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April 27, 2022

KPOW-10311

Electronically Filed in TPUC Docket
Room on April 27, 2022 at 1:37 p.m.

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

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**REBUTTAL TESTIMONY OF
WILLIAM K. CASTLE
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 William K. Castle.

3 **Q. ARE YOU THE SAME WILLIAM K. CASTLE WHO SUBMITTED DIRECT**
4 **TESTIMONY IN THIS PROCEEDING?**

5 A. Yes.

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

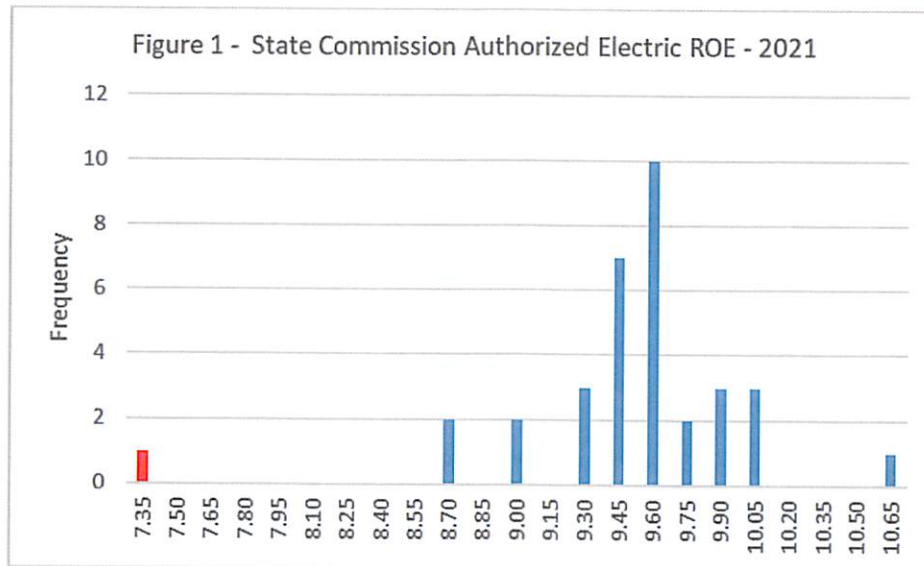
7 A. I address the testimony and return on equity recommendation of Consumer Advocate
8 Unit (CA) witness Rothschild. I begin with the result of the analysis and compare that
9 result and his subsequent recommendation with ROEs for electric utilities in 2021. I also
10 address the recommendations of CA witnesses Dittmore and Bradley to exclude
11 recovery of COVID-related costs, and to recover rate case costs through a rider,
12 respectively. Finally, I address the proposal to exclude all TRP&MS O&M expenses
13 from base rates and recover them exclusively in the TRP&MS Rider.

14 **Q. WHAT RETURN ON EQUITY RESULTED FROM HIS ANALYSIS AND WHAT**
15 **ROE IS MR. ROTHCHILD RECOMMENDING?**

16 A. His analysis yielded a range of 5.81% to 7.86%. He recommends a return on equity of
17 7.35%

1 **Q. ARE THESE RESULTS, AND THE SUBSEQUENT RECOMMENDATION, IN**
2 **STEP WITH RECENT STATE COMMISSION ROE DECISIONS?**

3 A. Not at all. In 2021, in cases where the state commission determined an ROE for an
4 electric utility, the median return was 9.50%, the average 9.51%, with a range of 8.57%
5 to 10.6%. Figure 1 shows the ROEs granted, and the CA's recommendation in this case
6 (far left of the figure). It is obvious from the figure that a return of 7.35% is quite remote
7 from the most recent industry ROEs granted.



8
9 **Q. IS THE COMMISSION REQUIRED TO CONSIDER THE RETURNS GRANTED**
10 **TO OTHER ELECTRIC UTILITIES?**

11 A. Yes. As mentioned in my direct testimony, the Hope and Bluefield Supreme Court
12 decisions require that utilities be afforded the opportunity to earn returns similar to other
13 utilities - in this case, other electric utilities.

