

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

August 5, 2019

IN RE:)	
)	
PETITION OF KINGSPORT POWER COMPANY)	DOCKET NO.
D/B/A AEP APPALACHIAN POWER FOR ANNUAL)	18-00125
RECOVERY UNDER THE TARGETED)	
RELIABILITY PLAN AND MAJOR STORM RIDER)	
("TRP & MS RIDER"), ALTERNATIVE RATE)	
MECHANISMS APPROVED IN DOCKET NO. 17-)	
00032)	

ORDER APPROVING THE STIPULATION AND SETTLEMENT AGREEMENT

This matter came before Chair Robin L. Morrison, Commissioner Herbert H. Hilliard, and Commissioner David F. Jones of the Tennessee Public Utility Commission (the "Commission" or "TPUC"), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on May 20, 2019, to hear and consider the *Stipulation and Settlement Agreement* ("*Settlement Agreement*") filed on April 25, 2019 by Kingsport Power Company d/b/a AEP Appalachian Power ("KPC," "Kingsport," or the "Company") and the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General ("Consumer Advocate").

The *Settlement Agreement* is intended to resolve the *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider ("TRP & MS Rider"), Alternative Rate Mechanisms Approved in Docket No. 17-00032* ("*Petition*") filed on November 30, 2018 by the Company.

PROCEDURAL BACKGROUND AND PETITION

KPC is a public utility, subject to TPUC jurisdiction, engaged in the business of distributing electric power service to approximately 48,000 customers in its service area, which includes portions of Sullivan, Washington, and Hawkins Counties, Tennessee, the City of Kingsport, Tennessee, and the Town of Mount Carmel, Tennessee. In TPUC Docket No. 17-00032 the Commission approved two alternative regulatory mechanisms for the Company. First, the Targeted Reliability Plan (“TRP”) and secondly its Major Storm (“MS”) Rider.¹ The TRP consists of Vegetation Management and System Improvement programs and the MS consists of costs associated with major storm damage.

Under the approved riders, Kingsport must track and defer the costs associated with these two mechanisms and then file annually to recover those costs in excess of what has been included in base rates or refund any costs recovered in excess of the amount included in base rates.² The annual filing requires the metrics proposed by the Consumer Advocate in TPUC Docket No. 17-00032, an attestation stating the costs and expenses included in the alternative mechanisms are complete and accurate and reflect amounts on the Company books and records. Pre-Filed Testimony is required to support the annual filing.³

On December 3, 2018, Kingsport filed the *Petition* seeking to recover TRP costs and MS expenses incurred during the annual period of October 2017 – September 2018 which are beyond that included in base rates.⁴ Specifically, Kingsport requested \$2,330,677 of unrecovered TRP & MS costs as of September 30, 2018; representing \$2,224,484 for TRP costs and \$106,193 MS

¹ See *In re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power for Approval of Its Targeted Reliability Plan, and Its TRP & MS Rider, An Alternative Rate Mechanism and Motion for Protective Order*, Docket No. 17-00032, *Order Granting Petition* (November 9, 2017) (hereinafter *Kingsport Initial Rider Order*).

² *Kingsport Initial Rider Order*, p. 5 (November 9, 2017).

³ *Id.* at 11.

⁴ *Petition*, p. 3 (November 30, 2018).

costs. When grossed up to include the prompt payment discount, the Company sought a total recovery of \$2,366,170.⁵

On behalf of Kingsport, Mr. Philip A. Wright, Vice President of Distribution Operations, which oversaw the Company's distribution vegetation management program ("VMP") and other distribution reliability-related programs, submitted Pre-Filed Testimony that included measurements and metrics and described the Major Storm experienced during October 1, 2017 through September 30, 2018 ("Review Period") and the Operation & Maintenance ("O&M") expenses incurred to restore service after the storm.⁶ According to Mr. Wright, during the review period, the Company experienced one major storm on July 20-21, 2018, that left 14,000 Kingsport customers without power. The restoration efforts of the Company resulted in \$498,569 in O&M expenses.⁷

Mr. Wayne Allen's Pre-Filed Direct Testimony filed with the *Petition* outlines the TRP & MS incurred cost on a monthly basis for the period of October 2017 through September 2018.⁸ Ms. Eleanor K. Keeton's Pre-Filed Testimony and exhibits support calculations of the \$2,330,667 TRP & MS costs to include the Prompt Payment Discount which results in the Company seeking to recover \$2,366,170. Using the August 2018 billing determinants, Ms. Keeton allocated the recovery amount from each class.⁹ If approved as filed, an average residential customer's bill would increase \$1.33 per month.¹⁰

⁵ Eleanor K. Keeton, Pre-Filed Direct Testimony, pp. 3-4 (November 30, 2018).

⁶ Philip A. Wright, Pre-Filed Direct Testimony, pp. 2-3 (November 30, 2018).

⁷ *Id.* at 5.

⁸ A. Wayne Allen, Pre-Filed Direct Testimony, pp. 3-4 (November 30, 2018).

⁹ Eleanor K. Keeton, Pre-Filed Direct Testimony, p. 4 (November 30, 2018).

¹⁰ *Id.*

POSITION OF THE CONSUMER ADVOCATE

The Office of the Tennessee Attorney General through the Consumer Advocate was granted intervention on February 1, 2019.¹¹ On behalf of the Consumer Advocate, Mr. William H. Novak submitted Pre-Filed Direct Testimony on February 26, 2019.¹² In his testimony, Mr. Novak asserted that it is too early to assess the effectiveness of the TRP since it has only been in effect since October 2017. Nevertheless, Mr. Novak opines that the two best gauges for assessing its impact on service outages are the System Average Interruption Duration Index (“SAIDI”) and the System Average Interruption Frequency Index (“SAIFI”).¹³ Mr. Novak states, “the SAIDI index measures how long (in minutes) the average service interruption lasts exclusive of major weather events. The SAIFI index measures how often (per year) service is interrupted by these same outages.”¹⁴

In Docket No. 17-00032, Mr. Novak identified fourteen electric distribution utilities that are similarly situated to Kingsport which he referred to as the Kingsport Power Tennessee Peer Group (Peer Group) from which to make SAIDI and SAIFI assessments. As set forth in Table 1 of his testimony, the Kingsport 2017 SAIDI index was 231 minutes, meaning the average service interruption (exclusive of major weather events) for the Company’s customers lasted 231 minutes which was the highest in the Peer Group.¹⁵ Kingsport’s 2017 SAIFI index was 1.35 service interruptions, which was below average for the Peer Group. Based on these numbers, Mr. Novak asserts that it was appropriate for the Commission to address service outages for Kingsport through the TRP & MS Rider.

