

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

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

DIRECT TESTIMONY

OF

DAVID DITTEMORE

October 31, 2018

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:

FILING OF KINGSPORT POWER
COMPANY d/b/a AEP
APPALACHIAN POWER ("KgPCo")
IN RESPONSE TO THE TENNESSEE
PUBLIC UTILITY COMMISSION
INVESTIGATION OF IMPCAT OF
FEDERAL TAX REFORM ON THE
REVENUE REQUIRMEENT OF
KgPCo

DOCKET NO.
18-00038

AFFIDAVIT

I, David N. Dittemore, Financial Analyst, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Protection and Advocate Division.




DAVID N. DITTEMORE

Sworn to and subscribed before me this 24th day of October, 2018.


NOTARY PUBLIC

My commission expires: May 6, 2019

1 **Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
2 **OCCUPATION FOR THE RECORD.**

3 **A1.** My name is David N. Dittmore. I am a Financial Analyst employed by the
4 Consumer Protection and Advocate Division within the Office of the Tennessee
5 Attorney General (Consumer Advocate). My business address is Office of the
6 Tennessee Attorney General, UBS Tower, 315 Deaderick Street, Nashville, TN
7 37243.

8 **Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND**
9 **PROFESSIONAL EXPERIENCE.**

10 **A2.** I received a Bachelor of Science Degree in Business Administration from the
11 University of Central Missouri. I am a Certified Public Accountant licensed in the
12 state of Oklahoma (#7562). I was previously employed by the Kansas Corporation
13 Commission (KCC) in various capacities, including Managing Auditor, Chief
14 Auditor, and Director of the Utilities Division. For approximately four years, I was
15 self-employed as a Utility Regulatory Consultant representing primarily the KCC
16 Staff in regulatory issues. I also participated in proceedings in Georgia and
17 Vermont, evaluating issues involving electricity and telecommunications
18 regulatory issues. Additionally, I performed a consulting engagement for Kansas
19 Gas Service (KGS), my subsequent employer during this time frame. For eleven
20 years, I served as Manager and subsequently Director of Regulatory Affairs for
21 KGS, the largest natural gas utility in Kansas, serving approximately 625,000
22 customers. KGS is a division of One Gas, a natural gas utility serving

1 approximately two million customers in Kansas, Oklahoma, and Texas. I joined
2 the Office of the Tennessee Attorney General in September 2017 as a Financial
3 Analyst. In total, I have over thirty years of experience in the field of public utility
4 regulation. I have presented testimony as an expert witness on numerous occasions.
5 Attachment DND-1 is a detailed vita of my professional background.

6 **Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE**
7 **TENNESSEE PUBLIC UTILITY COMMISSION (TPUC)?**

8 **A3.** Yes. I have submitted testimony in TPUC Docket Nos. 17-00014, 17-00108, 17-
9 00138, 17-00124, 17-00143, 18-00017, 18-00022 and 18-0067.

10 **Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?**

11 **A4.** The purpose of my testimony is to offer the Consumer Advocate's
12 recommendations on the appropriate ratemaking treatment resulting from the
13 federal Tax Cut and Jobs Act (TCJA) for Kingsport Power Company (Kingsport)
14 and its ratepayers.

15 **Q5. IDENTIFY THE IMPACTS OF THE TCJA ON THE UTILITY'S**
16 **REVENUE REQUIREMENTS.**

17 **A5.** The impacts of the TCJA may be categorized as follows:

18 I. Income Tax Expense Reduction

- 19 a. Historic
20 b. Prospective

II. Excess Accumulated Deferred Income Tax (ADIT)

- a. Protected
- b. Unprotected

Q6. DISCUSS THE IMPLICATIONS OF THE TCJA ON A UTILITY'S INCOME TAX EXPENSE

A6. The largest impact of the TCJA is simply the reduction in Income Tax Expense resulting from the reduction in the federal income tax rate from 35% to 21%. Within the category of Income Tax Expense savings there are two distinct periods to consider; the savings accruing from the date the new tax rate became effective, January 1, 2018 until the date these savings are flowed back to customers (Historic) and the ongoing savings (Prospective).

