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KPOW.97760 **Electronically Filed in TPUC Docket Room on December 23, 2019 at 1:49 p.m.**

January 3, 2020

VIA EMAIL (tpuc.docketroom@tn.gov) & FEDEX

Robin Morrison, Chair
c/o Ectory Lawless, Dockets & Records Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Re: IN RE: PETITION OF KINGSFORT POWER
COMPANY d/b/a AEP APPALACHIAN POWER
FOR OCTOBER, 2018 – SEPTEMBER, 2019
ANNUAL RECOVERY UNDER THE
TARGETED RELIABILITY PLAN AND MAJOR
STORM RIDER (“TRP&MS”), ALTERNATIVE RATE
MECHANISMS APPROVED IN DOCKET NO. 17-00032
DOCKET NO.: 19-00106

Dear Chair Morrison:

On behalf of Kingsport Power Company d/b/a AEP Appalachian Power (“Kingsport”), we submit electronically the Responses of Kingsport to the “Consumer Advocate’s First Discovery Request to Kingsport Power Company d/b/a AEP Appalachian Power.” The original and four copies will be transmitted via FedEx for delivery on Monday, January 6, 2020.

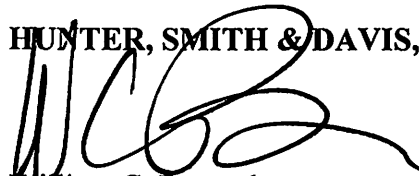
The non-AEPSC/APCo/Kingsport persons listed below as receiving copies are being provided the Discovery Responses electronically and by U.S. Mail today; and, each such person will be receiving a copy of the disc on Monday.

Also, there is a possibility that the response to CPAD 1-36 will be forwarded on Monday, January 6, 2020.

Should there be any questions, contact the writer or Joseph B. Harvey.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP



William C. Bovender

Enclosures: As stated

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Robin Morrison, Chairman

Page 3

January 3, 2020

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BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

| | | |
|---|---|----------------------|
| IN RE: PETITION OF KINGSPORT POWER |) | |
| COMPANY d/b/a AEP APPALACHIAN POWER |) | |
| FOR OCTOBER, 2018 – SEPTEMBER, 2019 |) | |
| ANNUAL RECOVERY UNDER THE |) | DOCKET NO.: 19-00106 |
| TARGETED RELIABILITY PLAN AND MAJOR |) | |
| STORM RIDER (“TRP&MS”), ALTERNATIVE RATE |) | |
| MECHANISMS APPROVED IN DOCKET NO. 17-00032) |) | |

**KINGSPORT POWER COMPANY d/b/a AEP APPALACHIAN POWER RESPONSES TO
CONSUMER ADVOCATE’S FIRST DISCOVERY REQUESTS**

Petitioner Kingsport Power Company d/b/a AEP Appalachian Power Company (“KgPCo”), pursuant to Rule 1220-1-2-.11 of the Rules of the Tennessee Public Utility Commission and the Tennessee Rules of Civil Procedure, and respectfully submits the following objections and responses to the Discovery Requests of Consumer Advocate Unit (“CAU”).

I. General Objections

A. KgPCo objects generally to CAU’s Discovery Requests to the extent any request purports to impose on KgPCo any obligation greater than, in addition to, or inconsistent with the requirements of the Tennessee Rules of Civil Procedure, the Rules of the Tennessee Public Utility Commission (“TPUC” or the “Commission”), and/or any Order issued by the Hearing Officer or Commission in this matter.

B. KgPCo objects generally to CAU’s Discovery Requests to the extent any request purports or could be interpreted to require the disclosure of documents, information, and/or communications protected by the attorney-client, work product, and/or any other applicable privilege.

C. KgPCo objects to the “Definitions” section of CAU’s Discovery Requests to the extent it purports to require KgPCo’s responses to disclose information in the possession of

KgPCo's attorneys, as such definition is intended, or at least could be interpreted, to require the disclosure of documents, information, and communications protected by the attorney-client, work product, and other applicable privileges.