¹¹ *Order Granting the Petition to Intervene filed by the Consumer Advocate* (February 1, 2019).

¹² William H. Novak, Pre-Filed Direct Testimony (February 26, 2019).

¹³ *Id.* at 6.

¹⁴ *Id.*

¹⁵ *Id.* at 7.

At this time, Mr. Novak concludes that the TRP & MS Rider is an effective tool to timely address service outages and storm restoration costs, and should continue, even though the benefits from the Rider cannot be quantified at this time.¹⁶ Mr. Novak found that the reconciliation by the Company generally reflected the methodologies established in Docket No. 17-00032.¹⁷ However, Mr. Novak disagrees with the Company's proposal to include the impact of the prompt payment discount of \$35,493 within the TRP & MS Rider recovery request calculation and concludes the Company provides no rationale for including the discount in the TRP & MS Rider.¹⁸ The prompt payment discount allows customers to reduce their electric bill by 1.5% by remitting payment before a specified due date, and a majority of customers take advantage of this discount. However, in Docket No. 17-00032, the Company specifically noted that any under- or over-recovered TRP & MS Rider cost would be tracked for each customer class and then trued-up and included with the cost for that particular customer class the following year. As there is a true-up in a subsequent period, Mr. Novak asserts it is inappropriate to include any adjustment for the prompt payment discount within the current filing.¹⁹

Mr. Novak asserts that of the \$3.5 million in TRP & MS expenditures, only \$2.3 million or approximately 66% was paid to third-party vendors. As a result of his review, Mr. Novak recommends the Commission require a full accounting of the Company's internal costs that are assigned to the TRP & MS mechanisms.²⁰ Mr. Novak also recommends that the net 2017–2018 TRP & MS Rider costs be allocated to the customer rate classes in the same manner that was used in the Company's last rate case, pursuant to the Commission's Order in Docket No. 17-

¹⁶ *Id.* at 8-9.

¹⁷ *Id.* at 12-13.

¹⁸ *Id.* at 13-14.

¹⁹ *Id.* at 14.

²⁰ *Id.* at 11.

00032.²¹ Regarding calculation of the TRP & MS surcharge, Mr. Novak recommends that the individual surcharge for each customer class be based on the energy usage (kilowatt hours) for each customer class from the Company's most recent rate case, except for Outdoor Lighting and Street Lighting. Mr. Novak's calculation is based on energy usage instead of billing determinant from bills rendered, billing demand, energy usage, or outdoor lamps to calculate the surcharge from each customer class as done by the Company.²² Mr. Novak opines that the Company's method of calculating the surcharge needlessly complicates the rate calculation and only minimally alters the individual billed surcharge amount.²³

In the closing of his Pre-Filed Testimony, Mr. Novak agrees that the event on July 20, 2018 should be classified as a Major Storm. However, he indicates the Company never specifically defined the term "Major Storm" within the TRP & MS Rider tariff and that this omission creates confusion over the proper classification of a weather event and when any related service restoration costs are appropriate to recover through the rider.²⁴

KINGSPORT'S PRE-FILED REBUTTAL TESTIMONY

In Pre-Filed Rebuttal Testimony on behalf of Kingsport, Mr. Allen disagrees with Mr. Novak's assessment that approximately 66% of the \$3.5 million in total TRP & MS O&M expenses were paid to third-party vendors. Mr. Allen testifies that \$581,511 of the total TRP & MS O&M expenses incurred consisted of a timing difference between the recording of unvouchered liability accruals and the reversing of such accruals.²⁵ Mr. Allen contends that the more appropriate percentage of O&M expenses related to third-party vendors for this TRP and MS review period would be 85% to 90% when the unvouchered liability accruals and compatible

²¹ *Id.* at 15.

²² *Id.* at 16.

²³ *Id.* at 18.

²⁴ *Id.* at 19-20.

²⁵ A. Wayne Allen, Pre-Filed Rebuttal Testimony, pp. 2-5 (March 15, 2019).

unit allocations are added to the \$2.3 million of TRP and MS O&M expenses paid to third-party vendors referenced by Mr. Novak.²⁶ Mr. Allen asserts the Company provided much detailed support in its filing and through discovery to distinguish between internal and external costs sought for recovery under the Rider, and the Company is not opposed to providing additional support in future filings if it would be helpful to the Commission.²⁷

In Pre-Filed Rebuttal Testimony on behalf of the Company, Mr. Wright asserts that a single year of SAIDI performance does not indicate an overall trend.²⁸ According to Mr. Wright, “the Company uses the IEEE Standard 1366-2012 to categorize major events. This industry standard uses a statistical methodology to define ‘major event days.’”²⁹ In response to Mr. Novak’s recommendation that the Company be required to include a definition for the term “Major Storm” in its TRP & MS Rider Tariff sheets, Mr. Wright opines that if directed by the Commission to define “Major Storm,” the tariff should reference the IEEE Standard 1366-2012.³⁰

In Pre-Filed Rebuttal Testimony, Ms. Keeton responds to Mr. Novak’s concerns with cost allocation and rate design. Ms. Keeton disagrees with Mr. Novak’s recommendation to exclude the \$35,493 impact of the prompt payment discount from the TRP and MS Rider and argues that such an exclusion will result in under-recovery.³¹ Her rebuttal testimony points out that the prompt payment discount was included in the calculations for the TRP and MS Rider as approved in Docket No. 17-00032, and that Mr. Novak recommended approval of the calculations outlined by the Company in that proceeding.³²

²⁶ *Id.* at 5.

