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KPOW-10311

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

Dr. Kenneth C. Hill, Chairman
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 A GENERAL RATE CASE
DOCKET NO.: 21-00107

Dear Chairman Hill:

On behalf of Kingsport Power Company d/b/a AEP Appalachian Power, we transmit for filing
Rebuttal Testimony for the following:

A. Wayne Allen
William K. Castle
Jessica M. Criss
Eleanor K. Keeton
Vanessa Y. Oren
Katharine Walsh
Michael H. Ward

The originals and four copies are being sent by overnight delivery.

Should you have any questions, please do not hesitate to contact the undersigned.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP



William C. Bovender

Enclosure: As stated

cc: David Foster (w/enc.)
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**REBUTTAL TESTIMONY OF
A. WAYNE ALLEN
ON BEHALF OF KINGSPORT POWER COMPANY
D/B/A AEP APPALACHIAN POWER
BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
DOCKET NO. 21-00107**

1 **Q.** **PLEASE STATE YOUR NAME.**

2 A. My name is A. Wayne Allen.

3 **Q.** **ARE YOU THE SAME A. WAYNE ALLEN WHO SUBMITTED DIRECT**
4 **TESTIMONY IN THIS PROCEEDING?**

5 A. Yes.

6 **Q.** **WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

7 A. My rebuttal testimony responds to various recommendations and adjustments presented
8 in the direct testimony of the Consumer Advocate Unit (“Consumer Advocate” or “CA”)
9 of the Office of the Tennessee Attorney General witnesses William H. Novak and Alex
10 Bradley related to the following subjects:

- 11 1. Prepaid Pension and Other Postretirement Benefits (OPEB) Assets
12 2. Customer Deposits Rate Base Reduction
13 3. Customer Advances Rate Base Reduction
14 4. TRP Capital Costs in Base Rates vs TRP&MS Rider
15 5. COVID-19 Deferred Costs
16 6. Payroll Taxes and Savings Plan Expenses

17 **Q.** **ARE YOU SPONSORING ANY EXHIBITS?**

18 A. Yes. I am sponsoring the following exhibit:

- 19 ○ KgPCo Rebuttal Exhibit No. 1 (AWA), Pension Plan Funded Positions

1 **Q. WAS THE EXHIBIT THAT YOU ARE SPONSORING PREPARED OR**
2 **ASSEMBLED BY YOU OR UNDER YOUR DIRECTION?**

3 A. Yes.

4 **PREPAID PENSION AND OTHER POSTRETIREMENT BENEFITS (OPEB) ASSETS**
5 **(Novak, p.11, lines 4-14 and p.12, lines 1-9)**

6 **Q. DOES THE CONSUMER ADVOCATE TAKE EXCEPTION TO THE**
7 **COMPANY'S INCLUSION OF PREPAID PENSION AND OPEB ASSETS IN**
8 **RATE BASE?**

9 A. Yes. On page 11 of CA witness Novak's testimony, Mr. Novak excludes prepaid pension
10 and OPEB assets in his recommended \$2,082,431 of prepayments included in rate base
11 used to determine KgPCo's revenue requirement in this docket. The \$2,082,431 reflects
12 a two-year historical average of certain prepayments consisting almost entirely of prepaid
13 taxes and prepaid insurance. Mr. Novak's Table 3 shows reductions to the Company's
14 requested rate base of \$3,617,082 for the prepaid pension asset and \$1,963,819 for the
15 prepaid OPEB asset resulting in a combined \$5,580,901 rate base reduction for these two
16 prepayments.

17 **Q. WHAT REASON DOES CA WITNESS NOVAK PROVIDE FOR EXCLUDING**
18 **KGPCO'S PREPAID PENSION AND OPEB ASSETS FROM HIS**
19 **RECOMMENDED RATE BASE?**

20 A. Mr. Novak asserts on page 12 of his testimony that Kingsport "voluntarily over-funded
21 its pension plan and its post-retirement benefit plan for employees" and is "asking the
22 Commission to allow it to earn a return on these over-funded retirement plans by
23 including them as an addition to rate base." Mr. Novak then states that he "disagree(s)

1 with the characterization for treating these over-funded retirement plans as if they were
2 utility assets and have excluded them from the Prepayment calculation.”

