability with TRS**

2014 Test Year O&M Expense for Reliability Activities:	\$903,372
O&M Expenses TRS Base Adjustment:	
Vegetation Management Program	\$1,672,942
Circuit Inspections & Maintenance Program	\$322,274
Circuit Improvements Program	\$91,924
Total O&M Expense TRS Base Adjustment (OM-8):	\$2,087,140
Total Adjusted Test Year O&M:	\$2,990,512

4
5 As shown above, the \$903,372 was the 2014 test year O&M expense for
6 “reliability activities.” This \$903,372 included, among other items, \$19,409
7 related to pole replacements, \$16,266 for circuit inspections and \$14,433 for
8 targeted circuit reliability in addition to \$841,433 for vegetation management.

9 **Q. HOW WILL THE COMPANY DETERMINE THE MONTHLY TRP**
10 **COSTS AND MAJOR STORM O&M EXPENSE TO INCLUDE IN THE**
11 **OVER/UNDER RECOVERY CALCULATION?**

12 A. The Company will include the combined TRP costs (both O&M and capital costs)
13 and major storm O&M expense incurred above or below the monthly average of
14 \$107,979 (\$1,295,753 annually divided by 12 months) of such combined costs
15 built into current base rates in its monthly calculation of over or under-recovered
16 costs. Once the Company makes its first true-up filing and begins to collect rider
17 revenues, the monthly over/under recovery calculation will also reflect such
18 revenues.

1 **Q. CAN YOU PROVIDE AN EXAMPLE THAT SHOWS THE VARIOUS**
2 **COST COMPONENTS AND THE ASSOCIATED ACCOUNTS THAT THE**
3 **COMPANY ANTICIPATES USING IN THE OVER/UNDER RECOVERY**
4 **ACCOUNTING FOR TRP COSTS AND MAJOR STORM O&M**
5 **EXPENSE?**

6 A. Yes. KgPCo Exhibit No. 2 (AWA) provides a hypothetical example of the over
7 or under recovery of incremental TRP costs and major storm O&M expense over
8 the first 4 years after TPUC approval of the Company's petition assuming various
9 levels of expenditures incurred and revenues collected through the rider each year.
10 This example shows anticipated accounts that the Company will use to record the
11 O&M and capital costs on its books associated with the TRP and major storms.
12 The method of calculating depreciation and return on rate base net of accumulated
13 depreciation and deferred income taxes related to TRP capital expenditures is also
14 shown on KgPCo Exhibit No. 2 (AWA).

15 **Q. ARE ANY OF THE NEW CAPITAL-RELATED COSTS ASSOCIATED**
16 **WITH THE TRP BEING RECOVERED IN KGPCO'S CURRENT BASE**
17 **RATES?**

18 A. No, all of the capital expenditures associated with the proposed TRP, as supported
19 by Company witness Wright, would be new capital investments incurred after the
20 TPUC's approval of the Company's proposed TRP and associated rider, and thus,
21 such capital expenditures are neither reflected in, nor being recovered under, the
22 Company's current base rates.

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

2 **A. Yes, it does.**

Policy/Procedure Title	Accounting for Costs of Clearing Land and Rights-of-Way and Trimming Trees	Date	March 1, 2017
Author:	Accounting Policy & Research	Status: (Draft, Under Review, Approved)	Approved
Purpose			

This accounting policy / procedure memo serves to update and replace AEP Accounting Bulletin 2, "Accounting for Costs of Clearing Land and Rights-of-Way and Trimming Trees" and the "Clarifications and Interpretations of Accounting Bulletin #2" document which followed the originally issued bulletin. These instructions are primarily intended to define costs of clearing land and rights-of-way and trimming trees properly chargeable to construction or maintenance.

This policy / procedure document may not be released to parties outside AEP without the approval of the Chief Accounting Officer.

Policy/Procedure Statement

Accounting Policy

I. GENERAL RULE

Costs of initial or original clearing of land and rights-of-way and pruning trees are to be charged to appropriate electric plant capital accounts.

