

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:)	
)	
PETITION OF KINGSPORT POWER COMPANY d/b/a AEP APPALACHIAN POWER COMPANY FOR A GENERAL RATE INCREASE)	DOCKET NO. 21-00107
)	
)	
)	

**CONSUMER ADVOCATE’S MOTION TO FILE DISCOVERY
SUPPLEMENTAL TO FIRST DISCOVERY REQUEST**

The Consumer Advocate Unit in the Financial Division of the Office of the Attorney General (“Consumer Advocate”) respectfully moves to supplement its first round of discovery requests to Kingsport Power Company d/b/a AEP Appalachian Power Company (“Kingsport” or the “Company”) filed on January 4, 2022, in order to allow the Consumer Advocate to include questions from its newly hired expert, Aaron Rothschild. A copy of the proposed discovery is filed herewith. For good cause, the Consumer Advocate would show as follows:

1. On December 6, 2021, the Consumer Advocate’s Petition to Intervene in this Docket was granted.
2. The Order Establishing Amended Procedural Schedule in this Docket sets forth a deadline of January 4, 2022, for the Consumer Advocate to file its first round of discovery requests. The Consumer Advocate filed a first round of discovery on January 4, 2022.
3. The Consumer Advocate’s past expert on the subject of return on equity and cost of capital, Dr. Chris Klein, retired and the Consumer Advocate needed to undertake an approval process to acquire such expert to testify on its behalf in this Docket. Thus, for logistical reasons,

the employment contract between Mr. Rothschild and the Consumer Advocate was not entered into until January 5, 2022. In addition, Mr. Rothschild had to review and sign a Protective Order before he could review the confidential filings in this Docket.

4. The Consumer Advocate now moves to supplement the first round of discovery to include additional questions on the narrowed topics of return on equity and cost of capital. In making this motion, the Consumer Advocate reserves its right to file the two additional rounds of discovery set forth in the Order Establishing Amended Procedural Schedule. If this motion is granted, the Consumer Advocate is amenable to allowing an extra week for Kingsport to respond to this supplemental set of discovery requests.

5. For the foregoing reasons, the Consumer Advocate respectfully requests that its motion to file discovery supplemental to its first discovery request be granted.

RESPECTFULLY SUBMITTED,



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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via electronic mail,
with a courtesy copy by U.S. Mail, upon:

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This the 11th day of January, 2022.



VANCE L. BROEMEL

Senior Assistant Attorney General

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:

**PETITION OF KINGSPORT POWER
COMPANY d/b/a AEP APPALACHIAN
POWER COMPANY FOR A GENERAL
RATE INCREASE**

DOCKET NO. 21-00107

**CONSUMER ADVOCATE'S SUPPLEMENTAL DISCOVERY
TO FIRST DISCOVERY REQUEST TO KINGSPORT POWER COMPANY**

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This Supplemental Discovery Request is hereby served upon Kingsport Power Company d/b/a AEP Appalachian Power (“Kingsport” or the “Company”) pursuant to Rules 26, 33, 34 and 36 of the Tennessee Rules of Civil Procedure and Tenn. Comp. R. & Reg. 1220-1-2-.11. The Consumer Advocate Unit in the Financial Division of the Office of the Attorney General (“Consumer Advocate”) requests that full and complete responses be provided pursuant to the

Tennessee Rules of Civil Procedure. The responses are to be produced at the Office of the Tennessee Attorney General and Reporter, Financial Division, Consumer Advocate Unit, John Sevier Building, 500 Dr. Martin L. King Jr. Blvd., Nashville, Tennessee 37243, c/o Vance L. Broemel, on or before 2:00 p.m. (CDT), January 25, 2022.

PRELIMINARY MATTERS AND DEFINITIONS

These Additional Discovery Requests incorporate by reference the same Preliminary Matters and Definitions as set forth in the *Consumer Advocate's First Discovery Request to Kingsport* sent to the Company on January 4, 2022, and are to be considered continuing in nature, and are to be supplemented from time to time as information is received by the Company which would make a prior response inaccurate, incomplete, or incorrect.

SUPPLEMENTAL DISCOVERY REQUESTS (TO DR #1)

1-157. (Supplemental) Provide a copy of Mr. Castle's exhibits from his direct testimony in Excel format with all formulas intact.

RESPONSE:

1-158. (Supplemental) Provide a copy of all sources referenced in Mr. Castle's direct testimony.

RESPONSE:

1-159. (Supplemental) Provide a copy of Mr. Messner's exhibits from his direct testimony in Excel format with all formulas intact. .

RESPONSE:

1-160. (Supplemental) Provide a copy of all sources referenced in Mr. Messner's direct testimony.

RESPONSE:

1-161. (Supplemental) Provide the actual balance of short-term debt used by Kingsport for each month (or most frequently available) from January 1, 2015, to the most currently available in Excel format.