3 **Q. IS THE CA’S EXCLUSION OF KGPCO’S PREPAID PENSION AND OPEB**
4 **ASSETS FROM RATE BASE APPROPRIATE?**

5 A. No. The cumulative cash contributions to the pension and OPEB trust funds in excess of
6 pension costs should be included in rate base since they benefit customers by
7 substantially reducing pension and OPEB expenses included in KgPCo’s cost of service.

8 **Q. HOW DO KGPCO’S CUSTOMERS BENEFIT FROM THE ADDITIONAL**
9 **CONTRIBUTIONS TO THE PENSION AND OPEB PLANS?**

10 A. KgPCo’s customers benefit from the investment earnings on the additional fund assets.
11 This has the effect of reducing future pension and OPEB costs under GAAP in an amount
12 that grows over time through compounding. For example, the additional pension
13 contributions recorded as a prepaid asset reduced the 2020 pension costs by
14 approximately \$670,000 on a total Company basis, as shown on KgPCo Exhibit No. 4
15 (AWA) attached to my direct testimony, thus significantly reducing Kingsport’s
16 requested pension expense in this proceeding.

17 **Q. WHAT WAS THE COMMISSION’S TREATMENT OF PREPAID PENSION**
18 **AND OPEB ASSETS IN THE COMPANY’S MOST RECENT BASE RATE**
19 **CASE?**

20 A. In Docket No. 16-00001, the Commission’s Order approved a Stipulation and Settlement
21 Agreement among all parties, including the Consumer Advocate, which included
22 \$4,209,463 of prepaid pension costs in rate base.

1 **Q. WHY HAS THE COMPANY MADE ADDITIONAL PENSION**

2 **CONTRIBUTIONS THAT RESULTED IN A PREPAID PENSION ASSET?**

3 A. Pension cost included in KgPCo's cost of service is based on GAAP as set forth in ASC
4 715-30, Defined Benefit Plans – Pension. However, pension contributions are based on
5 separate Employee Retirement Income Security Act (ERISA) requirements, so the
6 amount of pension cost and the amount of pension cash contribution can often vary. ASC
7 715-30 requires that this difference be recorded on the balance sheet as a prepayment if
8 contributions exceed cost or as a liability if cost exceeds contributions.

9 **Q. WHAT IS THE COMPANY'S CURRENT POLICY REGARDING CASH**
10 **PENSION CONTRIBUTIONS?**

11 A. The Company's current policy is generally to contribute at least any amount required
12 under ERISA or the annual service cost of the pension plan (i.e., pension service cost),
13 whichever is greater. The pension service cost refers to the present value of the projected
14 retirement benefits earned by plan participants in the current period. A company's
15 pension service cost is the amount it must set aside in the current period to match the
16 retirement benefits accrued by plan participants.

17 **Q. DO YOU AGREE WITH CA WITNESS NOVAK'S CHARACTERIZATION OF**
18 **THE COMPANY'S PENSION PLAN AS "OVER-FUNDED?"**

19 A. No. The Company's pension plan is fully funded not over-funded. The Company's third
20 party actuary determines the annual minimum required pension plan contributions. As
21 shown in the Company's response to CA 1-103, the actuary determined that minimum
22 pension plan contributions were required for 2019 and 2020. Because the Company has
23 made regular pension plan contributions and the plan is properly funded, credits have

1 built up over time that can be used in certain years to apply instead of making cash
2 contributions. In 2019, the Company used credits instead of making a contribution, while
3 in 2020 a cash contribution was made to the pension plan. KgPCo Rebuttal Exhibit No. 1
4 (AWA) provides a schedule of Kingsport's pension plan funded positions for the last
5 fifteen years that shows the Company maintaining close to 100% funding for the pension
6 plan over this period with most years finishing at slightly less than 100% funded.