"INITIAL OR ORIGINAL" CLEARING

- a. The "initial or original" clearing includes the initial application of herbicide:
 - i. Delayed initial herbicide applications where the applicable construction work order has been closed
 - 1) Planned two-herbicide application method (with approximate intervals of from one to three years between first and second applications) designed to control stump sprouting species with the first application and root suckering species with the second. Effective control of both types of growth by this method requires different materials which are not miscible and some regrowth of root suckers before the second application.
 - 2) Where root suckering is not a problem, the second application will occur after the normal maintenance interval

(approximately four to six years) and is to be charged to appropriate maintenance accounts.

- ii. Initial application of Tree Growth Regulator (TGR) and associated costs.

II. OTHER CAPITALIZABLE COSTS

- a. Costs of clearing portions of existing rights-of-way not previously cleared.
 - i. Costs of removing trees greater than (or equal to) 18" in diameter from previously cleared rights-of-way after the line is in operation
 - ii. Costs to include:
 - a. Felling and disposal
 - b. Stump grinding
 - c. Herbicide treatment of the stump
- b. Widening - Costs of clearing newly acquired easements that widen existing, previously cleared rights-of-way and/or widen previously cleared rights-of-way that were established around center-line easements or through franchise agreements.
 - i. Distances of 1 span or more
 - ii. Costs to include:
 - a. Removal of trees and brush
 - b. Herbicide applications as described in sections (I.a.)
 - iii. Only costs associated with widening which result in an increase in the ground distance measured from edge to edge may be capitalized.
- c. Initial costs of trimming trees bordering newly widened rights-of-way.
 - i. Removal of overhanging limbs protruding through or into the newly widened rights-of-way
 - ii. Scattered clearing and pruning of portions of rights-of-way not previously cleared (e.g. structurally unsound trees that are capable of striking electric supply lines or structures upon failure, also known as "hazard trees")
 - a. Costs of removing trees greater than 4" in diameter from outside the previously cleared rights-of-way after the line is in operation

Discussion:

Classifying, as capital, certain tree removals after the first clearing has been completed is based on the premise that smaller diameter trees were not removed during the first clearing, and those smaller diameter trees that have grown to 18" or larger in diameter are being initially cleared and this initial clearing cost should be capitalized. Specifying a diameter for use in determining Capital or Expense is

a method to distinguish between "original" trees and those that have grown since a power line was constructed. An 18" diameter measure will encompass many trees* that are approximately 22 yrs. or older.

**based on sample using silver maple, white pine, black cherry, black locust, tulip poplar, white oak, and red maple, according to Distribution personnel*

III. ACCOUNT CLASSIFICATION FOR INITIAL COSTS OF CLEARING LAND AND RIGHTS-OF-WAY, AND TRIMMING TREES CHARGEABLE TO ELECTRIC PLANT

a. Transmission

- i. Charge Account 356, Overhead Conductors and Devices whether or not deeds or easements are secured for a consideration, except for costs of removing stumps, grading, excavating, etc., incident to the preparation of foundations for towers or other structures (charge Account 352, Structures and Improvements) or to the construction of roads, trails and bridges (charge Account 359, Roads and Trails).

b. Distribution

- i. Charge Account 365 Overhead Conductor and Devices whether or not deeds or easements are secured for a consideration, except for clearing that is directly related to the building of a structure (charge Account 361, Structures and Improvements) or the installation of street lighting (charge Account 373, Street Lighting and Signal Systems).

IV. MAINTENANCE COSTS

- a. Costs of pruning trees, removing trees less than 18" in diameter (see II a) and clearing brush and other refuse from previously cleared rights-of-way.
 - i. Costs are chargeable to applicable FERC account 571, Maintenance of Overhead Lines (Transmission) or 593, Maintenance of Overhead Lines (Distribution)
- b. Costs of subsequent clearing or pruning of a previously cleared portion of right-of-way done in conjunction with a capital construction project or in conjunction with the work performed that is deemed capital by this policy.

NOTE: Where trimming of previously cleared portions is affected in conjunction with trimming and/or clearing occasioned by activities that are deemed capital by this policy, a reasonable allocation should be made to ensure capitalization of only the previously uncleared portion.

- c. Clearing or trimming that is performed as a result of service restoration (whether classified as either major event, major storm event or non-major

event service restoration) should be charged to maintenance, unless the work being performed meets the conditions for capitalization as stated in this policy.

