HUNTER·SMITH·DAVIS LLP

SINCE 1916

Kingsport Office
1212 North Eastman Road
P.O. Box 3740
Kingsport, TN 37664
Phone (423) 378-8800
Fax (423) 378-8801

Johnson City Office
100 Med Tech Parkway
Suite 110
Johnson City, TN 37604
Phone (423) 283-6300
Fax (423) 283-6301

S. Morris Hadden
William C. Bovender
William C. Argabrite
Jimmie Carpenter Miller
Mark S. Dessauer
Gregory K. Haden
Michael L. Forrester
Stephen M. Darden
Edward J. Webb, Jr.
James N. L. Humphreys
Suzanne Sweet Cook
Michael S. Lattier
Scott T. Powers

Respond to:
Kingsport Office
William C. Bovender
423-378-8858
bovender@hsdlaw.com

Leslie Tentler Ridings
Christopher D. Owens
Chad W. Whitfield
Jason A. Creech
Meredith Bates Humbert
Joseph B. Harvey
Rachel Ralston Mancl
Caroline Ross Williams
Marcy E. Walker
Matthew F. Bettis
Teresa Mahan Lesnak *
Michael A. Eastridge *
Jeannette Smith Tysinger*

Of Counsel

KPOW.95206

September 25, 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:

Responses to Consumer Advocate's Second Discovery Request to Kingsport Power Company d/b/a AEP Appalachian Power

Responses to East Tennessee Energy Consumers' Discovery Request to Kingsport Power Company (First Set)

As previously requested, the Excel documents have been converted to PDF for filing purposes and both PDF and Excel versions are on the CD being filed. Excel documents in original native format are on the CDs being served on the parties.

The originals, four (4) copies and CDs are being sent via Federal Express.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

Joseph B. Harvey

Enclosure: As stated

TENNESSEE PUBLIC UTILITY COMMISSION
PETITION OF
Kingsport Power Company
DOCKET NO. TPUC 18-00038
Data Requests and Requests for the Production
of Documents by the EAST TENNESSEE ENERGY CONSUMERS
ETEC's First Set
To Kingsport Power Company

<u>Data Request ETEC 1-001:</u>

With regard to the response to the AG's 1st set of informal discovery, Question No. CPAD 1-8, please explain the basis for the Company's conclusion that "The underlying income tax components of rates would follow that revenue apportionment."

a. What do the words "would follow" mean with regard to the allocation of income tax expense to rate classes?

b. Does the Company agree that the amount of federal income taxes that are included in the rates of each customer class is directly related to the level of pre-tax operating income paid by that rate class, after the approved revenue increase in Docket No. 16-00001? If the Company does not agree, please provide an explanation for your response.

<u>Response ETEC 1-001:</u>

a. The Company proposes to allocate any credit associated with the Tax Cuts and Jobs Act of 2017, to the classes and tariff schedules in the manner in which revenues are recovered consistent with the final order in Docket No. 16-00001, specifically Schedule 12 of the Settlement Agreement.

b. Conceptually yes. However a class cost of service study was not approved in Docket No. 16-00001 nor were rates set based upon the Company's class cost of service study in that proceeding. Furthermore, customers pay commission approved rates for electric service which include federal income taxes as a cost component; they do not directly pay federal income tax expense through their approved electric service rates.

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Data Request ETEC 1-002:

Please provide copies of any Kingsport class cost of service studies that the Company, APCo or AEP has in its possession covering test years for the period 2000 through 2013 (not including the 2014 test year cost study presented in Docket No. 16-00001. For purposes of responding to this request, provide a full copy of the cost of service study showing detail on rate base, revenues, expenses, operating income, income taxes and other items. To the extent that only summary schedules are available, please provide such information.

Response ETEC 1-002:

No such class cost of service studies exist.

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Data Request ETEC 1-003:

Please provide in excel format, with formulas intact, the calculation, by rate class, of the Company's proposed credit rider, as discussed in paragraph No. 8 of the March 29, 2018 filing.

Response ETEC 1-003:

ETEC 1-3, Attachment 1, on the enclosed CD, shows the calculation of the Company's proposed discount to base distribution rates which will apply to all rate classes and base rate schedules, as explained in ETEC 1-3, Attachment 2, which is the Company's proposed Federal Tax Rate Adjustment Rider.