D. KgPCo reserves the right to supplement its responses to CAU's Requests (or any one or more of them) for substance or clarification, upon the discovery of information making such supplementation appropriate.

II. Objections and Responses to Numbered Requests

In response to CAU's numbered Requests, KgPCo responds as follows:

- 1-1. Provide a copy of all internal documentation in any form provided to employees to assist in the identification of appropriate Targeted Reliability Plan (TRP) and Major Storm (MS) costs.

RESPONSE: Targeted Reliability Plan (TRP) costs are identified by running a report, which utilizes filtering to isolate the costs unique to the Kingsport territory and appropriate project types for targeted reliability activity. The project types are AICCB-Asset Imp Circuit Insp/Rep, AIPCB-Asset Imp Pole Replacement, AISCb-Asset Imp Sectionalizing Program, AIUCB-Asset Imp URD, ARCCB-Asset Imp Line Reclosers, PLCCS-Capacity Additions - Cap Std, PLCCS-Capacity Additions - Cap Std, RWWCS-Forestry ROW Widening Cap Std, SLOCB-Small Local Asset Improvement, SWUCB-Asset Imp Small Wire UG, TCRCB-Targeted Circuit Reliability. Major Storm costs are identified by creating unique project identification numbers at the onset of a storm predicted for the Kingsport territory. See CPAD 1-1, Attachment 1, on the enclosed CD, for an example of Kingsport's major storm work order message and accounting, which is emailed to relevant employees engaged in restoration of service during storms.

- 1-2. Provide a comprehensive explanation supporting the Company's efforts to properly identify Tennessee specific TRP and MS costs distinct from similar costs that may be incurred in Virginia.

RESPONSE: Please see the direct testimony of Company witness Wright in Docket 17-00143, pages 13-19 for the actions the Company has taken to ensure the costs in the TRP and MS rider are unique to Kingsport (Tennessee). The Company utilizes a unique set of accounting criteria in order to identify and account for the costs that are distinct to the Kingsport TRP&MS Rider. The Kingsport business unit has a unique number. The Company also creates new project identification

numbers for targeted reliability work as well as for any major storm restoration efforts. Each month, we run a customized query to identify any new projects and review the list to ensure projects included in the expenditure query are allocable to the rider.

- 1-3. Provide an explanation of whether a similar cost recovery mechanism to the TRP and MS have been approved in Virginia. If so, provide a copy (or the docket number) in which such similar cost recovery mechanism has been approved by the Virginia State Corporation Commission.

RESPONSE: Appalachian Power does not have an approved rate adjustment clause for a vegetation management, distribution reliability and grid hardening (TRP) in Virginia, although those mechanisms are potentially available. The Code of Virginia does not have a provision for recovery of expenses associated with major storms through a rate adjustment clause; major storm expenses (MS) are recovered in base rates.

- 1-4. Provide a copy of the 2018 Kingsport FERC Form 1.

RESPONSE: See CPAD 1-4, Attachment 1, on enclosed CD, for Kingsport's 2018 FERC Form 1.

- 1-5. Provide a copy of all exhibits in excel format with cell references intact.

RESPONSE: See CPAD 1-5, Attachments 1, 2, 3, and 4, on the enclosed CD, for Company witness Allen's Exhibit Nos. 1, 2, 4, and 5 in excel format. See CPAD 1-5, Attachments 5, 6, and 7, on the enclosed CD, for Company witness Keeton's Exhibit Nos. 1, 2, and 4 in excel format.

- 1-6. Refer to Exhibit AWA-1. Provide the supporting calculations for the ADIT balances in excel format.

RESPONSE: See CPAD 1-6, Attachment 1, on the enclosed CD, for the requested information in Excel format.

- 1-7. Refer to Exhibit AWA-1. List all the assumptions relied upon in the calculation of ADIT associated with TRP investment.

RESPONSE: No assumptions were relied upon for the calculation of ADIT. Refer to the Company's response to CPAD 1-6 for the calculation of ADIT associated with the TRP investment.

1-8. Confirm that a stand-alone tax return for the Company is not submitted to the IRS, but instead the Company's operating results are incorporated within a consolidated tax return.

