

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

April 4, 2023

IN RE:

PETITION OF KINGSPORT POWER COMPANY
D/B/A AEP APPALACHIAN POWER FOR
OCTOBER 2020-SEPTEMBER 2021 ANNUAL
RECOVERY UNDER THE TARGETED
RELIABILITY PLAN AND MAJOR STORM RIDER
("TRP & MS RIDER"), ALTERNATIVE RATE
MECHANISMS APPROVED IN DOCKET NO. 17-
00032

DOCKET NO.
21-00142

ORDER APPROVING IN PART, AND DENYING IN PART, THE PETITION

This matter came before Chairman Herbert H. Hilliard, Vice Chair David F. Jones, Commissioner Robin L. Morrison, Commissioner Clay R. Good, and Commissioner John Hie of the Tennessee Public Utility Commission (the "Commission" or "TPUC"), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on January 17, 2023, for consideration of the *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for October 2020 – September 2021 Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider, Alternative Rate Mechanisms ("TRP&MS") Approved in Docket No. 17-00032* ("Petition") filed on December 1, 2021 by Kingsport Power Company d/b/a AEP Appalachian Power ("KPC," "Kingsport," or the "Company").

PROCEDURAL BACKGROUND AND PETITION

KPC is a public utility, subject to TPUC jurisdiction, engaged in the business of distributing electric power service to approximately 50,000 customers in its service area, which includes

portions of Sullivan, Washington, and Hawkins Counties, Tennessee, the City of Kingsport, Tennessee, and the Town of Mount Carmel, Tennessee. In TPUC Docket No. 17-00032, the Commission approved two alternative regulatory mechanisms (“ARMs”) for the Company. First, the Targeted Reliability Plan (“TRP”) and, secondly, its Major Storm (“MS”) Rider.¹ The TRP consists of the Vegetation Management and the System Improvement programs and the MS Rider allows recovery of costs associated with major storm damage.

Under the approved riders, Kingsport must track and defer the costs associated with these two mechanisms and then file annually to recover those costs in excess of what has been included in base rates or refund any costs recovered in excess of the amount included in base rates.² The annual filing requires the metrics proposed by the Consumer Advocate Division in the Office of the Tennessee Attorney General (“Consumer Advocate”) and approved by the Commission in TPUC Docket No. 17-00032, and an attestation stating that the costs and expenses included in the alternative mechanisms are complete, accurate, and reflect amounts on the Company books and records. In addition, pre-filed testimony is required to support the annual filing.³

On December 1, 2021, Kingsport filed the *Petition* in accordance with Docket No. 17-00032, and the settlement agreement approved in Docket No. 18-00125.⁴ The *Petition* seeks to recover TRP&MS expenses incurred during the annual period of October 1, 2020 – September 30, 2021 which are not recovered through base rates or offset by TRP&MS rider revenues. Specifically, Kingsport requests \$6,011,424 of unrecovered TRP&MS costs as of September 30,

¹ See *In re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power for Approval of Its Targeted Reliability Plan, and Its TRP & MS Rider, An Alternative Rate Mechanism and Motion for Protective Order*, Docket No. 17-00032, *Order Granting Petition* (November 9, 2017) (hereinafter *Kingsport Initial Rider Order*).

² *Kingsport Initial Rider Order*, p. 6.

³ *Id.* at 11.

⁴ *Kingsport Initial Rider Order; In re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power for Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider, Alternative Rate Mechanisms*, Docket No. 18-00125, *Order Approving Settlement and Stipulation* (August 5, 2019).

2021. This amount consists of an under-recovery of \$14,369,662 for TRP costs and an under-recovery of \$1,796,067 for MS expenses offset by cumulative TRP&MS Rider revenues of \$10,154,305 recovered through September 2021. The TRP&MS ARM is designed to allow the Company to recover or return any costs above or below the Commission set base rates, as approved in Docket No. 16-00001. The requested under-recovered amount is in excess of \$903,372 in distribution and reliability Operation and Maintenance (“O&M”) expenses and \$392,376 for MS related expenses recovered through base rates.⁵

