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VIA EMAIL (tpuc.docketroom@tn.gov) & FEDEX

Herbert H. Hilliard, Chairman
c/o Ectory Lawless, Dockets & Records Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Re: Petition of Kingsport Power d/b/a AEP Appalachian Power for a General
Rate Case – Tariff Changes to Fuel and Purchased Power Adjustment Rider
Docket No.: 22-00111


Dear Chairman Hilliard:

On behalf of Kingsport Power Company d/b/a AEP Appalachian Power, we transmit herewith
Kingsport Power Company's *Rebuttal Testimony of William K. Castle*.

The original and four copies are being sent by overnight delivery.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP


William C. Bovender
Joseph B. Harvey

Enclosure

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**REBUTTAL TESTIMONY OF
WILLIAM K. CASTLE
ON BEHALF OF KINGSPORT POWER COMPANY
D/B/A AEP APPALACHIAN POWER
BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
DOCKET NO. 22-00011**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.**

2 A. My name is William K. Castle. My business address is 1051 E. Cary St., Suite 1100,
3 Richmond, Virginia. I am the Director of Regulatory Services VA/TN for Kingsport
4 Power Company (KgPCo or the Company).

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

7 A. I earned a Bachelor of Science degree in Mechanical Engineering from Tulane University
8 in 1988, and a Master of Business Administration degree from the University of Texas –
9 Austin in 1998. I hold the Chartered Financial Analyst (CFA) designation. From 1988-
10 1996, I was a United States Naval Officer. I have worked in the utility industry since
11 1998, beginning with the Columbia Energy Group, Herndon, Virginia, where I held
12 positions in financial planning and corporate finance. Subsequent to the acquisition of
13 Columbia Energy Group by Merrillville, Indiana based NiSource in 2000, I performed
14 financial planning and analysis functions. Since 2004, and prior to my current position, I
15 was employed by American Electric Power Service Corporation (AEPSC) in the
16 Corporate Planning and Budgeting department. I have been in my current position since
17 July, 2014.

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

3 A. Yes. I presented testimony on behalf of KgPCo in Docket Nos. 16-0001, 17-00032, 18-
4 00038 and on behalf of APCo before the Virginia State Corporation Commission, most
5 recently in Case Nos. PUR-2022-00166, PUR-2022-00212, PUR-2023-00001 and PUR-
6 2023-00002. I have also presented testimony in the states of Ohio, Oklahoma, Indiana,
7 West Virginia, and Arkansas.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. I address the testimonies of the Consumer Advocate (CAD) witness Novak and East
10 Tennessee Energy Consumers' (ETEC) witness Baron. I outline the history of the Fuel
11 and Purchased Power Adjustment Rider (FPPAR) and the comprehensive information
12 supplied to the Staff (Staff) of the Tennessee Public Utility Commission (TPUC or
13 Commission) before new FPPAR rates are approved and implemented. To put the
14 Company's FPPAR increase in perspective, I also describe the wholesale prices
15 experienced in PJM during 2022.

16 **Q. DID CONSUMER ADVOCATE WITNESS NOVAK AGREE WITH THE**
17 **REVENUE REQUIREMENT, ALLOCATION TO CUSTOMER CLASSES,**
18 **INCLUDING TO THE STREET LIGHTING CLASS, AND UPDATED RATE**
19 **SCHEDULES SUBMITTED BY THE COMPANY AND CONFIRMED BY STAFF**
20 **AFTER ITS INVESTIGATION?**

21 A. Yes. In his direct testimony, Mr. Novak recommends approval of "the specific tariff
22 rates proposed by the Company in its September 30, 2022 filing with the Commission
23 Staff." (Novak Direct Testimony, p. 8). Those tariff rates are based upon KgPCo's

1 revenue requirement. Although the CAD sought to intervene in this proceeding and
2 create a contested case because of alleged concerns about the proper allocation of costs
3 under the FPPAR to all customer classes, including the Street Lighting class (CAD'S
4 OPPOSITION TO MOTION TO DISMISS, p. 2), Mr. Novak's Direct testimony makes
5 no mention of any allocation issue in this case. Rather, Mr. Novak raises concerns and
6 makes recommendations about the Commission-approved process followed by the
7 Company and Staff regarding KgPCo's annual FPPAR filings with the TPUC.

