

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

October 4, 2021

IN RE:)	
)	
PETITION OF KINGSPORT POWER COMPANY)	DOCKET NO.
D/B/A AEP APPALACHIAN POWER FOR OCTOBER)	20-00127
2019-SEPTEMBER 2020 ANNUAL RECOVERY)	
UNDER THE TARGETED RELIABILITY PLAN AND)	
MAJOR STORM RIDER (“TRP & MS”),)	
ALTERNATIVE RATE MECHANISMS APPROVED)	
IN DOCKET NO. 17-00032)	

ORDER APPROVING THE PETITION

This matter came before Chairman Kenneth C. Hill, Vice Chairman Herbert H. Hilliard, Commissioner Robin L. Morrison, Commissioner John Hie, 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 July 13, 2021, to hear and consider the *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for October 2019 – September 2020 Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider (“TRP&MS”), Alternative Rate Mechanisms Approved in Docket No. 17-00032 (“Petition”)* filed on November 24, 2020 by Kingsport Power Company d/b/a AEP Appalachian Power (“KPC,” “Kingsport,” or the “Company”). In summary, the *Petition* was granted unanimously by the Hearing Panel following a hearing.

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: 1) the Targeted Reliability Plan (“TRP”) and, 2) its Major Storm (“MS”) Rider.¹ The TRP consists of vegetation management and system improvement programs and the MS consist 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 Unit in the Financial Division of the Office of the Tennessee Attorney General (“Consumer Advocate”) and approved by the Commission in TPUC Docket No. 17-00032, and an attestation stating that the costs and expenses included in the alternative mechanisms are complete, accurate, and reflect amounts on the Company books and records. In addition, pre-filed testimony is required to support the annual filing.³

On November 24, 2020, Kingsport filed the *Petition* in accordance with Docket No. 17-00032 and the settlement agreement approved in Docket No. 18-00125.⁴ The *Petition* seeks to

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 *Kingsport Initial Rider Order; Petition of Kingsport Power Company d/b/a AEP Appalachian Power for Approval of Annual Recovery of Its Targeted Reliability Plan and Major Storm Rider, Alternative Rate Mechanisms*, Docket No. 18-00125, *Order Approving Settlement and Stipulation* (August 5, 2019).

recover TRP and MS expenses incurred during the annual period of October 1, 2019 – September 30, 2020, which are not recovered through base rates or offset by TRP and MS rider revenues.⁵

Specifically, Kingsport requests \$8,488,738 of unrecovered TRP and MS costs consisting of an under-recovery of \$10,355,252 in TRP costs and an under-recovery of \$2,252,034 for MS expenses, which are then offset by TRP and MS rider revenues of \$4,118,548.⁶ The *Petition* states that if approved, an average residential customer will experience a \$1.03 monthly increase in their bill. The TRP and MS alternative rate mechanism is designed to allow the Company to recover or return any costs above or below the Commission set base rates, last approved in Docket No. 16-00001. The requested under-recovered amount is in excess of \$903,372 in distribution and reliability Operation and Maintenance (“O&M”) expenses and \$392,376 for MS-related expenses recovered through base rates.⁷

In pre-filed testimony submitted by the Company in support of the *Petition*, Ms. Eleanor K. Keeton provided an overview regarding reliability information and metrics for the review period, October 1, 2019 through September 30, 2020 (“Review Period”). According to the Company, the TRP is designed to improve reliability for Kingsport’s customers through two components: a vegetation management program (“VMP”) and a system improvement plan (“SIP”). The VMP’s initial focus is on right-of-way (“ROW”) clearing, followed by a vegetation management program that addresses each circuit every four years.⁸ The Company is currently in the initial four-year cycle of the vegetation management component and expects it to be completed in 2021. The SIP is being phased in over a ten-year period and concentrates on circuit improvements, circuit inspections, and station improvements.

⁵ *Petition*, p. 4.

⁶ *Id.*

⁷ *Id.*

⁸ Eleanor K. Keeton, Pre-Filed Direct Testimony, pp. 3-4 (November 24, 2020).