Q7. HOW SHOULD INCOME TAX EXPENSE SAVINGS BE DETERMINED ASSOCIATED WITH THE TCJA?

A7. There are at least two options that could be used to quantify ongoing Income Tax Expense savings; the Income Tax Expense savings using data from the Utility's most recent rate case or the savings resulting from the Utility's most recent fiscal period. I believe it is appropriate to rely upon the Income Tax Expense embedded in base rates, resulting from the Utility's last rate case. This data has been fully vetted in a prior regulatory proceeding¹ and it represents the costs which are

¹ *In re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power for a General Rate Case, Stipulation and Settlement Agreement*, Attachment A, Schedule 9, TPUC Docket No. 16-00001 (Aug. 4, 2016).

1 currently being incurred by ratepayers. Further, this is the approach Kingsport has
2 used to quantify its ongoing Income Tax Expense savings.²

3 **Q8. DISCUSS THE IMPLICATIONS OF THE TCJA ON A UTILITY'S**
4 **ACCUMULATED DEFERRED INCOME TAX BALANCE (ADIT).**

5 **A8.** The more complex issue is the quantification of the impact on the tax rate change
6 to a utility's ADIT Balance and how the cancellation of these prepaid taxes should
7 be treated for ratemaking purposes. The balance of ADIT represents taxes that have
8 been provided by ratepayers within the revenue requirement calculation, through
9 recovery in base rates, but which the Utility will not pay until some point in the
10 future. Because these balances represent funds provided by ratepayers, they have
11 a zero cost to the Utility. These customer-provided funds finance rate base and are
12 properly reflected as a reduction in rate base since it reduces the funds necessarily
13 provided by the Utility to finance the remainder of its rate base.

14 The reduction in the tax rate effectively cancels a portion of these future tax
15 payments. The reduction in these future tax obligations is referred to as excess
16 ADIT, since the funds are no longer required to pay future taxes.

17 There are two categories of excess ADIT—"Protected" and "Unprotected".
18 "Protected" excess ADIT relates to book and tax timing differences associated with
19 Depreciation Expense. The tax code requires that for ratemaking purposes, the
20 lower book Depreciation Expense, relying upon lower regulatory-determined

² See Kingsport's Response to the Consumer Advocate's Discovery Request CPAD 1-3, Attachment 1, TPUC Docket No. 18-00038 (Aug. 15, 2018).

1 Depreciation Rates, be used within the calculation of Income Tax Expense. The
2 use of a lower book expense, yields a higher taxable income for ratemaking
3 purposes, resulting in a higher level of Income Tax Expense included in base rates,
4 a portion of which will not be paid in the current period. This calculation contrasts
5 with the calculation of taxable income for federal (and generally state) income tax
6 purposes which permit much higher depreciation rates.³ “Unprotected” excess
7 ADIT is comprised of all other book tax timing differences other than Depreciation.

8 **Q9. WHAT IS THE SIGNIFICANCE OF THE EXCESS ADIT CATEGORIES**
9 **“PROTECTED” VERSUS “UNPROTECTED” ADIT?**

10 **A9.** The language of the TCJA prescribes how the excess “Protected” ADIT may be
11 treated in the ratemaking process. The TCJA requires that the balance of the
12 “Protected” ADIT must be amortized as a reduction to the revenue requirement
13 using the Average Rate Assumption Method (ARAM). If the Utility’s records are
14 insufficient to use the ARAM method, it must rely upon the Reverse South Georgia
15 Method (RSGM). Both methods result in an amortization of the excess over the
16 life of the assets giving rise to the liability, although the amortization amount will
17 vary year to year between the two methods.