RESPONSE: Kingsport's operating results are incorporated within AEP's consolidated tax return.

1-9. Provide a comprehensive discussion of the extent to which the Repair Deduction is (or will be) utilized applicable to the assets included within the TRP. Does the Company or any tax-reporting affiliate claim the Repair Deduction on any TRP assets?

RESPONSE: Kingsport calculates repair deductions in accordance with Internal Rev. Proc. 2011-43. The Company determines whether expenditures that are maintained, replaced, or improve electric transmission and distribution property are capitalized under section 263(a) or are deductible under section 162. For Tax year 2018, the Company claimed the repair deduction on the assets included with the TRP.

1-10. Provide a comprehensive discussion of the extent of the Company's various types of property insurance and the extent that such policies (held in the name of the Company or any affiliate with coverage including its Tennessee assets) provide coverage for damage incurred as a result of "Major Storms".

RESPONSE: Kingsport maintains property insurance coverage normal and customary for an electric utility, subject to various deductibles. Insurance includes coverage for all risks of physical loss or damage to property, subject to insurance policy conditions and exclusions. Covered property generally includes substations, facilities and inventories. Excluded property generally includes distribution and transmission lines, poles and towers.

1-11. Does the Company acknowledge that there are plant retirements associated with TRP qualifying investments? If so, that such retirements would otherwise reduce depreciation expense? If so, does the Company acknowledge that at some point during the life of the TRP, such depreciation expense reductions would be material to the overall calculation of the appropriate Rider charges? If this is not confirmed, provide a comprehensive explanation supporting the Company's conclusion.

RESPONSE: Yes, there are plant retirements associated with the Company's TRP investments. While depreciation expense would no longer be recorded on retired assets associated

with TRP investments, the retirement of plant in service would reduce overall depreciation expense only to the extent that the amount of plant retirements exceeds the amount of plant additions during the same period. The amount of TRP plant additions is expected to far exceed the amount of plant retirements associated with the TRP, so the Company will incur an increase in depreciation expense. Therefore, the Company does not acknowledge that there would be depreciation expense reductions to include in the calculation of TRP&MS Rider charges.

- 1-12. Refer to Ms. Keeton's Testimony (p. 5, including footnote 2). Provide all underlying documentation supporting the determination that each of the storms referred to in Ms. Keeton's Testimony meet IEEE Standard 1366-2012.

RESPONSE: A threshold in Customer Minutes of Interruption (CMI) is calculated according to IEEE Standard 1366-2012 from the previous five years of outage data. This threshold is used to identify days exceeding the threshold as Major Event Days. The threshold in 2018 was 818,815 CMI and the threshold in 2019 is 945,820 CMI. See paragraph 13 of the Stipulation and Settlement Agreement in Docket No. 18-00125 for a description of major storm criteria approved by the Commission.

- 1-13. Refer to Exhibit AWA-2. Provide the billing units by rate class, by month, which reconcile to the monthly Billed and Accrued Surcharge amounts reflected within this Exhibit.

RESPONSE: See CPAD 1-13, Attachment 1, on the enclosed CD, for the TRP&MS Rider billing units by rate class by month. See also CPAD 1-13, Attachments 2 through 5, on the enclosed CD, for the monthly Tariff Summary Billed Revenue for June through September 2019, respectively, which supports the statistical data used to determine the billing units.

- 1-14. Refer to Exhibit EKK-2. Provide a thorough explanation reconciling the percentage revenue requirement by class (28.30% for the Residential class, 3.12% for the Small General Service class, etc.) with the appropriate corresponding data from Attachment A and/or Attachment C of the Settlement Agreement in TPUC Docket No 16-00001.

RESPONSE: See CPAD 1-14, Attachment 1, on the enclosed CD. This attachment was provided as the second page of Attachment 3 in the Stipulation and Settlement Agreement in Docket No. 18-00125.

- 1-15. Refer to TPUC Docket No. 17-00032. Mr. Castle estimated the VMP O&M costs to be \$31 million and capital expenditures to be \$12 million over the life of the program. Provide

updated estimates of such expenditures over the ten-year program, inclusive of costs incurred to date.

