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**BEFORE  
THE TENNESSEE PUBLIC UTILITY COMMISSION**

PETITION OF KINGSPORT POWER	)	
COMPANY D/B/A AEP	)	
APPALACHIAN POWER FOR	)	
OCTOBER, 2020 – SEPTEMBER, 2021	)	Docket No. 21-00142
ANNUAL RECOVERY UNDER THE	)	
TARGETED RELIABILITY PLAN AND	)	
MAJOR STORM RIDER (“TRP&MS”),	)	
ALTERNATIVE RATE MECHANISMS	)	
APPROVED IN DOCKET NO. 17-00032	)	

**DIRECT TESTIMONY  
of  
WILLIAM H. NOVAK**

**ON BEHALF OF  
  
THE CONSUMER ADVOCATE DIVISION  
OF THE  
OFFICE OF THE TENNESSEE ATTORNEY GENERAL**

*September 6, 2022*

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1 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND***  
2 ***OCCUPATION FOR THE RECORD.***

3 ***A1.*** My name is William H. Novak. My business address is 19 Morning Arbor Place,  
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility  
5 consulting and expert witness services company.<sup>1</sup>  
6

7 ***Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND***  
8 ***PROFESSIONAL EXPERIENCE.***

9 ***A2.*** A detailed description of my educational and professional background is provided  
10 in Attachment WHN-1 to my testimony. Briefly, I have both a Bachelor's degree  
11 in Business Administration with a major in Accounting, and a Master's degree in  
12 Business Administration from Middle Tennessee State University. I am a Certified  
13 Management Accountant, and am also licensed to practice as a Certified Public  
14 Accountant.  
15

16 My work experience has centered on regulated utilities for over 35 years. Before  
17 establishing WHN Consulting, I was Chief of the Energy & Water Division of the  
18 Tennessee Public Utility Commission ("the Commission") where I had either  
19 presented testimony or advised the Commission on a host of regulatory issues for  
20 over 19 years. In addition, I was previously the Director of Rates & Regulatory  
21 Analysis for two years with Atlanta Gas Light Company, a natural gas distribution  
22 utility with operations in Georgia and Tennessee. I also served for two years as the

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<sup>1</sup> State of Tennessee, Registered Accounting Firm ID 3682.

1 Vice President of Regulatory Compliance for Sequent Energy Management, a  
2 natural gas trading and optimization entity in Texas, where I was responsible for  
3 ensuring the firm's compliance with state and federal regulatory requirements.  
4

5 In 2004, I established WHN Consulting as a utility consulting and expert witness  
6 services company. Since 2004 WHN Consulting has provided testimony or  
7 consulting services to state public utility commissions and state consumer  
8 advocates in at least ten state jurisdictions as shown in Attachment WHN-1.  
9

10 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?***

11 ***A3.*** I am testifying on behalf of the Consumer Advocate Division ("Consumer  
12 Advocate" or the "CA") of the Office of the Tennessee Attorney General.  
13

14 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS DOCKETS***  
15 ***REGARDING KINGSFORT POWER COMPANY?***

16 ***A4.*** Yes. I presented testimony in Dockets U-86-7472, 89-02126, 90-05735, 92-04425,  
17 15-00024, 16-00001, and 21-00107 concerning Kingsport Power Company d/b/a  
18 AEP Appalachian Power ("KgPCo" or the "Company"). In addition, I previously  
19 presented testimony concerning KgPCo's Targeted Reliability Plan & Major Storm  
20 Rider (TRP&MS Rider or the Rider) that is the subject of this proceeding in TPUC  
21 Docket Nos. 17-00032 and 18-00125.  
22

1 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***  
2 ***PROCEEDING?***

3 ***A5.*** My testimony will address issues and concerns of the Consumer Advocate with  
4 respect to KgPCo's proposed TRP&MS reconciliation in this Docket with its books  
5 and records, including the calculations supporting that reconciliation and the  
6 resulting surcharge.

7  
8 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***  
9 ***YOUR TESTIMONY?***

10 ***A6.*** I have reviewed the Company's Petition filed on December 1, 2021, along with the  
11 accompanying testimony and schedules. I have also reviewed KgPCo's responses  
12 to the data requests submitted by the Consumer Advocate in this Docket. In  
13 addition, I reviewed the Commission's Order in TPUC Docket No. 17-00032 that  
14 approved the TRP&MS Rider as well as subsequent reconciliations in TPUC  
15 Docket Nos. 18-00125, 19-00106, and 20-00127.

16  
17 ***Q7. PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND CONCERNS***  
18 ***IN THIS DOCKET.***

19 ***A7.*** My recommendations and concerns are summarized as follows:

- 20 • I recommend that the TRP portion of the TRP&MS rider be re-evaluated by the  
21 Commission to determine if it is still in the best interest of KgPCo customers  
22 since it has not been effective in decreasing service outages in the Kingsport  
23 service territory.  
24  
25 • I recommend that the Company's requested TRP&MS Rider recovery of  
26 \$5,996,015 be reduced by \$420,386 to \$5,575,629 as shown on Table 7, to

1 properly adjust for the Company's failure to apply the TRP&MS Rider  
2 surcharge to Street Lighting customers.

