

**DIRECT TESTIMONY OF  
JESSICA M. CRISS  
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, BUSINESS ADDRESS AND POSITION.**

2    A.     My name is Jessica M. Criss and my business address is 1 Riverside Plaza, Columbus,  
3           Ohio 43215. I am employed by AEPSC as a Tax Accounting and Regulatory Support  
4           Manager. AEPSC supplies engineering, accounting, planning, advisory, and other  
5           services to subsidiaries of the AEP system, one of which is KgPCo.

6    **Q.     PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**  
7           **BUSINESS EXPERIENCE.**

8    A.     I earned a Bachelor of Science in Business Administration with a focus in Accounting  
9           and a Masters of Accounting from St. Louis University School of Business in 2013. I  
10          have been a Certified Public Accountant in the State of Ohio since 2015.  
11          While pursuing my degrees I was employed part time at a regional public accounting firm  
12          in Chesterfield, Missouri from February 2012 to December 2013. I was hired at a  
13          regional public accounting firm in Akron, Ohio as a Tax Accountant in January 2014 and  
14          was promoted to Senior Tax Accountant in January 2016.  
15          In December 2016 I was hired at L Brands, Inc., a retail corporation in Columbus, Ohio  
16          as a Tax Analyst and was promoted to Senior Tax Analyst in April 2019. I joined AEPSC  
17          in January 2020 as a Principal Tax Analyst and was promoted to my current position of  
18          Tax Accounting and Regulatory Support Manager effective February 20, 2021.

**Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY AS A WITNESS  
BEFORE ANY REGULATORY COMMISSION?**

A. Yes. I presented testimony on behalf of Indiana Michigan Power Company in Cause No. 45576 before the Indiana Utility Regulatory Commission.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A. I present and support:

- ADFIT balances incorporated in rate base;
- Federal and state tax expense for the historical period ended June 30, 2021;
- Income tax expense adjustments related to certain ratemaking adjustments made to the Test Year as supported by other Company witnesses;
- Certain adjustments to income tax expense and ADFIT related to the stand-alone NOLC;
- Calculation of the gross revenue conversation factor and certain taxes other than income taxes;
- Potential effects of a future change in the federal statutory tax rate.

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

A. Yes. I am sponsoring the following exhibits:

- KgPCo Exhibit No. 1 (JMC): Vintage Year Net Operating Loss Carryforward
- KgPCo Exhibit No. 2 (JMC): Summary of Adjustments to ADFIT
- KgPCo Exhibit No. 3 (JMC): Summary of Adjustments to Tax Expense
- KgPCo Exhibit No. 4 (JMC): GRCF

**Q. WERE THE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECTION?**

A. Yes.

**Q. ARE YOU SPONSORING ANY MFRS?**

A. Yes. I am sponsoring MFRs 50-53 and MFR 58(i).

**I. RATE BASE ADJUSTMENTS**

**Q. WHAT PROPOSED RATE BASE ADJUSTMENTS ARE YOU SPONSORING?**

A. I am sponsoring the ADFIT rate base adjustments.

**Q. PLEASE DESCRIBE THE METHODOLOGY USED TO DEVELOP THE ADFIT BALANCE FOR THE TEST YEAR.**

A. The Company's ADFIT is calculated using stand-alone ratemaking practices using a normalized method of accounting. All computations are based on actual amounts recorded on the Company's books. The historical ADFIT balance has been recomputed to reflect the appropriate tax effects resulting from the various ratemaking adjustments supported in this case.

**Q. WHAT IS MEANT BY CALCULATION USING STAND-ALONE RATEMAKING PRACTICES?**

A. Stand-alone ratemaking practices means that only the taxes associated with revenues and expenses of the entity's rate regulated operations and assets are included within this filing. All aspects of the Company's income taxes, including attributes such as NOLCs, were computed, and the Company's taxable income or loss and ADFIT were determined, based only on these revenues and expenses.