³ There are several favorable tax deductions available to utilities that greatly contribute to the large building of ADIT balances, including Bonus Depreciation (available in the 2011 – 2017, time frame), Modified Accelerated Cost Recovery Depreciation and the Repair Deduction. This latter deduction is not considered “Depreciation” and therefore is not considered “Protected,” but rather “Unprotected” excess ADIT. See items 532A and 532 EFB contained within Kingsport’s Response to the Consumer Advocate’s Discovery Request CPAD-2-3, TPUC Docket No. 18-00038 (Sept. 25, 2018).

1 The “Unprotected” excess ADIT, comprised of all book/tax timing differences
2 other than Depreciation, may be amortized over a period determined at the
3 discretion of the state utility regulatory body.

4 **Q10. DOES KINGSFORT HAVE SUFFICIENT PLANT RECORDS TO USE THE**
5 **ARAM METHOD?**

6 **A10.** Yes. Kingsport, in response to Consumer Advocate Discovery Request CPAD 1-4
7 indicates it has sufficient documentation to rely upon the ARAM method to
8 amortize its excess “Protected” ADIT.

9 **Q11. DO YOU HAVE ANY PRELIMINARY COMMENTS CONCERNING THE**
10 **PROPOSALS KINGSFORT HAS MADE REGARDING THE**
11 **REGULATORY TREATMENT OF TCJA IMPACTS?**

12 **A11.** Yes. On balance, I believe the proposals put forth by Kingsport are the most
13 ratepayer-friendly of the TCJA proposals presented to date by TPUC jurisdictional
14 utilities in the tax dockets opened by TPUC.⁴ The Kingsport proposal offers to
15 provide immediate flowback to ratepayers of the reduction in Income Tax
16 Expense,⁵ as well as the immediate flowback of the “Unprotected” portion of its
17 excess ADIT⁶. Notwithstanding the generally consumer-friendly nature of the

⁴ The Tax Dockets include the following: No. 18-00001 (opening investigation); No. 18-00034 (Atmos), No. 18-00035 (Chattanooga Gas Company), No. 18-00038 (Kingsport), No. 18-00039 (Tennessee American Water), and No. 18-00040 (Piedmont).

⁵ Kingsport has remained silent on the disposition of Income Tax Expense savings accruing from January 1, 2018 through the disposition of this case. However, I believe this is an oversight and not an indication of its intent to retain such savings.

⁶ The Kingsport proposal contrasts with that of the Chattanooga Gas Company, which proposes to retain the historic portion of its Income Tax Expense reductions. (TPUC Docket Nos. 18-00017 and 18-00035). Although a verbal decision has been issued in TPUC Docket No. 18-00017, a written decision by the Commission is pending. The Tax

1 Kingsport proposal which the Consumer Advocate appreciates, the Consumer
2 Advocate has some recommendations for changes to the Kingsport proposal.

3 **Q12. SUMMARIZE THE KINGSFORT PROPOSALS WITH RESPECT TO**
4 **INCOME TAX EXPENSE SAVINGS.**

5 **A12.** The Company proposes to credit its customers for annual ongoing Income Tax
6 Expense savings in the amount of \$1,441,344⁷ through its Federal Tax Rate
7 Adjustment Rider (Tax Rate Rider). This Tax Rate Rider would flow back Income
8 Tax Expense savings each year as well as the annual amortization of its excess
9 “Protected” ADIT, beginning with the month following adoption of the Tax Rate
10 Rider by the Commission.

11 **Q13. DO YOU SUPPORT THE USE OF THE KINGSFORT TAX RATE RIDER**
12 **TO FLOW BACK THE COST REDUCTIONS ASSOCIATED WITH THE**
13 **TCJA?**

14 **A13.** Yes. I support the use of the proposed tariff Tax Rate Rider to flow back accrued
15 and ongoing Income Tax Expense savings to customers. The result is a pro-rata
16 reduction in revenue across all rate classes.

Dockets for Piedmont (TPUC Docket No. 18-00040) and Tennessee American Water (TPUC Docket No. 18-00039) which propose to delay ratepayer benefit of both its Income Tax Expense Savings and its Unprotected” excess ADIT amortization have not yet been scheduled for a hearing.