- 3
- 4 • I recommend that the Commission require the Company to produce adequate  
5 documentation supporting the Repair Allowance percentage calculations in  
6 future filings.
  - 7
  - 8 • I recommend that the Commission adopt the rate design presented on Table 9  
9 for the TRP&MS surcharges.
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18 *{Testimony Continues on Next Page}*

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1 I. BACKGROUND

2

3 ***Q8. PLEASE EXPLAIN THE OVERALL STRUCTURE OF THE TARGETED***

4 ***RELIABILITY PLAN & MAJOR STORM RIDER.***

5 A8. The overall structure for the TRP&MS Rider was authorized by the Commission in

6 TPUC Docket No. 17-00032 and contains two separate components. The Targeted

7 Reliability Plan (TRP) component of the TRP&MS Rider consists of a Vegetation

8 Management Program (VMP) and a System Improvement Program (SIP).<sup>2</sup> The

9 VMP is intended to address the Company's system-wide vegetation issues on a

10 recurring four-year cycle.<sup>3</sup> The SIP provides an enhanced means for circuit

11 inspection, maintenance, replacement, and improvement in order to address

12 equipment failures and outages.<sup>4</sup>

13

14 The Major Storm (MS) component of the TRP&MS Rider allows the Company to

15 defer and recover the operating and maintenance costs associated with restoring

16 utility service after a major interruption that is due to weather. Prior to the

17 implementation of the MS component of the TRP&MS Rider, KgPCo was required

18 to separately petition the Commission for recovery of the costs from major storms.

19

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<sup>2</sup> The term "Vegetation Management" has historically been referred to as "tree trimming" in prior cases.

<sup>3</sup> Direct testimony of KgPCo witness Castle in TPUC Docket No. 17-00032, Page 3.

<sup>4</sup> Direct testimony of KgPCo witness Wright in TPUC Docket No. 17-00032, Pages 13-14.

As shown on Table 1 below, the total costs invested in the TRP&MS since its inception in October 2017 are approximately \$16.2 million with approximately \$10.2 million already recovered from KgPCo's customers.

TABLE 1 – Net TRP&MS Cost and Recovery <sup>5</sup>				
Docket	Net TRP Costs	Net MS Costs	Revenue Recovery	Net Total Cost
18-00125	\$2,224,484	\$106,193	\$0	\$2,330,677
19-00106	3,388,540	1,705,301	-740,736	4,353,105
20-00127	4,742,228	440,540	-3,377,813	1,804,955
21-00142	4,014,410	-455,968	-6,035,757	-2,477,315
<b>Total</b>	<b>\$14,369,662</b>	<b>\$1,796,066</b>	<b>\$-10,154,306</b>	<b>\$6,011,422</b>

***Q9. HAS THE TARGETED RELIABILITY PLAN COMPONENT OF THE TRP&MS RIDER BEEN EFFECTIVE IN DECREASING THE SERVICE OUTAGES IN THE KINGSPORT SERVICE AREA?***

A9. Unfortunately, the TRP component of the Rider has not proven effective in decreasing service outages for KgPCo's customers. To make this determination of the Rider's effectiveness, I observed the System Average Interruption Duration Index ("SAIDI") and the System Average Interruption Frequency Index ("SAIFI") for KgPCo and its peer group for the last four years. The SAIDI index measures how long (in minutes per year) that 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.

In TPUC Docket No. 17-00032, I first identified 14 electric distribution utilities that are similarly situated to KgPCo which I referred to as the Kingsport Power

<sup>5</sup> Exhibit AWA-1 included in the Company's filings for each of the docket numbers listed above.



Tennessee Peer Group (“Peer Group”).<sup>6</sup> The SAIDI index values for KgPCo and this peer group are presented below in Table 2 for calendar years 2017 through 2020.<sup>7</sup>

<b>TABLE 2 – Kingsport Power Tennessee Peer Group SAIDI Without Major Event Days (MED) Index (Minutes)</b>				
<b>Distribution Utility</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Bristol	42	52	57	70
Cleveland	49	43	51	68
Clinton	115	77	104	103
Duck River	108	91	133	114
Fort Loudoun	430	266	342	400
Greeneville	62	105	92	81
Johnson City	29	24	22	28
<b>Kingsport Power</b>	<b>231</b>	<b>303</b>	<b>262</b>	<b>269</b>
Knoxville	156	126	156	128
LaFollette	228	207	290	338
Powell Valley	146	123	205	
Pulaski	155	137	123	148
Rockwood	101	130	190	187
Sequachee Valley	121	180	232	172
Tri-County	213	247	237	227
<b>Average</b>	<b>146</b>	<b>141</b>	<b>166</b>	<b>167</b>
<b>KPC Ratio</b>	<b>158%</b>	<b>215%</b>	<b>158%</b>	<b>161%</b>

As shown on Table 2, the KgPCo 2020 SAIDI index was 269 minutes. This means that the average service interruption (exclusive of major weather events) for KgPCo lasted for 269 minutes which is one of the highest values in the Peer Group. Further, the KgPCo SAIDI ratio to the peer group for 2020 was 161%, which is approximately equal to the 158% ratio from 2017 meaning that there has not been any significant improvement in this ratio since the TRP&MS Rider’s inception.

<sup>6</sup> Direct testimony of Consumer Advocate witness Novak in TPUC Docket No 17-00032, Pages 8-10.

<sup>7</sup> This data comes from the Energy Information Administration website at <https://www.eia.gov/electricity/data/eia861/>. Of special note, one member of the peer group (Powell Valley) did not report for 2020.

