

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

September 1, 2023

IN RE:

PETITION OF KINGSPORT POWER COMPANY D/B/A AEP
APPALACHIAN POWER FOR OCTOBER 2021 THROUGH
DECEMBER, 2022 ANNUAL RECOVERY UNDER THE
TARGETED RELIABILITY PLAN AND MAJOR STORM
RIDER ("TRP&MS"), ALTERNATIVE RATE MECHANISMS
APPROVED IN DOCKET NO. 17-00032

DOCKET NO.
23-00019

ORDER GRANTING PETITION AS AMENDED

This matter came before Chairman Herbert H. Hilliard, Commissioner Robin L. Morrison, Commissioner Kenneth C. Hill, Commissioner David Crowell, 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 June 20, 2023, to hear and consider the *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for October 2021 – December 2022 Annual Recovery Under the Targeted Reliability Plan and Major Storm Alternative Rate Mechanisms Approved in Docket No. 17-00032* ("Petition") filed on March 10, 2023 by Kingsport Power Company d/b/a AEP Appalachian Power ("KPC," "Kingsport," or the "Company").

BACKGROUND

Kingsport is a public utility, subject to Commission 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 for the Company. First, the Targeted Reliability Plan (“TRP”) and, secondly, its Major Storm (“MS”) Rider.¹ The TRP consists of the Vegetation Management Program (“VMP”) and the System Improvement Program (“SIP”), and the MS consists 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 of 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

THE *PETITION*

On March 10, 2023, the Company filed its *Petition* to recover eligible TRP and MS expenses incurred from October 1, 2021, to December 30, 2022. According to the Company, no portion of the expenditures incurred after August 8, 2022, are included in base rates.⁴ In the *Petition*, the Company sought a fifteen-month review period to effectively transition Kingsport to a calendar-year review period going forward.

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. 5 (November 9, 2017).

³ *Id.* at 11.

⁴ *Petition*, p. 4 (March 10, 2023).

The *Petition* sought to recover \$3,674,241 in TRP and MS costs as of December 31, 2022. This amount consisted of a cumulative under-recovery of \$20,393,338 for TRP costs and a cumulative under-recovery of \$3,328,519 for MS expenses offset by cumulative TRP and MS Rider revenues of \$20,046,616 recovered through December 2022. The \$20,393,338 and \$3,328,519 balances as of December 2022 were also net of the annual level of TRP costs and MS expenses recovered through base rates of \$777,192 and \$326,980 respectively, up until August 8, 2022, when new base rates became effective.⁵ The *Petition* asserted that if it is approved as filed, an average residential customer would see a decrease of \$0.79 in their monthly bill.⁶ Kingsport requested approval of the *Petition* with the proposed rates to become effective July 1, 2023.

In support of the *Petition*, the Company submitted the pre-filed testimony of Mr. Robert K. Cope. Mr. Cope testified to the breadth and width of the Company's service area, the number of customers, and the data contained in Company's Reliability Profile, which the Commission directed Kingsport to submit with its TRP and MS Rider filings in Commission Docket No. 17-00032. Mr. Cope covered the twelve-month calendar years from January 1, 2021, through December 31, 2021, and from January 1, 2022, through December 31, 2022. Mr. Cope also provided an overview of the status of the VMP and SIP components and described four major storms Kingsport experienced during the 2022 Reliability Profile Period, which were consistent with the definition of Major Storm used since the TRP and MS alternative rate mechanisms were established.⁷

The VMP was designed to transition to a four-year cycle, requiring an accelerated focus on rights-of-way clearing ("ROW"), followed by a vegetation management program addressing

⁵ *Id.*

⁶ *Id.* at 4-5.

⁷ Robert K. Cope, Pre-Filed Direct Testimony, p. 2 (March 10, 2023).

each circuit every four years. The SIP would be phased in over a ten-year period, encompassing three elements that improve reliability and reduce the impact of storms, circuit improvements, circuit inspections, and station improvements. At inception, the initial cycle of the vegetation management program was due to be completed in 2021. However, the labor shortage due to the pandemic necessitated an extension beyond the planned four-year cycle resulting in the Company completing approximately 92.7% of its initial vegetation management cycle. When the initial cycle is complete, the Company plans to continue cycle-based vegetation management.⁸ Mr. Cope warned that continued labor shortages and inflationary conditions may warrant cycles that extend beyond four years.