In pre-filed testimony submitted by the Company in support of the *Petition*, Ms. Eleanor K. Keeton provided an overview regarding reliability information and metrics for the review period, October 1, 2020 through September 30, 2021 (“Review Period”). According to Ms. Keeton, the TRP is designed to improve reliability for Kingsport’s customers through two components: a vegetation management program (“VMP”) and a system improvement plan (“SIP”).⁶ The VMP’s original purpose was to achieve a four-year cycle on right-of-way (“ROW”) clearing, that would be completed in 2021, followed by a VMP that addresses each circuit every four years. The vegetation management activities are performed exclusively with contract labor. Disruptions in the labor pool from the pandemic necessitated the extension of the vegetation management cycle past the planned four-year cycle. As a result, the Company indicated it remained in the initial cycle and does not know how quickly these labor imbalances will be resolved. The Company stated its intention, in the interim, to adhere as much as practicable to the ten-year forecast of costs approved in Docket No. 17-00032. During this reporting period, the Company completed vegetation management activities on 137 miles of ROWs. Cumulatively, the

⁵ See *In re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power for October 2020 – September 2021, Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider (“TRP&MS”), Alternative Rate Mechanisms Approved in Docket No. 17-00032*, Docket No. 21-00142, p. 4 (December 1, 2021) (“*Petition*”).

⁶ Eleanor K. Keeton, Pre-Filed Direct Testimony, pp. 3-5 (December 1, 2021).

Company has completed vegetation management activities on 923 of the total 1,334 miles of ROWs and performed work on fifty-five of the sixty-seven targeted distribution circuits since the inception of the program.⁷

Ms. Keeton testified that the SIP component of the Company's TRP continues to progress. During the most recent review period, the Company incurred costs related to circuit inspections and maintenance, circuit improvements, and pole replacements. The Company completed the inspection of 3,910 wood poles, 286 overhead circuit miles, and over 1,600 underground structures. The Company completed the replacement of 190 wood poles as a result of these inspections.⁸ The Company did not experience any major weather events during this review period.⁹ The revenue requirement that the Company is seeking to recover in this case is \$6,011,424, an amount that excludes the prompt payment discount, pursuant to the Commission approved *Stipulation and Settlement Agreement* in Docket No. 18-00125.

Ms. Keeton testified that the allocation of the revenue requirement to the Company's customer classes is consistent with the methodology approved in the last rate case, Docket No. 16-00001, and prescribed by the Commission in Docket No. 17-00032. The impact on a residential customer's bill will be a decrease of \$1.41 in the service charge component on their monthly bill. Kingsport is seeking an effective date of April 1, 2022, for the proposed TRP&MS Rider rates to be implemented.¹⁰ In regard to the TRP&MS component as it relates to the Company's rate case pending before the Commission in Docket No. 21-00107, the Company proposed to reflect the going level of TRP&MS costs in the requested cost of service. If approved, the Company will set the rates to \$0 at the time base rates go into effect so customers will not pay a higher level in base

⁷ *Id.* at 4-5.

⁸ *Id.* at 5.

⁹ *Id.*

¹⁰ *Id.* at 6.

rates and a similar amount in the TRP&MS ARM simultaneously. The rates for the TRP&MS ARM can be reset in the subsequent annual TRP&MS filing using the new basing points and the balances at that time. The Company also proposed to use updated revenue allocation and billing determinants for future TRP&MS filings.¹¹

On behalf of the Company, Mr. A. Wayne Allen provided testimony and exhibits supporting the over-recovery of TRP&MS costs incurred during the twelve-month period from October 2020 through September 2021 offset by the unrecovered TRP&MS costs incurred prior to October 2020 which were the subject of previous TRP&MS dockets.¹² Mr. Allen is an Accounting Senior Manager for American Electric Power Service Corporation (“AEPSC”), a wholly-owned subsidiary of American Electric Power Company, Inc. (“AEP”). AEP is the parent company of KPC. Mr. Allen’s responsibilities include providing AEP’s electric subsidiaries with accounting support for regulatory filings, monitoring regulatory proceedings and legislation and determining appropriate regulatory accounting treatment.¹³

Mr. Allen identified the revenues recorded from the TRP&MS Rider during the review period and provides an attestation that the Rider revenues, costs, and expenses included in the *Petition* are complete and accurate and reflect actual amounts on the Company’s books and records. Mr. Allen also provides supporting information for TRP&MS costs incurred during the Review Period as agreed in the Stipulation and Settlement Agreement approved by the Commission in Docket No. 18-00125. Mr. Allen provided a comparison of actual life-to-date TRP costs (both capital expenditures and O&M expenses) to the original 10-year annual projections of such costs provided in Docket No. 17-00032 as recommended by the Consumer Advocate and

¹¹ *Id.* at 7.