The SAIFI index values for KgPCo and this same Peer Group are presented below in Table 3 for calendar years 2017 through 2020.<sup>8</sup>

<b>TABLE 3 – Kingsport Power Tennessee Peer Group SAIFI Without Major Event Days (MED) Index (Occurrences)</b>				
<b>Distribution Utility</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Bristol	1.16	1.38	0.94	1.01
Cleveland	0.87	0.75	1.06	0.98
Clinton	1.27	1.51	1.47	1.28
Duck River	1.36	1.29	1.73	1.49
Fort Loudoun	3.18	2.48	2.65	2.82
Greeneville	1.28	1.70	1.53	1.00
Johnson City	0.32	0.26	0.33	0.33
<b>Kingsport Power</b>	<b>1.35</b>	<b>1.94</b>	<b>1.65</b>	<b>1.51</b>
Knoxville	1.44	1.49	1.65	1.65
LaFollette	3.72	3.08	4.19	4.90
Powell Valley	3.12	2.01	3.10	
Pulaski	1.70	1.96	1.61	1.83
Rockwood	1.49	1.25	1.70	1.80
Sequachee Valley	0.81	2.51	3.57	2.50
Tri-County	2.72	3.81	3.34	2.87
<b>Average</b>	<b>1.72</b>	<b>1.83</b>	<b>2.03</b>	<b>1.85</b>
<b>KPC Ratio</b>	<b>78%</b>	<b>106%</b>	<b>81%</b>	<b>81%</b>

As shown on Table 3, the KgPCo 2020 SAIFI index was 1.51 service interruptions. This means that customers of KgPCo experienced on average 1.51 service interruptions during 2020 (exclusive of major weather events) which is below the average for the Peer Group. However, the KgPCo SAIFI ratio to the peer group for 2020 was 81%, which is a slight increase over the 78% ratio from 2017 meaning that there has also not been any significant improvement in this ratio since the TRP&MS Rider's inception.

<sup>8</sup> *Id.*

1  
2 **Q10. WHAT CONCLUSIONS SHOULD THE COMMISSION MAKE FROM**  
3 **THE SAIDI AND SAIFI INFORMATION PRESENTED IN TABLES 2 AND**  
4 **3?**

5 A10. After spending \$14.4 million on mostly vegetation management, the SAIDI and  
6 SAIFI results are certainly disappointing and not in line with the potential  
7 improvements that the Company promised to the Commission in the following  
8 testimony from TPUC Docket 17-00032:

9 **Q. HAVE THE CUSTOMER BENEFITS OF A FOUR-YEAR**  
10 **VEGETATION MANAGEMENT CYCLE BEEN DEMONSTRATED IN**  
11 **ANY OTHER AEP SERVICE TERRITORIES?**

12  
13 A. Yes. APCo began the implementation of a system-wide, four-year, ongoing  
14 vegetation management cycle program, with a six-year transition period, in  
15 its West Virginia service territory in 2014. As of the end of 2016, circuits  
16 that had been managed end-to-end had already shown an average  
17 improvement in vegetation-related SAIDI of approximately 46 percent and  
18 an average improvement in vegetation-related SAIFI of approximately 45  
19 percent.

20  
21 In addition, in 2015, APCo completed a four-year cycle-based vegetation  
22 management pilot program on 30 circuits in its Virginia service territory.  
23 A comparison of recent vegetation-related reliability of the Pilot circuits, to  
24 the historical period prior to implementation of the Pilot (2008 through  
25 2012), indicates that the Pilot circuits experienced significant vegetation-  
26 related improvements in SAIDI of 35 percent and in SAIFI of 44 percent  
27 through 2016.

28  
29 Kingsport projects comparable improvements in its SAIDI and SAIFI  
30 indices if the VMP portion of its proposed TRP is implemented in its service  
31 territory.<sup>9</sup>  
32

33 The Kingsport service territory has certainly not seen anywhere near the same  
34 benefits as those originally cited for West Virginia and Virginia for the first four

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<sup>9</sup> Direct Testimony of Philip A. Wright in Docket 17-00032, Page 11 of 18, April 19, 2017.

1 years of the TRP implementation. As a result, I can no longer recommend that the  
2 TRP program be continued in its present form. Instead, I would recommend that  
3 the Commission consider re-evaluating the TRP program to determine if it is still  
4 in the KgPCo customer's best interest.  
5

6 ***Q11. HAS THE MAJOR STORM COMPONENT OF THE RIDER BEEN***  
7 ***EFFECTIVE IN ADDRESSING THE TIMELY RECOVERY OF COSTS***  
8 ***FOR SERVICE RESTORATION?***

9 A11. Yes. In the past when significant major storms occurred, KgPCo was required to  
10 petition the Commission to defer and separately recover the associated costs.<sup>10</sup> The  
11 MS component of the TRP&MS Rider allows the Company to identify and  
12 accumulate the operating and maintenance expenses associated with service  
13 restoration after a major storm and then include these costs for timely recovery  
14 within the Rider.  
15  
16  
17

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<sup>10</sup> See Commission Docket Nos. 10-00144, 12-00051, 13-00121 and 15-00024.

1                   **II.       CURRENT REVIEW PERIOD COST RECOVERY**

2

3       ***Q12. MR. NOVAK, PLEASE EXPLAIN THE COST RECOVERY RELIEF THAT***

4                   ***THE COMPANY IS ASKING FROM THE COMMISSION THROUGH ITS***

5                   ***FILING.***

6       A12. As shown below in Table 4, KgPCo has amended its original Net Rider Under-

7               Recovery amount twice to correct errors that came to light during the CA's review.

8               Therefore, my comments here will only relate to the Company's latest amendment

9               reflecting an under-recovery balance of \$5,996,015.