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Data Request ETEC 1-004:

Please provide the current estimate of the accrued excess FIT expense deferral pursuant to the Commission's Order, as discussed in paragraph Nos. 1 and 9 of the March 29th filing. Please confirm that the Company continues to support a 1 year amortization of the accrued amounts.

Response ETEC 1-004:

The underlying estimates for the balances of excess ADIT have not changed. The balances were based on a revenue factor of 1.2658; however, the Company now supports a revenue factor of 1.3528 (see the Company's responses to CPAD 1-03 and ETEC 1-06). The Company continues to support a 1 year amortization of the deferrals discussed in paragraphs 1 and 9.

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Data Request ETEC 1-005:

With regard to the Company's proposal in paragraph No. 9 to return the accrued deferral over a 12 month period beginning October 1, 2018, how is this monthly amount to be allocated and credited to each rate class. Please provide a calculation, by rate class, of the credit associated with this amortization.

Response ETEC 1-005:

Please see ETEC 1-005, Attachment 1.

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Data Request ETEC 1-006:

With regard to the Company's response to CPAD 1-10, is it now the Company's position that the appropriate tax gross-up to be used in calculating the revenue basis of the current tax reduction and the excess protected and unprotected ADIT is 1.3528 rather than 1.2658? If so, please provide an excel spreadsheet with the revised amounts (i.e., an update/revision of the Attachment CPAD 1-1). If the response to this data request is that the Company continues to support the use of a 1.2658 factor, please provide each reason for your response.

Response ETEC 1-006:

The tax gross-up percentage that the Company is using is 1.3528. See ETEC 1-006, Attachment 1, on the enclosed CD, for the revised amounts.

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Data Request ETEC 1-007:

With regard to the Company's response to CPAD 1-18, please provide the classification of the $5,408,840 under-recovery balance between energy related costs and demand related costs. Under the normal operation of the FPPAR, how would this under-recovery balance be allocated to rate classes? For large customer classes that have both a kWh and a kW FPPAR charge, how would the assigned under-recovery for such a rate class be applied to the rate class's kWh and kW charges?

Response ETEC 1-007:

The Company has not classified the $5,408,840 under-recovery balance (July 2018) as either demand or energy related costs. The normal operation of the FPPAR adjusts the established full cost demand and energy FPPAR rates from the Company's last rate case using a scaling factor. As such, updated FPPAR rates change proportionately (demand and energy component wise) to the FPPAR rates previously established.

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Data Request ETEC 1-008:

Please provide the current demand and energy allocation factors, and loss factors, by rate class, used to allocate costs in the Fuel and Purchased Power Adjustment Rider.

Response ETEC 1-008:

Please see the Company's response to ETEC 1-007.

A.	Total Base Rate Margin [Case no. 16-0001]
B.	Annual Reduction to Base Rates March 29, 2018 Letter, Paragraph 8.
C.	Annual Reduction to Base Rates with 1.3528 Revenue Conversion Factor
C/A	% Reduction to Base Rates (applicable to non-rider schedules)

1-003 Attachment 1

28,570,689

1,348,650

1,441,344

5.045%

	Margin [Docket No. 16-00001]	Deferred Current Tax Credit (Estimate - Paragraph 9) Annual	Monthly
Residential Service	7,556,419	179,394	14,950
Small General Service	1,239,234	29,420	2,452
Medium General Service	4,128,203	98,006	8,167
Large General Service	6,866,906	163,025	13,585
Industrial Power Service	3,273,093	77,705	6,475
Church Service	354,945	8,427	702
Public School Service	225,542	5,355	446
Electric Heating General Service	1,035,350	24,580	2,048
Outdoor Lighting Service	679,848	16,140	1,345
Street Lighting Service	1,456,348	34,575	2,881
Total Electric Sales Margin/Credit	26,815,888	636,627	53,052
Other Revenues/Credit	1,754,801	41,660	3,472
Total Margin/Credit	28,570,689	678,287	56,524

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)	1.3528	$	(966,525)	1	$	(966,525)
3	Distribution Excess ADIT Protected (12/31/2017)	$	(7,370,388)	1.3528	$	(9,329,605)	21	$	(444,267)
4	Distribution Excess ADIT Unprotected (12/31//2017)	$	(3,367,150)	1.3528	$	(4,262,215)	N/A		
5	Estimated Annual Ongoing Credit Rider							$	(1,410,792)

*Revenue Gross-up Factor

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