¹² A. Wayne Allen, Pre-Filed Direct Testimony, p. 3 (December 1, 2021).

¹³ *Id.* at 2.

approved by the Commission in Docket No. 20-00127. In addition, Mr. Allen's testimony outlined the relationship between the TRP&MS costs requested for recovery in this rider proceeding and those TRP&MS costs included in the Company's petition for an increase in base rates in Docket No. 21-00107.¹⁴

The Company requested to recover \$6,011,424 of deferred actual TRP&MS under-recovered costs as of September 30, 2021. The net under-recovery of \$6,011,424 is comprised of an under-recovery of \$14,369,662 for TRP costs and an under-recovery of \$1,796,057 for MS expenses offset by cumulative TRP&MS Rider revenues of \$10,154,305 recorded through September 2021. The \$14,369,662 and \$1,796,067 under-recovery balances on September 30, 2021, are net of the annual level of TRP expenses and MS expenses recovered through base rates of \$903,372 and \$392,376, respectively. The annual level of TRP&MS costs included in current base rates was determined by Commission Order, dated October 19, 2016, in Docket No. 16-00001.¹⁵

In Docket No. 20-00127, the Commission found that the Company should include a chart listing the ten-year projected costs compared with the actual TRP costs for the same period with each annual TRP filing, pursuant to the Consumer Advocate's recommendation.¹⁶ As such, the Company provided a comparison of the actual TRP capital expenditures incurred for the four successive twelve-month review periods ended September 30, 2018, through 2021, to the projected TRP capital expenditures for the first four years of the planned ten-year TRP.¹⁷

¹⁴ *Id.* at 3-4.

¹⁵ *Id.* at 5.

¹⁶ *Id.* at 10 citing *In Re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power for October 2019-September 2020 Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider ("TRP & MS")*, *Alternative Rate Mechanisms Approved in Docket No. 17-00032*, Docket No. 20-00127, *Order Approving the Petition*, p. 11 (October 4, 2021).

¹⁷ *Id.* at 10-11.

Mr. Allen testified that the Company used the same annual pre-tax carrying charge rate of 7.581% to calculate the return on net capital investments used in prior TRP&MS dockets beginning with costs incurred for January 2018. According to Mr. Allen, this rate is consistent with the 8.738% annual rate approved by the Commission in Docket No. 16-00001, except the 7.581% reflects the reduction in the corporate federal income tax rate from 35% to 21% effective January 2018. The Company states it will continue to use the 7.581% pre-tax carrying charge in its calculation of TRP&MS costs until a new capital structure / cost of capital is approved in its rate case pending in Docket No. 21-00107.¹⁸

Mr. Allen testified that the \$6,011,424 requested for recovery in this *Petition* is the amount of under-recovered actual TRP&MS costs incurred through the end of the current review period of September 30, 2021, which have not been recovered through base rates or the TRP&MS Rider. According to Mr. Allen, in the Kingsport rate case filed in Docket No. 21-00107, the Company included the months ended June 30, 2021, test year level of TRP O&M expense, a forecasted rate year level of TRP capital expenditures and a historical five-year average of MS O&M expenses in the cost of service used to develop going-forward base rates. Mr. Allen testified that while there is some overlap in this proceeding and the test year in the rate case, there is not double counting of costs. Mr. Allen asserted that this is due to the TRP&MS Rider being a backward-looking mechanism which only recovers past unrecovered costs, while the rate case establishes revenues to recover a going-forward level of costs including TRP&MS costs.¹⁹

According to Mr. Allen, Kingsport's testimony in the Company's rate case in Docket No. 21-00107 describes the requested level of base rate recovery of TRP&MS costs that will be

¹⁸ *Id.* at 12.

