

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

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

DIRECT TESTIMONY OF
DAVID N. DITTEMORE

February 11, 2020

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

3 **A1.** My name is David N. Dittmore. My business address is Office of the Tennessee
4 Attorney General, War Memorial Building, 301 6th Ave. North, Nashville, TN 37243.
5 I am a Financial Analyst employed by the Consumer Advocate Unit in the Financial
6 Division of the Tennessee Attorney General's Office (Consumer Advocate).

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

9 **A2.** I received a Bachelor of Science Degree in Business Administration from the University
10 of Central Missouri in 1982. I am a Certified Public Accountant licensed in the state of
11 Oklahoma (#7562). I was previously employed by the Kansas Corporation Commission
12 (KCC) in various capacities, including Managing Auditor, Chief Auditor, and Director
13 of the Utilities Division. For approximately four years, I was self-employed as a Utility
14 Regulatory Consultant representing primarily the KCC Staff in regulatory issues. I also
15 participated in proceedings in Georgia and Vermont, evaluating issues involving
16 electricity and telecommunications regulatory matters. Additionally, I performed a
17 consulting engagement for Kansas Gas Service (KGS), my subsequent employer during
18 this time frame. For eleven years I served as Manager and subsequently Director of
19 Regulatory Affairs for KGS, the largest natural gas utility in Kansas serving
20 approximately 625,000 customers. KGS is a division of ONE Gas, a natural gas utility
21 serving approximately two million customers in Kansas, Oklahoma and Texas. I joined
22 the Tennessee Attorney General's Office in September 2017 as a Financial Analyst.
23 Overall, I have thirty years' experience in the field of public utility regulation. I have

presented testimony as an expert witness on many occasions. Attached as Exhibit DND-1 is a detailed overview of my background.

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

A3. Yes. I have submitted testimony in many dockets before the Commission.

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A4. The purpose of my testimony is to provide the Consumer Advocate recommendation in Docket No. 19-00106, the *Petition* of Kingsport Power Company d/b/a AEP Appalachian Power (Company) to update its Targeted Reliability Plan and Major Storm Rider (TRP&MS). The Company is proposing to implement a total Revenue Requirement associated with the Rider of \$6,683,782. This compares with an approved revenue requirement of \$2,330,677, resulting in a proposed increase of \$4,353,105.

Q5. WHAT PORTION OF THE PROPOSED TRP&MS RECOVERIES ARE RELATED TO THE TARGETED RELIABILITY PLAN AND WHAT PORTION RELATES TO THE MAJOR STORM COSTS?

A5. Exclusive of \$740,736 in TRP&MS revenues recovered through the surcharge through September 2019, the TRP&MS revenue requirement is comprised of \$5,613,024 in Targeted Reliability Plan costs and \$1,811,494 in Major Storm costs.¹

Q6. WHAT ARE YOUR RECOMMENDATIONS IN THIS PROCEEDING?

¹ *Petition* at p. 4 and Exhibit No. 1.

1 **A6.** I have reviewed the underlying TRP&MS calculations and found them to be reasonable.²

2 However, I have three issues that I wish to address:

3 1. The calculation of the Accumulated Deferred Income Tax Liability (ADIT) as it
4 relates to the recognition of the Repair Deduction.

5 2. The calculation of Depreciation Expense associated with TRP investments does not
6 include an offset for the reduction in Depreciation Expense associated with plant
7 retirements made as a result of new TRP investment.

8 3. Overview of Reliability Metrics.

9 **I. ACCUMULATED DEFERRED INCOME TAXES**

10 **Q7. WHAT IS THE REPAIR DEDUCTION AND HOW DOES IT IMPACT THE**
11 **RATE BASE COMPONENT OF KINGSPORTS' TRP&MS?**

12 **A7.** The Repair Deduction permits the utility to deduct 50% of the value of qualifying costs in
13 the computation of taxable income – essentially allowing 50% expensing of these costs.
14 However, these same costs are capitalized for financial and regulatory accounting
15 purposes, thereby creating book and tax differences which result in a build-up of
16 Accumulated Deferred Income Taxes (ADIT). The balance of this account represents the
17 recognition of Income Tax Expense on the books of the company (as a proxy for Income
18 Tax Expense collected from ratepayers through base rates) that is in excess of the Income
19 Tax that is actually paid to state and federal taxing authorities. The repair deduction
20 contributes to the increase in the balance of the ADIT account, which in turn is a source

² This does not foreclose the possibility of identifying issues in future filings that were not identified within this case.

1 of cost-free capital that is used to offset capital expenditures (Rate Base) when
2 formulating the revenue requirement.³

3 **Q8. DISCUSS YOUR CONCERN WITH THE IDENTIFICATION OF THE REPAIR**
4 **DEDUCTION WITHIN THE TRP&MS.**

5 **A8.** The Company does not reflect the ADIT balance associated with the Repair Deduction
6 until the fourth quarter of the following year to which the deduction pertains. For
7 example, the Repair Deduction associated with 2018 assets are not recorded on the books
8 of the Company until the fourth quarter of 2019.⁴ This lag in accounting recognition is
9 perhaps reasonable from an accounting perspective; however, the Company's practice
10 should not determine the appropriate ADIT balance in calculating the TRP&MS rider.
11 My concern is that recognition of the Repair Deduction is not matched with the
12 underlying costs of the investment to which it pertains.