<b>TABLE 4 – Net TRP&amp;MS Rider Under-Recovery Amounts</b>	
<b>Filing</b>	<b>Under-Recovery Amount</b>
KgPCo Original Filing <sup>11</sup>	\$6,011,424
Company Response to CA Discovery Request 3-8	5,993,832
Company Response to CA Discovery Request 4-5	5,996,015

10

11       KgPCo is now asking the Commission to allow it to recover through surcharges to

12       its customers \$5,996,015 as the appropriate amount of TRP&MS Rider costs for

13       the twelve months ended September 2021. The details for this requested recovery

14       are shown below in Table 5.

15

16                               *{Testimony Continues on Next Page}*

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<sup>11</sup> Direct Testimony of KgPCo witness Allen, Exhibit AWA-1.

<b>TABLE 5 – TRP&amp;MS 2020-2021 Recovery Request<sup>12</sup></b>			
<b>Item</b>	<b>TRP</b>	<b>MS</b>	<b>Total</b>
Beginning Balance	\$10,355,252	\$2,252,034	\$12,607,286
Return on Capital Investment	948,131	0	948,131
O&M Expense	3,517,851	-63,592	3,454,259
Depreciation Expense	436,392	0	436,392
<b>Total</b>	<b>\$15,257,626</b>	<b>\$2,188,442</b>	<b>\$17,446,068</b>
Less Base Rate Amounts	-903,372	-392,376	-1,295,748
<b>Net Amount</b>	<b>\$14,354,254</b>	<b>\$1,796,066</b>	<b>\$16,150,320</b>
Less Rider Surcharges			-10,154,305
<b>KgPCo Requested Recovery</b>			<b>\$5,996,015</b>

1

2 ***Q13. HAVE YOU REVIEWED THE CALCULATIONS SUPPORTING THE***  
3 ***PROPOSED RATE ADJUSTMENT IN KINGSPORT'S TRP&MS***  
4 ***RECONCILIATION FILING?***

5 A13. Yes. I reviewed the KgPCo's filing. I also prepared discovery requests for  
6 supplemental supporting information that was not contained in the filing. The  
7 purpose of my review was to determine whether KgPCo's TRP&MS Rider  
8 reconciliation was based on actual amounts recorded on its books.

9

10 ***Q14. WHAT WERE THE RESULTS OF YOUR REVIEW?***

11 A14. Overall, I found that Kingsport's filing appropriately reconciled the actual expenses  
12 and net investment to the amounts recorded on the Company's ledger. Likewise,  
13 other than as noted within my testimony, I also found that the reconciliation  
14 generally reflected the methodologies established in TPUC Docket No. 17-00032.

15

16 ***Q15. WERE THERE ANY PORTIONS OF THE COMPANY'S TRP&MS***  
17 ***RECOVERY REQUEST THAT YOU DISAGREE WITH?***

<sup>12</sup> Company Response to Consumer Advocate Discovery Request 4-5.

1 A15. Yes. During my review, I discovered that the Company had never applied the  
2 appropriate TRP&MS Surcharge to Street Lighting customers which then resulted  
3 in an under-recovery of costs that were then spread to other customer classes. I  
4 also found that the Company had misapplied the Repair Allowance Percentage in  
5 the Deferred Tax calculation and was unable to provide adequate support for these  
6 percentages.

7  
8 ***Q16. PLEASE EXPLAIN HOW THE COMPANY HAS EXCLUDED THE***  
9 ***TRP&MS SURCHARGE TO STREET LIGHTING CUSTOMERS.***

10 A16. As part of the annual TRP&MS Rider reconciliation, KgPCo has always allocated  
11 a portion of the requested TRP&MS Rider recovery to Street Lighting customers.<sup>13</sup>  
12 However, even though a portion of the Rider reconciliation costs were allocated to  
13 Street Lighting customers, the Company has never applied a surcharge to this  
14 customer class. The Company's failure to apply an appropriate TRP&MS Rider  
15 surcharge to Street Lighting customers has resulted in an under-collection of  
16 surcharge revenues of \$420,386 as shown below in Table 6. The Company has  
17 then re-allocated these under-collections to all other customer classes in subsequent  
18 reconciliation filings.

19  
20  

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<sup>13</sup> See Direct Testimony of KgPCo witness Keeton, Exhibit EKK-2 in Docket Nos. 18-00125, 19-00106,  
20-00127, and this current Docket No. 21-00142.

TABLE 6 – TRP&MS Rider Allocations to Street Lighting Customers <sup>14</sup>	
Docket	Street Lighting Allocation
Docket 18-00106	\$55,977
Docket 19-00125	160,529
Docket 20-00127	203,880
<b>Total</b>	<b>\$420,386</b>

**Q17. DID THE COMPANY PROVIDE AN EXPLANATION FOR EXCLUDING THE RIDER SURCHARGES FROM STREET LIGHTING CUSTOMERS?**

A17. Yes. Through discovery, the Company provided the following explanation:

*The Company has 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. Although the Company allocated a portion of TRP&MS costs to the SL class to be consistent with the methodology approved in prior cases, the \$144,380 allocated to Street Lighting customers is not recovered through the TRP&MS surcharge or base rates. The Company has consistently allocated a share of TRP&MS cost to the SL customers to ensure other customers do not pay their portion when computing rates.<sup>15</sup>*

**Q18. MR. NOVAK, DO YOU AGREE WITH THE COMPANY'S EXPLANATION FOR OMITTING THE TRP&MS SURCHARGE TO STREET LIGHTING CUSTOMERS?**

A18. No. First, the allocation of TRP&MS Rider costs is specifically prescribed in the Company's tariff which reads in part as follows:

*The Company will allocate the revenue requirement to the individual tariff class by application of the revenue allocation factors used in the Company's most recent base case, and will use the appropriate billing determinants, as determined in the Company's most recent base case, to develop the TRP&MS Rider tariff charges.<sup>16</sup>*  
[Emphasis added.]