¹⁹ *Id.* at 12-13.

reflected in the determination of costs to be recovered or refunded through the TRP&MS Rider in future proceedings.²⁰

THE ORDER HOLDING DOCKET IN ABEYANCE

The Consumer Advocate filed a petition to intervene on December 28, 2022, which was granted by order. On April 20, 2022, the parties jointly filed a motion to hold the docket in abeyance pending the end of the Company's rate case in Docket No. 21-00107. The parties noted that the rate case touched upon storm rider costs with respect to rate base and that the parties were engaged in the latter half of the procedural schedule.²¹ Pursuant to the request of the parties, the hearing officer issued an order on April 26, 2022, holding this docket in abeyance until resolution of Commission Docket No. 21-00107.²² On October 25, 2022, the Commission approved a settlement agreement between the Consumer Advocate and Kingsport resolving the Company's rate case in Docket No. 21-00107.²³

Following the resolution of the rate case, the parties submitted a joint procedural schedule which the hearing officer subsequently adopted.²⁴ During the discovery process, the Company revised the revenue requirement it sought from \$6,011,424 down to \$5,996,015 to account for errors that were found.²⁵

POSITION OF THE CONSUMER ADVOCATE

In accordance with the procedural schedule for the docket, on September 6, 2022, Mr. William H. Novak submitted pre-filed direct testimony on behalf of the Consumer Advocate. Mr.

²⁰ *Id.* at 13.

²¹ *Joint Motion to Hold the Filing of a Procedural Schedule in Abeyance*, pp. 1-2 (April 20, 2022).

²² *Order Holding Docket in Abeyance Until Resolution of Docket No. 21-00107*, p. 2 (April 26, 2022).

²³ *See In re: Petition of Kingsport Power Company D/B/A AEP Appalachian Power For A General Rate Increase*, Docket No. 21-00107, *Order Approving Stipulation and Settlement Agreement* (October 25, 2022).

²⁴ *Order Establishing Procedural Schedule* (August 30, 2022).

²⁵ *Kingsport Power Company d/b/a AEP Appalachian Power Response To Consumer Advocate's Third Informal Discovery Requests*, pp. 4-5 (August 18, 2022).

Novak noted that since its inception in October 2017, the total costs invested in the TRP&MS are approximately \$16.2 million of which \$10.2 million of that amount has already been recovered from the Company's customers.²⁶ Mr. Novak states he reviewed the Company's filing for the TRP&MS Rider filed on December 1, 2021, as well as the Company's responses to the Consumer Advocate's data requests. He additionally states he reviewed the Commission's Order in Docket No. 17-00032 approving the TRP&MS Rider as well as subsequent reconciliations filed in Docket Nos. 18-00125, 19-00106, and 20-00127. Based upon his review, Mr. Novak submitted four concerns with recommendations:

1. Recommendation: The TRP&MS Rider should be re-evaluated to determine if it is still in the best interest of Kingsport Power's customers, as it has not effectively decreased service outages in the Company's territory.

Mr. Novak testified that the TRP component of the TRP&MS Rider has not proven to be effective at decreasing the service outages in the Kingsport service area. To make this determination, Mr. Novak observed the System Average Interruption Duration Index ("SAIDI") and the System Average Interruption Frequency Index (SAIFI") for Kingsport and its peer group for the last four years. The SAIDI index measures the number of minutes the average service interruption lasts exclusive of major weather events. The SAIFI index measures how often per year customer service is interrupted by these same outages.²⁷

In Commission Docket No. 17-00032, Mr. Novak first identified fourteen utilities similarly situated to Kingsport Power, to which he referred to as the "Peer Group."²⁸ Mr. Novak included a table with the Company and its Peer Group for the years 2017 through 2020. In 2020, the Company's SAIDI index, or average service interruption, was 269 minutes and represented one of

²⁶ William H. Novak, Pre-Filed Direct Testimony, p. 6 (September 9, 2022).