**Q. PLEASE EXPLAIN THE PROPOSED ADFIT ADJUSTMENTS INCLUDED IN RATE.**

A. Please see KgPCo Exhibit No. 2 (JMC) for a summary of adjustments to ADFIT. The Company is including an adjustment to ADFIT to reflect balances as of the test year ended June 30, 2021, which accounts for deferred tax activity that had not yet been reflected on the financial statements. The Company is including an adjustment to reflect

1 excess protected balances as of the attrition year ended December 31, 2022, which is  
2 computed based on forecasted excess protected amortization computations. The  
3 Company is including an adjustment to reflect the book/tax depreciation timing  
4 difference to the attrition year ended December 31, 2022, which is computed based on  
5 calculating tax depreciation for the remaining six months of 2021 and twelve months  
6 ended 2022, compared to book depreciation amounts supplied by Company witness  
7 Allen. This computation also accounts for forecasted assets placed in service from the  
8 test year ended to the attrition year ended. Lastly, the Company is including an  
9 adjustment for the stand-alone NOLC DTA and the subsequent remeasurement of excess  
10 ADFIT to include the DTA.

11 The total of all adjustments is an \$11,650,345 reduction to ADFIT and a corresponding  
12 increase to rate base.

13 **Q. WHAT IS THE STAND-ALONE NOLC?**

14 A. A tax NOLC occurs when, in a given year, a taxpayer has more deductions than taxable  
15 revenues, resulting in negative taxable income within its tax return. When a NOLC  
16 occurs, the IRC allows the taxpayer to carry the NOLC forward to subsequent years and  
17 offset otherwise taxable income produced in that year.

18 Due to the capital intensive nature of the utility industry, deductions associated with  
19 accelerated tax depreciation can lead to years in which overall deductions exceed taxable  
20 revenues. More specifically, bonus depreciation provisions of the IRC providing for  
21 enhanced tax depreciation in the year an asset is placed in service have resulted in the  
22 creation of tax NOLCs for many utilities.

1           The stand-alone NOLC is the calculation of the taxable deductions in excess of  
2           revenues for KgPCo as a result of the Company's operations alone and does not account  
3           for the results of the operations of other affiliates in the AEP Consolidated group, which  
4           files a consolidated return.

5   **Q.   WHAT IS THE STAND-ALONE NOLC POSITION OF THE COMPANY FOR**  
6   **THE TEST YEAR?**

7   A.   On a stand-alone basis, as of the Test year, the Company has incurred losses in tax years  
8           2015-2019 and for the 6 months ended June 30, 2021. As of this date, the Company has  
9           a stand-alone cumulative NOL balance of \$36,395,924. Please see Exhibit KgPCo  
10          Exhibit No. 1 (JMC) for a detailed computation.

11   **Q.   DID THE COMPANY INCLUDE THE STAND-ALONE NOLC AS A**  
12   **REDUCTION TO ADFIT BALANCE INCLUDED IN RATE BASE IN PREVIOUS**  
13   **FILINGS?**

14   A.   No. During the preparation of this case, the Company determined the approved revenue  
15          requirement currently includes a benefit in rate base by excluding the NOLC DTA. This  
16          benefit is due to an increase in the ADFIT balance, resulting in a decrease to rate base.  
17          The Company did a thorough examination and analysis of the guidance provided by the  
18          IRS on the topic. It consulted nationally recognized experts in the field to independently  
19          analyze the guidance as well. This-process confirmed the validity of the Company's  
20          position.

**Q. WHY IS IT APPROPRIATE TO DETERMINE INCOME TAX EXPENSE AND ADFIT, INCLUDING THE STAND-ALONE NOLC, USING THE STAND-ALONE APPROACH?**

A. The stand-alone approach is consistent with ratemaking principles and is required to comply with the normalization rules of the IRC regarding tax benefits of accelerated depreciation. Such rules require consistency among tax expense, ADFIT, rate base, and book depreciation.

The stand-alone approach ensures that income taxes within the filing represent only those associated with the revenues and expense of the regulated operations and assets of the Company, without regard to the operations of affiliates of the AEP Consolidated group.

As such, income taxes are consistent with the regulated assets reported in rate base and the regulated revenues and expenses included in Cost of Service. The use of a stand-alone approach prevents the cross-subsidization among the Company's affiliates.

**Q. PLEASE DISCUSS THE NORMALIZATION RULES OF THE IRC.**

With respect to accelerated depreciation, the normalization rules require that the federal tax expense included in the cost of service for ratemaking use a method of depreciation and a depreciation period that is no shorter than the depreciation expense used in setting rates.<sup>1</sup> With respect to NOLC, the normalization rules require that the NOLC ADFIT be included in rate base to the extent that the NOLC is the result of accelerated depreciation.<sup>2</sup> In addition, the normalization rules require there to be consistency with

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<sup>1</sup> 26 U.S. Code §168(i)(9)(A)(i).

<sup>2</sup> Treas. Reg. § 1.167(l)-1(h)(1)(iii) and Private Letter Rulings issued by the IRS.