According to Mr. Cope, the Company completed vegetation management activities on 159 miles of ROW during 2021 and 263 miles of ROW during 2022. In total, the Company has completed vegetation management activities on 92.7% of the total 1,334 miles of ROW and expects to complete the remainder of its cycle in early 2023. The Company has also performed vegetation management work on all 68 (100%) of the targeted distribution circuits since the program's inception.⁹ Mr. Cope testified that the Company completed the inspection of 3,910 wood poles, 300 overhead circuit miles, and 1,600 underground structures during 2021. During 2022, the Company completed the inspection of 3,280 wood poles, 282 overhead circuit miles, and 1595 underground structures.¹⁰

According to Mr. Cope, the Company uses the System Average Interruption Duration Index ("SAIDI") and the System Average Interruption Frequency Index ("SAIFI") to gauge how well the Company is minimizing service interruptions. The Company calculates its SAIDI and

⁸ *Id.* at 5.

⁹ *Id.*

¹⁰ *Id.* at 6.

SAIFI indices over a twelve-month period, excluding major events, to provide an overview of how well the system operates during normal operating conditions. Major events are conditions usually caused by weather that exceed reasonable design and/or operational limits of the electric power distribution system. In instances where the major event is caused by weather, the Company refers to these events as “major storms.”¹¹

Mr. Cope testified that while minor storms may not meet the criteria for a Major Event Day, they can sometimes be quite severe and destructive in nature, causing outages due to equipment failure. In 2022, there were nineteen total outages caused by winds that exceeded sixty miles per hour. Of the nineteen outages, only two outages met the criteria to be classified as major events and could be excluded from the reliability metrics. The remaining seventeen events must be included in the Company’s reliability metrics. Mr. Cope presented data to demonstrate the number of high wind events in 2022 compared to previous years.¹² According to Mr. Cope, the SAIDI and SAIFI data reflect a general improvement in reliability of service, with the exception of 2022, when there were a higher-than-normal number of high wind events, which led to a significant increase in outages. Many of these events did not meet the criteria of a major storm, and were, therefore, included in the reliability indices since they cannot be excluded.¹³

Mr. Cope asserted that continuing the TRP remains in the best interest of Kingsport’s customers. Mr. Cope testified that in addition to reducing outages caused by trees in the ROW, the VMP also assures crews can access ROW for faster assessment and restoration of power outages. The SIP portion of the plan is designed to reduce equipment failures. According to Mr. Cope, trees inside the ROW and equipment failures represent the top two outage causes that are within the

¹¹ *Id.* at 7.

¹² *Id.* at 7-8.

¹³ *Id.* at 10.

Company's power to address—representing approximately 34% of the Company's total number of outages. Mr. Cope indicated that despite the increase in the number of minor and major storms in 2022, the number of outages caused by trees in the ROW has decreased since 2018, which is when the TRP began. Mr. Cope opined that this is evident of a benefit to customers through the VMP, despite it not yet completing an initial cycle. Mr. Cope's analysis reflected a decrease in the number of outages caused by trees in the ROW by 79.4% since 2018.¹⁴

Mr. Cope also asserted the results of the SIP component of the *Petition* demonstrated the TRP remains in the public interest. Mr. Cope attributed the increased outages in 2022 to a higher number of storms in the area that did not meet the criteria for major storms but had to be included in the Company's outage data.¹⁵

Ms. Malinda L. Dielman provided pre-filed testimony in support of the *Petition* concerning the TRP and MS Costs, the under-recovery balance as of December 31, 2022, the Review Period Revenues, and an attestation that financial amounts reflect actual amounts on the Company's books. Ms. Dielman also provided a comparison of actual life-to-date TRP costs to the original ten-year annual projection, supporting information for the Repair Allowance percentage, and explained changes to the TRP and MS Rider as a result of the Company's last rate case and Docket No. 21-00142.¹⁶

Ms. Dielman testified that the Company seeks to recover \$3,674,241 of deferred actual TRP and MS under-recovered costs consisting of \$20,393,338 for TRP and \$3,328,519 for MS expenses, offset by TRP and MS revenues of \$20,047,616, and Ms. Dielman sponsored multiple exhibits of supporting schedules and documentation.¹⁷ According to Ms. Dielman, pursuant to

¹⁴ *Id.* at 10-11.

¹⁵ *Id.* at 12-13.

¹⁶ Malinda L. Dielman, Pre-Filed Direct Testimony, pp. 1 – 4 (March 10, 2023).

¹⁷ *Id.* at 3-4.