Ms. Keeton attests that during the most recent Review Period, the Company completed vegetation management activities under the VMP on 293 miles of ROWs and performed work on 39 of the 67 targeted distribution circuits since the program's inception.⁹ According to Ms. Keeton, the Company completed the inspection of 3,998 wood poles, 271 overhead circuit miles and over 1,600 underground structures. The Company further replaced 59 wood poles under the SIP.¹⁰ Ms. Keeton also describes one major storm event which occurred during the review period.¹¹ The duration of this event was 56.6 hours and it caused damage to poles, crossarms, conductors, and insulators, which resulted in power outages for 20,930 customers.¹²

According to Ms. Keeton, the Company is seeking to recover is \$8,488,738 and excludes the Prompt Payment Discount in compliance with the settlement agreement approved in Docket No. 18-00125.¹³ Ms. Keeton provided calculations reflecting typical monthly bill increases for all customer classes by comparing the rates effective November 1, 2020 to the proposed rates under the TRP and MS Rider increase. Other customer classes including Small, Medium and Large General Service and Industrial Power Customers will see increases of between 0.6% and 2.6% depending on energy/demand consumption.¹⁴

On behalf of the Company, Mr. A. Wayne Allen provided testimony and exhibits in support of the under-recovery of TRP and MS costs during the current review period, including (1) the revenues and any over or under-recovery recorded from the TRP and MS Rider, (2) a summary by category of O&M expenses incurred during the review period, and (3) a listing of TRP and MS project descriptions. Further, Mr. Allen discusses two issues that were raised by the Consumer

⁹ *Id.* at 4.

¹⁰ *Id.* at 7.

¹¹ *Id.* at 6.

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.* at 7; Exhibit EKK No. 4.

Advocate in Docket No. 19-00106 related to accumulated deferred income taxes and depreciation expense.¹⁵

Mr. Allen summarized the monthly O&M expenses attributed to the January 11, 2020 major storm resulting in the inclusion of \$600,735 expenses for the review period. Additional expenses were incurred during this period related to the December 9, 2018 and February 24, 2019 major storms that were discussed in Docket No. 19-00106.¹⁶ The rate used by Kingsport to calculate the return on TRP capital investments was the same annual pre-tax carrying charge rate of 7.581% that the Company used in the prior TRP and MS docket for January 2018 and subsequent months. Mr. Allen opines that the 7.581% carrying charge rate is consistent with the 8.738% annual rate approved by the Commission in Docket No. 16-00001, except that the 7.581% reflects the reduction in the corporate federal income tax rate from 35% to 21% effective January 2018.¹⁷ The Company will continue to use the 7.581% pre-tax carrying charge rate in its TRP and MS cost calculations until a new capital structure/cost of capital is approved in its next base rate case.¹⁸

In Docket No. 19-00106, the Consumer Advocate's witness, David Dittmore, raised two issues: 1) the recognition of the Repairs Deduction in the calculation of accumulated deferred income taxes ("ADIT") and 2) the recognition of an offset to depreciation expense related to retirements associated with new TRP capital investments. Mr. Allen testified that although the Company did claim the Repairs Deduction on its 2018 and 2019 federal income tax returns, it has not previously included the deduction in the calculation of ADIT to determine recoverable TRP and MS costs. However, Mr. Allen asserted that a retroactive adjustment was recorded on the

¹⁵ A. Wayne Allen, Pre-Filed Direct Testimony, pp. 3–4 (November 24, 2020).

¹⁶ *Id.* at 9-10.

¹⁷ *Id.* at 10.

¹⁸ *Id.*

Company's books in October 2020 to incorporate the Repairs Deduction from January 2018 through September 2020.

The inclusion of the Repairs Deduction increased ADIT for each month and resulted in a reduction in the pre-tax return on net capital by a cumulative amount of \$19,628. The TRP and MS under-recovery balance as of October 31, 2020 was reduced by this amount and this adjustment will be reflected in the Company's 2021 TRP and MS true-up filing. Going forward, Mr. Allen attests that future ADIT calculations will include the Repairs Deduction.¹⁹

According to Mr. Allen, the issue raised by the Consumer Advocate regarding depreciation retirements associated with capital investments to date has been addressed by the Company. The Company recorded a total of \$101,328 of retirements on its books from October 2017 through September 2020 charged to TRP capital investments. According to Mr. Allen, this would have amounted to a total of \$4,342 in depreciation expense had the Company not recorded the depreciation expense on the retirement of \$101,328 in TRP assets.

The Company has not adjusted the TRP and MS costs related to an offset for the depreciation expense that the company no longer incurs related to retirements charged to the TRP projects. Mr. Allen asserts that it would be inappropriate to include any offsets in the TRP and MS rider since the retired assets would be part of the Company's base rates and the TRP and MS rider is not intended to recover all net costs associated with reliability activities and major storms, except for those costs incurred beginning October 2017 that are in excess of the level of such costs being recovered in base rates.²⁰

¹⁹ *Id.* at 10-11.