<sup>14</sup> Company Response to Consumer Advocate Discovery Request 4-9.

<sup>15</sup> Company Response to Consumer Advocate Discovery Request 3-1.

<sup>16</sup> Submission of Tariff Provisions, Docket No. 17-00032, Sheet Number 21-1, Item 3 – Determination of Adjustments by Tariff, September 15, 2017.



1 Second, the Company has never provided notice to the Commission through any  
2 testimony filed in a TRP&MS Rider docket that it was not applying the Rider  
3 surcharge to Street Lighting or any other customer class. By not giving adequate  
4 notice to the Commission of this of this omission, the Company was able to  
5 circumvent the Commission's original intent of requiring all customer classes to  
6 share ratably in the costs of the TRP&MS Rider program.

7  
8 Finally, not applying the TRP&MS Rider surcharge to Street Lighting customers  
9 mathematically results in an under-collection of these costs for the current period.  
10 This under-collection is then trued-up or reallocated to all customer classes in a  
11 subsequent filing period. As a result, the Company's omission has required all  
12 other customer classes to pay \$420,386 in additional TRP&MS Rider costs.

13  
14 ***Q19. HOW DO YOU RECOMMEND THAT THE COMMISSION ADJUST FOR***  
15 ***OMITTING THE TRP&MS RIDER SURCHARGE TO STREET***  
16 ***LIGHTING CUSTOMERS IN PRIOR PERIODS?***

17 A19. I recommend that the \$420,386 amount that should have been allocated to Street  
18 Lighting customers be deducted from the Company's requested recovery, resulting  
19 a Net Adjusted Recovery of \$5,575,629 as shown below on Table 7.

20

TABLE 7 – Adjusted TRP&MS Rider Recovery for Omission of Street Lighting Surcharges	
Item	Under-Recovery Amount
KgPCo Requested Recovery	\$5,996,015
Cumulative Street Lighting TRP&MS Allocation	-420,386
<b>Net Adjusted Recovery</b>	<b>\$5,575,629</b>

1

2 **Q20. DOES THE COMPANY INTEND TO APPLY THE TRP&MS**  
3 **SURCHARGE TO STREET LIGHTING CUSTOMERS GOING**  
4 **FORWARD?**

5 A20. Yes. Through discovery, the Company provided the following explanation:

6 *The Company is charging Street Lighting customers as a result of the Commission's*  
7 *August 8, 2022 decision in Docket No. 21-00107. The Company intends to adjust*  
8 *the approved Street Lighting surcharge to reflect the Commission's decision in this*  
9 *Docket.*<sup>17</sup>

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15 *{Testimony Continues on Next Page}*

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<sup>17</sup> Company Response to Consumer Advocate Discovery Request 4-10.

1 **Q21. MR. NOVAK, PLEASE EXPLAIN HOW THE COMPANY MISAPPLIED**  
2 **THE REPAIR ALLOWANCE COMPONENT OF THE DEFERRED TAX**  
3 **CALCULATION FOR THE TRP&MS RIDER.**

4 A21. In TPUC Docket No. 19-00106, the Commission first approached the issue of the  
5 Repair Allowance component of deferred taxes, and stated the following:

6 *Regarding issues raised by the Consumer Advocate related to Accumulated*  
7 *Deferred Income Taxes as it relates to the repair deduction and depreciation*  
8 *expense associated with retirement of plant due to TRP investments, the Company*  
9 *states that it intends to work with the Consumer Advocate prior to the next*  
10 *TRP&MS filing, in an attempt to resolve issues related to these items; a proposal*  
11 *the Hearing Panel found to be a reasonable approach.<sup>18</sup>*  
12

13 During the Consumer Advocate's review of this current case, it was discovered that  
14 the Company had not regularly updated the Repair Allowance percentages in the  
15 different TRP&MS dockets.<sup>19</sup> The Company has addressed and corrected this  
16 oversight which contributed to the Company's amended filings.

17  
18 However, the Company was unable to provide adequate supporting data for its  
19 revised Repair Allowance percentages. When questioned about the supporting data  
20 for the Repair Allowance percentages, the Company provided the following  
21 response:

22 *The Company does not have additional support for the Plant Additions and Total*  
23 *Repairs shown in the response to CA3-08, Attachment 1. The source for the*  
24 *computation of the Repairs percentages is Power Plant, the tax fixed assets*  
25 *software.<sup>20</sup>*  
26

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<sup>18</sup> Commission Order in Docket No. 19-00106, Page Nos. 10-11.

<sup>19</sup> Company Response to Consumer Advocate Discovery Request 3-8.

<sup>20</sup> Company Response to Consumer Advocate Discovery Request 4-1.