RESPONSE: The Company has incurred capital costs totaling \$3,487,758 from the inception of the VMP in October 2017 through September 2019. The Company continues to expect to spend \$12 million in capital over the 10-year program.

The Company has incurred O&M expenses totaling \$6,407,915 from the inception of the VMP in October 2017 through September 2019. The Company continues to expect to spend \$31 million in O&M over the 10-year program.

1-16. Refer to Exhibit EKK-1. When compared to prior periods, the data contained in the Company's Reliability Profile (Exhibit EKK-1) does not indicate enhanced operating performance, exclusive of major storms. In the Company's view, when is it reasonable that the Reliability Profile achieved under the two programs will translate to improved operating results?

RESPONSE: Reduced outages and customer interruptions could easily be recognized immediately upon the completion of an Asset Improvement Project exclusive of major storms. The improvements would be recognized in the project areas. Public contributions i.e. vehicle accidents, customer tree removal, dig-ins, etc. would still affect the operating results in the project area.

Improved operating results from vegetation management work is expected in the year following completion of a particular project area/circuit. However, there will be a lag time for overall improvements in operating performance related to vegetation management of several years. Even though vegetation conditions improve on circuits receiving vegetation management early in the program, the vegetation conditions on circuits not scheduled for work until the latter part of the program will continue to affect performance.

1-17. Refer to Exhibit 5. Provide a listing along with definitions of accounts contained in this Exhibit.

RESPONSE: See CPAD 1-17, Attachment 1, on the enclosed CD, for the requested information.

1-18. Refer to Exhibit 5. Provide a listing of departments as contained in this Exhibit.

RESPONSE: See CPAD 1-18, Attachment 1, on the enclosed CD, for the requested information.

1-19. Refer to Exhibit 5. Provide a listing and comprehensive explanation for the fourteen projects contained in this Exhibit.

RESPONSE: See CPAD 1-19, Attachment 1, on the enclosed CD, for the requested information.

1-20. Refer to Exhibit AWA-4. For the following descriptions, provide a comprehensive explanation of the nature of the costs:

- a. Compatible Unit Allocations.
- b. Non-Labor Compatible Unit Allocation.

RESPONSE: As explained in Company witness Allen's rebuttal testimony on pages 4 and 5 in Docket No. 18-00125, compatible units are work management control processes to administer projects and accumulate associated costs. These costs include labor, materials and equipment utilized for a specific task, such as the installation of a pole or transformer. Compatible unit work orders are established and maintained in the Work Management system. A clearing account (Account 1860092) is charged in conjunction with the compatible unit work orders. The compatible unit allocation is performed to clear the accumulated costs in Account 1860092 and distribute the work order charges to the appropriate capital, retirement and O&M accounts.

a. Compatible Unit Allocations are biweekly allocations of Company labor to compatible unit work orders.

b. Non-labor Compatible unit allocation is a monthly allocation of all non-Company labor transactions charged to compatible unit work orders including accounts payable invoices for third-party contract labor, materials and equipment.

1-21. Confirm that costs recorded in Unvouchered Liability Accruals do not include costs associated with Company labor. If this is not the case, provide the portion of this balance associated with Company labor (estimate if necessary).

RESPONSE: Confirmed.

1-22. Regarding \$603,762 in intercompany billings, are intercompany billings issued for services provided pursuant to an intercompany contract for such services? If so, provide a copy of any contracts covering the provision of such affiliate services.

RESPONSE: Yes, billings between Kingsport and its affiliated companies are provided pursuant to an affiliated transactions agreement. See CPAD 1-22, Attachment 1, on the enclosed CD, for a copy of the current affiliated transactions agreement.

1-23. Provide a comprehensive explanation supporting the distinction in types of costs incorporated within the Accounts Payable accrual contrasted with those costs included in Unvouchered Liability Accruals.