²⁰ *Id.* at 12-13.

The ADIT and depreciation expense issues were discussed by the Company with the Consumer Advocate on November 5, 2020. The Company asserts that the potential impacts of the issues are immaterial to the calculation of TRP and MS costs. However, the Company agreed to reflect the Repairs Deduction in the calculation of ADIT on both a retroactive and a going forward basis regarding the calculation of TRP and MS costs.²¹

POSITION OF THE CONSUMER ADVOCATE

The Consumer Advocate was granted intervention in the proceedings on February 12, 2021.²² On April 16, 2020, Mr. Craig C. Cox filed direct testimony on behalf of the Consumer Advocate. Mr. Cox testified that he reviewed \$10,355,252 in TRP costs and \$2,252,034 in MS costs and found the amounts to be reasonable. These amounts are exclusive of \$4,118,548 in TRP and MS revenues collected via surcharges through September 30, 2020 and represent net under-recovered TRP and MS costs in the amount of \$8,488,738. Mr. Cox discussed two points that he recommended be addressed by the Commission and the Company:²³

- 1) An annual comparison of actual life-to-date TRP costs (both capital expenditures and O&M expenses) to the original 10-year projections of such costs as provided by the Company in TPUC Docket No. 17-00032; and
- 2) An overview of reliability metrics.

In his testimony, Mr. Cox stated that a comparison of how actual costs compare with projected costs would provide a valuable perspective from a consumer standpoint and an additional measure of accountability for the Company. He asserted that, considering all costs for recovery will ultimately be borne by customers, ensuring there are adequate explanations for costs exceeding \$54.5 million in ten-year cumulative capital expenditures and \$36.3 million in ten-year cumulative

²¹ *Id.* at 13.

²² *Order Granting Petition to Intervene filed by the Consumer Advocate* (February 12, 2021).

²³ Craig C. Cox, Pre-Filed Direct Testimony, p. 2 (April 16, 2021).

O&M expenses is important. Therefore, Mr. Cox recommended the Company provide a running life-to-date comparison of TRP expenditures for each year when making its annual TRP and MS filing with the Commission in a format in Figure 1 of his testimony. Figure 1 is reproduced below.

Year	Actual TRP Capital Expenditures	Projected TRP Capital Expenditures	Difference	Actual TRP O&M Expenses	Projected TRP O&M Expenses	Difference
1		\$2,977,919			\$3,927,221	
2		\$3,039,155			\$4,001,200	
3		\$3,086,828			\$4,076,617	
4		\$3,136,783			\$4,153,545	
5		\$7,076,257			\$3,223,612	
6		\$7,093,020			\$3,273,900	
7		\$7,110,117			\$3,325,193	
8		\$7,127,557			\$3,377,512	
9		\$6,908,632			\$3,430,877	
10		\$6,922,042			\$3,485,310	
Total		\$54,478,310			\$36,274,987	

Mr. Cox clarified that the amounts shown for actual TRP O&M expenses each year should include amounts covered by the \$903,372 allotted for TRP expenses in base rates along with additional TRP expenses included for recovery in this rider.²⁴

Additionally, Mr. Cox concurred with the Consumer Advocate’s testimony of Mr. William H. Novak filed in Commission Docket No. 18-00125 regarding reliability metrics to monitor and assess the success of the program.²⁵ The reliability metrics are the System Average Interruption Duration Index (“SAIDI”) and the System Average Interruption Frequency Index (“SAIFI”), which Mr. Cox agrees are the two most relevant measures of the benefits derived from the TRP and MS Rider mechanism. The SAIDI index measures service interruptions in minutes excluding

²⁴ *Id.* at 4.

²⁵ *Id.*

major weather events, while SAIFI measures frequency per year of such interruptions excluding major weather events.