1 **Q. DOES KINGSPORT HAVE ANY FEATURES OR CHARACTERISTICS THAT**
2 **WOULD JUSTIFY BEING AWARDED A RETURN THAT IS NOT REMOTELY**
3 **COMPARABLE TO THOSE OF ALL OTHER ELECTRIC UTILITIES?**

4 **A. No.**

5 **Q. ARE THE DETAILS OF THE ANALYSIS PERFORMED BY MR. ROTHSCHILD**
6 **AS IMPORTANT AS THE RESULT?**

7 **A. No.** The mix of assumptions and methodologies employed by Mr. Rothschild resulted in
8 a recommendation that is wildly out of step with the industry and thus are only relevant to
9 academic discussions on the topic.

10 **Q. SINCE THESE ROES WERE AWARDED IN 2021, HAVE THERE BEEN ANY**
11 **DEVELOPMENTS IN CAPITAL MARKETS?**

12 **A. Yes.** The Federal Reserve has announced its plans to raise the federal funds rate from 0%
13 - 0.25% to 1.75% - 2.0% in 2022. If anything, these increased borrowing costs will put
14 upward pressure on the required return on equity in the future.

15 **Q. DOES KINGSPORT POWER ANTICIPATE FILING A BASE RATE CASE**
16 **ANNUALLY?**

17 **A. No.** Kingsport's base rates comprise a relatively small portion of its overall revenues. As
18 a result, the Company does not expect to expend the resources for a base case annually.
19 Consequentially, the return on equity granted in this case should be sufficient to afford
20 the Company the opportunity to earn a return that is not completely out-of-step with its
21 peers and capital markets for several years.

22 **Q. CA WITNESS ROTHSCHILD LISTS SEVERAL EXAMPLES OF ROE**
23 **DECISIONS, ALL HIGHER THAN WHAT HE IS PROPOSING HERE, MEANT**

1 **TO SHOW HIS RECOMMENDATION IS REASONABLE. ARE THESE**
2 **EXAMPLES RELEVANT?**

3 A. Not at all and his list simply highlights just how out of step his recommendation is.
4 Instead of showing the ROE's determined by commissions in the electric utility industry,
5 he lists two small privately-owned water companies located in South Carolina, a ROE
6 intended to be punitive as a result of poor storm restoration performance that was not
7 ultimately adopted, and two formula rates that resulted from legislation enacted in 2011
8 that ends in 2022.

9 **Q. WHY ARE TWO SMALL PRIVATELY OWNED WATER COMPANIES**
10 **IRRELEVANT AS EXAMPLES FOR DETERMINING AN ROE FOR A**
11 **PUBLICALLY TRADED ELECTRIC UTILITY?**

12 A. The Public Service Commission of South Carolina granted the ROEs to the two privately
13 owned, small water utilities based on the risk profiles of the water industry and
14 circumstances unique to each company. That year, that commission, in a more relevant
15 decision, granted the electric utility Dominion Energy South Carolina an ROE of 9.5%.

16 **Q. CA WITNESS ROTHSCHILD CITES A "PRELIMINARY ORDER" FOR**
17 **EVERSOURCE IN CONNECTICUT FOR AN ROE OF 7.9% TO BOLSTER HIS**
18 **CASE THAT AN ROE OF 7.35% FOR KINGSPORT IS REASONABLE.**
19 **PLEASE PUT THIS IN CONTEXT.**

20 A. Eversource came under heavy criticism for the storm restoration efforts following
21 Tropical Storm Isaias and a punitive ROE of 7.9% was proposed, but ultimately rejected.
22 This is not a data point of a commission determining an ROE for an electric utility. To
23 suggest that Kingsport should be awarded an ROE that is significantly lower than what

1 was proposed (but ultimately rejected) as a punitive measure, again, only highlights just
2 how out of step with the electric utility industry Mr. Rothschild's analysis and
3 recommendation are.