7 **Q. DOES MR. NOVAK PROVIDE ANY SUPPORT FOR HIS CLAIM THAT THE**
8 **COMPANY "VOLUNTARILY OVER-FUNDED" ITS PENSION PLAN?**

9 A. No.

10 **Q. DO YOU ALSO DISAGREE WITH THE COMPANY'S OPEB PLAN BEING**
11 **CHARACTERIZED BY THE CA AS "OVER-FUNDED?"**

12 A. No, but the OPEB plan is currently over-funded due to a past change in plan benefits, not
13 from excessive contributions. For many years, the Company properly funded the OPEB
14 plan for a future benefit for employees. KgPCo stopped contributing to the OPEB plan
15 after 2012 when the related costs became negative due to changes made by the Company
16 to retiree medical coverage including the capping of contributions to retiree medical costs
17 thus reducing the Company's future exposure to medical cost inflation. Additionally,
18 effective for employees hired after December 2013, retiree medical coverage will not be
19 provided by the Company.

1 **Q. DOES THE CA TAKE EXCEPTION TO THE INCLUSION OF TEST YEAR**
2 **PENSION AND OPEB EXPENSES OR CREDITS IN THE COMPANY'S**
3 **REQUESTED COST OF SERVICE?**

4 A. No. The CA did not adjust the test year level of pension expense of \$151,012 or OPEB
5 expense credit of (\$375,583) included in the Company's cost of service, although the CA
6 did omit the Company's Adjustments OM-18 and OM-19 from their recommended
7 attrition period Administrative and General (A&G) Expenses. Adjustments OM-18 and
8 OM-19 adjusted from the 12 months ended June 30, 2021 test year level of pension and
9 OPEB expenses or credits to the expected 2021 calendar year level based on actuarially
10 determined amounts.

11 **Q. HOW DID YOU DETERMINE THE AMOUNTS OF TEST YEAR PENSION**
12 **EXPENSE AND OPEB EXPENSE CREDITS INCLUDED IN THE COST OF**
13 **SERVICE?**

14 A. The \$151,012 of test year pension expenses is comprised of the following subaccounts
15 recorded on Kingsport's books: Account 9260003, Pension Plan, Account 9260050,
16 Fringe Benefit Loading – Pension, and Account 9260062, Pension Plan - Non-Service.
17 The KgPCo test year total of these three pension subaccounts of \$172,891 was multiplied
18 by the payroll labor jurisdictional allocation factor of 0.8734545 to equal \$151,012 of test
19 year pension expenses included in the distribution function cost of service.

20 Similarly, the (\$375,583) of test year OPEB expense credits is comprised of the
21 following subaccounts recorded on Kingsport's books: Account 9260021, Postretirement
22 Benefits - OPEB; Account 9260053, Fringe Benefit Loading - OPEB, and Account
23 9260043, OPEB - Non-Service. The KgPCo test year total of these three OPEB

1 subaccounts of (\$429,997) was multiplied by the payroll labor jurisdictional allocation
2 factor of 0.8734545 to equal (\$375,583) of test year OPEB expense credits included in
3 the distribution function cost of service.

4 **Q. CA WITNESS BRADLEY INCLUDES THE TEST YEAR EXPENSE CREDIT OF**
5 **(\$75,517) FOR FERC ACCOUNT 926, EMPLOYEE PENSIONS & BENEFITS, IN**
6 **HIS CALCULATION OF ATTRITION PERIOD A&G EXPENSES BEFORE**
7 **ALLOCATION OF A PORTION OF THIS AMOUNT TO THE TRANSMISSION**
8 **FUNCTION. WHAT CAUSED THE TEST YEAR LEVEL OF EMPLOYEE**
9 **PENSIONS & BENEFITS EXPENSE TO BE A NEGATIVE AMOUNT?**

10 A. The most obvious reason for this negative amount for total employee pensions and
11 benefits expense for the test year was due to the recording of net OPEB expense credits
12 of (\$429,997) as described above. Another important but less obvious contributing factor
13 for the negative employee pensions and benefits expense is the positive impact on
14 pension expense from the additional cash pension contributions as shown in KgPCo
15 Exhibit No. 4 (AWA) to my direct testimony. These cash pension contributions reduced
16 KgPCo's 2020 pension costs that would have been incurred and recorded on its books
17 from \$990,000 to \$320,000, or an approximate two-thirds reduction in costs as compared
18 to the absence of such additional pension contributions.