²⁷ *Id.* at 6.

²⁸ Philip A. Wright, Pre-Filed Rebuttal Testimony, pp. 1-2 (March 15, 2019).

²⁹ *Id.* at 2.

³⁰ *Id.* at 3.

³¹ Eleanor K. Keeton, Pre-Filed Rebuttal Testimony, p. 2 (March 15, 2019).

³² *Id.*

Ms. Keeton also disagreed with the billing determinants recommended by Mr. Novak.³³ The Company asserts it applied identical percentage allocations to distribute the revenue requirement among the different customer classes as prescribed in Docket No. 16-00001 and approved in Docket No. 17-00032, and that Mr. Novak, in his direct testimony in that docket, affirmed the class cost allocations were in compliance with the Order issued in Docket No. 16-00001.³⁴

STIPULATION AND SETTLEMENT AGREEMENT

On April 25, 2019, the Consumer Advocate and Kingsport submitted the *Settlement Agreement*, in compromise and settlement of this matter, for review and approval by the Commission.³⁵ Under the terms of the *Settlement Agreement*, the parties agree to the following:

(1) The *Settlement Agreement* will authorize Kingsport to recover \$2,330,677 from customers through the TRP & MS Rider for eligible reliability and major storm costs incurred for the twelve months ended September 2018;

(2) Customer rate increases will become effective June 1, 2019;

(3) With each subsequent annual filing, Kingsport will provide in its initial filing additional information as set forth in Attachment 1 to the *Settlement Agreement*, along with supporting work papers of invoices paid and details of other incurred costs, in order to provide a fuller explanation of the internal and external costs recovered through the rider;

(4) The rider's revenue requirement will be allocated to tariff subclasses in accordance with the percentages set forth in Attachment 3 to the *Settlement Agreement*, which is consistent with the rate design used in Docket No. 17-00032 and which uses the billing determinants approved in the Company's most recent base rate case;

(5) The rate design set forth in Attachment 3 of the *Settlement Agreement* will be used to establish rates in future TRP & MS cases until such time as the Commission authorizes the Company to change its base rates;

(6) Prompt payment discounts of \$35,493 originally included in Kingsport's requested recovery will be excluded from the rider's revenue requirement; and

³³ *Id.* at 3-4.

³⁴ *Id.* at 3.

³⁵ The *Settlement Agreement* referenced herein is attached as Exhibit A.

(7) IEEE Standard 1366-2012, or any successor thereto, will be used in this case and future TRP & MS proceedings to determine which weather events, if any, qualify as a Major Storm for purposes of recovering eligible costs under the rider.

The Parties jointly recommended that the Commission issue an Order adopting the *Settlement Agreement* in its entirety without modification.³⁶

THE HEARING

The Hearing on the *Settlement Agreement* was held before the voting panel assigned to this docket on May 20, 2019, as noticed by the Commission on May 10, 2019. Participating in the Hearing were:

Kingsport Power Company d/b/a AEP Appalachian Power – William C. Bovender, Esq., Hunter, Smith & Davis LLP, Post Office Box 3740, Kingsport, Tennessee 37664

Consumer Protection and Advocate Division – Wayne Irvin, Esq., Post Office Box 20207, Nashville, Tennessee 37202-4015

During the Hearing, Mr. William K. Castle was sworn and provided a summary of the *Settlement Agreement* on behalf of the Company. Mr. Phillip Wright, Mr. Wayne Allen, Ms. Eleanor K. Keeton, and Mr. William H. Novak were available for questioning before the panel. The parties waived cross-examination. Members of the public were given an opportunity to offer comments, but no one sought recognition to do so.

FINDINGS AND CONCLUSIONS

Upon review of the *Settlement Agreement* filed by the Parties, the hearing panel found the methodologies, adjustments, and procedures relating to the issues contained within Docket No. 18-00125 to be reasonable and acceptable. Further, the panel found that as a result of the agreements reached in the *Settlement Agreement*, the Company is authorized to recover through surcharges to its customers, a revenue requirement of \$2,330,677, as the appropriate amount of

³⁶ *Settlement Agreement*, p. 8 (April 25, 2019).

eligible TRP & MS Rider costs for the twelve months ended September 30, 2018. Therefore, the panel voted unanimously to approve of the *Settlement Agreement* as submitted.

IT IS THEREFORE ORDERED THAT:

1. The *Stipulation and Settlement Agreement*, attached as Exhibit A, filed on April 25, 2019, by Kingsport Power Company d/b/a AEP Appalachian Power and the Consumer Advocate Unit of the Office of the Tennessee Attorney General is approved.

2. Any person who is aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen days from the date of this Order.

3. Any person who is aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty days from the date of this Order.

Chair Robin L. Morrison, Commissioner Herbert H. Hilliard, and Commissioner David F. Jones concur.

ATTEST:



Earl R. Taylor, Executive Director

TPUC DOCKET 18-00125

EXHIBIT A

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE: PETITION OF KINGSFORT POWER)
COMPANY d/b/a AEP APPALACHIAN POWER)
FOR ANNUAL RECOVERY UNDER THE) DOCKET NO. 18-00125
TARGETED RELIABILITY PLAN AND MAJOR)
STORM RIDER ("TRP&MS"), ALTERNATIVE RATE)
MECHANISMS APPROVED IN DOCKET NO. 17-00032)

STIPULATION AND SETTLEMENT AGREEMENT

In compromise and settlement of this matter, Tennessee Public Utility Commission ("TPUC") Docket No. 18-00125, Herbert H. Slatery III, the Tennessee Attorney General and Reporter, by and through the Consumer Advocate Unit in the Financial Division ("Consumer Advocate") and Kingsport Power Company, d/b/a AEP Appalachian Power ("Kingsport," "KgPCo" or "Company") respectfully submit this Stipulation and Settlement Agreement ("Settlement Agreement"). Subject to TPUC's approval, the Consumer Advocate and Kingsport (sometimes herein, the "Parties") stipulate and agree to the following:

1. Kingsport is a public utility regulated by TPUC which provides electric service to approximately 51,000 customers in Tennessee. All of Kingsport's electric power requirements are purchased from Appalachian Power Company. Kingsport's principal office is located in Kingsport, Sullivan County, Tennessee.

