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Dr. Kenneth C. Hill, Chairman c/o Tory Lawless Dockets and Records Manager Tennessee Public Utility Commission 502 Deaderick St., 4<sup>th</sup> Floor Nashville, TN 37243

Re:

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

(Docket No. 21-00107)

Dear Ms. Lawless:

Enclosed please find one original and four copies of the Rebuttal Testimony of Stephen J. Baron of the East Tennessee Consumers, in the above-referenced docket. Please note the Affidavit with original signature, as well as four additional copies will be sent separately by Stephen J. Baron.

Sincerely yours,

/s/ Michael J Quinan Michael J. Quinan

MJQ Enclosures

cc: Certificate of Service

### CERTIFICATE OF SERVICE

I hereby certify that, on June 9, 2022, the attached was served by email and/or first class mail, postage prepaid, to all parties of record at their addresses shown below.

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## **BEFORE THE**

## TENNESSEE PUBLIC UTILITY COMMISSION

# NASHVILLE, TENNESSEE

PETITION OF KINGSPORT POWER COMPANY d/b/a AEP Appalachian Power For a General Rate Case

Docket No. 21-00107

**REBUTTAL TESTIMONY** 

**OF** 

STEPHEN J. BARON

ON BEHALF OF

EAST TENNESSEE ENERGY CONSUMERS

J. KENNEDY AND ASSOCIATES, INC. ROSWELL, GEORGIA

**JUNE 9, 2022** 

### **BEFORE THE**

#### TENNESSEE PUBLIC UTILITY COMMISSION

# **NASHVILLE, TENNESSEE**

PETITION OF
KINGSPORT POWER COMPANY
d/b/a AEP Appalachian Power
For a General Rate Case

Docket No. 21-00107

# REBUTTAL TESTIMONY OF STEPHEN J. BARON

- 1 Q. Please state your name and business address.
- 2 A. My name is Stephen J. Baron. My business address is J. Kennedy and Associates, Inc.
- 3 ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.
- 4 Q. On whose behalf are you testifying in this proceeding?
- 5 A. I am testifying on behalf of the East Tennessee Energy Consumers ("ETEC"), a group of
- 6 large industrial customers taking service from Kingsport Power Company ("Kingsport" or
- 7 the "Company").
- 8 Q. Have you previously filed testimony in this proceeding?
- 9 A. Yes. My direct testimony for ETEC was filed on March 30, 2022.
- 10 Q. What is the purpose of your rebuttal testimony?
- 11 A. My rebuttal testimony responds to the direct testimony of Consumer Advocate Unit ("CA")
- 12 witness William H. Novak on the allocation among customer rate classes of any revenue
- increase approved in this case.

- 1 Q. Have you reviewed the revenue allocation proposal of CA witness Novak?
- 2 A. Yes. Mr. Novak proposes to allocate any overall revenue increase among rate classes by 3 increasing the existing test year distribution revenues of each class by a uniform 4 percentage. For example, to fund a 10% overall increase in average distribution revenues, 5 he would increase each class's current distribution revenues by the same 10%, regardless 6 of whether the class's current rates are producing revenues that are above or below the cost 7 of providing service to the class. In other words, Mr. Novak's method disregards any costof-service information that might guide the Commission's decision as to the amount of any 8 9 revenue increase each rate class would pay.
- 10 Q. On Page 4 of his direct testimony, Mr. Novak recommends that Kingsport's revenue 11 deficiency be recovered "from all customer classes based on the current margin 12 provided by each customer class." What does the word "margin" mean in this context? It appears that Mr. Novak uses the term "margin" – on page 4 and elsewhere in his direct 13 A. testimony – to describe distribution revenues. In other words, his "margins" are the 14 distribution revenues produced by Kingsport's current distribution rates. As I explained in 15 my direct testimony, these distribution revenues are designed to recover the costs of 16 17 distribution substations, primary distribution lines, secondary distribution lines, distribution transformers and meters. (Such revenues are not "margins" as the term 18 19 typically is used in the electric utility industry. In that context, the term generally refers to 20 the profit on the sale of electricity. I understand that in the natural gas utility industry, 21 distribution revenues sometimes are referred to as "margins"; however, outside the 22 Kingsport context, I have not seen electric utility distribution revenues referred to as 23 "margins" in rate cases in which I have participated over the years.)