19 **Q. WHY IS IT APPROPRIATE THAT THE COMPANY BE ALLOWED TO**
20 **INCLUDE ITS PREPAID PENSION AND OPEB ASSETS IN RATE BASE?**

21 A. KgPCo has prepaid allowable pension and OPEB expenses and the inclusion of the
22 prepayments in rate base is consistent with well-accepted ratemaking principles and
23 Commission precedent and necessary both to compensate the Company for use of the

1 shareholder funds it has advanced and to avoid a disincentive to the Company for making
2 similar prudent advances in the future. Such treatment is particularly warranted where, as
3 here, the prepayments lowered both the current and future cost of providing service and thus
4 benefited customers and the Company's ongoing ability to provide reliable service.

5 **Q. IF, HOWEVER, THE COMMISSION WERE TO ACCEPT THE CA'S**
6 **RECOMMENDED EXCLUSION OF PREPAID PENSION AND OPEB ASSETS**
7 **FROM RATE BASE, SHOULD THE NET CREDIT FOR PENSION AND OPEB**
8 **EXPENSES ALSO BE EXCLUDED FROM THE COST OF SERVICE?**

9 A. Yes. For consistency and fairness, the approximate \$225,000 net expense credit for
10 pensions and OPEB included in the CA's attrition period A&G expenses should be
11 removed only if the Commission agrees with the CA's exclusion of prepaid pension and
12 OPEB assets from rate base since these prepaid assets are directly associated with the
13 realization of the net credits.

14 **CUSTOMER DEPOSITS RATE BASE REDUCTION (Novak, p.16, lines 3-11)**

15 **Q. DO YOU AGREE WITH THE CA'S RECOMMENDED RATE BASE**
16 **REDUCTIONS RELATED TO CUSTOMER DEPOSITS?**

17 A. I disagree with CA witness Novak's inclusion of a rate base deduction of \$1.4 million for
18 Accrued Interest on Customer Deposits. I do not oppose Mr. Novak's calculation of a
19 rate base deduction of \$4.3 million for Customer Deposit balances, which is virtually the
20 same as the test year-end level of Customer Deposits included in the Company's
21 proposed cost of service as a rate base reduction.

1 **Q. WHAT REASON DOES MR. NOVAK GIVE FOR HIS INCLUSION OF**
2 **ACCRUED INTEREST ON CUSTOMER DEPOSITS AS A RATE BASE**
3 **REDUCTION?**

4 A. On page 16 of his testimony, Mr. Novak asserts that Customer Deposits “represent(s)
5 amounts advanced by customers to the Company for the privilege of obtaining utility
6 service as well as the unpaid interest that is accrued on these deposits and owed to the
7 customer when the deposit is refunded. These deposits therefore represent a source of
8 non-investor supplied funds which the Company has available to finance a portion of its
9 utility investment and should therefore be included as a deduction in computing Rate
10 Base.”

11 **Q. DOES MR. NOVAK EXPLAIN IN HIS TESTIMONY HOW ACCRUED**
12 **INTEREST ON CUSTOMER DEPOSITS IS A SOURCE OF NON-INVESTOR**
13 **SUPPLIED FUNDS FOR THE COMPANY?**

14 A. No. Additionally, the Company asked the CA in discovery to “explain how unpaid
15 interest that is accrued on these (customer) deposits and owed to the customer when the
16 deposit is refunded is a source of non-investor supplied funds which the Company has
17 available to finance a portion of its utility investment when the Company already
18 provides a rate base reduction for customer deposit balances.” In its response to KgPCo
19 Request No. 5, the CA simply restated Mr. Novak’s testimony on the subject without
20 offering any explanation.

1 **Q. DOES ACCRUED INTEREST ON CUSTOMER DEPOSITS PROVIDE THE**
2 **COMPANY WITH FUNDS THAT ARE AVAILABLE TO FINANCE ITS**
3 **UTILITY INVESTMENT?**

4 A. No. Unlike deposits made by KgPCo's customers that do provide the Company with an
5 inflow or source of funds, Accrued Interest on Customer Deposits is a liability recorded
6 in Account 2370007 for future interest expected to be paid to customers upon refund of
7 customer deposits. As such, Accrued Interest on Customer Deposits represents an
8 outflow of funds from the Company to the customer in accordance with TPUC rules and
9 regulations. I understand that the TPUC requires the Company to pay interest on its
10 customer deposits.

