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**VIA EMAIL ([tpuc.docketroom@tn.gov](mailto:tpuc.docketroom@tn.gov)) & FEDEX**

Robin Morrison, Chairman  
c/o Sharla Dillon, Dockets & Records Manager  
Tennessee Public Utility Commission  
502 Deaderick Street, 4th Floor  
Nashville, TN 37243

RE: FILING OF KINGSFORT 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 Morrison:


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

Rebuttal Testimony of William K. Castle

The original and four (4) copies are being sent via Federal Express.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP



William C. Bovender

Enclosure: As stated

cc: Daniel P. Whitaker, III, Asst. Attorney General (w/enc.)

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**REBUTTAL TESTIMONY OF  
WILLIAM K. CASTLE  
ON BEHALF OF KINGSPORT POWER COMPANY  
D/B/A AEP APPALACHIAN POWER  
BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION  
DOCKET NO. 18-00038**

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

2    A.    My name is William K. Castle. My business address is 1051 E. Cary St, Suite 1100,  
3        Richmond, VA. I am the Director of Regulatory Services VA/TN for Kingsport Power  
4        Company d/b/a AEP Appalachian Power (Kingsport, KgPCo or the Company).

5    **Q.    ARE YOU THE SAME WILLIAM K. CASTLE WHO SUBMITTED DIRECT**  
6        **TESTIMONY ON BEHALF OF KINGSPORT POWER IN THIS CASE?**

7    A.    Yes.

8    **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
9        **PROCEEDING?**

10   A.    I respond to the direct testimony of Office of the Tennessee Attorney General, Consumer  
11        Protection and Advocate Division (CPAD) witness Dittemore and to the direct testimony  
12        of East Tennessee Energy Consumers (ETEC) witness Baron.

13   **Q.    ARE YOU SPONSORING ANY EXHIBITS?**

14   A.    Yes. I am sponsoring the following exhibit:

- 15        •    KgPCo Exhibit No. 1 (WKC): Revised Federal Tax Rate Adjustment Rider

16   **Q.    ARE THERE AREAS OF MAJOR DISAGREEMENT WITH EITHER THE**  
17        **ETEC OR CPAD TESTIMONY?**

18   A.    No, there does not appear to be. ETEC witness Baron disagrees with individual  
19        component provisions of the Company's proposal, but supports the plan if it is approved

1 in its entirety (Baron page 8, line 12). As such, I will not seek to rebut those areas of Mr.  
2 Baron's testimony that differ from the Company's proposal. CPAD witness also supports  
3 the Company's proposal in general, but has brought up two areas that I will discuss.

4 **Q. CPAD WITNESS DITTEMORE RECOMMENDS THAT THE COMPANY**  
5 **REFUND TO CUSTOMERS THE REGULATORY LIABILITY THAT HAS**  
6 **BEEN ACCUMULATING SINCE JANUARY 1, 2018. DO YOU AGREE?**

7 A. Yes. The Company proposed to return the accumulated liability to customers over one  
8 year in its initial response to the TPUC, which was referenced in my direct testimony.  
9 Because the procedural schedule was not published at the time of that initial filing, an end  
10 date for the accumulation of the liability of September 30, 2018, with an effective rider  
11 start date of October 1, 2018 was proposed. Consistent with the CPAD, the Company  
12 now proposes to return to customers a full year (January 1, 2018 – December 31, 2018)  
13 of the accrued liability over the course of one year (January 1, 2019 - December 31,  
14 2019).

15 **Q. CPAD WITNESS DITTEMORE RECOMMENDS REDUCING THE CUSTOMER**  
16 **REFUNDS ASSOCIATED WITH UNPROTECTED EXCESS ADFIT FOR**  
17 **EXPENSE ITEMS TYPICALLY REMOVED FROM THE REVENUE**  
18 **REQUIREMENT CONSISTENT WITH THE CPAD'S RECOMMENDATION IN**  
19 **DOCKET NO. 18-00017. DOES THIS RECOMMENDATION ALIGN WITH**  
20 **THE TREATMENT OF THOSE EXPENSES FOR KINGSPORT?**

21 A. Yes. Based upon the Company's review of the Settlement in Docket No. 16-00001,  
22 expenses related to pensions and incentive compensation were not included in the  
23 settlement cost-of-service. Therefore, the CPAD recommendation to exclude unprotected

1 excess ADFIT related to those expenses is a consistent treatment for ratemaking  
2 purposes, as it applies in this case.