RESPONSE:

1-162. (Supplemental) Provide the monthly (or most frequently available) balance sheet and income statements for APCo for each year from January 1, 2015, to the most currently available in Excel format.

RESPONSE:

1-163. (Supplemental) Provide the most currently available bond ratings given to APCo and AEPSC, respectively, each of the major bond rating agencies including, but not necessarily limited to, Fitch, Inc. ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Ratings Services ("S&P").

RESPONSE:

1-164. (Supplemental) For the years 2018, 2019, 2020 and 2021, provide a copy of each and every one of the bond rating reports issued by S&P, Moody's, and Fitch that covers APCo and AEPSC.

RESPONSE:

1-165. (Supplemental) Provide the total actual balance of CWIP broken down into CWIP earning AFUDC and CWIP not earning AFUDC for Kingsport for each month (or most frequently available) from January 1, 2017, to the most currently available.

RESPONSE:

1-166. (Supplemental) State how the AFUDC rate is calculated and state what that rate has been for each month (or most frequently available) from January 1, 2017, to the most currently available for Kingsport.

RESPONSE:

1-167. (Supplemental) Provide the amount of short-term debt that was applied to the computation of the AFUDC rate associated with CWIP on a monthly basis for each month (or most frequently available) from January 1, 2017, to the most currently available for Kingsport.

RESPONSE:

1-168. (Supplemental) Explain how Kingsport, APCo, and AEPSC Group decide what level of short-term debt to use for Kingsport, APCo, and AEPSC.

RESPONSE:

1-169. (Supplemental) Does AEPSC issue common stock to the public for its subsidiaries? If so, provide a detailed explanation.

RESPONSE:

1-170. (Supplemental) Provide a copy of the bond indentures of all currently active bond indentures for APCo and AEPSC.

RESPONSE:

1-171. (Supplemental) Is there any “ring fencing” around any of the AEPSC subsidiaries to contain liabilities in the event of financial troubles at any one of the subsidiaries? If yes, state which ones have the ring fencing and provide the documentation that shows this ring fencing exists.

RESPONSE:

1-172. (Supplemental) Provide a copy of all studies relied upon by AEPSC to determine what capital structure is appropriate for AEPSC, APCo, and Kingsport.

RESPONSE:

1-173. (Supplemental) Define the cost of equity.

RESPONSE:

1-174. (Supplemental) Is the cost of equity market-based? Explain.

RESPONSE:

1-175. (Supplemental) Are capital markets predictable? Explain.

RESPONSE:

1-176. (Supplemental) Refer to page 16 of Mr. Castle's Direct Testimony which claims that Kingsport "is neither more nor less risky than the peer group." Did Mr. Castle conduct an analysis to determine if the companies in his peer group have unregulated operations? If yes, provide this analysis and its results.

RESPONSE:

1-177. (Supplemental) Refer to page 14, lines 7-8, of Mr. Castle's Direct Testimony which states, "The cost of equity should reflect the return investors require based on the risks of the subject company and the returns available for comparable investments." Is the return equity investors require based on the return investors expect to earn on the market price they pay for stock or the return on the book value of the stock they purchased? Provide a detailed explanation.

RESPONSE:

1-178. (Supplemental) Refer to page 18, lines 19-20, of Mr. Castle's Direct Testimony which states, "since the ROE is being set for prospective periods, it is appropriate to use a projected treasury rate in the analysis." Is Mr. Castle referring to the treasury rate projected by investors? Provide a detailed explanation.

RESPONSE:

1-179. (Supplemental) Refer to page 18, lines 1-3, of Mr. Castle's Direct Testimony which states:

β (beta) is the measure of an asset's risk relative to the market. It can be thought of as a measure of the expected change in an asset price that corresponds to a change in the market price.

Did Mr. Castle use a beta based on the expected change in asset prices or the historical change in asset prices? Provide a detailed explanation.

RESPONSE:

1-180. (Supplemental) Refer to page 19, lines 6-7, of Mr. Castle's Direct Testimony which states,

"in my analysis, I used the Value Line betas as they are considered to be an impartial resource for investors." Respond to the following:

- a. Provide a detailed description of the Value Line method of calculating betas, exactly as used to calculate the betas in the chart.
- b. Confirm or deny that in calculating betas the Value Line method applies the "Blume Adjustment."
- c. State whether the application of the "Blume Adjustment" to the calculation of betas is necessary.
- d. State whether Mr. Castle has undertaken any analysis or research to validate the findings of the 1975 study on the "Blume Adjustment" in the context of subsequent developments in applied economics to validate whether the findings of that study still apply 50 years later. If so, provide the research.
- e. When applying the CAPM, is it important to use a consistent market index for the calculation of beta coefficients and the overall market risk premium? Explain.

- f. Could using Value Line's precise methodology on a fixed date, but using a different market index (i.e., the S&P 500 Index vs. the NYSE Composite Index), result in significantly different beta coefficients? Explain.
- g. Which day of the week was used to calculate weekly returns for the beta calculation?
- h. Are betas based on weekly returns calculated on different days of the week the same?