1   ***Q22. DO YOU BELIEVE THAT THE COMPANY'S EXPLANATION FOR THE***  
2       ***SOURCE OF THE REPAIR ALLOWANCE PERCENTAGE IS***  
3       ***ACCEPTABLE?***

4   A22. No. While the KgPCo may rely on its fixed asset software for the source of Repair  
5       Allowance percentage, the Company must be able to provide the source data for  
6       this calculation to the Commission for the calculation to be verified.

7

8   ***Q23. HOW DO YOU RECOMMEND THAT THE COMMISSION ADDRESS***  
9       ***THE MISSING DATA FOR THE SOURCE OF THE REPAIR***  
10      ***ALLOWANCE PERCENTAGE?***

11   A23. For this case, I recommend that the Commission accept the Company's revised  
12       Repair Allowance percentage calculations without source data verification.  
13       However, for future TRP&MS dockets, I recommend that the Commission require  
14       the Company to provide the source data for this calculation.

15

16

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18                                   *{Testimony Continues on Next Page}*

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### III. TRP&MS COST ALLOCATION AND RATE DESIGN

***Q24. MR. NOVAK, HOW SHOULD THE 2020-2021 TRP&MS RIDER RECOVERY COSTS BE ALLOCATED TO THE DIFFERENT CUSTOMER CLASSES?***

A24. The Commission Order approving the TRP&MS Rider provides that the net Rider costs are to be allocated to the customer rate classes in the same manner that was used in the Company's last rate case.<sup>21</sup> As shown in Table 8 below, I have applied these percentages to the Net Adjusted Recovery of \$5,575,629 from Table 7 to compute the TRP&MS cost allocation to each customer rate class.

<b>TABLE 8 – TRP&amp;MS 2020-2021 Net Cost Recovery Allocation<sup>22</sup></b>				
<b>Tariff</b>	<b>16-00001 Percentage Allocation</b>	<b>KgPCo Requested Recovery</b>	<b>Street Lighting Adjustment</b>	<b>Net TRP&amp;MS Allocation</b>
Residential Service	28.30%	\$1,696,873	\$-121,895	\$1,574,978
Small General Service	3.12%	187,076	-13,439	173,637
Medium Service-Sec.	14.26%	855,032	-61,421	793,611
General Service-TOD	0.02%	1,199	-86	1,113
Medium Service-Primary	0.17%	10,193	-732	9,461
Large Service-Secondary	24.26%	1,454,633	-104,493	1,350,140
Large Service-Primary	1.48%	88,741	-6,375	82,366
Large Service-Trans.	0.00%	0	0	0
Industrial Power-Sec.	0.00%	0	0	0
Industrial Power-Primary	1.88%	112,725	-8,098	104,627
Industrial Power-Trans.	15.88%	952,167	-68,399	883,768
Church Service	1.24%	74,351	-5,341	69,010
Public School Service	2.78%	166,689	-11,974	154,715
Electric Heating Service	3.24%	194,271	-13,955	180,316
Outdoor Lighting Service	0.97%	58,161	-4,178	53,983
Street Lighting Service	2.40%	143,904	0	143,904
<b>Total</b>	<b>100.00%</b>	<b>\$5,996,015</b>	<b>\$-420,386</b>	<b>\$5,575,629</b>

<sup>21</sup> Commission Order in Docket No. 17-00032, Page 3.

<sup>22</sup> Commission Order Approving Stipulation and Settlement Agreement in Docket No. 16-00001, Exhibit A, Attachment A – Revenue Deficiency Settlement, Schedules 12 and 13.

1 **Q25. HOW SHOULD THE TRP&MS RIDER SURCHARGE RATE BE**  
2 **CALCULATED FOR EACH CUSTOMER CLASS SHOWN IN TABLE 8?**

3 A25. The individual surcharge for each customer class is also based on the billing  
4 determinants from the Company's most recent rate case. Specifically, the  
5 TRP&MS tariff approved by the Commission provides for the following:

6 *The Company will allocate the revenue requirement to the*  
7 *individual tariff class by application of the revenue allocation*  
8 *factors used in the Company's most recent base case, and will use*  
9 *the appropriate billing determinants, as determined in the*  
10 *Company's most recent base case, to develop the TRP&MS Rider*  
11 *tariff charges.*<sup>23</sup> [Emphasis added.]  
12

13 The specific TRP&MS surcharges are based upon these historic billing  
14 determinants from the last case and may be applied as either energy surcharges,  
15 demand surcharges, or bill surcharges as best fits each customer class.  
16

17 **Q26. HAVE YOU PREPARED A TRP&MS RATE SURCHARGE THAT**  
18 **CONFORMS TO THE TARIFF LANGUAGE?**

19 A26. Yes. As shown on Table 9 below, the net TRP&MS allocation by rate schedule is  
20 divided by the appropriate billing determinants from the Company's last rate case  
21 to produce the new TRP&MS rate surcharge by customer class. As such, I  
22 recommend that the Commission adopt the rate design presented in Table 9 for this  
23 Docket.  
24  
25

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<sup>23</sup> Submission of Tariff Provisions, Docket No. 17-00032, Sheet Number 21-1, Item 3 – Determination of Adjustments by Tariff, September 15, 2017.