11 **Q. DO CUSTOMERS RECEIVE A RETURN ON THEIR SECURITY DEPOSITS**
12 **MADE WITH THE COMPANY WITHOUT THE CA'S RECOMMENDED**
13 **INCLUSION OF A RATE BASE DEDUCTION FOR ACCRUED INTEREST ON**
14 **CUSTOMER DEPOSITS?**

15 A. Yes. The Company has included in its requested cost of service a rate base deduction of
16 \$4.3 million for the end of June 30, 2021 test year balance of Customer Deposits
17 recorded in Account 2350001. Thus, this rate base deduction for Customer Deposits
18 provides KgPCo's customers with a return on their security deposits at the TPUC
19 authorized interest rate.

1 **Q. DOES THE CA ALSO RECOMMEND INCLUDING A RATE BASE**
2 **DEDUCTION FOR CUSTOMER DEPOSIT BALANCES IN ADDITION TO A**
3 **DEDUCTION FOR THE ACCRUED INTEREST ON SUCH DEPOSITS?**

4 A. Yes. CA witness Novak recommends a rate base deduction of \$4, 3 million for Customer
5 Deposits in addition to his recommended \$1.4 million for Accrued Interest on Customer
6 Deposits, for a total rate base reduction of \$5.7 million associated with Customer
7 Deposits.

8 **Q. ARE YOU AWARE OF ANY OTHER JURISDICTION THAT REGULATES AEP**
9 **OPERATING SUBSIDIARIES APPROVING RATE BASE DEDUCTIONS FOR**
10 **BOTH CUSTOMER DEPOSITS AND THE RELATED ACCRUED INTEREST?**

11 A. No. For example, the VA SCC and WVPSC do not include a rate base deduction for
12 Accrued Interest on Customer Deposits for Appalachian Power Company.

13 **Q. SHOULD THE TPUC APPROVE A RATE BASE DEDUCTION FOR ACCRUED**
14 **INTEREST ON CUSTOMER DEPOSITS AS RECOMMENDED BY THE CA?**

15 A. No. KgPCo's customers receive a return on their Customer Deposit balances through a
16 rate base deduction for those balances and it would an inappropriate double counting to
17 include an additional deduction for Accrued Interest on Customer Deposits that
18 customers did not provide to the Company.

19 **CUSTOMER ADVANCES RATE BASE REDUCTION (Novak, p.15, line 14-p.16, line 2)**

20 **Q. CA WITNESS NOVAK RECOMMENDS A RATE BASE DEDUCTION OF**
21 **\$702,253 FOR CUSTOMER ADVANCES RECORDED AS A LIABILITY ON**

**KGPCO'S BALANCE SHEET. DO YOU AGREE WITH THIS
RECOMMENDATION?**

A. I disagree with \$626,870 of the \$702,253 recommended amount of Customer Advances that Mr. Novak included as a rate base deduction related to activity in Account 2530022, Customer Advance Receipts.

**Q. WHAT REASON DOES MR. NOVAK PROVIDE FOR INCLUDING
CUSTOMER ADVANCES AS A RATE BASE DEDUCTION?**

A. Mr. Novak asserts that the \$702,253 of Customer Advances "represents non-investor supplied funds from customers for extending utility service that the Company has used to finance a portion of its utility investment and should therefore be included as a deduction in computing Rate Base."

**Q. IS MR. NOVAK'S DESCRIPTION OF CUSTOMER ADVANCES ACCURATE
FOR THE ENTIRE \$702,253 RECOMMENDED RATE BASE DEDUCTION?**

A. No, it is not accurate for most of this amount. The \$702,253 consists of historical averages for the following two accounts recorded on KgPCo's books: Account 2530022 in the amount of \$626,870 and Account 2530124, Contribution in Aid of Construction (CIAC) Advance, in the amount of \$75,383. The activity in Account 2530022 is not related to payments from customers for extending utility service but instead represents any negative electric customer accounts receivable balances temporarily reclassified from Account 1420001, Customer Accounts Receivable-Electric, to Account 2530022. Mr. Novak's description for Customer Advances does accurately describe Account 2530124, which the Company also included as a rate base deduction in its requested rate base.