²⁷ *Id.*

²⁸ *Id.* at 6-7.

the highest values in the Peer Group. Additionally, the SAIDI ratio to the Peer Group for 2020 was 161%, which is approximately equal to the 158% ratio from 2017, meaning there has not been significant improvement in this ratio since the TRP&MS Rider's inception.²⁹

According to Mr. Novak, the Company's SAIFI index was 1.51 service interruptions during 2020 (exclusive of major weather events) which is below average for the Peer Group. However, the Company's SAIFI ratio to the Peer Group for 2020 was 81% which is a slight increase over the 78% ratio from 2017, demonstrating there has not been any significant improvement in this ratio since the TRP&MS Rider's inception.³⁰

Mr. Novak concluded that, after spending \$14.4 million on mostly vegetation management, the SAIDI and SAIFI results are not in line with the potential improvements the Company promised the Commission in Docket No. 17-00032.³¹ As a result, Mr. Novak testified that he can no longer recommend that the TRP program be continued in its present form. Instead, he recommended the Commission reevaluate the TRP program to determine if it is still in the best interest of consumers. With respect to the Major Storm Component of the Rider, Mr. Novak testified it has been effective in addressing the timely recovery of costs for service restoration.³²

2. Recommendation: The TRP&MS Rider recovery requested by the Company in the amount of \$5,996,015 should be reduced by \$420,386 to adjust for the Company's failure to apply the TRP&MS Rider surcharge to Street Lighting customers.

Mr. Novak testified that the Company amended its under-recovery amount twice (from its original under-recovery amount of \$6,011,424) to correct errors that were discovered in the Consumer Advocate's review. The Company's amendment reflected an under-recovery balance

²⁹ *Id.* at 7.

³⁰ *Id.* at 8.

³¹ *Id.* at 9.

³² *Id.* at 10.

of \$5,996,015 as the appropriate amount of TRP&MS Rider costs for the twelve months ended September 2021.³³

Based on this review, he found that the Company's filing appropriately reconciled actual expenses and net investment to the amounts recorded on the Company's ledger. Other than as noted in his testimony, Mr. Novak concluded that the reconciliation generally reflected the methodologies established in Docket No. 17-00032.³⁴ Nevertheless, Mr. Novak did find portions of the Company's TRP&MS Rider recovery request with which he disagreed. Specifically, Mr. Novak testified he discovered the Company had never applied the appropriate TRP&MS Surcharge to Street Lighting customers, which resulted in an under-recovery of costs which were then spread to other customer classes. He also found the Company misapplied the Repair Allowance Percentage in the Deferred Tax calculation and was not able to provide adequate support for the percentages.

As part of the annual TRP&MS Rider reconciliation, the Company has allocated a portion of the requested recovery to Street Lighting customers. However, although a portion of the Rider reconciliation costs were allocated to Street Lighting customers, the Company never applied a surcharge to this customer class, resulting in an under-collection of surcharge revenues of \$420,386. The Company ultimately re-allocated these under-collections to all other customer classes in subsequent reconciliation filings.³⁵ In discovery, the Company conceded that it had not applied a TRP&MS surcharge to Street Lighting customers as these customers are currently served under contract, which does not allow for the adjustment of rates or application of rider surcharges.³⁶ Mr. Novak disagreed with the Company's explanation for omitting the TRP&MS

³³ *Id.* at 11.

³⁴ *Id.* at 12.

³⁵ *Id.* at 13.

³⁶ *Id.* at 14, citing Company Response to Data Request CA 3-01 (July 27, 2022).

Rider surcharge to Street Lighting customers. First, the allocation of TRP&MS Rider costs is specifically prescribed in the Company's tariff. Second, the Company never provided notice to the Commission in any testimony filed in a TRP&MS Rider docket that it was not applying the Rider surcharge to Street Lighting or any other customer class. By not giving notice of this omission, Mr. Novak opined that the Company was able to circumvent the Commission's original intent of requiring all customer classes to share in the cost of the TRP&MS Rider program.³⁷

Mr. Novak testified that failing to apply the TRP&MS Rider surcharge to Street Lighting customers resulted in an under-collection of these costs for the current period. As a result, the Company's omission has required all other customer classes to pay \$420,386 in TRP&MS Rider costs. Therefore, Mr. Novak recommends the \$420,386 amount that should have been allocated to the Street Lighting customers be deducted from the Company's requested recovery, resulting in a Net Adjustment Recovery of \$5,575,629.³⁸

Mr. Novak testified that the Company is charging Street Lighting customers on a going forward basis, because of this issue being discovered in Docket No. 21-00107.³⁹

3. Recommendation: The Commission should require the Company to produce adequate documentation supporting the Repair Allowance percentage calculations in future filings.