⁷ This balance is stated on a gross revenue basis, that is, it has been grossed-up to reflect the reduction in Income Tax Expense associated with the corresponding reduction in revenue. Castle Direct Testimony, pg. 3, lines 1-5, TPUC Docket No. 18-00038 (Sept. 25, 2018).

1 **Q14. WHAT IS KINGSPORT’S PROSPOSAL FOR THE DISPOSITION OF THE**
2 **TAX SAVINGS ACCRUING FROM JANUARY 1, 2018 THROUGH THE**
3 **DISPOSITION OF THIS DOCKET?**

4 **A14.** Kingsport is silent on this issue.

5 **Q15. SHOULD THE SAVINGS ACCRUING FROM JANUARY 1, 2018 FLOW**
6 **TO KINGSPORT’S RATEPAYERS?**

7 **A15.** Yes, absolutely. While the Consumer Advocate supports the flowback of these
8 savings irrespective of the historic level of earnings, Kingsport has indicated it has
9 earned its authorized return on equity in 2017.⁸

10 **Q16. WHAT IS THE BALANCE OF EXCESS ADIT, BOTH “PROTECTED”**
11 **AND “UNPROTECTED” THAT KINGSPORT HAS IDENTIFIED?**

12 **A16.** In its initial Response to the Commission, Kingsport identified a total of
13 \$13,591,820 in total excess ADIT, further split between \$9,329,605 in “Protected”
14 ADIT and \$4,262,215 in “Unprotected” ADIT.⁹ In its testimony, the Company
15 amended its excess ADIT to account for use of a corrected tax gross-up factor.¹⁰
16 The revised information reflects a “Protected” ADIT balance of \$9,970,661 and an
17 “Unprotected” excess ADIT balance of \$4,555,519.

⁸ Filing of Kingsport Power Company d/b/a AEP Appalachian Power (KgPCo) in Response to TPUC’s Investigation of Impact of Federal Tax Reform on the Revenue Requirements of KgPCo (Tax Response), TPUC Docket No. 18-00038, pg. 2 para. 3 (March 29, 2018). See also Castle Direct Testimony, Exhibit 1, pg. 2, para. 3.

⁹ Company’s Tax Response, pg. 2, para. 2. See also Castle Direct Testimony, pg. 2, para. 2.

¹⁰ Castle Direct Testimony, pg. 3, lines 1-2.

1 **Q17. WHAT IS KINGSPORT’S PROPOSAL WITH RESPECT TO THE**
2 **REGULATORY TREATMENT OF THE “PROTECTED” AND**
3 **“UNPROTECTED” EXCESS ADIT?**

4 **A17.** Kingsport proposes to flow back the annual amortization of its “Protected” ADIT
5 over 21 years, pursuant to the ARAM methodology.¹¹ The annual amortization of
6 \$474,793 would be credited to customers through the Company’s proposed Tax
7 Rate Rider¹².

8 The Company proposes to use its “Unprotected” ADIT balance to eliminate its
9 regulatory asset balance associated with storm damage costs in the amount of
10 \$1,505,354.¹³ The Company proposes to use the remaining “Unprotected” ADIT,
11 \$2,756,861, as a partial offset to its outstanding balance of Uncollected Fuel and
12 Purchased Power balance of \$7,418,359 as of February 28, 2018.¹⁴

13 **Q18. DO YOU AGREE WITH KINGSPORT’S PROPOSAL TO FLOW BACK**
14 **ONGOING INCOME TAX EXPENSE SAVINGS THROUGH ITS TAX**
15 **RATE RIDER?**

16 **A18.** Yes. This proposal would return ongoing Income Tax Expense savings to
17 customers immediately following adoption by the Commission. This rapid return
18 of ratepayer costs is in the public interest as it appropriately reflects the reduction

¹¹ Company’s Tax Response, pgs. 3-4, para. 7. *See also* Castle Direct Testimony, Exhibit 1, pgs. 3-4, para. 7.