1 **Q. SHOULD CUSTOMER ADVANCE RECEIPTS RELATED TO NEGATIVE**
2 **CUSTOMER ACCOUNTS RECEIVABLE BALANCES BE INCLUDED AS A**
3 **RATE BASE DEDUCTION AS RECOMMENDED BY MR. NOVAK?**

4 A. No. These temporary overpayments by customers recorded in Account 2530022 should
5 not be included in rate base in the same manner that electric customer accounts receivable
6 balances recorded in Account 1420001 are not included in the Company's rate base.

7 KgPCo does not object to the inclusion of \$75,383 of Account 2530124 Customer
8 Advances in rate base.

9 **TRP CAPITAL COSTS IN BASE RATES VS TRP&MS RIDER (Novak, p.9, lines 8-20)**

10 **Q. DOES CA WITNESS NOVAK ADDRESS THE RECOVERY OF TRP&MS**
11 **CAPITAL COSTS IN BASE RATES VERSUS RECOVERY THROUGH THE**
12 **TRP&MS RIDER?**

13 A. Yes. On page 9 of his testimony, Mr. Novak discusses that both the CA and the
14 Company have included forecasted Targeted Reliability Plan and Major Storm
15 (TRP&MS) plant additions in their respective attrition period plant additions to rate base
16 with no adjustments to remove TRP&MS additions. Mr. Novak then asserts "that the
17 Company will need to exclude the 2022 attrition period capital plant additions approved
18 by the Commission from its 2022 and 2023 TRP&MS Rider filings since these amounts
19 will already be included in base rates."

20 **Q. DO YOU HAVE ANY COMMENTS REGARDING MR. NOVAK'S TESTIMONY**
21 **ON THIS SUBJECT?**

22 A. Yes. I agree that the Company's forecasted capital additions incorporated into
23 Adjustment EP-37 included TRP plant additions. Note that the Company did not include

1 any major storm capital additions in its forecasted additions nor has the Company
2 requested recovery of any major storm capital costs through the TRP&MS Rider. If the
3 Commission approves the CA's recommended attrition period plant additions in this
4 docket, the Company would reset the TRP capital costs to zero as of June 30, 2022 for
5 purposes of recovery of costs through the TRP&MS Rider consistent with Mr. Novak's
6 testimony on page 8 in which he describes providing a plant in service forecast at June
7 30, 2022. The resetting of TRP capital costs to zero as of June 30, 2022 assumes new
8 base rates are implemented in July 2022 as requested by Kingsport. The Company would
9 then request recovery of a return on and of new TRP capital investments incurred after
10 June 30, 2022 in the actual TRP&MS costs to be requested for recovery beginning with
11 July 2022 costs in the next TPR&MS filing later this year.

12 **Q. PLEASE BRIEFLY COMMENT ON THE CA'S RECOMMENDATION**
13 **RELATED TO TRP&MS O&M EXPENSES.**

14 A. As discussed by Company witness Castle, the Company does not oppose CA witness
15 Bradley's adjustment to remove all TRP&MS O&M expenses from the base case cost of
16 service in order to recover such costs through the TRP&MS Rider. Upon the
17 implementation of new base rates that excludes TRP&MS O&M expenses, the Company
18 will eliminate the base rate recovery offset from the computation of actual TRP&MS
19 O&M expenses going-forward to be recovered through the TRP&MS Rider.

1 **COVID-19 DEFERRED COSTS (Bradley, p.12, lines 1-7)**

2 **Q. ARE YOU REBUTTING THE CONSUMER ADVOCATE'S**
3 **RECOMMENDATION THAT THE COMPANY NOT RECOVER ITS**
4 **REQUESTED AMORTIZATION OF DEFERRED COVID-19 COSTS?**

5 A. No, Company witness Castle addresses the CA's exclusion of the Company's adjustment
6 to include a 5-year amortization of deferred COVID-19 costs in base rates. My testimony
7 on this subject is limited to correcting the calculation of the CA's recommended level of
8 administrative and general expenses associated with the exclusion of amortization of
9 deferred COVID-19 costs.