RESPONSE: Accounts Payable accruals are actual payments processed by the Company for which invoices/vouchers have been received. Unvouchered liability accruals are estimated liabilities recorded on the books whenever services or products are provided to the Company before the receipt of an invoice/voucher from a third-party vendor. Unvouchered liability accruals are set-up each month as needed and then reversed on the books in the following month and the actual invoice/voucher is recorded and paid when received.

1-24. Refer to Exhibit 5 as filed with the Company's Petition. Provide a narrative description of the following cost components as shown in column P.

| | | | | | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|
| 13N | 143 | 11S | 11N | 11E | 210 | 413 | 122 | 120 | 141 | 125 | 9A A |
| 738 | 310 | 510 | 620 | 154 | 153 | 145 | 220 | 13E | U3E | 935 | 260 |
| 320 | 393 | 9AB | 520 | 398 | 324 | 290 | 13S | 148 | 149 | 155 | 411 |
| 121 | 780 | 123 | 975 | 978 | | | | | | | |

RESPONSE: See CPAD 1-24, Attachment 1, on the enclosed CD, for the requested information.

1-25. Provide all criteria or policies the Company uses to determine which distribution circuits will receive ROW management as part of the TRP in any given year.

RESPONSE: The distribution circuits chosen to receive vegetation management in any given year are determined through analysis of various data sources including reliability indices, customer inquiries, customer complaints and vegetation inventories which include data such as vegetation height, density, species, and proximity of vegetation in relation to conductors. The scheduling of the work within a given year is determined by factors such as contractor resource availability, contracting method, weather, and vegetation management practices to be utilized.

1-26. Provide all criteria or policies the Company use to determine priority for TRP trimming for distribution circuits.

RESPONSE: See the response for CPAD 1-25.

1-27. Provide a copy of the Company's monthly trial balance for all subaccounts from October 2018 through September 2019, highlighting accounts 1823426, 2543426, and 5933426 (collectively the rider accounts).

RESPONSE: See CPAD 1-27, Attachment 1, on the enclosed CD, for the requested monthly trial balances. Note that the income statement accounts shown on Attachment 1, such as Account 5933426, reflect the cumulative monthly activity in each account for the respective calendar years.

1-28. Identify the date the VMP program was initiated in Tennessee.

RESPONSE: The VMP program in Tennessee was approved in August 2017 and authorized to begin on October 1, 2017. However, work did not begin until January 1, 2018, once contractor tree crews were available.

1-29. Provide a comprehensive explanation of the strategy relied upon by the Company in maximizing the customer benefits of the TRP and Vegetation Management Programs.

RESPONSE: The Company employs objective metrics to determine the circuits that are addressed first as part of the transition to a cycle-based vegetation management plan. At the point that all circuits have been transitioned to a four-year vegetation management cycle, circuits will generally be managed in sequence to stay on the cycle. Similarly, investments in grid infrastructure are determined with objective criteria where possible. These criteria may include number of customers affected, anticipated improvement in reliability statistics, and cost.

1-30. Provide an explanation of how accounts payable accruals are determined and why such estimates are appropriate to include within the TRP and VMP surcharge.

RESPONSE: Refer to the Company's response to CPAD 1-23 for an explanation of Accounts Payable accruals and Unvouchered liability accruals. Accounts Payable accruals are actual payments processed on the books for materials received/services rendered. Unvouchered liability accruals are determined by the value of the Company's current liability for materials received/services rendered but an invoice has not been received and recorded. Unvouchered liability accruals are generally recorded for single invoice liability amounts of \$25,000 or more.

The only estimates included in the TRP&MS rider costs are related to Unvouchered liability accruals that are recorded each month and reversed the following month. As shown on KgPCo Exhibit No. 4 (AWA) and as explained on pages 2-3 of Company witness Allen's rebuttal testimony filed March 15, 2019 in Docket No. 18-00125, any net amounts related to Unvouchered liability accruals are solely a timing difference between the first and last months of the review period and as such, are appropriate to include in the TRP&MS rider costs.

1-31. Confirm that intercompany costs charged to the Company and specifically the VMP and TRP riders are recorded at the cost of the affiliate providing the service. If this is confirmed, provide supporting evidence that such services are provided at cost. If this is

not the case, identify the mark-up embedded on such costs included in the TRP and VMP costs.