¹² Castle Direct Testimony, pg. 2, lines 13-14 and 20-21, Exhibit No. 2.

¹³ Company’s Tax Response, pgs. 2-3, para. 4. *See also* Castle Direct Testimony, Exhibit 1, pgs. 2-3, para. 4. Kingsport’s request for Storm Damage cost recovery is pending before the Commission at this time (TPUC Docket No. 17-00143). The Consumer Advocate has recommended a slight reduction in the deferred asset regulatory balance of \$1,504,282. Dittmore Direct Testimony, TPUC Docket No. 17-00143, pg. 4, lines 8-22 (June 20, 2018).

¹⁴ Company’s Tax Response, pg. 3, para. 5. *See also* Castle Direct Testimony, Exhibit 1, pg. 3, para. 5.

1 in the Kingsport revenue requirement due to the significant reduction in ongoing
2 Income Tax Expense.

3 **Q19. WHAT IS YOUR RECOMMENDATION REGARDING THE**
4 **DISPOSITION OF ACCRUED (AND DEFERRED) INCOME TAX**
5 **EXPENSE SAVINGS BEGINNING ON JANUARY 1, 2018?**

6 **A19.** The Income Tax Expense savings accruing from January 1, 2018 should be returned
7 to ratepayers through the Tax Rate Rider. These costs represent a material portion
8 of the Kingsport revenue requirement, and there has been no showing that base
9 rates in effect prior to this material change were anything other than just and
10 reasonable.

11 **Q20. DO YOU AGREE WITH THE KINGSFORT'S PROPOSAL TO**
12 **ELIMINATE ITS OUTSTANDING REGULATORY ASSET BALANCE**
13 **ASSOCIATED WITH STORM DAMAGES, USING A PORTION OF ITS**
14 **"UNPROTECTED" EXCESS ADIT BALANCE?**

15 **A20.** Yes.¹⁵ First, this proposal represents an immediate flow-back of TCJA benefits to
16 ratepayers. Otherwise Kingsport ratepayers would be faced with incurring
17 immediate storm damage surcharge costs. The application of \$1.5 million of the
18 excess 'Unprotected' ADIT against this balance eliminates the need to impose the
19 surcharge, benefitting both Kingsport and its ratepayers. In addition, this is a one-
20 time expense that was incurred due to an act of nature.

¹⁵ See also Dittmore Direct Testimony, TPUC Docket No. 17-00143, pg. 6, line 14 – pg. 8, line 6.

1 **Q21. HAVE YOU REVIEWED KINGSPORT'S ASSIGNMENT OF ITS EXCESS**
2 **ADIT BETWEEN THE PROTECTED AND UNPROTECTED**
3 **CATEGORIES?**

4 **A21.** Yes.

5 **Q22. DO YOU HAVE ANY OBJECTION WITH KINGSPORT'S ASSIGNMENT**
6 **OF ITS EXCESS ADIT BETWEEN THE TWO CATEGORIES?**

7 **A22.** No. I have no objection with its assignment of individual book/tax timing
8 differences between the two categories. Importantly, it has correctly assigned the
9 Repair Deduction into the "Unprotected" category. This is an issue that may prove
10 controversial in other Utility Tax Dockets, but it has been properly identified by
11 Kingsport within this Docket.

12 **Q23. HAVE YOU REIVEWED THE BALANCES OF EACH ADIT CATEGORY**
13 **FOR ACCURACY AND IF SO WHAT ARE YOUR CONCLUSIONS?**

14 **A23.** I have reviewed the balances and believe Kingsport has overstated the appropriate
15 amount of excess ADIT that should be flowed back to ratepayers. I recommend
16 reducing the amount of excess "Unprotected" deferred income taxes flowing to
17 ratepayers by \$621,690.