2. Kingsport's public utility operations are subject to the jurisdiction of TPUC, pursuant to Chapter 4 of Title 65 of Tennessee Code Annotated.

3. On April 19, 2017, in Docket No. 17-00032, Kingsport sought approval of two alternative rate mechanisms, under T.C.A. § 65-5-103(d), which specifically addressed two

Company initiatives: (1) the Targeted Reliability Plan ("TRP") which consists of the Vegetation Management Program and the System Improvement Plan, and (2) the Major Storm ("MS") recovery mechanism. The Consumer Advocate moved to intervene in that Docket, same being granted.

4. Following discovery, on August 15, 2017, a hearing on the petition in Docket No. 17-00032 was held in said Docket. TPUC issued its Order Approving Petition, on November 9, 2017, granting Kingsport's petition and approving the two alternative rate mechanisms, specifically, the TRP and MS riders (hereafter, "TRP&MS Rider"). TPUC, citing T.C.A. § 65-5-103(d), found that the proposed "...ten year TRP consisting of Vegetation Management and System Improvement [program] should improve service and the reliability of Kingsport's infrastructure at reasonable costs to consumers." (Order, Docket No. 17-00032, page 10). In addition, TPUC "...further found the MS recovery mechanism to be a reasonable approach to account for and recover future costs related to storm damages." (*Id.*).

5. As a result of the Order of TPUC in Docket No. 17-00032, Kingsport is required to make annual filings wherein Kingsport seeks to recover incremental TRP costs and MS expenses incurred during a twelve month period. In the first such annual filing, in this Docket No. 18-00125, Kingsport seeks to recover said incremental TRP costs and MS expenses, for the period October 2017 – September 2018, not reflected in base rates. In Kingsport's last base rate case, Docket No. 16-00001, TPUC set base rates to include \$903,372.00 in distribution reliability Operation and Maintenance ("O&M") expenses and \$392,381.00 for MS related O&M costs. The TRP&MS Rider, thus, permits Kingsport to seek recovery of, or return to customers, any costs above or below the set base rate amounts.

6. As such, Kingsport sought in this proceeding an annual recovery of incremental TRP costs and MS O&M expenses, totaling \$2,330,677 of deferred TRP&MS under-recovered costs, as of September 30, 2018, recorded on Kingsport's books in Account 1823426: The components being an under-recovery of \$2,224,484 for TRP costs and an under-recovery of \$106,193 for MS O&M expenses. These under-recovery balances as of September 30, 2018, are net of the annual level of costs recovered through base rates.¹

7. After grossing up the combined TRP&MS costs to include the Prompt Payment Discount, the Company's requested revenue requirement in this case totaled \$2,366,170. Kingsport allocated this requested revenue requirement to its customer classes, and designed rates, in the same manner as it proposed in its petition in Docket No. 17-00032.²

8. In support of its Petition in this Docket No. 18-00125, Kingsport submitted the direct, Pre-Filed Testimony, supported by exhibits, of Philip A. Wright, A. Wayne Allen, and Eleanor K. Keeton.

9. On February 1, 2019, the Hearing Office granted the Petition to Intervene filed by the Consumer Advocate. Thereafter, on February 26, 2019, the Consumer Advocate filed the direct Pre-Filed Testimony of William H. Novak. Among other things, Consumer Advocate witness Novak's testimony raised concerns about, or made recommendations related to, the following: 1) the inclusion of additional information in future TRP&MS filings regarding external and internal costs; 2) the exclusion of the prompt payment discount from the Company's revenue requirement; 3) revenue allocation; 4) rate design; and 5) the inclusion of a definition of Major Storms in Kingsport's TRP&MS Rider.³

10. On March 15, 2019, Kingsport filed rebuttal testimony of Philip A. Wright, A.

¹ Company witness Allen's Direct Testimony, pg. 4, lines 3-14.

² Company witness Keeton's Direct Testimony, pg. 4, lines 1-10.

³ Consumer Advocate witness Novak's Direct Testimony.

Wayne Allen, and Eleanor K. Keeton.

11. The Parties to the Settlement Agreement have engaged in discovery and have undertaken extensive discussions and "give and take" negotiations to resolve all known disputed issues in this Docket. As a result of the information obtained during informal and formal discovery and the discussions between the Parties, and for the purposes of avoiding further litigation and resolving this matter upon acceptable terms, the Parties have reached this Settlement Agreement.

SETTLEMENT TERMS

Subject to TPUC's approval, in furtherance of this Settlement Agreement, the Parties have agreed to the settlement terms set forth below, as supported by the attachments hereto:

12. Per Consumer Advocate witness Novak's recommendation,⁴ KgPCo agrees to provide, as part of each initial filing in all future TRP&MS Rider proceedings, the type of information provided to the Consumer Advocate in KgPCo's response to CPAD Informal 1-2, Attachment 1, as explained in Company witness Allen's rebuttal testimony.⁵ Settlement Attachment 1, which is the same as KgPCo Rebuttal Exhibit No. 1 (AWA), reflects a summary of the type of information provided in KgPCo's response to CPAD Informal 1-2, Attachment 1. Settlement Attachment 1, along with the supporting workpapers of invoices paid and details of other incurred TRP&MS costs, provide a fuller explanation of internal and external costs that are recovered through the TRP&MS Rider.

13. The Parties agree that IEEE Standard 1366-2012 was used in this proceeding to determine if a weather event qualified as a Major Storm for purposes of recovering eligible Major

⁴ Consumer Advocate witness Novak's Direct Testimony, pg. 3, lines 22-24, and pg. 11, lines 14-16.

⁵ Company witness Allen's Rebuttal Testimony, pg. 6, lines 1-13.