- 1 Q. Is Mr. Novak's revenue allocation proposal reasonable?
- 2 A. No. It does not reflect sound ratemaking principles, and it completely ignores any measure
- of the cost of serving customers in each rate class.
- 4 Q. Why is Mr. Novak's proposal to increase existing rate class distribution revenues by a
- 5 uniform percentage unreasonable?
- 6 A. Mr. Novak's proposal ignores any consideration of the cost to provide service to customers.
- 7 Thus, his methodology does not examine whether the current distribution revenues paid by
- 8 a rate class, such as the IP rate class, are currently reasonable relative to any measure of
- 9 the cost of providing the class with service. Rather, his method simply applies the same
- percentage increase to the existing distribution revenues, regardless of whether those
- revenues currently are above or below cost. However, as I discussed in my direct
- testimony, the rates currently charged to Rate IP customers are excessive. That is
- evidenced by the current \$1.2 million in subsidies paid by Rate IP customers shown in
- Table 2 of my direct testimony. The current total distribution revenues being paid by Rate
- 15 IP customers is about \$2 million, so over 50% of the current IP distribution revenues
- represent subsidies paid to other rate classes, not the cost to serve IP customers. Moreover,
- as I discussed in my direct testimony, over 90% of the kWh usage of Rate IP customers is
- paid by IP transmission voltage customers even though, except for using the meters at their
- 19 facilities, Rate IP transmission voltage customers do not even use the Company's
- 20 distribution system. Mr. Novak's proposal does not recognize any of this. It simply
- imposes a uniform percentage increase in distribution revenues on all rate classes.

- 1 Q. Is the use of a cost of service study generally recognized as a guide to regulated 2 ratemaking in the electric utility industry? 3 A. Yes. Based on my experience, a generally recognized source for regulators on electric 4 utility cost allocation is the National Association of Regulatory Utility Commissioners 5 Electric Utility Cost Allocation Manual (the "NARUC Manual"). On page 12 of the 6 NARUC Manual, it states as follows: 7 Cost of service studies are among the basic tools of ratemaking. 8 While opinions vary on the appropriate methodologies to be used to 9 perform cost studies, few analysts seriously question the standard that service should be provided at cost. Non-cost concepts and 10 principles often modify the cost of service standard, but it remains 11 12 the primary criterion for the reasonableness of rates.<sup>1</sup> 13 Q. Does Mr. Novak provide any analysis of the Company's class cost of service study in
- support of his recommendation to ignore it?
- 15 A. No. He makes only a general comment that "I could easily justify allocating many of these 16 same costs based upon the total throughput of each customer class which would then 17 allocate a majority of the costs to industrial customers." However, Mr. Novak provides 18 no such justification in his testimony.

National Association of Regulatory Utility Commissioners, *Electric Utility Cost Allocation Manual* at 12 (Washington D.C.: January 1992) (emphasis added).

Novak Direct Testimony at page 25.

Q. Mr. Novak does not agree that the Company's class cost of service study methodology is reasonable. Can you comment on that methodology compared to Mr. Novak's proposed method?

Yes. I reviewed the Company's class cost of service study, and I found that it is reasonable and consistent with generally accepted methodologies used to allocate distribution related costs. The same methodology used by Kingsport in this case recently was used by AEP affiliates Appalachian Power Company and Kentucky Power Company in Virginia and Kentucky – there were no objections to the classification and allocation of distribution related costs in those cases.

In addition, as I explained in my direct testimony, regardless of the specific class cost of service methodology (including even Mr. Novak's hypothetical energy allocation methodology<sup>3</sup>), no credible analysis would assign distribution related costs associated with low voltage secondary and primary lines, distribution substations, and secondary voltage distribution transformers to customers taking service *directly from the transmission system*, which, again, accounts for fully 90% of the energy usage of the IP rate class.<sup>4</sup> Nor would any credible analysis assign secondary line costs or distribution line transformer costs to customers taking service at primary voltages. Contrary to Mr. Novak's assertions, the

A.

<sup>3</sup> Id.