10 **Q. WHICH WITNESS REFLECTED THE EXCLUSION OF KINGSPORT'S**
11 **REQUESTED AMORTIZATION OF DEFERRED COVID-19 COSTS IN THE**
12 **CA'S RECOMMENDED REVENUE REQUIREMENT?**

13 A. CA witness Bradley states on page 12 of his testimony that he "incorporates" CA witness
14 Dittmore's "proposal relating to the Company's amortization of certain expenses
15 relating to the COVID-19 pandemic."

16 **Q. HOW DID MR. BRADLEY INCORPORATE MR. DITTEMORE'S PROPOSAL**
17 **RELATED TO THE AMORTIZATION OF COVID-19 EXPENSES?**

18 A. Mr. Bradley reduces test period A&G Expenses and specifically Account 921, Office
19 Supplies and Expenses, by \$19,660, which is the level of annual amortization expense of
20 deferred COVID-19 costs requested by Kingsport in Adjustment OM-24.

1 **Q. DO YOU TAKE EXCEPTION TO HOW MR. BRADLEY COMPUTES HIS**
2 **ADJUSTMENT TO A&G EXPENSES TO REFLECT THE CA'S EXCLUSION**
3 **OF THE AMORTIZATION OF DEFERRED COVID-19 EXPENSES?**

4 A. Yes. Mr. Bradley removes \$19,660 of test period expenses from Account 921 related to
5 COVID-19 costs that were deferred as incurred and therefore, such expenses were not
6 reflected in the test year amounts in Kingsport's cost of service that was the starting point
7 for Mr. Bradley's adjustment. For regulated entities such as KgPCo, a deferred cost is
8 removed from the normal expensing in the period incurred to be recognized (i.e.,
9 expensed) in a future period when revenues are realized that recover these expenses. The
10 Company's Adjustment OM-24 adjusted the test period A&G expenses by \$19,660 to
11 reflect the annual amortization over 5 years of the total \$98,299 of deferred COVID-19
12 costs as of June 30, 2021 in the attrition period cost of service. This adjustment was
13 necessary because the \$19,660 of annual amortization expense was not reflected in the
14 test year.

15 **Q. IGNORING THE APPROPRIATENESS OF THE CA'S RECOMMENDED NON-**
16 **RECOVERY OF COVID-19 COSTS, WHAT SOLUTION WOULD CORRECT**
17 **THE REVENUE REQUIREMENT RELATED TO THE CA'S PROPOSED**
18 **TREATMENT OF DEFERRED COVID-19 EXPENSES?**

19 A. The CA's adjustment to reduce test year A&G expenses by \$19,660 should be removed
20 since the CA also did not accept the Company's Adjustment OM-24. Absent this
21 correction, the CA has removed the \$19,660 of expense twice from the Company's
22 requested cost of service.

**PAYROLL TAXES AND SAVINGS PLAN EXPENSES (Bradley, p.16, lines 7-8 and p.21,
line 6-p.22, line 9)**

**Q. DID CA WITNESS BRADLEY REVISE HIS TESTIMONY RELATED TO THE
CALCULATION OF PAYROLL TAXES IN RESPONSE TO A KINGSPORT
DISCOVERY QUESTION?**

A. Yes. The CA confirmed in their response to Kingsport Discovery Question 1-7 that worksheet "Social Security - 1.3" of workpaper "21-00107 AB-2" to CA witness Bradley's testimony contained an inadvertent formula error that, when corrected, would change Mr. Bradley's adjustment to decrease O&M expense for Social Security Tax (FERC Account 408) from \$77,702 to \$38,289.

**Q. WITH THE ABOVE CORRECTION, DO YOU STILL HAVE ISSUES WITH MR.
BRADLEY'S CALCULATION OF ADJUSTMENTS TO PAYROLL TAXES AND
SAVINGS PLAN EXPENSES?**

A. Yes. The CA has overstated the impacts on payroll taxes and savings plan expenses related to their adjustments to remove annual and long-term incentive compensation expenses billed to Kingsport from AEP Service Corporation (AEPSC).