13 **Q9. IS THIS LAG IN RECOGNITION OF THE REPAIR DEDUCTION IN THIS**
14 **PROCEEDING MATERIAL TO THE CALCULATION OF THE TRP&MS?**

15 **A9.** The impact the "lagging" of the recognition of the Repair Deduction does not appear to
16 be material to the current TRP&MS calculation, and therefore I am not proposing an
17 adjustment at this time. However, that does not necessarily mean that the lag in
18 recognition of the Repair Deduction will not have a material impact on future
19 calculations.

³ The ADIT is a deduction to rate base, whether in the determination of base rates or a capital surcharge rider such as is one component of the TRP&MS.

⁴ Company's Response to Consumer Advocate Discovery Request No. 2-4(e), TPUC Docket No. 19-00106 (January 28, 2020).

1 **Q10. GIVEN THESE FACTS, WHAT IS YOUR RECOMMENDATION FOR THE**
2 **RECOGNITION OF THE REPAIR DEDUCTION IN FUTURE PROCEEDINGS?**

3 **A10.** I recommend that the Company evaluate this issue in its next TRP&MS filing and
4 indicate that either the matching of the Repair Deduction (either actual or reasonably
5 estimated values) with the TRP&MS investment is not material – in which case it would
6 not be included within the calculation, or include an appropriate calculation of such
7 values in its next TRP&MS calculation. If the Company does not believe such an
8 analysis would yield a material difference in the TRP&MS calculation it should be
9 required to provide analytical support for this conclusion.

10
11 **II. DEPRECIATION EXPENSE**

12 **Q11. PLEASE IDENTIFY THE ISSUE YOU HAVE WITH THE CALCULATION OF**
13 **DEPRECIATION EXPENSE WITHIN THE TRP&MS CALCULATION.**

14 **A11.** The Company will, on occasion, retire certain existing plant when placing new plant in
15 service. The Company has appropriately calculated the incremental Depreciation
16 Expense associated with the new qualifying TRP&MS investment, but there is no offset
17 to reflect the reduction in Depreciation Expense associated with retired plant. The
18 decremental Depreciation Expense would be that computed on retired plant that is taken
19 out of service as a result of new qualifying TRP&MS investment, and from a theoretical
20 standpoint should be recognized within the TRP&MS revenue requirement.

21 **Q12. HAVE YOU QUANTIFIED AN ADJUSTMENT FOR THIS ITEM?**

1 **A12.** No, I have not. Based upon the amount of Depreciation Expense in this case, coupled
2 with the likely age of the retired equipment, the decremental Depreciation Expense may
3 not be material in this case. However, it could be material in future filings.

4 **Q13. WHAT IS YOUR RECOMMENDATION CONCERNING THE RECOGNITION**
5 **OF THE REDUCTION IN DEPRECIATION EXPENSE ASSOCIATED WITH**
6 **RETIRED PLANT WITHIN THE TRP&MS RIDER?**

7 **A13.** Similar to the recommendation with respect to the timely recognition of the Repair
8 Deduction, I recommend the Company evaluate this issue in its next TRP&MS filing and
9 indicate with analytical support, that such calculation would not be material to the
10 TRP&MS calculation, or the Company should include an appropriate offset to TRP&MS
11 Depreciation Expense to quantify the reduction in the expense associated with TRP&MS
12 related plant retirements.

14 **III. PERFORMANCE METRICS**

15 **Q14. NOW TURN TO THE ISSUE OF PERFORMANCE METRICS RELATED TO**
16 **THE TRP&MS. IDENTIFY THOSE METRICS YOU BELIEVE ARE THE**
17 **MOST IMPORTANT TO MONITOR TO GAUGE SUCCESS OF THE**
18 **PROGRAM.**

19 **A14.** I agree with Mr. Novak's testimony in Docket 18-00125⁵ that the System Average
20 Interruption Duration Index (SAIDI) and the System Average Interruption Frequency
21 Index (SAIFI) are the two most relevant measures of the benefits derived from the

⁵ Direct Testimony of William H. Novak, p. 6, TPUC Docket No. 18-00125 (February 26, 2019).

1 TRP&MS mechanism. The SAIDI index measures the duration (in minutes) of the
2 average service interruption, excluding major weather events, while the SAIFI measures
3 the frequency per year that such interruptions occur, excluding major weather events.

4 **Q15. HAVE THE COMPANY'S PERFORMANCE METRICS IMPROVED SINCE**
5 **THE IMPLEMENTATION OF THE TRP&MS?**

6 **A15.** There has been a modest uptick in performance in the reporting period ending September
7 30, 2019 compared with results in in the corresponding period ending September 30,
8 2018.⁶ For example the total⁷ SAIDI, excluding major storms is now 272.4 minutes
9 compared with 284.5 minutes in the prior report. The total SAIFI is 1.603 compared with
10 1.77 in the prior period.