3 **Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSAL, INCORPORATING**  
4 **RECOMMENDATIONS MADE BY THE CPAD AND UPDATED TO REFLECT**  
5 **THE PROCEDURAL SCHEDULE.**

6 A. The Company proposes to return to customers in 2019, via the Federal Tax Rate  
7 Adjustment Rider, \$2,407,877 consisting of \$966,542 of regulatory liability associated  
8 with the projected accrual of tax savings in 2018, an on-going level of annual tax savings  
9 of \$966,542 and the annual amortization of protected excess ADFIT balances equaling  
10 \$474,802. The tax rider will be effective January 1, 2019 and results in an 8.979%  
11 reduction in distribution base rates<sup>1</sup>. The rider will be adjusted January 1, 2020 to reflect  
12 only the on-going annual tax savings and protected amortization, or \$1,441,344. Annual  
13 true-ups of the rider to recognize the actual excess protected ADFIT using the Average  
14 Rate Assumption Method (ARAM) is necessary to avoid a normalization violation. The  
15 rider will be in effect until base rates are changed by the TUPC. Finally, the Company  
16 will use the estimated unprotected excess ADFIT liability balance, of \$3,933,390 to  
17 eliminate the regulatory asset balance of \$1,504,282 associated with the 2013 winter  
18 storm and to reduce the uncollected FPPAR balance with the remaining \$2,429,108.

19 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

20 A. Yes.

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<sup>1</sup> Percentage reduction to rates calculated as follows:  $\$2,407,877 \div \$26,815,888 = 8.979\%$ . \$26,815,888 is authorized margin in Docket 16-0001. See Stipulation and Settlement Agreement Attachment A, Schedule 12.

**KINGSPORT POWER COMPANY**  
d/b/a AEP Appalachian Power  
Kingsport, Tennessee

**First Revised Sheet Number 2-24**  
**T.R.A. Tariff Number 2**

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**FEDERAL TAX RATE ADJUSTMENT RIDER**

Kingsport Power is authorized under the terms of this rider to apply a credit or charge to all customer bills rendered by the Company to reflect the impacts of changes to the Federal Corporate Income Tax Rate not included in base rate or other tariff schedules.

1. Applicability

Credits or charges resulting from changes in the Federal Income Tax Rate not otherwise incorporated in rate schedules in this tariff shall be applied to all Distribution function base rates in the form of a percentage credit or charge to those rates. The credit or charge will apply to the Service, Energy, Demand, and Lamp charge components of the distribution portion of the schedules. The credit or charge is not applicable to Rider schedules in this tariff.

2. Determination of Credit or Charge Percentage

The aggregate credit or charge amounts shall be determined by the Tennessee Public Utility Commission. The percentage credit or charge will remain in place until modified or discontinued by the Tennessee Public Utility Commission.

3. Notification of Change in Charge by the Company

The Company will provide no less than a 30-day notice of the proposed effective date in any change in the federal tax rate adjustment to its customers. The Company will also provide the calculations and other information supporting the proposed purchased power charges to the Staff of the Tennessee Regulatory Authority 30 days prior to the effective date of such charge.

4. Credit or Charge

Pursuant to the provisions of this Rider, a Federal Tax Rate Adjustment Rider credit or charge will be applied to each kilowatt-hour, kilowatt or lamp rate as billed under the Company's filed tariff non-rider schedules.

The Federal Tax Rate Adjustment Rider percentage credit or charge applicable to each schedule for the period January 01, 2019 to December 31, 2019, is a credit or reduction to rates of 8.979%: