

**BEFORE  
THE TENNESSEE PUBLIC UTILITY COMMISSION**

PETITION OF KINGSPORT POWER  
COMPANY D/B/A AEP  
APPALACHIAN POWER FOR A  
GENERAL RATE CASE – TARIFF  
CHANGES TO FUEL AND  
PURCHASED POWER ADJUSTMENT  
RIDER

Docket No. 22-00111

**DIRECT TESTIMONY**  
of  
**WILLIAM H. NOVAK**

ON BEHALF OF

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

*April 3, 2023*

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

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

14 My work experience has centered on regulated utilities for over 40 years. Before  
15 establishing WHN Consulting, I was Chief of the Energy & Water Division of the  
16 Tennessee Public Utility Commission ("the Commission") where I had either  
17 presented testimony or advised the Commission on a host of regulatory issues for  
18 over 19 years. In addition, I was previously the Director of Rates & Regulatory  
19 Analysis for two years with Atlanta Gas Light Company, a natural gas distribution  
20 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 In 2004, I established WHN Consulting as a utility consulting and expert witness  
5 services company. Since 2004 WHN Consulting has provided testimony or  
6 consulting services to state public utility commissions and state consumer  
7 advocates in at least ten state jurisdictions.

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

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

11 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS DOCKETS***  
12 ***REGARDING KINGSPORT POWER COMPANY?***

13 ***A4.*** Yes. I presented testimony in Dockets U-86-7472, 89-02126, 90-05735, 92-04425,  
14 15-00024, 16-00001, 17-00032, 18-00125, 21-00107, and 21-00142 concerning  
15 Kingsport Power Company d/b/a AEP Appalachian Power ("KgPCo", "Kingsport",  
16 or the "Company").

17 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***  
18 ***PROCEEDING?***

1   **A5.**   My testimony will address issues and concerns of the Consumer Advocate with  
2           respect to KgPCo's proposed Fuel & Purchased Power Adjustment Rider  
3           ("FPPAR") reconciliation in this Docket with its books and records, including the  
4           calculations supporting that reconciliation and the resulting surcharge.

5   **Q6.    WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF**  
6           **YOUR TESTIMONY?**

7   **A6.**   I have reviewed the filing schedules and workpapers provided by the Company to  
8           the Commission Staff on September 30, 2022. I have also reviewed KgPCo's  
9           responses to the data requests submitted by the Consumer Advocate in this Docket.  
10          In addition, I reviewed the Commission's Order in TPUC Docket No. 16-00001  
11          that approved the FPPAR Rider in its present form.

12   **Q7.    MR. NOVAK, PLEASE EXPLAIN THE OVERALL STRUCTURE OF THE**  
13           **FUEL & PURCHASED POWER ADJUSTMENT RIDER.**

14   **A7.**   The overall structure for the FPPAR Rider was authorized by the Commission in  
15          TPUC Docket No. 16-00001. The FPPAR requires the Company to annually  
16          reconcile its actual wholesale power costs with the revenue received from the  
17          FPPAR surcharge. Any under- or over-recovery of prior power costs is then netted  
18          with the forecasted power costs for the upcoming year. The resulting percentage  
19          change in the total FPPAR is then applied consistently to all tariffs.

***Q8. MR. NOVAK, PLEASE EXPLAIN THE COST RECOVERY RELIEF THAT THE COMPANY IS ASKING FROM THE COMMISSION THROUGH ITS FILING.***

A8. As shown below in Table 1, KgPCo is requesting a 41.51% increase in the existing FPPAR surcharge rate in order to recover previous under-recoveries of \$30.6 million and estimated future fuel and power costs of \$133.2 million.

| <b>TABLE 1 – FPPAR TRUE-UP CALCULATION<sup>2</sup></b>   |                      |
|--|----------------------|
| <b>Item</b>  | <b>Amount</b>        |
| Actual Power Costs – Prior Period                        | \$158,875,982        |
| Actual Power Supply Revenue – Prior Period               | 128,265,025          |
| <b>Net Prior Period (Over)/Under Recovery</b>            | <b>\$30,610,957</b>  |
|  |                      |
| Prior Period (Over)/Under Recovery                       | \$30,610,957         |
| Future Period Estimated Fuel & Purchased Power Costs     | 133,201,882          |
| <b>Total Required Fuel &amp; Purchased Power Costs</b>   | <b>\$163,812,840</b> |
|  |                      |
| Total Required Fuel & Purchased Power Costs              | \$163,812,840        |
| Estimated Fuel & Purchased Power Revenue – Future Period | 115,763,275          |
| <b>Adjustment Factor to Current Rates</b>                | <b>41.51%</b>        |

As shown below in Table 2, this 41.51% change results in a \$48.0 million rate increase to all customers. To help place this \$48 million increase in perspective, rates were only increased by \$5.75 million in the Company’s last rate case.<sup>3</sup>

<sup>2</sup> KgPCo filing with Commission Staff on September 30, 2022, <2022 Schedule 1-3 Recovery, Forecast and Rate Design Final – No Links> spreadsheet, “Schedule 3” tab. Totals may not precisely sum due to rounding.

<sup>3</sup> Commission Order in TPUC Docket No. 21-00107, Page 2.

| <b>TABLE 2 – FPPAR CHANGE BY TARIFF<sup>4</sup></b> |                        |                         |                           |                          |
|---|------------------------|-------------------------|---------------------------|--------------------------|
| <b>Tariff</b>                                       | <b>Current Revenue</b> | <b>Adjusted Revenue</b> | <b>Revenue Adjustment</b> | <b>Percentage Change</b> |
| Residential   | \$55,576,919           | \$78,645,112            | \$23,068,193              | 41.51%                   |
| Residential-Emp                                     | 108,900                | 154,101                 | 45,201                    | 41.51%                   |
| Residential-TOD                                     | 37,351                 | 52,854                  | 15,503                    | 41.51%                   |
| Small GS  | 1,602,850              | 2,268,141               | 665,290                   | 41.51%                   |
| Medium GS-SEC                                       | 7,368,179              | 10,426,468              | 3,058,288                 | 41.51%                   |
| Medium GS-TOD                                       | 23,342                 | 33,030                  | 9,688                     | 41.51%                   |
| Large GS-SEC  | 10,966,389             | 15,518,175              | 4,551,786                 | 41.51%                   |
| Large GS-PRI  | 1,941,868              | 2,747,873               | 806,005                   | 41.51%                   |
| Industrial-PRI                                      | 3,263,576              | 4,618,178               | 1,354,603                 | 41.51%                   |
| Industrial-TRAN                                     | 29,512,576             | 41,762,273              | 12,249,696                | 41.51%                   |
| Church Service                                      | 655,918                | 928,168                 | 272,250                   | 41.51%                   |
| Public School                                       | 2,250,138              | 3,184,096               | 933,958                   | 41.51%                   |
| Electric Heating                                    | 2,009,340              | 2,843,351               | 834,011                   | 41.51%                   |
| Outdoor Lighting                                    | 157,558                | 222,955                 | 65,397                    | 41.51%                   |
| Street Lighting                                     | 288,371                | 408,065                 | 119,693                   | 41.51%                   |
| <b>Total</b>  | <b>\$115,763,275</b>   | <b>\$163,812,840</b>    | <b>\$48,049,562</b>       | <b>41.51%</b>            |

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2 ***Q9. HAVE YOU REVIEWED THE CALCULATIONS SUPPORTING THE***  
3 ***PROPOSED RATE ADJUSTMENT IN KINGSPORT’S FPPAR***  
4 ***RECONCILIATION FILING?***

5 A9. Yes. I reviewed 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 FPPAR Rider  
8 reconciliation was based on actual amounts recorded on its books.

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<sup>4</sup> KgPCo filing with Commission Staff on September 30, 2022, <2022 Schedule 1-3 Recovery, Forecast and Rate Design Final – No Links> spreadsheet, “Schedule 3” tab. Totals may not precisely sum due to rounding.

1     ***Q10. WHAT WERE THE RESULTS OF YOUR REVIEW?***

2     A10. Overall, I found that Kingsport’s filing appropriately reconciled the actual expenses  
3           and net investment to the amounts recorded on the Company’s ledger. I therefore  
4           recommend that the Commission formally approve these new FPPAR rates.<sup>5</sup>

5           However, I do have concerns with the processes currently used by KgPCo in  
6           making its annual filing with the Commission. Specifically, the Company is not  
7           making a formal filing for the FPPAR. In addition, the Company is not providing  
8           any support in its filing with the Commission Staff to reconcile the FPPAR  
9           revenues and costs with the Company’s ledger. Finally, there appears to be no  
10          formal approval of the FPPAR by the Commission before any new rates are placed  
11          in service.