Docket No. 21-00107, all TRP and MS Operation and Maintenance (“O&M”) costs are now recovered through the TRP and MS Rider with no base rate recovery offset.¹⁸

Ms. Dielman provided the descriptions of the four major storms and their associated costs which occurred during the October 2021 through December 2022 period:

1. A windstorm on January 1, 2022, resulting in \$115,021 of major storm O&M expenses incurred;
2. A thunderstorm on June 17, 2022, resulting in a major storm expense of \$1,020,461;
3. A thunderstorm on July 5, 2022, resulting in major storm expenses of \$199,526; and
4. A major storm on September 25, 2022, resulting in \$524,425 of O&M expenses.¹⁹

The return on TRP capital investments for the months October 2021 through July 2022 was calculated by the Company using the annual pre-tax carrying charge rate of 7.581%, consistent with prior TRP&MS dockets beginning with costs incurred for January 2018. Ms. Dielman testified the 7.581% carrying charge is consistent with the 8.738% annual rate approved by the Commission in Docket No. 16-00001. The 7.581% reflects the reduction in the corporate federal income tax rate from 35% to 21% effective January 2018.²⁰ Additionally, in August 2022, the Company updated the annual pre-tax carrying charge rate to 7.642% as a result of the new capital structure/cost of capital approved by the Commission in Docket No. 21-00107.

Effective with the new base rates approved in the Company’s rate case in Docket No. 21-00107, all TRP and MS O&M expenses are recovered through the TRP and MS Rider. Further, as of August 8, 2022, the Company eliminated the base rate recovery offset from the calculation of actual TRP and MS O&M expenses recovered through the rider; and set the TRP capital costs including plant-in-service additions, accumulated depreciation, and accumulated deferred income taxes used to calculate TRP carrying charges, as well as depreciation expense, to zero upon the

¹⁸ *Id.* at 4.

¹⁹ *Id.* at 11.

²⁰ *Id.* at 12.

implementation of new base rates for purposes of recovery of future TRP capital additions through the TRP and MS Rider.²¹

According to Ms. Dielman, effective August 8, 2022, the Company is charging Street Lighting customers the TRP and MS surcharge as a result of the Commission's decision in Commission Docket No. 21-00107.²² The balance of the TRP and MS under-recovery was reduced by \$420,386 to adjust for the surcharge to Street Lighting customers, as directed by the Commission in Docket No. 21-00142.²³ A schedule to support the Repair Allowance percentage is included in the *Petition* and Ms. Dielman testified that all future TRP and MS Rider filings will include such schedules.²⁴

Mr. John A. Stevens also provided pre-filed testimony in support of the *Petition*, providing an overview of the elements of Kingsport's new rates for the TRP and MS Rider, the methodology used to allocate the revenue requirements to the customer classes, and provided support regarding how the rates were developed for each customer class. Mr. Stevens indicated the Company is now charging Street Lighting customers the TRP and MS Rider surcharge and has deducted \$420,386 attributed to Street Lighting customers from the TRP and MS Rider revenue requirement.²⁵

Mr. Stevens testified that the Company allocated Kingsport's \$3,674,241 revenue requirement to customer classes using the methodology approved in Docket No. 21-00107, which was the Company's most recent base rate case. To determine the impact to each customer class, Mr. Stevens indicated he utilized the prescribed base rate billing determinants to update the demand, energy, and customer charge components of each rate schedule. Mr. Stevens testified that

²¹ *Id.* at 12-13.

²² *Id.* at 13.

²³ *Id.*

²⁴ *Id.*

²⁵ John A. Stevens, Pre-Filed Direct Testimony, pp. 1 -3 (March 10, 2023).

approval of the *Petition* will result in a decrease to the average residential customer bill of \$0.79 for the monthly service charge and most other service classes will also see a decrease in their bill. However, Mr. Stevens testified that due to the changes in the revenue allocation percentage and billing determinants approved in Docket No. 21-00107, some customer classes will see a small increase on their bills.²⁶

POSITION OF THE CONSUMER ADVOCATE

The Consumer Advocate sought intervention in these proceedings, which was granted on April 18, 2023.²⁷ On behalf of the Consumer Advocate, Mr. William H. Novak filed pre-filed direct testimony on May 4, 2023. Mr. Novak testified that the TRP has been effective in decreasing service outages for Kingsport customers based on his observations of the SAIDI and the SAIFI, noting that there has been clear improvement from previous periods.²⁸ According to Mr. Novak, the Company appropriately reconciled the actual expenses and net investment to the amounts recorded on the Company's ledger, although he did note the Company did not include a copy of its workpapers supporting the exhibits. Mr. Novak recommended the Company be required to include all supporting workpapers in future TRP and MS filings.²⁹

Mr. Novak also testified that he noticed errors in some of the Company's monthly calculations primarily related to deferred tax adjustments and further noted these errors were eventually corrected by the Company in later months through catch-up adjustments. Additionally, Mr. Novak observed the Company never applied the appropriate TRP and MS Surcharge to Street Lighting customers during a portion of the current review period. Mr. Novak estimated the omission overstated the Company's requested recovery by \$144,177. To correct this error, Mr.