Storm costs under KgPCo's TRP&MS Rider. The Parties further agree that IEEE Standard 1366-2012, or any successor thereto, will be used in future TRP&MS Rider proceedings to determine which weather events, if any, qualify as Major Storms. In lieu of including the definition of Major Storm in KgPCo's TRP&MS Rider tariff, as recommended by Consumer Advocate witness Novak, the Parties have agreed that the description of the process of categorizing weather events as Major Storms, which is patterned after the description contained in Company witness Wright's rebuttal testimony,⁶ satisfies Consumer Advocate witness Novak's stated goal, which is to "help avoid confusion in future filings over when it is appropriate to seek recovery of costs related to weather events."⁷ To be clear, the IEEE Standard 1366-2012 uses a statistical methodology to define Major Event Days (MEDs) and differentiates between normal operations and those during major events. The daily System Average Interruption Duration Index (SAIDI) values for the prior five years are statistically evaluated to determine a daily SAIDI threshold for the upcoming year. If the daily SAIDI for a calendar day exceeds the pre-determined threshold, it is considered a statistical outlier and that day is categorized as an MED. Days below the daily threshold are categorized as days of normal operation. The SAIDI minute threshold is converted to Customer Minutes of Interruption or CMI using the formula $SAIDI = CMI / \text{Customers Served}$. While both Kingsport's CMI and the number of Customers Served will change from year-to-year, in this proceeding with respect to the MS in question, the MED Threshold for Kingsport of $818,815 \text{ CMI} / 48,077 \text{ Customers Served}$ equaled a 17 SAIDI minute Threshold. This was the equivalent of power being off, for 17 minutes, for every customer in KgPCo's service territory. The Company equates Major Storm with Major Event Day.

⁶ Company witness Wright's Rebuttal Testimony, pg. 2, lines 6-21.

⁷ Consumer Advocate witness Novak's Direct Testimony, pg. 20, lines 1-8.

14. The Parties agree that the Company should be allowed to recover in this case, through surcharges to its customers, a revenue requirement of \$2,330,677, as the appropriate amount of eligible TRP&MS Rider costs for the twelve months ended September 2018, and that this revenue requirement excludes, per Consumer Advocate witness Novak's recommendation,⁸ \$35,493 of prompt payment discounts originally included in KgPCo's request in this proceeding. The calculation of the agreed upon revenue requirement is shown on Settlement Attachment 2, which is supported by Company witness Allen,⁹ as referenced in, and summarized on Table 3 of, Consumer Advocate witness Novak's Direct Testimony.¹⁰

15. The Parties agree that the agreed upon revenue requirement in this case, \$2,330,677, should be allocated to the Company's tariff subclasses using the percentages shown in column (1) of Settlement Attachment 3, which the Parties agree reflect the same allocation percentages used in the Company's most recent base rate case (Docket No. 16-00001), as derived from Attachment A, Schedule 13, and Attachment C, to the TPUC-approved Settlement Agreement in that Docket. These allocation percentages are supported by Company witness Keeton.¹¹ The Parties further agree that the tariff subclass allocation percentages shown in Column (1) of Settlement Attachment 3 should be used to allocate TRP&MS Rider revenue requirements in future TRP&MS Rider filings, until such time as the TPUC authorizes Kingsport to change its base rates.

16. The Parties agree that the recovery calculation methodology (rate design) shown on Settlement Attachment 3 (*i.e.*, allocated revenue requirement divided by billing units equals rate) is the same as was contained in KgPCo's petition in Docket No. 17-00032, and was used to

⁸ Consumer Advocate witness Novak's Direct Testimony, pg. 1, line 18 through pg. 14, line 9.

⁹ Company witness Allen's Direct Testimony, p. 4, line 3 through pg. 7, line 7, and KgPCo Exhibit No. 1 (AWA).

¹⁰ Consumer Advocate witness Novak's Direct Testimony, pg. 12, line 4 through pg. 13, line 3.

¹¹ Company witness Keeton's Direct Testimony, pg. 4, lines 5-10, and KgPCo Exhibit No. 1 (EKK).

develop the applicable placeholder rates (*i.e.* energy or demand or customer/service charge) shown in the Company's TRP&MS Rider on file with the TPUC as a result of its November 9, 2017 Order Granting Petition in Docket No. 17-00032. The Parties further agree that it is appropriate to use that rate design in this case and future TRP&MS cases, as it uses the appropriate billing determinants or billing units, as determined in the Company's most recent base rate case, to develop the applicable energy or demand or customer/service charge rates as shown on Settlement Attachment 3.

17. The agreements of the Parties regarding the appropriate revenue requirement, revenue allocation percentages, and rate design in this case, are reflected in the TRP&MS Rider contained in Settlement Attachment 4, which the Parties recommend that TPUC authorize KgPCo to implement, effective June 1, 2019, on a service rendered basis.

GENERAL TERMS AND CONDITIONS OF SETTLEMENT

18. All pre-filed discovery (formal and informal), testimony and exhibits of the Parties will be introduced into evidence without objection.

19. After the filing of this Settlement Agreement, the Parties agree to support this Settlement Agreement before the TPUC and in any hearing, proposed order, or brief conducted or filed in this Docket. The provisions of this Settlement Agreement are agreements reached in compromise, and are solely for the purpose of settlement of this Docket and for use in future TRP&MS Rider filings, per the terms of this Settlement Agreement. The provisions in this Settlement Agreement do not necessarily reflect the positions asserted by any Party. Except to the limited extent necessary for the enforcement and implementation of the provisions herein, none of the Parties to this Settlement Agreement shall be deemed to have acquiesced in or agreed

to any ratemaking or accounting methodology or procedural principle.

20. This Settlement Agreement shall not have any precedential effect in any future proceeding or be binding on any of the Parties in this or any other jurisdiction except to the limited extent necessary to enforcement and implementation of the provisions hereof.