According to Mr. Cox, since inception of the TRP and MS Rider, there have been modest improvements in these performance metrics. He asserts that during the 2020 time period, SAIDI (excluding major storms) improved to 252.0 minutes from 274.4 minutes over the same period in the 2019 report.²⁶ The total SAIFI (excluding major storms) interruptions as of September 30, 2020 were 1.601, which was a modest improvement compared with 1.603 interruptions for the same time period ending 2019. When comparing these metrics for the period ending September 30, 2017, SAIDI (excluding major storms) improved slightly to 252.0 minutes in 2020 from 253.4 in 2017, and SAIFI (excluding major storms) improved to 1.601 interruptions from 1.715.²⁷

The underlying justification for implementing this program was the need to improve the Company's service reliability which now has a revenue requirement in excess of \$8 million, Mr. Cox recommended that the Commission continue to closely monitor the Company's SAIDI and SAIFI indices to assess whether this mechanism remains in the public interest.²⁸

KINGSPORT'S RESPONSE TO THE CONSUMER ADVOCATE'S PRE-FILED TESTIMONY

On May 11, 2021, Kingsport filed a *Letter in Lieu of Rebuttal Testimony*, which stated that it did not object to the Consumer Advocate's recommendation that the Company provide a running life-to-date of TPR expenses in the recommended format. The Company further noted that the Consumer Advocate did not propose a change in the *Petition's* proposed revenue requirement. In its letter, KPC did not disagree with Mr. Cox's recommendation that the Commission should continue to monitor the Company's performance metrics.

²⁶ *Id.* at 5.

²⁷ *Id.*

²⁸ *Id.* at 5-6.

In a letter from the Consumer Advocate, also dated May 11, 2021, the Consumer Advocate noted that with the filing of the Company's *Letter in Lieu of Rebuttal Testimony*, there were no outstanding procedural issues requiring resolution and that the matter was ripe for consideration on the merits.²⁹ The Parties further waived opening statements and cross-examination.

THE HEARING

The Hearing on the *Petition* was held before the voting panel assigned to this docket on July 13, 2021, as noticed by the Commission on July 2, 2021. 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 Advocate Unit – Karen H. Stachowski Esq., Post Office Box 20207, Nashville, Tennessee 37202-4015

Mr. William Castle was present on behalf of the Company. During the Hearing, Ms. Eleanor K. Keeton and Mr. Wayne Allen testified telephonically. Ms. Keeton and Mr. Allen provided summaries of their testimony and were available for questions by electronic means. Mr. Craig C. Cox, on behalf of the Consumer Advocate, was available for questioning before the panel. The parties waived cross-examination. Members of the public were given an opportunity during the hearing to offer comments, but no one sought recognition to do so.

FINDINGS AND CONCLUSIONS

Upon review of the evidentiary record in this matter, the Hearing Panel found the methodologies, adjustments and procedures relating to Kingsport Power Company, d/b/a AEP Appalachian Power's annual recovery rider under the Targeted Reliability Plan and Major Storm Rider for the period October 2019 through September 2020, as filed in this Docket, to be

²⁹ *Letter of the Consumer Advocate* (May 11, 2021).

reasonable and acceptable. As a result, the Hearing Panel voted unanimously to authorize the Company to recover through surcharges to its customers, a revenue requirement of \$8,488,738 as the appropriate amount of eligible Rider costs for the twelve months ended September 30, 2020.

This amount consists of an under-recovery of \$10,355,252 in Targeted Reliability Plan costs and an under-recovery of \$2,252,034 for Major Storm expenses, offset by Rider revenues of \$4,118,548. The requested under-recovered amount is in excess of \$903,372 in distribution and reliability Operation and Maintenance expenses and \$392,376 for Major Storm related expenses recovered through base rates, as approved in Commission Docket No. 16-00001.

The Commission will continue to assess the SAIDI and SAIFI performance measures of Kingsport Power Company to ensure the rider mechanism is resulting in improved reliability for customers. Further, the Company should include with its annual Targeted Reliability Plan filing a chart listing the 10-year projected costs compared with the actual Targeted Reliability Plan costs for the same period.

Finally, the mechanism is intended to improve reliability to customers while allowing Kingsport Power Company an opportunity to recover, or refund, costs associated with the Targeted Reliability Program and Major Storm events. The panel found the TRP and MS Rider mechanism continues to benefit both consumers and Kingsport Power Company and remains in the public interest.

IT IS THEREFORE ORDERED THAT:

1. The *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for October 2019 – September 2020 Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider (“TRP&MS”), Alternative Rate Mechanisms Approved in Docket No. 17-00032* filed on November 24, 2020 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.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Chairman Kenneth C. Hill,
Vice Chairman Herbert H. Hilliard,
Commissioner Robin L. Morrison,
Commissioner John Hie, and
Commissioner David F. Jones concurring.**

None dissenting.

ATTEST:



Earl R. Taylor, Executive Director