TABLE 9 – Proposed TRP&MS Rate Surcharge			
Tariff	Net TRP&MS Allocation	Billing <sup>24</sup> Determinants	TRP&MS Rate Surcharge
Residential Service (Bills)	\$1,574,978	495,438	\$3.18000
Small General Service (Bills)	173,637	43,489	3.99000
Medium Service-Sec. (Demand)	793,611	425,067	1.87000
General Service-TOD (Energy)	1,113	477,775	0.23300
Medium Service-Primary (Demand)	9,461	5,381	1.76000
Large Service-Secondary (Demand)	1,350,140	667,906	2.02000
Large Service-Primary (Demand)	82,366	52,670	1.56000
Large Service-Trans. (Demand)	0	0	1.65000
Industrial Power-Sec. (Demand)	0	0	0.79000
Industrial Power-Primary (Demand)	104,627	145,875	0.72000
Industrial Power-Trans. (Demand)	883,768	1,314,816	0.67000
Church Service (Energy)	69,010	9,850,982	0.70100
Public School Service (Energy)	154,715	27,413,429	0.56400
Electric Heating Service (Demand)	180,316	96,863	1.86000
Outdoor Lighting Service (Lamps)	53,983	65,663	0.82000
Street Lighting Service (Lamps)	143,904	126,962	1.13000
<b>Total</b>	<b>\$5,575,629</b>		

*{Testimony Continues on Next Page}*

<sup>24</sup> Commission Order Approving Stipulation and Settlement Agreement in Docket No. 16-00001, Exhibit A, Attachment C – Rate Design Settlement, Schedules 1-10.

1 IV. CONCLUSION AND RECOMMENDATIONS

2  
3 ***Q27. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE***  
4 ***COMMISSION ON THE 2020-2021 TRP&MS RIDER RECOVERY.***

5 A27. My recommendations are as follows:

- 6 • I recommend that the TRP portion of the TRP&MS rider be re-evaluated by  
7 the Commission to determine if it is still in the best interest of the KgPCo  
8 customers since it has not been effective in decreasing service outages in the  
9 Kingsport service territory.  
10  
11 • I recommend that the Company's requested TRP&MS Rider recovery of  
12 \$5,996,015 be reduced by \$420,386 to \$5,575,629 as shown on Table 7, to  
13 properly adjust for the Company's failure to apply the TRP&MS Rider  
14 surcharge to Street Lighting customers.  
15  
16 • I recommend that the Commission require the Company to produce adequate  
17 documentation supporting the Repair Allowance percentage calculations in  
18 future filings.  
19  
20 • I recommend that the Commission adopt the rate design presented on Table 9  
21 for the TRP&MS surcharges.  
22

23 ***Q28. DOES THIS COMPLETE YOUR TESTIMONY?***

24 A28. Yes, it does. However, I reserve the right to incorporate any new information that  
25 may subsequently become available.



**IN RE:**

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

**DOCKET NO. 21-00142**

# AFFIDAVIT

I, William H. Novak, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.

William H. Hall

WILLIAM H. NOVAK

Sworn to and subscribed before me  
This 6<sup>th</sup> day of September, 2022.

Tiffany H. Blackburn  
NOTARY PUBLIC



My Commission Expires: March 22, 2023

ATTACHMENT WHN-1

William H. Novak Vitae

**William H. Novak**

19 Morning Arbor Place  
The Woodlands, TX 77381

Phone: 713-298-1760

Email: halnovak@whnconsulting.com

**Areas of Specialization**

Over thirty-five years of experience in regulatory affairs and forecasting of financial information in the rate setting process for electric, gas, water and wastewater utilities. Presented testimony and analysis for state commissions on regulatory issues in four states and has presented testimony before the FERC on electric issues.

**Relevant Experience****WHN Consulting – September 2004 to Present**

In 2004, established WHN Consulting to provide utility consulting and expert testimony for energy and water utilities. WHN Consulting is a “complete needs” utility regulation firm able to provide clients with assistance in all areas of utility rate analysis. Since 2004, WHN Consulting has provided assistance to public utility commissions and state consumer advocates in over ten state jurisdictions. Some of the topics and issues that WHN Consulting has presented testimony for include net metering, alternative rate regulation, revenue requirement calculations in rate cases, class cost of service studies, rate design, deferred income tax calculations, purchased gas costs, purchased power costs, and weather normalization studies.

**Sequent Energy Management – February 2001 to July 2003**

Vice-President of Regulatory Compliance for approximately two years with Sequent Energy Management, a gas trading and optimization affiliate of AGL Resources. In that capacity, directed the duties of the regulatory compliance department, and reviewed and analyzed all regulatory filings and controls to ensure compliance with federal and state regulatory guidelines. Engaged and oversaw the work of a number of regulatory consultants and attorneys in various states where Sequent has operations. Identified asset management opportunities and regulatory issues for Sequent in various states. Presented regulatory proposals and testimony to eliminate wholesale gas rate fluctuations through hedging of all wholesale gas purchases for utilities. Also prepared testimony to allow gas marketers to compete with utilities for the transportation of wholesale gas to industrial users.

**Atlanta Gas Light Company – April 1999 to February 2001**

Director of Rates and Regulatory Analysis for approximately two years with AGL Resources, a public utility holding company serving approximately 1.9 million customers in Georgia, Tennessee, and Virginia. In that capacity, was instrumental in leading

Atlanta Gas Light Company through the most complete and comprehensive gas deregulation process in the country that involved terminating the utility's traditional gas recovery mechanism and instead allowing all 1.5 million AGL Resources customers in Georgia to choose their own gas marketer. Also responsible for all gas deregulation filings, as well as preparing and defending gas cost recovery and rate filings. Initiated a weather normalization adjustment in Virginia to track adjustments to company's revenues based on departures from normal weather. Analyzed the regulatory impacts of potential acquisition targets.