RESPONSE: Yes, intercompany billings to Kingsport from affiliates, including the billings for TRP&MS costs, are recorded at the cost of the affiliate providing the services or goods. Refer to Attachment 1 of the Company's response to CPAD 1-22 for the Affiliated Transactions Agreement that describes in Article 1 "each Receiving Company agrees to pay to the Delivering Company the cost of services, goods, facilities or vehicles received".

1-32. Provide a monthly breakdown of Distribution Operating and Maintenance costs by account for the thirty-six-month period ended September 2019.

RESPONSE: See CPAD 1-32, Attachment 1, on the enclosed CD, for the requested information.

1-33. Identify the accounts and their associated balances comprising the \$903,372 and \$392,381 referenced in Mr. Castle's testimony in TPUC Docket 17-00032.

RESPONSE: The \$903,372 for reliability activities expense and \$392,381 for major storm expense were identified on page 4 of the Stipulation and Settlement Agreement approved in Docket No. 16-00001.

See CPAD 1-33, Attachment 1, on the enclosed CD, for the accounts and amounts that comprise the 2014 test year reliability O&M expenses of \$903,372.

The level of major storm expenses of \$392,381 was based on CPAD witness Smith's Exhibit RCS-1, Schedule 3, in Docket No. 16-00001, in which he calculated a 5-year average of 2010-2015 major storm expense excluding the expenses recorded in 2013. The underlying major storm expenses used to calculate this average would have been predominantly recorded in Account 593.

1-34. Confirm that total Distribution costs recoverable in base rates is \$4,329,459. If this is not confirmed, identify the level of Distribution costs the Company believes is included in base rates along with supporting documentation for this amount.

RESPONSE: The Company confirms that \$4,329,459 is the amount of Distribution O&M included in Attachment A, Schedule 4 of the approved Stipulation and Settlement Agreement in the Company's last base rate case, Case No. 16-0001.

1-35. Confirm that the costs recorded in the Operating and Maintenance portion of this request were in fact recorded on the books of the Company to expense and were not deferred to a regulatory asset on their books.

RESPONSE: Refer to KgPCo Exhibit No. 5 (AWA) in the Company's filing for the O&M expense accounts charged on the books with the \$5,973,588 of TRP&MS O&M costs incurred from Oct. 2018 through Sept. 2019. On a monthly basis, the Company records an under or over recovery of TRP&MS costs including O&M expenses on its books for the difference between the total monthly TRP&MS costs incurred and the recovery of such costs through base rates and the TRP&MS Rider. The contra account credited or charged for the monthly TRP&MS under or over recovery, respectively, is Account 5933426 as shown in Attachment 1 to the Company's response to CPAD 1-32.

1-36. Provide all support and underlying documentation for the inclusion of the following line items within the TRP and VM rider:

- a. Journal ID CUMON10604, January 31, 2019, \$655,149.90.
- b. Journal ID APACC78647, November 29, 2018, \$690,426.60.

RESPONSE:

Respectfully submitted this the 3rd day of January, 2020.

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

By: _____



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d/b/a AEP Appalachian Power

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing **KINGSPORT POWER COMPANY d/b/a AEP APPALACHIAN POWER RESPONSES TO CONSUMER ADVOCATE'S FIRST DISCOVERY REQUESTS** has been served by mailing a copy of same by United States mail, postage prepaid, and Email, to below on this the 3rd day of January, 2020, as follows:

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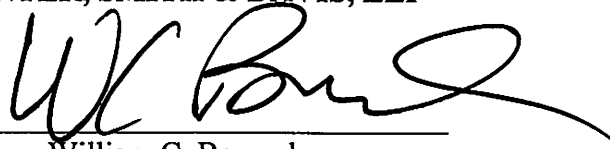
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HUNTER, SMITH & DAVIS, LLP

By: _____

A handwritten signature in black ink, appearing to read 'W.C. Bovender', written over a horizontal line.

William C. Bovender