8 **Q. PLEASE SUMMARIZE ETEC WITNESS BARON'S TESTIMONY REGARDING**
9 **THE COMPANY'S REVENUE REQUIREMENT AND ALLOCATION TO THE**
10 **CUSTOMER CLASSES.**

11 A. In his direct testimony, Mr. Baron states "I have reviewed the Company's initial filing
12 and related workpapers, and I have not identified any problems with the overall level of
13 costs included in the Company's filing." (Baron Direct Testimony, p. 7). Regarding the
14 Company's allocation of costs to the customer classes, Mr. Baron states that he believes
15 the initial cost allocation approved by the Commission in Docket No. 16-00001 "and the
16 methodology used to adjust the current rates to reflect changes in costs reasonably reflect
17 cost responsibility for the costs being recovered." (Baron Direct Testimony, p. 8).

18 **Q. BEFORE SPECIFICALLY ADDRESSING MR. NOVAK'S**
19 **RECOMMENDATIONS REGARDING THE CURRENT, COMMISSION-**
20 **APPROVED FPPAR PROCESS, PLEASE BRIEFLY DESCRIBE THE HISTORY**

**OF THE COMPANY'S RECOVERY OF ITS FUEL AND PURCHASED POWER
COSTS TO PUT THAT PROCESS INTO CONTEXT.**

A. As the Commission well knows, KgPCo purchases all of its electric power requirements, at wholesale, from APCo, at rates approved by the Federal Energy Regulatory Commission (FERC). The Commission has consistently recognized that the FERC, and not it, has jurisdiction over the terms of the sale of power from APCo to the Company, and the rates charged by APCo. (See *In Re: Notice of Kingsport Power Company d/b/a AEP Appalachian Power Company Relative to Changes in its Purchased Power Adjustment Rider*, Order, pp. 1-2 (December 22, 2008)).

Prior to 1994, while the Company recovered fuel costs through a rider that changed monthly, the purchased power costs charged to it by APCo were recovered in base rate cases. (See, for example, *In Re: The Petition of Kingsport Power Company to Change and Increase Certain Tariffs, Rates and Charges for Electric Service*, Docket 92-04425, Order Approving Settlement Agreement, p. 3 of Settlement Agreement (November 3, 1992). Then, the Tennessee Public Service Commission (TPSC), a predecessor of the TPUC, directed the Company to develop a tariff that would permit recovery of FERC approved rate changes without the need for a rate case. In Docket No. 94-04283, the TPSC approved a Purchased Power Adjustment Rider (PPAR) for the Company. See *In Re: Petition of Kingsport Power Company to Implement a Purchased Power Adjustment Rider*, Docket No. 94-04283, Order, p. 2 (December 29, 1994). The Company's fuel adjustment clause continued to change monthly, upon a filing with the Tennessee Public

1 Service Commission and Staff by KgPCo, and the PPAR operated when changes to
2 APCo's non-fuel charges to KgPCo were approved by the FERC.

3 The Company's current FPPAR was implemented by the Commission, then the
4 Tennessee Regulatory Authority (TRA) in its Order Approving Stipulation and
5 Settlement Agreement in Docket No. 16-0001. The TRA order indicated that, under the
6 new FPPAR, fuel and purchased power costs will be trued up at least annually and will
7 be subject to TRA Staff audits for reasonableness and prudence. See *In Re: Petition of*
8 *Kingsport Power Company d/b/a/ AEP Appalachian Power for a General Rate Case,*
9 *Docket No. 16-00001, Order*, p. 5 (October 19, 2016). Importantly, the approved
10 Stipulation and Settlement Agreement provided that revised

11 Proposed FPPAR rates shall be filed at least thirty days prior to the effective date
12 proposed by KgPCo for the implementation of the revised FPPAR rates, and that no party
13 to the to the Agreement shall be precluded from filing any action with respect to such a
14 filing. (See Stipulation and Settlement Agreement, p. 6).

15 In the years since the Company's FPPAR was approved by the Commission, after
16 submitting its proposed revised rates to Staff, KgPCo has responded to both Staff and
17 CAD informal discovery requests with information supporting its proposed changes to its
18 FPPAR rates. To the Company's best knowledge and belief, no material irregularities

1 have ever been discovered in its FPPAR tariff filings or its responses to informal
2 discovery.

3 **Q. IS THE COMMISSION-APPROVED FPPAR CONSISTENT WITH T.C.A.**
4 **SECTION 65-5-1063(d)(5)(b)?**

5 **A.** Yes. T.C.A. Section 65-5-1063(d)(5)(b) reads as follows:

6 A utility may request, and the Commission may authorize a mechanism to
7 allow for and permit a more timely adjustment of rates resulting from
8 changes in essential, nondiscretionary expenses, such as fuel and power
9 and chemical expenses.

10 Because the FERC sets the rates that APCo charges KgPCo for fuel and purchased power
11 costs necessary to provide power to its customers, there can be no doubt that those costs
12 are both essential and nondiscretionary.

13 **Q. WHAT PROCESS CHANGES IS CAD WITNESS NOVAK RECOMMENDING?**

14 **A.** Mr. Novak is recommending that 1) KgPCo make future FPPAR filings in separate
15 docket files and include testimony describing how the filing was put together; 2) the
16 Commission require KgPCo to provide a set of structured workpapers with the FPPAR
17 filings that include a reconciliation with its books; and, 3) that the Company be required
18 to have the FPPAR rates specifically approved by the Commission before they are
19 charged to customers. (Novak Testimony, p. 8). While Mr. Novak does not specifically
20 mention the term "contested case," his recommendations have the hallmarks of turning
21 all future FPPAR proceedings into such cases.

22 **Q. ARE THE CONSUMER ADVOCATE'S PROPOSED PROCESS CHANGES**
23 **NECESSARY?**

24 **A.** Not at all. Consistent with the Commission's approval granted in 2016, and for every
25 year since, the Company has provided the Staff with any and all documentation that has

1 been necessary to determine, to its satisfaction, and prior to implementation, that the
2 proposed rates have been calculated correctly and reflect the FERC-approved rates.

3 There have been no outstanding issues around the allocation of increases (or decreases) to
4 be resolved, even in this case. Given the nature of the FERC-approved costs recovered
5 through the FPPAR, the Staff's audit and review continue to provide an appropriate
6 check on the Company's calculations prior to implementing rates.

7 **Q. SHOULD THE COMMISSION TURN AN ADMINISTRATIVE PROCESS THAT**
8 **THE STAFF HAS PERFORMED ABLY FOR YEARS INTO AN ANNUAL**
9 **CONTESTED CASE WHEN THERE ARE NO ISSUES TO RESOLVE AND**
10 **ONLY A VERIFICATION THAT THE NUMBERS PRESENTED BY THE**
11 **COMPANY ARE ACCURATE?**

12 A. No. There is nothing to gain from such a duplicative and time-consuming effort. The
13 Company's proposed rates are investigated and approved by the very capable Staff and
14 do not need a second look by the Consumer Advocate. This is especially the case given
15 that KgPCo has responded to both Staff and CAD informal discovery requests with
16 information supporting its proposed changes to its FPPAR rates in the past, and that, as
17 explained above, per the Commission's approval of the FPPAR process, no party shall be
18 precluded from filing any action with respect to such a filing if it finds it necessary. That
19 is precisely what occurred in this case.

20 **Q. DO YOU AGREE WITH THE CONSUMER ADVOCATE'S**
21 **RECOMMENDATION THAT THE COMPANY BE REQUIRED TO HAVE THE**
22 **FPPAR RATES APPROVED BY THE COMMISSION BEFORE THEY ARE**
23 **CHARGED TO CUSTOMERS?**

1 A. No. The Consumer Advocate's recommendation fails to recognize that the rider is
2 designed to provide both timely recovery of costs, as well as a mechanism to true up
3 recoveries to actual costs, at least on an annual basis. To delay the implementation of
4 FPPAR rates under the current Staff review process, or pending the resolution of a
5 contested case, is unnecessary and undermines the Company's ability for a more timely
6 adjustment of its rates, consistent with T.C.A. Section 65-5-1063(d)(5)(b). Simply stated,
7 all three process changes recommended by the CAD should be rejected by the TPUC. To
8 require the Company to make future FPPAR filings in separate docket files, with
9 testimony, supporting schedules and work papers, and to have the Commission rule on
10 each filing, would be administratively inefficient for the Commission, the Company and
11 Staff.