**Q. WHAT ADJUSTMENTS DID THE CONSUMER ADVOCATE MAKE TO
PAYROLL TAXES AND SAVINGS PLAN EXPENSES RELATED TO THEIR
ADJUSTMENTS TO AEPSC INCENTIVE COMPENSATION EXPENSE
CHARGED TO KGPCO?**

A. CA witness Bradley sponsors adjustments to remove payroll tax and savings plan expenses related to his adjustments to remove AEPSC annual incentive compensation

1 expense of \$380,944 and long-term stock based compensation expense of \$108,182 billed
2 to KgPCo during the test year. Mr. Bradley included this total removal of \$489,126 of
3 AEPSC incentive compensation expense billed to Kingsport is his calculations of Social
4 Security Tax, Medicare Tax and Savings Plan expenses on worksheets "Social Security-
5 1.3" of workpaper "Exhibit AB-2 Revised," "Medicare-1.4" of workpaper "Exhibit AB-2
6 Revised" and "3.1-Savings Plan" of workpaper "21-00107 AB-1," respectively.

7 **Q. IS IT APPROPRIATE TO SEPARATELY REMOVE PAYROLL TAXES AND**
8 **SAVINGS PLAN EXPENSES RELATED TO ADJUSTMENTS THAT REMOVE**
9 **AEPSC INCENTIVE COMPENSATION EXPENSES BILLED TO KGPCO?**

10 A. No. The CA's reductions to payroll taxes and savings plan expenses related to incentive
11 compensation adjustments for AEPSC amounts billed to KgPCo are inappropriate
12 because this would result in the double counting of the reduction to payroll taxes and
13 savings plan expenses. The test year level of AEPSC billings of incentive compensation
14 expense to Kingsport already includes fringe benefit costs, which consists principally of
15 the Company match for FICA taxes and the 401k savings plan, by including cost
16 component 122 in the amounts billed. Cost component 122 is described as Labor Fringes
17 (Incentive Accruals) and is used to record fringe loading for distributed incentive
18 accruals. Therefore, the CA's adjustments to remove AEPSC incentive compensation
19 expenses billed to the Company already remove the associated payroll taxes and savings
20 plan expenses.

21 **Q. WHAT IS THE IMPACT ON THE REVENUE REQUIREMENT OF**
22 **CORRECTING THE CA'S ADJUSTMENTS TO PAYROLL TAXES AND**
23 **SAVINGS PLAN EXPENSES TO REMOVE THE EFFECT OF THE**

ADJUSTMENTS TO AEPSC INCENTIVE COMPENSATION EXPENSES

BILLED TO KGPCO?

A. The total change to payroll taxes and savings plan expenses from correcting the CA's adjustments is an increase in payroll taxes and savings plan expenses of \$56,118 consisting of a \$29,461 increase (from a negative \$38,289 to a negative \$8,828) in Social Security Tax, a \$7,092 increase (from a negative \$9,217 to a negative \$2,125) in Medicare Tax and a \$19,565 increase (from a negative \$25,428 to a negative \$5,863) in Savings Plan expenses.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

**Kingsport Power Company
Pension Plan Funded Positions
For the Years 2007-2021**

<u>Year</u>	<u>Projected Benefit Obligation*</u>	<u>Fair Value of Assets*</u>	<u>Funded Percent</u>	<u>Cash Contribution</u>
2007	\$ 14,478,958	\$ 16,250,317	112%	\$ -
2008	\$ 15,570,820	\$ 11,386,864	73%	\$ -
2009	\$ 16,638,568	\$ 12,209,203	73%	\$ -
2010	\$ 16,460,937	\$ 12,587,944	76%	\$ 595,076
2011	\$ 17,150,179	\$ 14,100,498	82%	\$ 1,582,000
2012	\$ 17,957,357	\$ 15,181,674	85%	\$ 767,000
2013	\$ 16,633,679	\$ 15,603,618	94%	\$ -
2014	\$ 17,804,068	\$ 15,892,957	89%	\$ 252,000
2015	\$ 16,169,811	\$ 14,656,114	91%	\$ 264,000
2016	\$ 16,435,801	\$ 14,808,925	90%	\$ 242,000
2017	\$ 18,841,972	\$ 15,990,399	85%	\$ 291,000
2018	\$ 15,622,295	\$ 14,586,618	93%	\$ -
2019	\$ 16,643,768	\$ 17,824,076	107%	\$ -
2020	\$ 18,215,116	\$ 17,711,175	97%	\$ 388,000
2021	\$ 17,640,659	\$ 17,729,077	101%	\$ -

* Source: Willis Towers Watson Actuarial Reports