1 **Q24. WHAT IS THE BASIS FOR YOUR REDUCTION IN CUSTOMER**
2 **REFUNDS ASSOCIATED WITH “UNPROTECTED” EXCESS ADIT?**

3 **A24.** I have removed those book/tax timing differences associated with Operating
4 Expense items that are typically removed from the revenue requirement. The
5 elimination of these ADIT components is necessary to synchronize the treatment
6 of these items within the ADIT balance with the corresponding ratemaking
7 treatment afforded these items within the determination of Operating Expenses.
8 The specific items eliminated from the ADIT balance include:

- 9 1. Accrued Book Pension Expense;
10 2. Accrued Companywide Incentive Compensation; and
11 3. Accrued Other Post-Employment Benefit Costs (OPEB's).

12 **Q25. HAVE YOU OFFERED A SIMILAR ADJUSTMENT IN OTHER**
13 **PROCEEDINGS BEFORE TPUC?**

14 **A25.** Yes. A similar adjustment was submitted verbally within the summary of my
15 testimony in Docket No. 18-00017¹⁶, which were consistent with certain statements
16 made by CGC witness Mr. Tucker in his rebuttal testimony, concerning the
17 importance of synchronizing ADIT with other revenue requirement components.
18 While a decision has been made, an order has not been issued at the time of my
19 writing this testimony, so I am uncertain whether this adjustment has been adopted
20 by TPUC. I reserve the right to modify this proposed adjustment to Kingsport's
21 “Unprotected” excess ADIT balance, after having an opportunity to review the
22 written TPUC order in Docket No. 18-00017.

¹⁶ TPUC Docket No. 18-00017, Hearing Transcript, Volume IIIA, August 22, 2018, pg. 44, line 24 – pg. 46, line 16.

**Q26. DOES YOUR ADJUSTMENT IMPACT THE BALANCE OF
“PROTECTED” EXCESS ADIT?**

A26. No.

**Q27. COULD YOU SUMMARIZE THE CONSUMER ADVOCATE’S POSITION
WITH RESPECT TO THE DISPOSITION OF TAX SAVINGS RESULTING
FROM THE TJCA?**

A27. Yes. The table below summarizes the amounts and positions of the Parties relative
to the various elements of the TCJA.

Table DND-1

Comparison of Consumer Advocate's Proposals vs. Kingsport's Docket No. 18-00038				
Item	Consumer Advocate	Kingsport	Re fund Vehicle	
			Per CPAD	Per Kingsport
Accrued income Tax Expense Savings thru December, 2018	\$ 966,525 @	-	K'Port Federal Tax Rider	None
Ongoing Annual Income Tax Savings	966,525	966,525	K'Port Federal Tax Rider	K'Port Federal Tax Rider
Protected ADIT (Annual)	474,793	474,793	K'Port Federal Tax Rider	K'Port Federal Tax Rider
Subtotal Income Tax Expense	\$ 2,407,844	\$ 1,441,319		
Unprotected ADIT (Total)				
Portion attributed to Storm Damaage	1,504,282	1,505,354	Eliminate Storm Dmge Asset	Eliminate Storm Dmge Asset
Remainder	2,432,547	3,049,727	Uncollected Fuel and Purchased Power Balance	Uncollected Fuel and Purchased Power Balance
Total Unprotected	\$ 3,936,829	\$ 4,555,081 #		
@ Per CPAD 1-3				
# Includes the original remaining Unprotected ADIT with the corrected gross-up factor, a process identified in the testimony of Will Castle.				

1 As indicated on Table DND-1 above, there are only two outstanding differences
2 between the Parties in this Docket:

3 1) whether accrued Income Tax expense should flow back to Kingsport
4 ratepayers for the period January 1, 2018 through the date that the Kingsport
5 Tax Rate Rider becomes effective; and

6
7 2) the amount of “Unprotected” excess ADIT.

8 Kingsport should flow-back all tax savings accruing from January 1, 2018 as the
9 Tax Expense reduction was a material change in its cost of service. Further, there
10 is no evidence indicating Kingsport is under-earning its authorized return on equity,
11 which would undercut an argument which some utilities may advance (for the
12 record, the Consumer Advocate is opposed to such an argument).¹⁷

13 The other difference is simply the adjustment I discussed earlier that eliminates the
14 book/tax timing differences that result from items not reflected in pro-forma
15 Operating Expenses in base rate proceedings.