1 the assumptions used in the revenue requirement for depreciation expense, tax expense,  
2 rate base, and ADFIT.<sup>3</sup>

3 **Q. HOW WAS IT DETERMINED THAT THE NOLC IS A RESULT OF**  
4 **ACCELERATED DEPRECIATION?**

5 A. Regulations under former IRC section 167(l) require the amount of tax deferred subject  
6 to normalization be based on a calculation of tax due with accelerated tax depreciation  
7 compared to tax due without accelerated tax depreciation (“with-and-without” method).

8 **Q. WAS A “WITH-AND-WITHOUT” ANALYSIS PERFORMED TO DETERMINE**  
9 **THE AMOUNT OF NOLC REQUIRED TO BE NORMALIZED?**

10 A. Yes. The Company’s calculation determined that 64% of the \$36M NOLC is the result  
11 of accelerated tax depreciation.

12 **Q. SHOULD THE NOLC THAT IS NOT RELATED TO ACCELERATED**  
13 **DEPRECIATION BE INCLUDED IN THE CALCULATION OF ADFIT?**

14 A. Yes. As discussed above, calculating ADFIT utilizing the stand-alone approach ensures  
15 that income taxes within the filing represent only those associated with the revenues and  
16 expense of the regulated operations and assets of the Company, without regard to the  
17 operations of affiliates of the AEP Consolidated group.

18 **Q. ARE THERE OTHER IMPACTS TO ADFIT RELATED TO THE STAND-**  
19 **ALONE NOLC?**

20 A. Yes. Tax reform legislation known as TCJA was signed into law effective December 22,  
21 2017. The TCJA includes provisions requiring adjustments to ADFIT.

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<sup>3</sup> 26 U.S. Code §168(i)(9)(B).

1 **Q. WAS THE STAND-ALONE NOLC INCLUDED IN THE REMEASUREMENT OF**  
2 **CUMULATIVE ADFIT BALANCES AS OF DECEMBER 31, 2017?**

3 A. No. During the preparation of this case, the Company determined the approved revenue  
4 requirement currently includes a reduction to rate base for our net ADFIT excluding the  
5 NOLC DTA.

6 **Q. WHAT ADJUSTMENTS RELATED TO THE STAND-ALONE NOLC AND TCJA**  
7 **ARE INCLUDED IN THIS CASE?**

8 A. The remeasurement of the stand-alone NOLC of \$31.4M as of December 31, 2017 results  
9 in \$4.4M of deficient taxes to offset excess ADFIT balances. A “with-and-without”  
10 calculation determined that 68% of the stand-alone NOLC is the result of accelerated tax  
11 depreciation. Protected excess ADFIT will be offset by \$3M of deficient tax. Protected  
12 excess amortization will continue to be amortized utilizing the ARAM. For the portion of  
13 the NOLC not related to accelerated depreciation, the remaining deficient tax of \$1.4M is  
14 designated as unprotected deficient tax.

15 **Q. WHY IS THE NOLC 68% RELATED TO ACCELERATED DEPRECIATION AS**  
16 **OF DECEMBER 31, 2017, BUT 64% AS OF JUNE 30, 2021?**

17 A. Since 2017, the Company has generated more taxable losses that are not attributable to  
18 accelerated depreciation.

19 **II. COST OF SERVICE TAX CALCULATION AND ADJUSTMENTS**

20 **Q. PLEASE DESCRIBE THE METHODOLOGY USED TO DEVELOP THE**  
21 **FEDERAL AND STATE INCOME TAX EXPENSE FOR THE TEST YEAR.**

22 A. MFR 51 shows the calculation of Test Year federal current and deferred income tax  
23 expense and state tax expense.



1           The Company's federal tax expense is calculated using stand-alone ratemaking  
2 practices using a normalized method of accounting. The Company's state income tax  
3 expense is calculated using stand-alone ratemaking practices using a flowthrough method  
4 of tax accounting. All computations are based on actual amounts recorded on the  
5 Company's books. The historical income tax expense has been adjusted for out-of-period  
6 or non-utility items. Income tax expense has been recomputed to reflect the appropriate  
7 tax effects resulting from the going level and proforma adjustments supported in this  
8 case.

9   **Q.   PLEASE DESCRIBE THE CALCULATION OF INTEREST**

10   **SYNCHRONIZATION FOR FEDERAL INCOME TAX AS SHOW ON MFR 51.**

11   A.   MFR 51 shows the calculation of the amount of interest expense deduction used by the  
12 Company for purposes of computing income tax expense. This amount is calculated by  
13 multiplying the adjusted rate base by the weighted cost of debt. This interest expense  
14 deduction is calculated as part of CFIT.