Mr. Novak asserts the Company misapplied the Repair Allowance component of the deferred tax calculation for the TRP&MS Rider. This issue was first addressed in Docket No. 19-00106, where the Commission stated:

Regarding issues raised by the Consumer Advocate related to Accumulated Deferred Income Taxes as it relates to the repair deduction and depreciation expense associated with the retirement of plant due to TRP investments, the Company states that it intends to work with the Consumer Advocate prior to the

³⁷ *Id.* at 14-15.

³⁸ *Id.* at 15.

³⁹ *Id.* at 16; See also Response to Consumer Advocate Discovery Request 4-10 (August 18, 2022).

*next TRP&MS filing, in an attempt to resolve issues related to these items; a proposal the Hearing Panel found to be a reasonable approach.*⁴⁰

During the Consumer Advocate's review of this current case, it was discovered that the Company had not regularly updated the Repair Allowance percentages in the different TRP&MS dockets. The Company has addressed and corrected this issue, which contributed to the Company's amended filings. According to Mr. Novak, the Company was unable to provide adequate supporting data for its revised Repair Allowance percentages.⁴¹

Mr. Novak asserted that this explanation for the software-based source of the Repair Allowance percentages is not acceptable. While the Company may rely on its fixed assets software for the source of the Repair Allowance percentage, Mr. Novak testified that the Company must be able to provide source data for this calculation to the Commission for verification. In this case, Mr. Novak recommended that the Commission accept the Company's revised Repair Allowance percentage calculations without source data verification. However, for future TRP&MS dockets, Mr. Novak recommended the Commission require the Company to provide the source data for this calculation.⁴²

4. Recommendation: Adoption of the Consumer Advocate's proposed rate design for the TRP&MS Rate Surcharge.

Mr. Novak presents a proposed rate design, in which the net TRP&MS allocation by rate schedule is divided by the appropriate billing determinants from the Company's last rate case to

⁴⁰ See *In Re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power For October, 2018 - September, 2019 Annual Recovery Under The Targeted Reliability Plan And Major Storm Rider ("TRP&MS"), Alternative Rate Mechanisms Approved In Docket No. 17-00032, Docket No. 19-00106, Order Approving Petition*, pp. 10-11 (June 17, 2020).

⁴¹ William H. Novak, Pre-Filed Direct Testimony, p. 17 (September 9, 2022).

⁴² *Id.* at 18.

produce the new TRP&MS rate surcharge by customer class. Mr. Novak recommends the Commission adopt the rate design as calculated in Table 9 of his testimony.⁴³

KINGSPORT'S RESPONSE TO THE CONSUMER ADVOCATE'S PRE-FILED TESTIMONY

On September 19, 2022, Mr. William K. Castle submitted pre-filed rebuttal testimony to address Mr. Novak's recommendation to reduce the revenue requirement by an amount apportioned to the Street Lighting and his recommendation to evaluate the Targeted Reliability Plan. The Company conceded it had been collecting the TRP&MS Rider surcharge amounts from all other customers, but these amounts were not collected from the Street Lighting class. While Mr. Castle agreed this was in error, he disputed Mr. Novak's calculation, which was based off the Company's annual revenue requirements, not actual revenues. After correcting the Street Lighting error, the Company's proposed increase for residential customers is projected to be \$3.28 and \$4.13 for Small General Service customers.⁴⁴

Mr. Castle testified that the amount of revenue the Company should forego is 2.4% of actual revenues, grossed up to include the Street Lighting segment. According to Mr. Castle, using the revenue requirement, which reflects cumulative under-recovery balances, artificially inflates the amount of costs (and foregone revenue) attributable to the Street Lighting segment.⁴⁵ Therefore, Mr. Castle asserts that the resultant revenue requirement is \$5,746,462. This amount is the Company's original request of \$5,996,014, less the \$249,552 of actual foregone revenues attributable to Street Lighting. Mr. Castle also indicates that the Company expects a similar adjustment for the 2022 TRP&MS filing, for the period October 1, 2021 – August 8, 2022, when the Company will no longer be foregoing the Street Lighting revenues.⁴⁶

⁴³ *Id.* at 20-21.