- d. Removal of overhanging limbs without the removal of the tree(s).
- e. Subsequent applications of herbicides and TGR.

References and Links

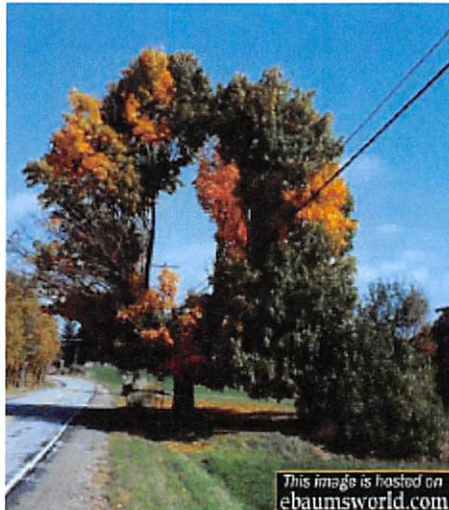
FERC USofA

[FERC: Uniform System of Accounts - Webpage](#)

[Link to the FERC: Uniform System of Accounts - Electric](#)

Illustrations

Classification depends on type of work performed



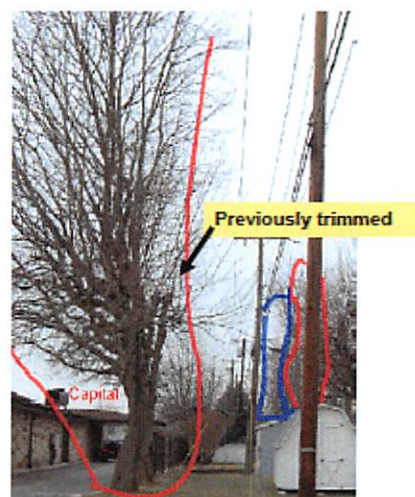
- Trimming is an O&M expenditure
- Removal is a Capital expenditure (if tree is larger than 18" dia. or is part of initial clearing or widening)

Note – to our knowledge, this tree is not on the AEP system

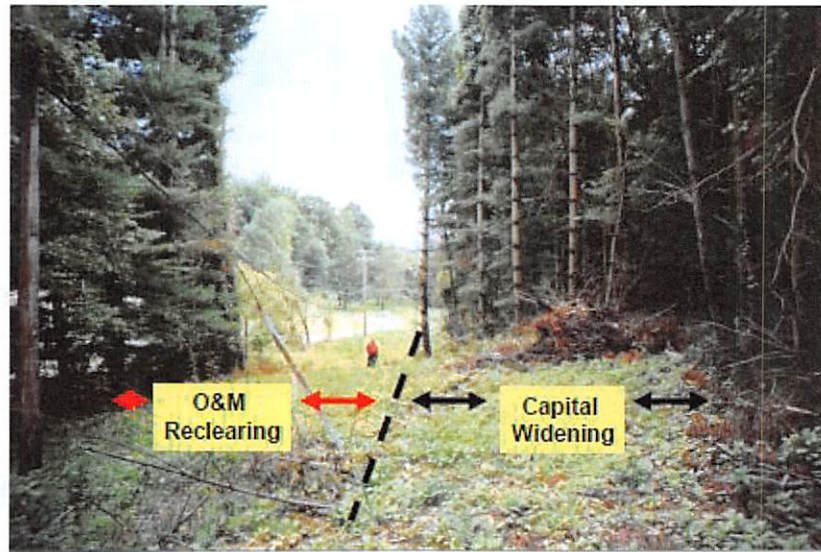
“Trimming to Heights not Previously Trimmed”

Capital? Or O&M?