12 **Q. THE CAD'S INTEREST IN THIS PARTICULAR FPPAR SUBMITTAL MAY**
13 **HAVE BEEN RELATED TO THE MAGNITUDE OF THE INCREASE. WHY**
14 **WAS THE INCREASE SO LARGE?**

15 A. In short, the wholesale cost of electricity more than doubled in PJM from 2021 to 2022,
16 an increase of 101.4%¹. That is significantly more than the Company's requested
17 increase of 41% as the Company is not completely exposed to the wholesale market. But
18 the same factors that drove wholesale prices higher affected Appalachian Power, from
19 whom Kingsport purchases power for its customers.

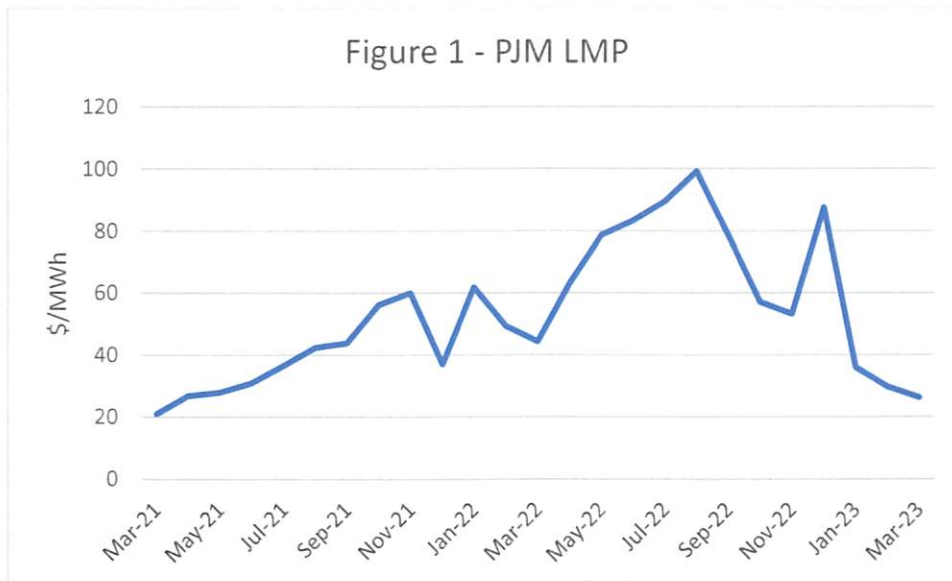
20 **Q. IS A DOUBLING OF WHOLESALE POWER PRICES IN A SINGLE YEAR**
21 **UNUSUAL?**

¹ See page 3 of the Market Monitor's 2022 Report, page 3. [2022 State of the Market Report for PJM
\(monitoringanalytics.com\)](https://www.monitoringanalytics.com)

1 A. Yes, very. The increase in the load-weighted wholesale cost from \$39.78/MWh in 2021
2 to \$80.14/MWh in 2022 was the largest dollar increase, percentage increase, and highest
3 cost since the formation of PJM in 1999².

4 **Q. DOES THE COMPANY EXPECT TO SEE FUTURE INCREASES OF THIS**
5 **MAGNITUDE?**

6 A. While it is entirely too soon to make definitive statements about the next FPPAR rate,
7 recent prices in PJM have cooled considerably. Figure 1 shows the rapid increase and
8 subsequent decline in PJM wholesale energy prices³.



9
10 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 A. Yes.
12

² Id

³ Data extracted from PJM website. [Data Miner 2 - Settlements Verified Hourly LMPs \(pjm.com\)](https://www.pjm.com/markets/energy/settlements/verified-hourly-lmps)