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KPOW.95206

March 29, 2018

VIA EMAIL (Sharla.Dillon@tn.gov) & FEDEX
Mr. David Jones, Chairman
c/o Sharla Dillon, Dockets & Records Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

RE: FILING OF KINGSPORT POWER COMPANY d/b/a AEP APPALACHIAN POWER ("KgPCo") IN RESPONSE TO TENNESSEE PUBLIC UTILITY COMMISSION INVESTIGATION OF IMPACT OF FEDERAL TAX REFORM ON THE REVENUE REQUIREMENTS OF KgPCo
DOCKET NO.: 18-00038

Dear Chairman Jones:

On behalf of Kingsport Power Company, we transmit herewith the following:

Filing Of Kingsport Power Company d/b/a AEP Appalachian Power ("KgPCo") in Response to Tennessee Public Utility Commission Investigation Of Impact of Federal Tax Reform on the Revenue Requirements of KgPCo

The original and four (4) copies are being sent via Federal Express with a delivery date of April 2, 2018.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender

Enclosure: As stated

cc:	Kelly Grams, General Counsel (w/enc.)	***Via U.S. Mail and Email: Kelly.Grams@tn.gov***
	David Foster (w/enc.)	***Via U.S. Mail and Email: david.foster@tn.gov***
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BEFORE THE TENNESSEE PUBLIC UTILTY COMMISSION

NASHVILLE, TENNESSEE

IN RE:	)	
	)	
FILING OF KINGSPORT POWER COMPANY d/b/a AEP APPALACHIAN POWER ("KgPCo") IN RESPONSE TO TENNESSEE PUBLIC UTILITY COMMISSION INVESTIGATION OF IMPACT OF FEDERAL TAX REFORM ON THE REVENUE REQUIREMENTS OF KgPCo	))))))	DOCKET NO.: 18-______

FILING OF KINGSPORT POWER COMPANY D/B/A AEP APPALACHIAN POWER ("KgPCo") IN RESPONSE TO TENNESSEE PUBLIC UTILITY COMMISSION INVESTIGATION OF IMPACT OF FEDERAL TAX REFORM ON THE REVENUE REQUIREMENTS OF KgPCo

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Comes Kingsport Power Company, d/b/a AEP Appalachian Power (herein "KgPCo" or "Company"), and respectfully submits its response to the Tennessee Public Utility Commission's February 6, 2018 Order Opening an Investigation and Requiring Deferred Accounting Treatment as set forth in Docket No. 18-00001. This filing, opening a separate Docket, is made pursuant to Page 6, Paragraph 3 of the Commission's Order in said Docket No. 18-00001. In that Order, the Commission required certain public utilities, including the Company, to immediately apply deferred accounting treatment described therein with respect to the impact of the lowering of the federal corporate income tax rate; to provide the amounts deferred and submit certain calculations to the Commission by no later than March 31, 2018; and to submit ratemaking proposals to account for the tax benefits resulting from the 2017 Tax Cuts and Jobs Act ("Tax Act") by that same date. KgPCo would show the Commission as follows:

1. Upon receipt of the Commission's Order, KgPCo began to track and accumulate monthly in a deferred account the portion of its revenue representing the difference between the

cost of service approved by the Commission in its most recent rate case (Docket No. 16-00001) and the cost of service that would have resulted had the provision for federal income taxes ("FIT") been based on 21% rather than 35%. The amount deferred monthly is designed to equate to $904,383 annually. The derivation of this amount is shown on the accompanying Schedule, Section A. As of March 31, 2018, KgPCo's books reflect a deferred liability in the amount of $232,699 associated with this excess FIT expense. The journal entries associated with accounting for the difference in corporate FIT rates, on an annual basis, is shown in the accompanying Schedule, Section B.

2. KgPCo also calculated the excess accumulated deferred income tax ("ADIT") reserve caused by the reduction in the corporate FIT rate and recognized as a deferred liability, as of December 31, 2017, the estimated reduction of the utility's revenue requirement. Kingsport estimated these amounts, which are subject to change until such time that the Company files its tax return, to be $13,591,820, on a revenue basis. This amount is comprised of $9,329,605 in "protected" ADIT, and $4,262,215 of "unprotected" ADIT, both on a revenue basis. The journal entries associated with this accounting are shown in the accompanying Schedule, Section C.

3. As reported to the Commission, Kingsport earned its authorized rate of return on common equity in 2017. It also expects to prospectively earn its allowed return over the near term. As a result, the Company is able to propose to return the tax savings associated with the Tax Act to its customers.

4. Unprotected ADIT balances can be used to offset regulatory asset balances that have not yet been collected from customers, and are not part of base rates. The Company currently has before the Commission in Docket No. 17-00143, a request to recover $1,505,354 in

deferred costs (primarily associated with the 2013 winter storm) over two years or $752,677 annually. The Company proposes to offset this regulatory asset with a corresponding portion of the unprotected excess ADIT liability, eliminating the need to recover the winter storm costs through the rider proposed in that Docket. If approved, the unprotected excess ADIT balance would be reduced to an estimated $2,756,861.

5. The Company further proposes to use the remainder of its unprotected excess ADIT balance to offset a portion of the uncollected fuel and purchased power balances, which as of February 28, 2018, total $7,418,359. The cold winter of 2017-2018 has contributed to that balance, which exceeds the remaining excess unprotected ADIT.