11 **Q16. IS THERE A LAG BETWEEN THE INVESTMENTS IN TRP AND THE**
12 **EXPECTED IMPROVEMENT IN THE SAIDI AND SAIFI INDICES?**

13 **A16.** Yes. The Company has indicated that there will be a lag of up to several years as
14 vegetation management work is completed as those areas that have not been subject to
15 the vegetation management work will continue to deteriorate until the work is performed
16 in those areas.⁸ I do not question this response; however, at the same time, performance
17 should greatly improve in those areas subject to vegetation management and circuit
18 replacement and should more than offset declining results in those areas that have yet to
19 be subject to the program.

⁶ Direct Testimony of Eleanor K. Keeton, Exhibit EKK-1, TPUC Docket No. 19-00106 (November 22, 2019) and Direct Testimony of Philip A. Wright, Exhibit PAW-1, TPUC Docket No. 18-00125 (November 30, 2018).

⁷ "Total" in this context refers to the indices inclusive of Distribution and bulk power. The indices for Distribution only showed similar improvement.

⁸ Company's Response to Consumer Advocate Request No. 1-16, TPUC Docket No. 19-00106 (January 3, 2020).

1 **Q17. DO YOU RECOMMEND CONTINUING TO CLOSELY MONITOR THESE**
2 **COMPANY INDICES?**

3 **A17.** Yes. The underlying justification for implementation of this program, now resulting in a
4 revenue requirement in excess of \$6 million annually, was the need to improve
5 reliability.⁹ I recommend that the Commission continue to be vigilant concerning the
6 Company's reliability metrics in its ongoing assessment of whether the mechanism is in
7 the public interest.

8 **Q18. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A18.** Yes.

⁹ Direct Testimony of William K. Castle at p. 3, ln. 15, TPUC Docket No. 17-00032 (April 19, 2017).

David Dittmore

Experience

Areas of Specialization

Approximately thirty-years experience in evaluating and preparing regulatory analysis, including revenue requirements, mergers and acquisitions, utility accounting and finance issues and public policy aspects of utility regulation. Presented testimony on behalf of my employers and clients in natural gas, electric, telecommunication and transportation matters covering a variety of issues.

Tennessee Attorney General's Office; **Financial Analyst September, 2017 – Current**

Responsible for evaluation of utility proposals on behalf of the Attorney General's office including water, wastewater and natural gas utility filings. Prepare analysis and expert witness testimony documenting findings and recommendations.

Kansas Gas Service; **Director Regulatory Affairs 2014 – 2017; Manager Regulatory Affairs, 2007 - 2014**

Responsible for directing the regulatory activity of Kansas Gas Service (KGS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I have formulated strategic regulatory objectives for KGS, formulated strategic legislative options for KGS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures designed to reduce regulatory risk. Responsible for the overall management and processing of base rate cases (2012 and 2016). I also played an active role, including leading negotiations on behalf of ONE Gas in its Separation application from its former parent, ONEOK, before the Kansas Corporation Commission. I have monitored regulatory earnings, and continually determine potential ratemaking outcomes in the event of a rate case filing. I ensure that all required regulatory filings, including surcharges are submitted on a timely and accurate basis. I also am responsible for monitoring all electric utility rate filings to evaluate competitive impacts from rate design proposals.

Strategic Regulatory Solutions; 2003 -2007

Principal; Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors

Williams Energy Marketing and Trading; 2000-2003

Manager Regulatory Affairs; Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned electric utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

MCI WorldCom; 1999 - 2000

Manager, Wholesale Billing Resolution; Manage a group of professionals responsible for resolving Wholesale Billing Disputes greater than \$50K. During my tenure, completed disputes increased by over 100%, rising to \$150M per year.

Kansas Corporation Commission; 1984- 1999

Utilities Division Director - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric utility regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of \$2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions; consult with attorneys on a daily basis to ensure that Utilities Division objectives are being met.

Asst. Division Director - 1996 - 1997; Perform duties as assigned by Division Director.

Chief of Accounting 1990 - 1995; Responsible for the direct supervision of 9 employees within the accounting section; areas of responsibility included providing expert witness testimony on a variety of revenue requirement topics; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Amoco Production Company 1982 - 1984

Accountant Responsible for revenue reporting and royalty payments for natural gas liquids at several large processing plants.

Education

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) – Not a license to practice

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AT NASHVILLE, TENNESSEE

IN RE:

PETITION OF KINGSPORT 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
MECHANISM APPROVED IN DOCKET
NO. 17-00032

DOCKET NO. 19-00106

AFFIDAVIT

I, David N. Dittmore, on behalf of the Consumer Advocate Unit 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 Advocate Unit.

David N. Dittmore

DAVID N. DITTEMORE

Sworn to and subscribed before me
This 11th day of February, 2020

Tiffany H. Blackman
NOTARY PUBLIC



My Commission Expires: March 22, 2023