16 Both Parties agree on the vehicles used to flow back the resulting savings. The
17 Consumer Advocate recommends that \$1,504,282 of “Unprotected” excess ADIT
18 be assigned to eliminate the outstanding balance of its Storm Damage Costs, with
19 the residual unprotected balance of \$2,432,547 being assigned to reduce the balance
20 of Kingsport’s Uncollected Fuel and Purchased Power balance.

¹⁷ Other utilities may argue that earnings deficiencies should be used to offset balances owed to customers. The Consumer Advocate contends in those instances that if a utility is under-earning it should be required to seek base rate relief with the corresponding scrutiny of a rate proceeding and be prohibited from retaining material levels of Income Tax Expense savings based upon such a claim without the full vetting of a base rate case.

1 **Q28. DO YOU BELIEVE CARRYING CHARGES IN THE FORM OF A RATE**
2 **OF RETURN SHOULD BE APPLIED TO IMPACTS OF THE TCJA**
3 **FLOWING BACK TO RATEPAYERS?**

4 **A28.** In general, yes. I believe it is appropriate to accrue Carrying Charges to deferred
5 Income Tax Expense balances. However, I am not supporting that proposal in this
6 instance due to the rapid return of the accrued and ongoing Income Tax Expense
7 reductions recommended in this Docket. If the Commission were to determine that
8 Income Tax Expense flowbacks be extended beyond the one-year proposal in this
9 Docket, then I believe it would be appropriate to apply the pre-tax rate of return to
10 the total Income Tax Expense deferral, based upon the return established in the
11 most recent rate case, adjusted for the application of the new 21% tax rate.

12 **Q29. WHAT ARE THE INITIAL YEARS' BALANCE OF CUSTOMER**
13 **REFUNDS THAT SHOULD BE INCORPORATED INTO THE**
14 **KINGSPORT'S TAX RATE RIDER?**

15 **A29.** The initial annual balance of the Tax Rate Rider should target customer refunds of
16 \$2,407,844 as identified on DND Table 1. Of this amount, \$966,525 represents a
17 one-time refund of accrued Income Tax Expense savings. Subsequent to this first
18 annual Tax Rate Rider tariff, this one-time savings would theoretically have been
19 refunded to customers and the second years' Tax Rate Rider would approximate
20 \$1,441,319.¹⁸

¹⁸ Comprised of the ongoing annual Income Tax Savings of \$966,525 plus the estimated annual amortization of "Protected" excess ADIT of \$474,793.

1 **Q30. YOU HAVE REFERRED TO THESE AMOUNTS AS ESTIMATES.**
2 **PLEASE EXPLAIN WHY THE REFUND AMOUNTS CANNOT BE**
3 **PRECISELY IDENTIFIED.**

4 **A30.** The refunds within the proposed Tax Rate Rider will be applied as a percentage of
5 total estimated customer revenue. Actual customer revenue will vary with total
6 usage that is impacted by customer growth, weather and conservation among other
7 factors.

8 **Q31. ARE YOU PROPOSING THAT KINGSPORT SUBMIT AN ANNUAL**
9 **FILING RECONCILING ACTUAL TAX RATE RIDER CREDITS WITH**
10 **THE TARGETED LEVEL OF INCOME TAX EXPENSE SAVINGS?**

11 **A31.** Yes. Each year at a set time, Kingsport should submit an analysis identifying the
12 subsequent year's credit, incorporating any over/(under) refunding of the prior
13 years targeted savings. This information should also be supplied to the Consumer
14 Advocate and filed publicly so it is transparent for the public. The Parties should
15 have at least 30 days' notice upon which to pose questions or to notify the
16 Commission it has no objection to the following years' credit.

17 **Q32. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 **A32.** Yes.