6. Offsetting deferred winter storm costs and a portion of the uncollected fuel and purchased power balances with the excess unprotected ADIT balance is an efficient way to return this balance to customers, as it offsets expenses that the Company would otherwise recover from customers over a relatively short time horizon.

7. As indicated in numbered paragraph 1, the difference between the cost of service approved by the Commission in KgPCo's most recent case (Docket No. 16-0001), and the cost of service that would have resulted had the provision for FIT been based upon 21% rather than 35%, equates to an annual revenue reduction of $904,383. As indicated in numbered paragraph 2, KgPCo currently has deferred on its books $9,329,605 of protected excess ADIT. Protected excess ADIT balances must be amortized over periods prescribed in the tax code to avoid a "normalization" violation. The Company has estimated the effective amortization period of its

protected balances to be 21 years[1]. Returning the deferred excess balance to its customers over this period would result in an additional annual revenue reduction of $444,267.

8. Because the change in the corporate tax rate is ongoing, and protected deferred taxes must be amortized over a period specified by the IRS, estimated to be 21 years, the Company proposes to return to customers the current excess FIT expense, and the excess protected ADIT balance, in the form of a credit rider to their respective rate schedules. Given current information, the ongoing annual amount is estimated to be $1,348,650 ($904,383 plus $444,267), as shown in Section A, line 5 of the accompanying Schedule. The allocation of the credits will follow the allocation of base rates approved by the Commission in the Company's most recent base rate case (Docket No. 16-00001). The Company proposes to implement the rider October 1, 2018, with annual true-up filings and adjustments as necessary until the Company's next base rate case. Truing up the actual credits to the excess protected ADIT schedule is necessary to avoid a normalization violation.

9. In addition, the Company proposes to return the excess FIT expense deferred in accordance with paragraph 1 of this Response, for the period of January 1, 2018- September 30, 2018 (expected to be approximately $678,287), over the period October 1, 2018-September 30, 2019.

10. Under the Company's proposal, the customer credit rider for the period October 1, 2018 – September 30, 2019 will reflect the on-going annual credit amount of $1,348,650, and the

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[1] The Average Rate Assumption Method ("ARAM") will be utilized to amortize the excess deferred income tax ("EXDFIT") balance over the remaining useful life of the associated assets as prescribed by the Internal Revenue Service ("IRS"). The Company's tax software will, by the closing of the quarterly financial statements in mid-April, determine the amortization over the remaining life of the assets in accordance with the ARAM. The amortization period of 21 years used in this filing is therefore an indicative estimate.

deferred FIT from the period January 1, 2018 – September 30, 2018 of $678,287, for a total of $2,026,937.

11. The Company proposes to change the customer credit rider October 1, 2019, and each year thereafter until the Commission sets new base rates, to reflect only the on-going annual credit of $1,348,650, plus or minus any under-or over-returned balances (the true-up balances). The Company proposes to amortize the true-up balances over each subsequent 12 month period.

WHEREFORE, the Company respectfully requests that the Commission issue an order:

1. Finding that KgPCo has complied with the Commission's February 6, 2018 Order in Docket No. 18-0001; and

2. Approving KgPCo's ratemaking proposals to account for the tax benefits of the Tax Act.

Respectfully submitted this the 29th day of March, 2018.

KINGSPORT POWER COMPANY d/b/a AEP APPALACHIAN POWER

By: ______________________________

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing **RESPONSE OF RESPONDENT KINGSPORT POWER COMPANY d/b/a AEP APPALACHIAN POWER** has been served by mailing a copy of same by United States mail, postage prepaid, and Email, to below on this the 29th day of March, 2018, as follows:

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HUNTER, SMITH & DAVIS, LLP

By:____________________________
William C. Bovender

Kingsport Tax Reform Impacts Schedule

Section A

Line #			TN Retail	Revenue Basis Factor		Revenue Basis	Amortization Period		Annual Revenue Reduction
			[A]	[B]		[C] = [A] x [B]	[D]		[E] = [C] x [D]
1	Federal Income Tax Expense (Docket No. 16-00001, Attachment A, Schedule 9 of the Stipulation and Settlement Agreement)	$	(1,786,157)						
2	Tax Savings (1-[21%/35%]) x FIT	$	(714,463)	1.266	$	(904,383)	1	$	(904,383)
3	Distribution Excess ADIT Protected (12/31/2017)	$	(7,370,388)	1.266	$	(9,329,605)	21	$	(444,267)
4	Distribution Excess ADIT Unprotected (12/31//2017)	$	(3,367,150)	1.266	$	(4,262,215)	N/A		
5	Estimated Annual Ongoing Credit Rider							$	(1,348,650)
	*Revenue Gross-up Factor			1/[1-21%] = 1.266					

Section B

Journal Entry (on an annual basis) for the excess tax until current rates change (i.e., proposed credit rider starts):

	Reduction in FIT Expense			
Debit Account 449	$	904,383		
Credit Account 229			$	904,383

Section C

Journal Entries for the excess tax on distribution property as of December 31, 2017:

	Protected			
Debit Account 282	$	7,370,388		
Debit Account 190	$	1,959,217		
Credit Account 254			$	9,329,605

	UnProtected	
Debit Account 282/283	$	3,367,150

Debit Account 190	$ 895,065	
Credit Account 254		$ 4,262,215