⁴⁴ William K. Castle, Pre-Filed Rebuttal Testimony, Exhibit No. 1 (September 19, 2022).

⁴⁵ *Id.* at 3.

⁴⁶ *Id.*

With respect to Mr. Novak's assertion that the TRP Program has not proven effective in decreasing service outages and that the program should be re-evaluated, Mr. Castle opined that it is too early to draw any conclusions about the effectiveness of the program. The original TRP was proposed as a staged process over a ten-year period with the initial focus on vegetation management, circuit inspections and maintenance, and sectionalizing activities under the circuit improvement program. The remaining circuit and station improvements beginning year five. Therefore, any evaluation earlier than year five would be relying on incomplete information and conclusions drawn any earlier would suffer.⁴⁷

Mr. Castle testified that additional time is needed to determine whether the program is working as designed. The localized and random nature of weather events over any four-year period could provide misleading information. Additionally, the Company's program began in 2017 and did not get established until nearly a year later. Therefore, according to Mr. Castle, it is premature to look at effectively only two years of data for a program that was designed to address all circuits over a four-year period and decide that the program is not working.⁴⁸

Mr. Castle offered a different analysis of the Company's SAIDI Index, which improved from 303 in 2018 to 269 in 2020, while the peer group developed by Mr. Novak deteriorated from 141 to 167. The SAIFI index improved from 1.94 in 2018 to 1.51 in 2020, whereas the peer group deteriorated from 1.83 to 1.85. These improvements, according to Mr. Castle, statistically show the program, appears to be making a difference.⁴⁹ While the Company's SAIDI and SAIFI numbers do show room for improvement, reliability statistics will not improve if the program is ended prematurely.⁵⁰

⁴⁷ *Id.* at 4.

⁴⁸ *Id.*

⁴⁹ *Id.*

⁵⁰ *Id.* at 5.

Also on September 19, 2022, Mr. A. Wayne Allen submitted pre-filed rebuttal testimony to address Mr. Novak's recommendation regarding the Repair Allowance component of the deferred tax calculation for the TRP&MS Rider. Mr. Allen offered that the Company will provide support for Repair Allowances using the following ratio: Repairs Deduction divided by Additions in future filings.⁵¹

The source of the Repairs Deduction will be a report from Power Plan, the Company's tax subledger system, which outlines Schedule M line item 532C Repairs Deduction. The source of Additions will be a Power Tax additions report that outlines additions in General Ledger accounts 1010001 and 1060001, excluding intangible plant, land, land rights, and Asset Retirement Obligations. Mr. Allen testified that the Repair Allowance percentages will be based on forecast data until a final tax return is filed for each respective year.⁵²

PRE-HEARING MOTIONS

On September 30, 2022, the Company filed the *Motion for Leave to Appear as Witnesses By Telephone at the Tennessee Public Utility Commission Conference of October 10, 2022 on Behalf of Kingsport Power Company d/b/a AEP Appalachian Power* ("Motion To Appear by Telephone"). There was no objection. The hearing officer granted the *Motion to Appear by Telephone* subject to conditions required by the Commission and Tennessee law.⁵³

On October 6, 2022, the Company filed the *Motion for Leave to Allow William Castle to Present the Direct Testimony of Eleanor Keeton on Behalf of Kingsport Power Company d/b/a AEP Appalachian Power* ("Motion"). In the *Motion*, the Company explained Ms. Eleanor Keeton was no longer employed by Kingsport and that Mr. William Castle is familiar with Ms. Keeton's

⁵¹ A. Wayne Allen, Pre-Filed Rebuttal Testimony, pp. 1-2 (September 19, 2022).

⁵² *Id.* at 2.