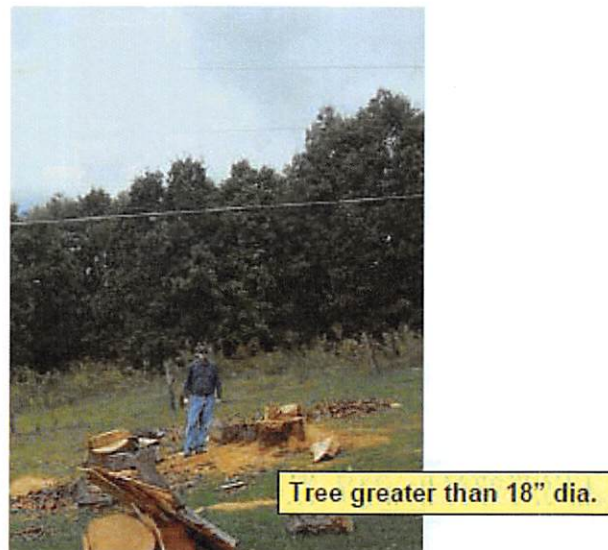
- Accounting Bulletin #2 classifies as O&M
- Trimming, only, will be O&M;
- Tree Removal will be Capital (based on location and size)



Capital Widening and O&M Reclearing



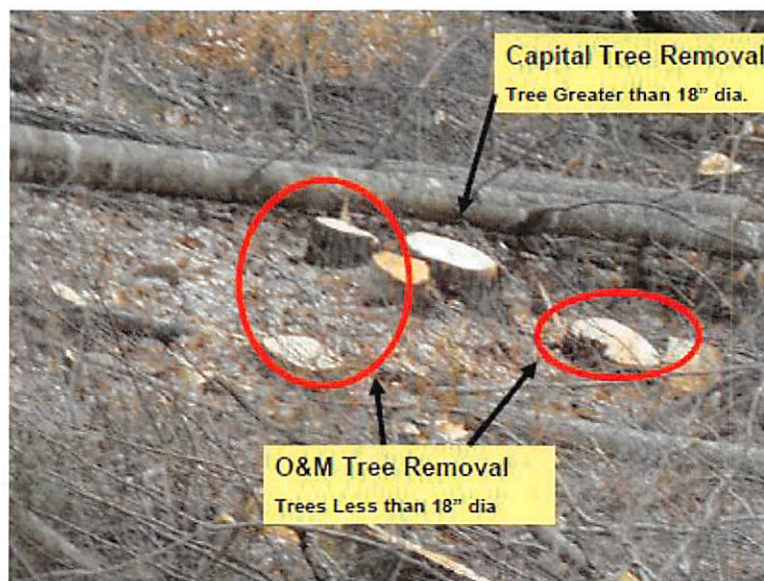
Capital Tree Removal – In the ROW



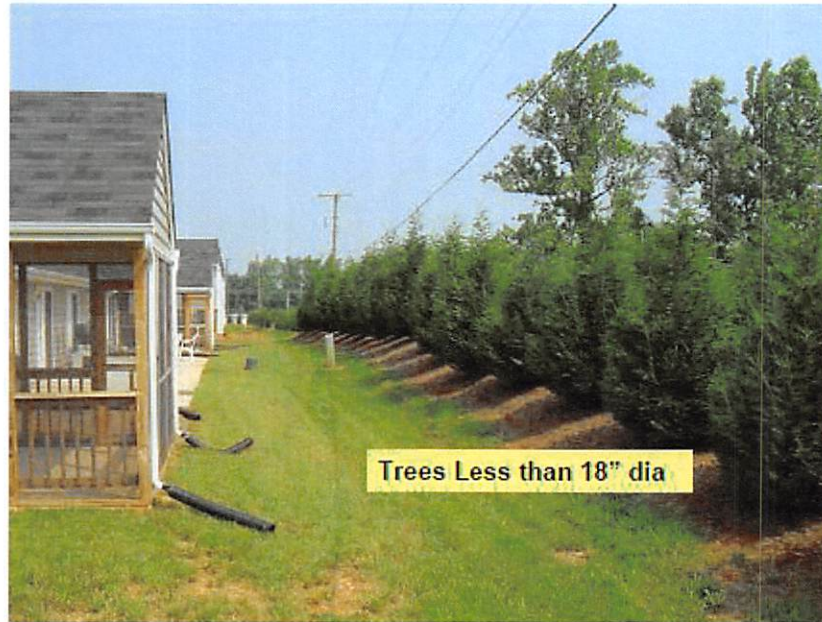
Capital Tree Removal – In the ROW



Capital & O&M Tree Removal In the ROW



O&M Tree Removal – In the ROW



Capital & O&M Tree Removal In & Out of the ROW



Kingsport Power Company**Example of Over/Under Recovery through Rider (for illustrative purposes only)****Targeted Reliability Plan (Both O&M and Capital) and Major Storm Restoration (O&M only)**