12     ***Q11. PLEASE DESCRIBE YOUR CONCERNS WITH THE LACK OF A***  
13     ***FORMAL FILING FOR THE FPPAR BY THE COMPANY.***

14     A11. Until now, the Company has only been providing a Proof of Publication in Docket  
15          No. 16-00001 as the full public support for the FPPAR filing.<sup>6</sup> Further, it appears  
16          that the Company has only been providing the actual FPPAR calculations with the  
17          Commission Staff. While the FPPAR represents the electric equivalent of the  
18          Actual Cost Adjustments (“ACA”) filings made with the Commission by the gas  
19          utilities, no such supporting information is publicly filed by KgPCo. As a result, I

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<sup>5</sup>           These rates were apparently placed into service by the Company on November 1, 2022, without formal Commission approval.

<sup>6</sup>           Further, a review of the Docket File for TPUC Docket No. 16-00001 shows that these Proof of Publication affidavits only began in 2020 even though the FPPAR was approved in 2016.

1 would recommend that KgPCo make future FPPAR filings in separate docket files  
2 along with testimony and supporting schedules that describe how the filing was put  
3 together.

4 ***Q12. PLEASE DESCRIBE YOUR CONCERNS WITH THE LACK OF LEDGER***  
5 ***SUPPORT IN THE FPPAR FILINGS.***

6 A12. The FPPAR basically represents a true-up of power costs and surcharge revenues.  
7 However, the Company has not provided any ledger information in its filing to  
8 support that these are the correct revenues and costs recorded on the Company's  
9 books. I would therefore recommend that the Commission require KgPCo to  
10 provide a set of structured workpapers with the FPPAR filings that include a  
11 reconciliation with the Company's books.

12 ***Q13. PLEASE DESCRIBE YOUR CONCERNS WITH THE LACK OF***  
13 ***COMMISSION APPROVAL BEFORE THE FPPAR RATES ARE PLACED***  
14 ***INTO EFFECT.***

15 A13. As mentioned earlier, the FPPAR is the electric equivalent of the ACA for gas  
16 utilities. However, the rates from the ACA are specifically approved by the  
17 Commission in separate docket filings. In contrast, there is no approval by the  
18 Commission for the FPPAR rates. I therefore recommend that the Company be  
19 required to have the FPPAR rates specifically approved by the Commission before  
20 they are charged to customers.



1    ***Q14. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE***  
2           ***COMMISSION ON THE FPPAR RECONCILIATION.***

3    A14. My recommendations are as follows:

- 4           • I recommend that the 41.51% adjustment to the FPPAR be formally approved  
5           by the Commission along with the specific tariff rates proposed by the  
6           Company in its September 30, 2022 filing with the Commission Staff.  
7
- 8           • I recommend that KgPCo make future FPPAR filings in separate docket files  
9           and include testimony describing how the filing was put together.  
10
- 11          • I recommend that the Commission require KgPCo to provide a set of  
12          structured workpapers with the FPPAR filings that include a reconciliation  
13          with the Company's books.  
14
- 15          • I recommend that the Company be required to have the FPPAR rates  
16          specifically approved by the Commission before they are charged to  
17          customers.

18   ***Q15. DOES THIS COMPLETE YOUR TESTIMONY?***

19   A15. Yes, it does. However, I reserve the right to incorporate any new information that  
20       may subsequently become available.

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION  
AT NASHVILLE, TENNESSEE**

IN RE:

PETITION OF KINGSPORT POWER  
COMPANY D/B/A AEP APPALACHIAN  
POWER FOR A GENERAL RATE CASE –  
TARIFF CHANGES TO FUEL AND  
PURCHASED POWER ADJUSTMENT  
RIDER

DOCKET NO. 22-00111

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**AFFIDAVIT**

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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. NOVAK

Sworn to and subscribed before me  
This 17<sup>th</sup> day of March, 2023.

  
NOTARY PUBLIC



My Commission Expires: January 31, 2027

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.