21. The Parties agree and request that the TPUC order that the settlement of any issue pursuant to this Settlement Agreement shall not be cited by the Parties or any other entity as binding precedent in any other non-TRP&MS Rider proceeding before the TPUC, or any court, state or federal, except to the limited extent necessary to implement the provisions hereof and for the limited purpose of enforcement should it become necessary.

22. The terms of this Settlement Agreement have resulted from extensive negotiations between the signatories and the terms hereof are interdependent. The Parties jointly recommend that the TPUC issue an order adopting this Settlement Agreement in its entirety without modification.

23. If the TPUC does not accept the settlement in whole, the Parties are not bound by any position or term set forth in this Settlement Agreement. In the event that the TPUC does not approve this Settlement Agreement in its entirety, each of the signatories to this Settlement Agreement retains the right to terminate this Settlement Agreement by giving notice of the exercise of such right within 15 business days of the date of such action by the TPUC; provided, however, that the signatories to this Settlement Agreement could, by unanimous consent, elect to modify this Settlement Agreement to address any modification required by, or issues raised by, the TPUC within the same time frame. Should this Settlement Agreement terminate, it would be considered void and have no binding precedential effect, and the signatories to this Settlement

Agreement would reserve their rights to fully participate in all relevant proceedings notwithstanding their agreement to the terms of this Settlement Agreement.

24. By agreeing to this Settlement Agreement, no Party waives any right to continue litigating this matter should this Settlement Agreement not be approved by the TPUC in whole or in part.

25. No provision of this Settlement Agreement shall be deemed an admission of any Party. No provision of this Settlement Agreement shall be deemed a waiver of any position asserted by a Party in this Docket or any other docket.

26. The Consumer Advocate's agreement to this Settlement Agreement is expressly premised upon the truthfulness, accuracy and completeness of the information provided by Kingsport to the TPUC and the Consumer Advocate throughout the course of this Docket, which information was relied upon by the Consumer Advocate in negotiating and agreeing to the terms and conditions of this Settlement Agreement.

27. The acceptance of this Settlement Agreement by the Attorney General shall not be deemed approval by the Attorney General of any of Kingsport's acts or practices.

28. Each signatory to this Settlement Agreement represents and warrants that it/he/she has informed, advised and otherwise consulted with the Party for whom it/he/she signs regarding the contents and significance of this Settlement Agreement and has obtained authority to sign on behalf of such Party, and based upon those communications, each signatory represents and warrants that it/he/she is authorized to execute this Settlement Agreement on behalf of its/his/her respective Party.

29. This Settlement Agreement shall be governed by and construed under the laws of the State of Tennessee, Tennessee choice of law rules notwithstanding.

30. Nothing herein limits or alters the Sovereign Immunity of the State of Tennessee or any of its entities or subdivisions.

The foregoing is agreed and stipulated to this 25th day of April, 2019.

[signature pages follow - remainder of page intentionally left blank]

Stipulation and Settlement Agreement

Tennessee Public Utility Commission
Docket No. 18-00125

Signature Page

**KINGSPORT POWER COMPANY d/b/a
AEP APPALACHIAN POWER**

By: _____



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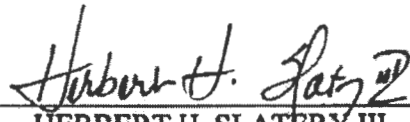
bovender@hdsdlaw.com

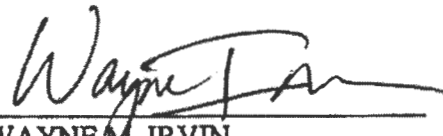
Stipulation and Settlement Agreement

Tennessee Public Utility Commission
Docket No. 18-00125

Signature Page

**OFFICE OF THE TENNESSEE ATTORNEY
GENERAL AND REPORTER
FINANCIAL DIVISION
CONSUMER ADVOCATE UNIT**

By: 
HERBERT H. SLATTERY III
Attorney General and Reporter
State of Tennessee

By: 
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**KINGSPORT POWER COMPANY
TRP&MS O&M EXPENSES
OCTOBER 2017-SEPTEMBER 2018**

Description	Sum of Amount
Accounts Payable Accrual	\$ 2,255,081.92
Accounts Payable Payments	(296.66)
AEPSC Bill - Services Rendered	4,280.88
Allocate cell phone & pager expenses	254.64
Billing Journals	(1,248.50)
Clear Costs For Cancelled Work Orders	1,391.55
Clear misc charges in Fleet accounts	(2,808.97)
Compatible Unit Allocations	63,315.22
Fleet Vehicle Allocations	16,772.37
Indus Work Management	6,932.17
Intercompany Billing	185,180.33
Labor Overheads	8,861.19
MMS Use Tax Accruals/Reversals	(295.01)
Non-labor Compatible Unit allocation	384,807.21
Non-time and labor allocations	0.17
Reallocate Compatible Units	(1,146.22)
Reallocate Labor Overheads	82.06
Record Unvouchered Liability Accruals	4,734,133.44
Reverse Unvouchered Liability Accruals	(4,152,621.84)
Stores Expense Clearing	1,630.79
Time and Labor-Balanced Actuals	6,531.51
Vertex Use Tax Accrual	656.03
Grand Total	\$ 3,511,494.28

KINGSPORT POWER COMPANY
SETTLEMENT TARGETED RELIABILITY PLAN AND MAJOR STORM (TRP&MS) COSTS
OVER/UNDER RECOVERY COMPARED TO LEVEL OF TRP&MS COSTS IN BASE RATES
FOR THE PERIOD OCTOBER 2017 THRU SEPTEMBER 2018
\$