Assume varying levels of Targeted Reliability Plan and major storm costs each year
with prior period over/under recovery refunded/collected in following year

	Year 1	Year 2	Year 3	Year 4
Beginning (Over)/Under Recovery Balance	\$ -	\$ 3,453,539	\$ 3,024,294	\$ 3,822,077
Targeted Reliability Plan O&M Expenses (primarily a/c 593XXXX, tracked by program specific project #s)	\$ 3,500,000	\$ 3,750,000	\$ 4,000,000	\$ 4,100,000
Less: Reliability O&M Expenses Recovered in Base Rates (Annually)	\$ 903,372	\$ 903,372	\$ 903,372	\$ 903,372
Incremental Targeted Reliability Plan O&M Expenses	2,596,628	2,846,628	3,096,628	3,196,628
Major Storm O&M Expenses (primarily a/c 593XXXX, tracked by storm specific project #s)	\$ 1,000,000	\$ -	\$ 392,381	\$ 500,000
Less: Major Storm O&M Expenses Recovered in Base Rates (Annually)	\$ 392,381	\$ 392,381	\$ 392,381	\$ 392,381
Incremental Major Storm O&M Expenses	607,619	(392,381)	-	107,619
Depreciation Expense (a/c 4030001)	74,750	156,975	246,675	339,365
Return on Net Plant (6.175% after-tax rate of return on rate base)	174,542	359,533	554,480	748,421
Total Incremental Costs	3,453,539	6,424,294	6,922,077	8,214,110
Capital Expenditures re Targeted Reliability Plan	2,500,000	2,750,000	3,000,000	3,100,000
Rider Revenue/(Surcredit)	-	3,400,000	3,100,000	3,800,000
Ending (Over)/Under Recovery Balance	\$ 3,453,539	\$ 3,024,294	\$ 3,822,077	\$ 4,414,110
Calculation of Depreciation :				
Capital Expenditures re Target Reliability Plan (a/c 1070001 initially, tracked by program specific project #s)	\$ 2,500,000	\$ 2,750,000	\$ 3,000,000	\$ 3,100,000
Plant In Service Balance (a/c 1060001/1010001)	2,500,000	5,250,000	8,250,000	11,350,000
Depreciation (2.99% on a/c 365 (primary account))	74,750	156,975	246,675	339,365
Accumulated Depreciation (a/c 1080001)	74,750	231,725	478,400	817,765
Calculation of Return:				
Plant In Service Balance (a/c 1010001/1060001)	\$ 2,500,000	\$ 5,250,000	\$ 8,250,000	\$ 11,350,000
Less: Accumulated Depreciation (a/c 1080001)	74,750	231,725	478,400	817,765
Less: Accumulated Deferred Income Taxes-Plant* (a/c 2821001)	427,744	903,683	1,425,988	1,967,111
Net Rate Base	\$ 1,997,506	\$ 4,114,592	\$ 6,345,612	\$ 8,565,124
Pre-tax WACC 8.738%	\$ 174,542	\$ 359,533	\$ 554,480	\$ 748,421

* This calculation of accumulated deferred income taxes assumes 50% Bonus Tax Depreciation is available each year. The actual percentage of bonus tax depreciation, if any, will be known when the actual over/under recovery of rider costs are computed. The differences between accumulated tax depreciation on the above new distribution capital additions calculated using 50% bonus tax depreciation rates and the above accumulated book depreciation amounts were multiplied by the 35% federal income tax rate to compute the accumulated deferred income taxes shown above.

	Account	Debit (Credit)
Regulatory Asset/(Regulatory Liability)	1823XXX/(254XXXX)	\$ 3,453,539 \$ (429,245) \$ 797,783 \$ 592,033
Primary Cost Account	593XXXX	\$ (3,453,539) \$ 429,245 \$ (797,783) \$ (592,033)

Note - Over/Under recorded to the predominant account (Account 593) which provides for depreciation, expenses and return in the current month