⁵³ *Order Granting Electronic Participation in Hearing for KPC Witnesses Castle and Allen*, pp. 2-3 (October 3, 2022).

testimony and the subject matter. There was no opposition to the *Motion*. The hearing officer subsequently granted the *Motion*.⁵⁴

THE HEARING

The Hearing on the *Petition* was held before the voting panel assigned to this docket on October 10, 2022, as noticed by the Commission on September 30, 2022. Participating in the Hearing were:

Kingsport Power Company d/b/a AEP Appalachian Power – William C. Bovender, Esq., Hunter, Smith & Davis LLP, Post Office Box 3740, Kingsport, Tennessee 37664

Consumer Advocate Unit – Karen H. Stachowski Esq., Post Office Box 20207, Nashville, Tennessee 37202-4015

During the Hearing, Mr. William Castle and Mr. A. Wayne Allen testified telephonically on behalf of the Company. Mr. William H. Novak appeared in person and summarized his testimony. The parties waived opening statements and cross-examination. Members of the public were given an opportunity during the hearing to offer comments, but no one sought recognition to do so. The parties submitted post-hearing briefs.

FINDINGS AND CONCLUSIONS

At the Commission Conference held on January 17, 2023, the voting panel assigned to this docket deliberated this matter. Based on its review of the evidentiary record, the panel found that evaluation of the effectiveness of the TRP is premature at this time and that the TRP program continues to be in the public interest. The panel voted unanimously that Kingsport shall continue filing its reliability statistics so that the TRP program may be evaluated at an appropriate time in a future docket. Both the Company and the Consumer Advocate agree a reduction is appropriate to account for the failure to charge Street Lighting customers. Based on the evidence in the record,

⁵⁴ *Order Granting Kingsport Motion to Substitute Witness*, pp. 1-2 (October 21, 2022).

the hearing panel voted unanimously that the appropriate amount for such reduction is \$420,386, which is the revenue requirement for the Street Lighting customer class, resulting in an Adjusted Net Recovery of \$5,575,629. The Company shall file an updated rate schedule reflecting recovery of the \$5,575,629 TRP&MS Rider costs using the same allocation percentage approved in Docket No. 16-00001 to compute the TRP&MS cost allocation to each customer rate class. Each allocated cost by rate class is to be divided by the appropriate billing determinant from the Company's last rate case to compute the new TRP&MS rate surcharge by customer class.

Finally, the hearing panel voted unanimously that in future TRP&MS filings the Company is required to submit the Repairs Allowance calculation with the supporting documentation, as outlined by Company witness Allen on page two of his Rebuttal Testimony.

IT IS THEREFORE ORDERED THAT:

1. The *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for October 2020 – September 2021 Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider, Alternative Rate Mechanisms ("TRP&MS")* Approved in Docket No. 17-00032 filed on December 1, 2021, by Kingsport Power Company d/b/a AEP Appalachian Power is approved, in part and denied, in part. The amount of the Targeted Reliability Plan and Major Storm Rider costs shall be reduced to account for the failure to charge Street Lighting customers.

2. Kingsport Power Company d/b/a AEP Appalachian Power shall file an updated rate schedule reflecting recovery of \$5,575,629 Targeted Reliability Plan and Major Storm Rider costs using the same allocation percentage approved in Docket No. 16-00001 to compute the Targeted Reliability Plan and Major Storm Rider cost allocation to each customer rate class.

3. Kingsport Power Company d/b/a AEP Appalachian Power shall continue filing its reliability statistics so that the Targeted Reliability Plan program may be evaluated at an appropriate time in a future docket.

4. In future Targeted Reliability Plan and Major Storm Rider filings, *Kingsport Power Company d/b/a AEP Appalachian Power* shall submit the Repairs Allowance calculation with the supporting documentation.

5. Any person who is aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen (15) days from the date of this Order.

6. Any person who is aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Chairman Herbert H. Hilliard,
Vice Chairman David F. Jones,
Commissioner Robin L. Morrison,
Commissioner Clay R. Good, and
Commissioner John Hie concurring.**

None dissenting.

ATTEST:



Earl R. Taylor, Executive Director