Targeted Reliability Plan											Major Storms			
Monthly O&M	Cumulative Capital Additions	Accum Dep	Assets Def Income Taxes	Net TRP Capital Additions	Monthly Carrying Charge Rate	Pre-tax Return on Capital	Monthly Depreciation Expense	Monthly Total TRP Costs	Monthly TRP Costs in Base Rates	TRP Over/(Under) Recovery	Monthly O&M	Major Storms Expense in Base Rates	Major Storms Over/(Under) Recovery	Net TRP&MS Over/(Under) Recovery
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
				(b-e-f)		(g-h)		(i+j+k)						
Oct-17	66,048							66,048	75,281	9,233	0	32,698	32,698	41,883
Nov-17	42,978	46,666		7,945	0.72817%	333	199	49,470	79,281	41,044	0	32,698	68,998	106,440
Dec-17	41,501	114,184	159	10,821	0.72817%	752	356	42,701	75,281	71,624	0	32,698	98,084	171,718
Jan-18	155,880	290,243	517	24,973	0.83175%	1,294	692	157,816	75,281	(8,913)	0	32,698	230,782	321,881
Feb-18	340,385	381,816	1,309	25,073	0.83175%	2,246	1,226	248,857	75,281	(177,497)	0	32,698	169,190	(11,997)
Mar-18	283,826	444,485	2,435	25,343	0.83175%	2,634	1,470	288,880	75,281	(210,236)	0	32,698	196,188	(194,046)
Apr-18	347,752	617,894	3,908	26,052	0.83175%	5,609	3,728	356,063	75,281	(571,061)	0	32,698	228,886	(642,182)
May-18	279,743	1,050,451	6,634	26,424	0.83175%	6,427	3,105	249,273	75,281	(845,030)	0	32,698	261,584	(583,426)
Jun-18	290,804	1,680,622	9,729	28,524	0.83175%	10,377	4,708	305,994	75,281	(1,075,683)	0	32,698	294,282	(781,401)
Jul-18	964,838	2,217,808	16,449	50,786	0.83175%	13,768	6,257	984,679	75,281	(1,965,081)	0	32,698	326,980	(1,638,101)
Aug-18	(216,608)	2,643,821	20,706	32,839	0.83175%	16,264	7,255	(208,341)	75,281	(1,706,439)	0	32,698	359,678	(1,346,761)
Sep-18	561,972	1,072,674	27,941	35,055	0.83175%	19,014	8,406	599,306	75,281	(2,124,484)	696,569 *	32,698	(106,193)	(7,330,677)
								2,127,816	908,872		696,569	392,176		

* The \$496,569 of major storm O&M costs included in the TRP&MS over/under recovery calculation in Sept. 2018 business consists of costs incurred and recorded on the Company's books in July, August and September 2018 of \$215,081, \$129,270 and \$52,218, respectively, related to a severe thunderstorm that occurred on July 30, 2018.

Kingdom Power Company
TRP & MS Rider
Settlement Revenue Allocation and Rate Calculation

Settlement Revenue Allocation Factor by Tariff Subclass (a)	Revenue (b)	Billing (c)	Energy	Rate/Charge	Customer/Service
(1)	Requirement	Determinants	(d)/kWh	(e)/KW or KVA	(f)/Customer
	(2)	(3)		(4) = (2 / 3)	
Residential - 011, 015, 018, 030, 051	28.30%	\$ 658,980	495,438		\$ 1.33
Small General Service (SGS) - 231, 232, 233	3.12%	\$ 72,818	43,489		\$ 1.67
Medium General Service (MGS) Secondary - 235	14.26%	\$ 332,596	425,067	\$ 0.78	
General Service Time-of-Day (GS-TOD) - 229	0.02%	\$ 363	477,775	0.07636	
Medium General Service (MGS) Primary - 237	0.17%	\$ 4,057	5,381	\$ 0.75	
Large General Service (LGS) Secondary - 240, 242	24.26%	\$ 565,615	667,906	\$ 0.85	
Large General Service (LGS) Primary - 244, 246	1.48%	\$ 34,547	52,670	\$ 0.66	
LGS Subtransmission/Transmission - 248	0.00%	\$ -	0	\$ 0.65	
Industrial Power (IP) Secondary - 327	0.00%	\$ -	0	\$ 0.31	
Industrial Power (IP) Primary - 322	1.88%	\$ 43,753	145,875	\$ 0.30	
Industrial Power (IP) Subtransmission/Transmission - 323, 324	15.88%	\$ 370,350	1,314,816	\$ 0.28	
Church Service (CS) - 221	1.24%	\$ 28,903	9,850,982	0.29340	
Public Schools (PS) - 640, 641, 642	2.78%	\$ 64,713	27,413,429	0.23606	
Electric Heating General (EHG) - 208, 209	3.24%	\$ 75,469	96,863	\$ 0.78	
Outdoor Lighting (OL) - 094 - 126	0.97%	\$ 22,533	65,663		\$ 0.34
(d) Non-Tariff Class (SL)	2.40%	\$ 55,977	N/A	N/A	N/A
Total	100.00%	\$ 2,336,677			

(a) Allocation factors derived from Attachment A, Schedule 13, and Attachment C of the Settlement Agreement in Docket No. 16-00001 (see page 2 of 2)

(b) Excludes Prompt Payment discount per Consumer Advocate Witness Novak's recommendation

(c) 12 months billing determinants from Docket No. 16-00001, Settlement Attachment C, Schedules 1 - 10