RESPONSE:

1-181. (Supplemental) Provide betas calculated based on Value Line's methodology for the companies in Mr. Castle's peer group but based on a rolling 12- and 18-month historical time period instead of the 5-year historical time period.

RESPONSE:

1-182. (Supplemental) Refer to page 19, lines 14-23, of Mr. Castle's Direct Testimony which states:

To determine the Expected Market Return and the Market Risk Premium, I examined the universe of dividend paying stocks in Value Line of approximately 916 publically [sic] traded companies. I looked at their 3-5 year earnings growth estimates as determined by Value Line and added their dividend yield to determine the Expected Market Return. I removed from the universe any stocks that had an expected market return greater than 20%, which reduced the universe to 825 stocks. I weighted that list of stocks by their market capitalization to determine the Expected Market Return of 12.9% at a Beta of 1.0. I also calculated the median expected return of the Value Line universe of stocks, which yielded 11.3%.

Respond to the following:

- a. Explain why Mr. Castle chose to remove stocks that had an expected market return greater than 20% instead of another percentage (e.g., 12%).
- b. Provide a copy of Mr. Castle's workpapers in Excel format with all formulas intact he used to calculate his Expected Market Return of 12.9%.
- c. Provide a copy of Mr. Castle's workpapers in Excel format with all formulas intact he used to calculate the median expected return of the Value Line universe of stocks, which yielded 11.3%.

RESPONSE:

1-183. (Supplemental) Refer to page 17, line 9, of Mr. Castle's Direct Testimony which states, "I performed two standard cost of equity analyses: the CAPM and the DCF." Respond to the following:

- a. Did Mr. Castle use all standard models? Explain.
- b. List the standard models Mr. Castle chose not to use and explain why.

RESPONSE:

1-184. (Supplemental) Refer to page 21, line 21, of Mr. Castle's Direct Testimony which states, "...if a constant dividend payout ratio is assumed, these are the same growth rates."

Respond to the following:

- a. Does Mr. Castle assume a constant dividend payout ratio?
- b. If yes, explain how Mr. Castle determined that it is reasonable to assume a constant dividend payout ratio.

RESPONSE:

1-185. (Supplemental) Refer to page 22, lines 1-5, of Mr. Castle's Direct Testimony which states:

Value Line uses a smoothing technique to minimize the impacts of potential anomalies in earnings (and thus the starting point for a growth estimate), but the compiled analyst estimates do not, which can potentially lead to high or low growth estimates for an individual stock which is not necessarily indicative of the industry as a whole.

Respond to the following:

- a. Describe Value Line's smoothing technique.
- b. How much of an impact does Value Line's smoothing technique have on its published 5-year projected EPS growth rates?
- c. Has the spread between the near-term volatility measure of Electric Utilities versus the overall market increased or decreased since before the onset of the Covid pandemic in December 2019?

RESPONSE:

1-186. (Supplemental) Refer to page 23, lines 10-15 of Mr. Castle's Direct Testimony which states:

Q. DOES IT MATTER TO THE ANALYSIS WHETHER THE GROWTH ESTIMATES ARE ACTUALLY BORNE OUT OR ACCURATE? A. No. Because the growth estimates represent analysts' expectations for growth, it follows that the stock price accounts for that expectation. The combination of the current stock price and the published growth estimates and the expected dividend results in a market derived cost of equity.

Does Mr. Castle assume that investors' expectations for growth are the same as analysts' expectations? Provide a detailed explanation.

RESPONSE:

1-187. (Supplemental) Refer to KgPCo Exhibit No. 11 and respond to the following:

- a. Confirm the earned ROE figures are accounting returns.
- b. Confirm the earned ROE figures are not market-based returns.
- c. Provide the market-to-book ratios of the companies shown in this exhibit at the time this exhibit was prepared or any other date in the last quarter of 2021.

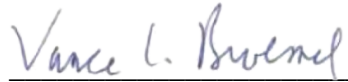
RESPONSE:

1-188. (Supplemental) Refer to page 57 of AEPSC 2020 Annual Report, which shows an "assumed/expected long-term rate of return of 6.79% for equity investments." Was this 6.79% expected return calculated based on the same standard models used by Mr. Castle?

- a. If yes, explain the reason(s) why Mr. Castle determined a 10.2% ROE is appropriate for Kingsport when AEPSC determined it is appropriate to manage its pension fund based on a 6.79% for equity investments.
- b. If no, provide the model(s) used by AEPSC to manage its pension fund and why Mr. Castle does not use the same models.

RESPONSE:

RESPECTFULLY SUBMITTED,



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TPUC Docket No. 21-00107

Consumer Advocate's Supplemental Discovery to First Discovery Request

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This the 11th day of January, 2022.



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