<sup>&</sup>lt;sup>4</sup> As discussed in my direct testimony (pages 13-14), 10% of Rate IP kWh sales are associated with primary voltage IP customers. The Company's class cost of service study did allocate costs associated with primary voltage service (e.g., primary lines) to the IP rate class for this primary voltage portion of Rate IP.

1 Company's cost of service study is a reasonable and credible basis to use as a guide to 2 ratemaking.

- 3 Q. Have you calculated the subsidies that would be paid by each rate class using Mr.
- 4 Novak's uniform margin increase methodology?

A.

Yes. As I explained in my direct testimony, a subsidy is the dollar amount of excess or deficient revenues paid or received by a rate class for electric service, compared to the cost to serve the rate class. It's a measure of how far above or below cost that a particular rate class's rates are, or will be, after a rate change. As such, it provides a guide for the Commission to apportion the overall revenue increase to rate classes. Rate classes that are significantly above cost of service, such as Rate IP, should receive a lower than average increase in order to move the IP rates toward cost. Likewise, rate classes that are significantly below cost of service, such as the Residential class should receive a higher than average increase.

Table 1R below summarizes the results of my subsidy analysis based on the assumption that Mr. Novak's recommended equal percentage margin increase method is used to allocate the revenue increase in this case. In order to reflect a set of assumptions that is consistent with the Company's originally filed cost of service study, I calculated the proposed margins (distribution revenues) in Table 1R by first removing the Rider TRP & MS roll-in revenue portion of the increase from the Company's originally filed \$14.375 million amount. This produced an adjusted base distribution revenue increase of \$8.357 million, which is a 37% increase in current margins, based on Kingsport's original filing in this case. To arrive at the total base distribution revenue increase, I added back the TRP

& MS roll-in amounts for each rate class to each class's revenues after the increase. This produces a result that is consistent with the Company's originally filed rates and cost of service study and reflects Mr. Novak's uniform margin increase methodology.

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Q.

Table 1R Subsidies (Paid)/Received by Rate Class (Equal Percentage Increase in Margin)*				
		Current	Subsidy with	Percent
Class		Subsidy	Equal % Increase	Change
RS	\$	6,702,440	\$ 11,963,199	78%
SGS		(471,500)	(801,091)	70%
MGS		(1,511,461)	(2,712,895)	79%
LGS		(2,891,206)	(5,108,245)	77%
IP		(1,198,830)	(2,551,136)	113%
CS		(93,691)	(155,413)	66%
PS		154,563	185,695	20%
EHG		(203,663)	(442,237)	117%
OL		(183,627)	(159,949)	-13%
SL		(303,025)	(217,916)	-28%
* CA Methodology using Kingsport Originally Filed Revenue Requirements				

As can be seen in Table 1R, the current Rate IP subsidy increases by 113% (that is, it more than doubles) if the CA methodology is adopted.

- In lieu of approving Mr. Novak's approach, should the Commission consider the subsidies that the Company's large customers on Rate IP currently are paying in order to determine a reasonable allocation of the revenue increase among rate classes?
- Yes. These subsidies have been paid by IP customers for many years. Even under the 11 A. 12 Company's proposal in this case, which attempts to mitigate this imbalance, I have shown that Rate IP customers actually will pay increased subsidies if these rates are approved. 13

ETEC's revenue allocation proposal, as I discussed in my direct testimony, provides some
additional mitigation of the excess costs paid by Rate IP. As I discussed in my direct
testimony, even under the ETEC proposal, Rate IP customers will continue to pay over \$2
million in excess charges once proposed rates become effective. However, the ETEC
proposal is a step toward eventually reducing these excess charges to Rate IP customers.

- 6 Q. Does that complete your rebuttal testimony?
- 7 A. Yes.

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## NASHVILLE, TENNESSEE

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Docket No. 21-00107

### **AFFIDAVIT**

I, Stephen J. Baron, on behalf of East Tennessee Energy Consumers, hereby certify that the attached Rebuttal Testimony represents my opinion in the above-referenced case and the opinion of East Tennessee Energy Consumers.

Stephen J. Baron

Sworn to and subscribed before me This 9th day of June, 2022

Notary Public

My commission expires: August 26, 2024