4 **Q. MR. ROTHSCHILD ALSO CITES THE TWO ELECTRIC UTILITIES IN**
5 **ILLINOIS WITH FORMULA RATES. ARE THESE COMMISSION**
6 **DETERMINED AND DO THEY REPRESENT THE TRUE EQUITY COSTS?**

7 A. They are not determined by the Commission and are not indicative of the current costs of
8 equity. As Mr. Rothschild notes, these are formula rates and are determined by adding
9 5.8% to the 30-year treasury yield. In 2011, the Illinois legislature passed an
10 infrastructure investment plan, The Illinois Energy Infrastructure Modernization Act
11 (EIMA) with annual rate resets and the formulaic ROE. The rate that Mr. Rothschild
12 cites, 7.36% is an artifact of extremely (record) low rates for the 30-year Treasury during
13 the height of the pandemic (2020 average rate of 1.56%). Not only are they backward
14 looking, they are already out-of-date, with rates now at 2.92% (April 14, 2022) and
15 reasonably expected to continue to increase. In any case, a backward-looking formula
16 legislated over 10 years ago, and set to expire this year, is not indicative of what current
17 capital costs are as determined by state utility commissions for electric utilities.

18 **Q. WHAT WEIGHT SHOULD THE COMMISSION GIVE THE TESTIMONY OF**
19 **MR. ROTHSCHILD?**

20 A. An ROE of 7.35% bears no relationship to recently rewarded electric utility ROEs, as
21 such, violates the tenants of Hope and Bluefield, and should be, not just discounted, but
22 rejected outright.

1 **Q. CA WITNESS DITTEMORE PROPOSES THAT THE COMPANY SHOULD**
2 **NOT BE ALLOWED TO RECOVER ITS COVID RELATED COSTS BECAUSE**
3 **IT DID NOT IDENTIFY ANY ASSOCIATED SAVINGS. DOES THE**
4 **COMPANY'S TEST YEAR, AND ATTRITION YEAR REFLECT REDUCED**
5 **TRAVEL COSTS?**

6 A. Yes, they do. The Company investigated this issue subsequent to Mr. Dittimore's
7 recommendation and confirmed that the test year (and attrition year) level of aviation
8 expense was 25% of the pre-pandemic average. This information is shown in Table 1. In
9 light of this, the Company reiterates its request to recover prudently incurred costs related
10 to keeping employees and customers safe during a pandemic.

Table 1

	Calendar Year 2018	Calendar Year 2019	Calendar Year 2020	Calendar Year 2021	Test Year July 1, 2020 - June 31, 2021
Aviation Expense	\$ 29,377	\$ 18,251	\$ 8,411	\$ 21,891	\$ 5,885

11
12 **Q. CA WITNESS BRADLEY RECOMMENDS THAT THE COMPANY RECOVER**
13 **RATE CASE EXPENSES THROUGH A RIDER INSTEAD OF BASE RATES.**
14 **WHAT IS THE COMPANY'S POSITION?**

15 A. The Company opposes this recommendation. The five-year amortization period for
16 recovering rate case expense in base rates, as proposed by the Company was deemed
17 reasonable by the CA in the last Kingsport base case.¹ Mr. Bradley cites the
18 Commission's treatment of rate case expenses in the Piedmont Gas case as a precedent of

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¹ See the Direct Testimony of CA witness Smith in Docket No. 16-00001 at page 15.

1 sorts. The issue with this approach, for Kingsport, is that the Company does not have an
2 “Annual Cost Adjustment” account to accommodate over or under collection balances.

3 **Q. CA WITNESS BRADLEY RECOMMENDS MOVING ALL TRP&MS EXPENSES**
4 **FROM BASE RATES INTO THE COMPANY’S TRP&MS RIDER. WHAT IS**
5 **THE COMPANY’S POSITION?**

6 A. The Company does not oppose this recommendation.

7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 A. Yes.