**Tennessee Regulatory Authority – Aug. 1982 to Apr 1999; Jul 2003 to Sep 2004**

Employed by the Tennessee Regulatory Authority (formerly the Tennessee Public Service Commission) for approximately 19 years, culminating as Chief of the Energy and Water Division. Responsible for directing the division's compliance and rate setting process for all gas, electric, and water utilities. Either presented analysis and testimony or advised the Commissioners/Directors on policy setting issues, including utility rate cases, electric and gas deregulation, gas cost recovery, weather normalization recovery, and various accounting related issues. Responsible for leading and supervising the purchased gas adjustment (PGA) and gas cost recovery calculation for all gas utilities. Responsible for overseeing the work of all energy and water consultants hired by the TRA for management audits of gas, electric and water utilities. Implemented a weather normalization process for water utilities that was adopted by the Commission and adopted by American Water Works Company in regulatory proceedings outside of Tennessee.

**Education**

B.A, Accounting, Middle Tennessee State University, 1981

MBA, Middle Tennessee State University, 1997

**Professional**

Certified Public Accountant (CPA), Tennessee Certificate # 7388

Certified Management Accountant (CMA), Certificate # 7880

Former Vice-Chairman of National Association of Regulatory Utility Commission's Subcommittee on Natural Gas

## Witness History for William H. Novak, CPA

## Selected Cases

State	Company/Sponsor	Year	Assignment	Docket
Louisiana	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Arkla	<a href="#">S-32534</a>
	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Entex	<a href="#">S-32537</a>
	Louisiana Electric Utilities/Louisiana PSC	2012	Technical Consultant for Impact of Net Meter Subsidy on other Electric Customers	<a href="#">R-31417</a>
Tennessee	Aqua Utilities/Aqua Utilities	2006	Presentation of Rate Case on behalf of Aqua Utilities	<a href="#">06-00187</a>
	Atmos Energy Corporation/Atmos Intervention Group	2007	Rate design for Industrial Intervenor Group	<a href="#">07-00105</a>
	Bristol TN Essential Services/BTES	2009	Audit of Cost Allocation Manual	<a href="#">05-00251</a>
	Chattanooga Manufacturers Association/CMA	2009	Spokesperson for Industrial Natural Gas Users before the Tennessee State Legislature	HB-1349
	Piedmont Natural Gas Company/Tennessee AG	2011	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	<a href="#">11-00144</a>
	Tennessee-American Water Company/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base, Class Cost of Service Study and Rate Design	<a href="#">12-00049</a>
	Tennessee-American Water Company/Tennessee AG	2013-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	<a href="#">16-00126</a>
	Piedmont Natural Gas Company/Tennessee AG	2013-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	16-00140
	Piedmont Natural Gas Company/Tennessee AG	2014	Audit of Recovery of Compressed Natural Gas Infrastructure Costs	<a href="#">14-00086</a>
	Piedmont Natural Gas Company/Tennessee AG	2014	Audit of Accumulated Deferred Federal Income Tax	<a href="#">14-00017</a>
	Atmos Energy Corporation/Tennessee AG	2014	Rate Case Audit - Revenues, O&M Expenses, Rate Base and Rate Design	<a href="#">14-00146</a>
	Atmos Energy Corporation/Tennessee AG	2015-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	<a href="#">16-00105</a>
	B&W Gas Company/B&W	2015	Presentation of Rate Case on behalf of B&W Gas Company	<a href="#">15-00042</a>
	AEP & Kingsport Power/Tennessee AG	2015	Audit of Storm Costs and Rate Recovery	<a href="#">15-00024</a>
	AEP & Kingsport Power/Tennessee AG	2016	Rate Case Audit - Revenue, Rate Base, Class Cost of Service Study & Rate Design	<a href="#">16-00001</a>
Alabama	Jefferson County (Birmingham) Wastewater/Alabama AG	2013	Bankruptcy Filing - Allowable Costs and Rate Design	2009-2318
Illinois	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	06-0556
New Mexico	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	09-00351-UT
New York	National Grid/New York PSC	2011	Audit of Affiliate Relationships and Transactions	10-M-0451
Ohio	Ohio-American Water Company/Ohio Consumers' Counsel	2010	Rate Case Audit - Class Cost of Service and Rate Design	<a href="#">09-0391-WS-AIR</a>
	Vectren Energy Delivery of Ohio/Ohio Consumers' Counsel	2008	Rate Case Audit - Class Cost of Service and Rate Design	<a href="#">07-1080-GA-AIR</a>
	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	<a href="#">07-0723-EL-UNC</a>
Texas	Center Point Energy/Texas AG	2009	Rate Case Audit - Class Cost of Service and Rate Design	GUD 9902
	Sharyland Utilities/St. Lawrence Cotton Growers Assn.	2017	Rate Case Audit - Class Cost of Service and Rate Design	<a href="#">PUC 45414</a>
North Carolina	Aqua Utilities/PSS Legal Fund	2011	Rate Case Audit - Class Cost of Service and Rate Design	<a href="#">W-218, Sub-319</a>
Washington DC	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	1027
NARUC	National Association of Regulatory Utility Commissioners	2015	Presentation of Regulatory Issues with Net Metering Customers on Rates of Electric Utilities	

**NOTE:** Click on Docket Number to view testimony/report for each case where available.