15   **Q.   IS PROTECTED EXCESS AMORTIZATION INCLUDED AS A REDUCTION**  
16   **TO TAX EXPENSE?**

17   A.   Yes. Per the final order of TPUC Docket 18-00038, the FTRAR provided the  
18 methodology for which to return benefits to ratepayers from the TCJA update of the  
19 federal statutory tax rate from 35% to 21%. These benefits included the current impact of  
20 14% change in statutory tax rates as well as the remeasurement of ADFIT and subsequent  
21 amortization of protected excess. The Company proposes to include protected excess  
22 amortization as a part of base rates and remove the impact from the FTRAR. Company  
23 witness Castle discusses this proposal.

1 **Q. PLEASE EXPLAIN THE TAX IMPACT OF RATE CASE ADJUSTMENTS THE**  
2 **COMPANY IS PROPOSING.**

3 A. The Company is proposing an overall increase in PTBI of \$8.6M, inclusive of the  
4 changes in rate base which effect the interest synchronization calculation discussed  
5 earlier. As part of this increase to PTBI, book and tax depreciation has been adjusted to  
6 attrition year levels and as such, the book/tax timing difference related to accelerated  
7 depreciation has been adjusted to reflect this update. The overall increase to PTBI and  
8 adjustment for depreciation has impacted current federal, current state, and deferred  
9 federal income taxes. This adjustment resulted in \$2.2M of additional tax expense, an  
10 increase to cost of service. In addition, deferred federal income taxes has been adjusted  
11 to reflect excess amortization for the attrition year ended 12/31/2022. This adjustment of  
12 \$289k of additional expense is inclusive of the deficient tax related to the NOLC  
13 discussed previously. In total, tax expense has increased \$2.5M based on the rate case  
14 adjustments. Please see KgPCo Exhibit No. 3 (JMC) for a summary of the adjustments  
15 and impacts on tax expense, which correspond to the tax computations prepared in MFR  
16 51.

17 **III. GRCF**

18 **Q. PLEASE DESCRIBE THE CALCULATION OF THE GRCF AS SHOWN ON**  
19 **KGPCO EXHIBIT NO. 4 (JMC).**

20 A. The GRCF calculated on KgPCo Exhibit No. 4 (JMC) indicates the appropriate factor  
21 that should be applied to the income deficiency in order to determine the amount of  
22 incremental revenue needed to obtain the required level of operating income.

1 It is necessary to apply this factor to the income deficiency in order to provide sufficient  
2 revenues to cover the additional federal and state income tax expense, forfeited discounts,  
3 uncollectible accounts expense, and the Tennessee Public Utility Commission Inspection  
4 fees.

5 **IV. ETR**

6 **Q. PLEASE DESCRIBE THE CALCULATION OF THE ETR AS SHOW IN MFR 51.**

7 A. MFR 51 calculates the Company's ETR after taking into consideration permanent and  
8 flow-through timing differences, excess deferred federal income taxes, and tax credits.  
9 The overall ETR before rate relief is 21.22% and is calculated by dividing total income  
10 tax expense by pre-tax electric operating income including interest expense.

11 **V. FUTURE IMPLICATIONS OF FEDERAL STATUTORY RATE CHANGE**

12 **Q. WHAT ARE THE TAX IMPACTS OF ANY SUBSEQUENT CHANGE IN THE**  
13 **FEDERAL STATUTORY TAX RATE?**

14 A. Proposed legislation calls for an increase in the current federal statutory tax rate, which  
15 would change current and deferred federal income tax expense and the GRCF. ADFIT  
16 will be remeasured to the new statutory rate but will be offset by a regulatory asset  
17 related to the deficient tax. Company witness Castle discusses requesting immediate  
18 deferral authority when and if tax reform is passed.