(d) Street Lighting (SL) rates determined by contract

Kingsport Power Company
TRP & MS Rider
Tariff Subclass Allocation Development

Tariff Subclass	Total Current Margin* (a)	Total Proposed Margin* (b)	Difference** (b - a = c)	Prompt Pay TRA Imp Fee Recovery*** (d)	Subtotal (c + d = e)	Revenue Allocation Factor Subclass (e / f)	Schedule Total
Residential (RS) - 011, 013	\$ 3,466,273	\$ 6,342,807	\$ 2,876,534	\$ (268,291)	\$ 2,426,242	28.13%	
Residential Employee (RS EMP) - 018, 091	1,390	13,981	12,592	(996)	11,596	0.13%	
Residential Time of Day (RS TOD) - 030, 031	1,769	2,389	620	(49)	571	0.01%	79.29%
Small General Service (SGS) Fixed - 231	908,977	1,167,216	258,239	(16,476)	241,763	2.87%	
Small General Service (SGS) Metered - 232	81,803	100,102	18,299	(742)	17,556	0.38%	
Small General Service (SGS) Non Metered - 233	8,409	12,376	3,967	(161)	3,806	0.04%	3.12%
Medium General Service (MGS) Secondary - 225	2,914,202	4,194,639	1,280,437	(51,653)	1,228,583	14.26%	
Medium General Service Time of Day (MGS TOD) - 229	15,193	16,706	1,513	(61)	1,452	0.02%	
Medium General Service (MGS) Primary - 237	87,753	104,834	16,281	(658)	15,622	0.18%	14.43%
Large General Service (LGS) Secondary - 240, 242	4,366,926	4,745,759	2,178,832	(87,945)	2,090,887	24.26%	
Large General Service (LGS) Primary - 242	321,342	434,308	152,967	(5,371)	127,696	1.48%	21.74%
Industrial Power (IP) Primary - 322	479,748	660,084	180,336	(20,892)	160,244	1.86%	
Industrial Power (IP) Transmission - 324	1,924,299	3,466,841	1,542,542	(171,363)	1,370,679	15.90%	17.76%
Church Service (CS) - 221	239,613	370,937	111,324	(4,382)	106,942	1.24%	1.34%
Public Schools (PS) - 640	79,435	145,391	66,156	(2,665)	63,491	0.74%	
Public Schools (PS) - 641	(880)	7,472	8,353	(738)	8,015	0.09%	
Public Schools (PS) - 642	(66,476)	108,381	174,856	(7,872)	167,784	1.95%	2.78%
Electric Maritime General (EMG) - 308, 309	786,499	1,077,356	290,757	(11,718)	279,039	2.21%	3.24%
Outside Lighting (OL) - 094 - 126	549,402	636,200	86,798	(3,538)	83,261	0.97%	0.97%
Non-Tariff Class (NTC)	1,509,602	1,724,194	314,592	(7,739)	266,853	2.40%	2.40%
Total	\$ 18,037,078	\$ 27,331,172	\$ 9,294,093	\$ (596,810)	\$ 8,698,083	(f)	100.00%

*Current and Proposed Margins from Attachment C of the Settlement Agreement to Decree No. 16-00001

**Net Base Margin by Sub-class, Includes Inspection Surcharge and Prompt Payment Discount

*** Prompted on the basis of margin

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

Sheet Number 21-1
T.P.U.C. Tariff Number 2

TRP & MS RIDER

In accordance with Tennessee Code Annotated § 65-5-103 (d) (2) (A) (ii) and (iii), Kingsport Power is authorized under the terms of this rider to apply a charge to all customer bills on a service rendered basis to recover actually incurred TRP & MS (Targeted Reliability Plan & Major Storm) Rider costs.

1. Calculation of Targeted Reliability Program and Major Storm Rider Recovery

At least annually the Company will file information regarding actual Targeted Reliability Plan (TRP) costs and Major Storm (MS) expenses. The annual change in the Company's TRP & MS Rider recovery amount shall be calculated according to the following formula:

$$\text{TRP \& MSa} - \text{TRP \& MSr}$$

Where

TRP & MSa is the Company's Targeted Reliability Plan and Major Storm actual costs incurred by the Company for the period. The costs will be net of the reliability expenses and major storm expenses approved in the Company's most recent base case (an annual amount of \$1,295,753). In developing the Targeted Reliability Plan return on capital, the Company will use the most recent base case authorized rate of return.

TRP & MSr is the actual revenues received as a result of TRP & MS Rider rates in effect for the same period.

2. Updates to TRP & MS Rider Costs

TRP & MS Rider rates shall remain in effect until such time as new TRP & MS Rider rates are approved by the Tennessee Public Utility Commission.

3. Determination of Adjustments to Surcharges by Tariff

The Company will adjust the level of revenue recovery (positive or negative) under the TRP & MS Rider by the amount of the Calculation described in Section 1 and any remaining prior period over/under recovery balance. Prior period over/under recovery balances result from differences between the Company's actual costs as calculated in Section 1 and actual billing under the Rider in prior reporting periods. The Company will allocate the revenue requirement to the individual tariff class by application of the revenue allocation factors used in the Company's most recent base case, and will use the appropriate billing determinants, as determined in the Company's most recent base case, to develop the TRP & MS Rider tariff charges.

4. 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 Rider charge to its customers. The Company will also provide the calculations and other information supporting the Rider charges to the Staff of the Tennessee Public Utility Commission in advance of the effective date of such charge.

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

Sheet Number 21-2
T.P.U.C. Tariff Number 2

TRP & MS RIDER

5. Charge

Pursuant to the provisions of this Rider, a TRP & MS Rider charge will be applied to each account under the Company's filed tariffs.

The TRP & MS Rider charge applicable to each tariff is set below:

<u>Tariff</u>	<u>Energy Rate</u>	<u>Demand Rate</u>	<u>Service Charge</u>
	(\$)/ kWh	(\$)/ KW or *KVA	(\$)/Customer
<u>Residential</u>			\$1.33
<u>Residential Employee</u>			\$1.33
<u>Residential Time-of-Day</u>			\$1.33
<u>Small General Service (SGS)</u>			\$1.67
<u>Medium General Service (MGS) Secondary</u>		\$0.78	
<u>General Service Time-of-Day (GS-TOD)</u>	0.07636		
<u>Medium General Service (MGS) Primary</u>		\$0.75	
<u>Large General Service (LGS) Secondary*</u>		\$0.85	
<u>Large General Service (LGS) Primary*</u>		\$0.66	
<u>LGS Subtransmission/Transmission*</u>		\$0.65	
<u>Industrial Power (IP) Secondary</u>		\$0.31	
<u>Industrial Power (IP) Primary</u>		\$0.30	
<u>Industrial Power (IP) Subtransmission/Transmission</u>		\$0.28	
<u>Church Service</u>	0.29340		
<u>Public Schools (PS)</u>	0.23606		
<u>Electric Heating General (EHG)**</u>		\$0.78	
<u>Outdoor Lighting (OL)- (per Lamp)</u>			\$0.34

**Demand is measured in accordance with tariff.