19 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

20 A. Yes.

## **Exhibit No. 1 (JMC)**

**Kingsport Power Company**

Computation of Stand-Alone Net Operating Loss Carryforward

	Income/(Loss)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	6 mo 2021	Total
2007	3,648,617	(1,015,334)	(2,633,283)													-
2008	(1,015,334)	1,015,334														-
2009	(4,259,730)		2,633,283	1,626,447												-
2010	5,785,658			(1,626,447)	(4,159,211)											-
2011	(4,338,423)				4,159,211	179,212										-
2012	1,571,553					(179,212)	(1,392,341)									-
2013	(3,430,533)						1,392,341							2,038,192		-
2014	(4,411,926)													4,411,926		-
2015	(8,288,734)													284,677		(8,004,057)
2016	(2,393,241)															(2,393,241)
2017	(14,226,904)															(14,226,904)
2018	(6,731,907)															(6,731,907)
2019	(4,721,242)															(4,721,242)
2020	6,734,795													(6,734,795)		-
6/30/2021	(318,573)															(318,573)
	(36,395,924)															(36,395,924)

Stand Alone DTA 06.30.21

(7,643,144)  
(2,750,213)  
64%

DTA w/out Accel Depr

Stand Alone DTA 12.31.17

(6,585,389)  
(2,102,645)  
68%

DTA w/out Accel Depr

% Related to Accel Depr

## **Exhibit No. 2 (JMC)**

**Kingsport Power Company**  
Accumulated Deferred Federal Income Tax (ADFIT) Adjustments  
Increase/(Decrease) to Rate Base

	<u>ADFIT</u>
Total Company per Books before Assignment	(31,612,359)
PJM Transmission Owner	<u>(8,433,730)</u>
Total for Ratemaking before Assignments	(23,178,629)
To reflect ADFIT as of June 30, 2021	(36,062)
To reflect protected excess balances as of December 31, 2022	440,032
To increase ADFIT for book/tax depreciation timing differences as of December 31, 2022	(580,423)
To reflect the stand-alone NOLC DTA and related deficient tax	<u>11,826,798</u>
Total Fixed, Known, and Measurable Adjustments	11,650,345
Total Company After Adjustments & Assignment	<u><u>(11,528,284)</u></u>

## **Exhibit No. 3 (JMC)**



**Kingsport Power Company**  
Income tax Expense  
Increase/(Decrease) to Cost of Service

	Federal Current	Federal Deferred	State Current
Increase/(Decrease) to Pre-Tax Book Income	8,614,431	-	8,614,431
Increase/(Decrease) to Interest related to Rate Base Adjustments	(54,653)	-	(54,653)
Tax Rate	21%	21%	6.39%
Total	1,797,553	-	546,627
Book/Tax Depreciation Timing Difference - Normalized	(896,021)	896,021	(896,021)
Book/Tax Depreciation Timing Difference - Non-Normalized	171,983	-	171,983
Tax Rate	21%	21%	6.39%
Total for Ratemaking before Assignments	(152,048)	188,164	(46,237)
Federal Benefit of State	(105,082)		
Adjust Excess Amortization to Attrition Year 12.31.2022		289,660	
Total Tax Expense/(Benefit)	1,540,423	477,824	500,390

## **Exhibit No. 4 (JMC)**

**KINGSPORT POWER COMPANY**  
Computation of Gross Revenue Conversion Factor

Line No.	Description	Tax Rates		Factor
1	Operating Revenues			1.000000
2	Forfeited Discounts	0.0014690	[1]	0.001469
3	Balance			<u>1.001469</u>
4	Uncollectibles	0.0029010	[2]	0.002905
5	Balance			<u>0.998564</u>
6	Tennessee Public Utility Commission Inspection Fee	0.0042500	[3]	0.004244
7	Balance			<u>0.994320</u>
8	State Excise Tax	0.0638600	[4]	0.063497
9	Balance			<u>0.930823</u>
10	Federal Income Tax	0.2100000	[3]	0.195473
11	Balance			<u>0.735350</u>
12	Gross Revenue Conversion Factor			1.359897

[1]	$\frac{2021 \text{ Forfeited Discounts}}{2021 \text{ Sales of Electricity}}$	$\frac{222,224}{151,288,129}$	=	0.001469
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[2]	$\frac{2021 \text{ Factoring of Accounts Receivable}}{2021 \text{ Sales of Electricity} + \text{Forfeited Discounts}}$	$\frac{439,467}{151,510,353}$	=	0.002901
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[3] Statutory Rate

[4] Statutory Rate x State Apportionment Rate

**KINGSPORT POWER COMPANY**

Computation of Gross Revenue Conversion Factor

Witness J. M. Criss

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State Income Tax Rate -TN	6.50%	
Apportionment Factor	<u>98.2461%</u>	
Effective Tennessee State Income Tax Rate		6.3860%
 Total Effective State Income Tax Rate		<u><u>6.3860%</u></u>