²⁶ *Id.* at 5.

²⁷ *Order Granting Petition to Intervene Filed by the Consumer Advocate*, (April 18, 2023).

²⁸ William H. Novak, Pre-Filed Direct Testimony, pp. 6-10 (May 4, 2023).

²⁹ *Id.* at 11-12.

Novak recommended the \$144,177 be deducted from the Company's requested recovery resulting in a Net Adjusted Recovery of \$3,530,064 (\$3,674,241 less \$144,177).³⁰

Mr. Novak recommended recovery be collected from customer classes in the same manner as that applied in the Company's last rate case as the Commission has previously ordered.³¹ Mr. Novak asserted the Company did not use the previously approved allocation factors because it determined it would result in an unreasonable allocation to Street Lighting customers.³² According to Mr. Novak, the allocation factors used by the Company appear to be arbitrary and are not supported by testimony. As such, he urged the Commission adopt the same class allocation factors used in the Company's previous rate case in to recover TRP and MS costs.³³ Mr. Novak prepared calculations of TRP and MS cost recovery for each customer class based on the Company's billing determinants from its most recent rate case and recommended the Commission adopt the Consumer Advocate's rate design.³⁴

REBUTTAL TESTIMONY OF THE COMPANY

On behalf of the Company, Mr. John A. Stevens submitted pre-filed rebuttal testimony that addressed three aspects of Mr. Novak's testimony. First, with respect to Mr. Novak's recommendation that the Commission direct the Company to file supporting workpapers in the future TRP and MS Rider filings, Mr. Stevens testified the Company would provide supporting workpapers representing each monthly calculation of the TRP and MS Rider. The workpapers will be similar to what has previously been provided through discovery to support the calculation of

³⁰ *Id.* at 12-15.

³¹ *Id.* at 16.

³² *Id.* at 16-17.

³³ *Id.*

³⁴ *Id.* at 18-19.

under-recovery or over-recovery of TRP and MS Rider costs that are recorded monthly in the Company's general ledger.³⁵

With respect to Mr. Novak's recommendation to reduce the revenue requirement to address the Company not applying the TRP and MS Rider surcharge to Street Lighting customers during a portion of the current review period, Mr. Stevens agrees with the Consumer Advocate's recommendation in principle.³⁶ However, Mr. Stevens disputed Mr. Novak's calculation. A billing issue was identified and corrected in the Company's last TRP and MS Rider filing in Docket No. 21-00142, which Mr. Novak correctly identified as a gap between the period reviewed in that docket and the point which the company began billing the TRP and MS Rider surcharge to Street Lighting customers.³⁷ Based on information provided by the Company in discovery, Mr. Stevens opined that Mr. Novak assumed the Company did not begin applying a surcharge to Street Lighting customers until September 2022. In discovery, the Company inadvertently combined the TRP and MS surcharge revenue for the months of August and September and reported it all in September. This error made it appear that the Company did not begin billing the surcharge until September, when the Company actually began billing the TRP and MS surcharge to Street Lighting customers on August 8, 2022, with the implementation of new base rates.³⁸ According to Mr. Stevens, the correct surcharge revenue amounts for August and September were \$9,639 and \$13,264, respectively. Based on this information, Mr. Stevens asserted the amount of the revenue requirement reduction should be \$9,639 less than the \$144,177 recommended by Mr. Novak, for a total reduction of \$134,538.³⁹

³⁵ John A. Stevens, Pre-Filed Rebuttal Testimony, p. 2 (May 24, 2023).

³⁶ *Id.*

³⁷ *Id.* at 2-3.

³⁸ *Id.* at 3.

³⁹ *Id.*

Finally, with respect to Mr. Novak's recommendation related to class allocation factors and rate design, Mr. Stevens testified that the Company is willing to agree to a reduction in its requested revenue requirement of \$134,538 and did not oppose Mr. Novak's allocation factor and rate design recommendations for the purposes of this case.⁴⁰

PRE-HEARING FILING BY THE COMPANY AND THE CONSUMER ADVOCATE

On June 9, 2023, the parties jointly submitted that there were no longer any outstanding or contested issues with respect to the *Petition*. The Company and the Consumer Advocate jointly agreed to a revenue requirement of \$3,539,703 which reflects the Consumer Advocate's proposed revenue requirement as corrected by Mr. Steven's pre-filed rebuttal testimony.⁴¹ The Company and the Consumer Advocate further agreed to utilize the Consumer Advocate's proposed rate design and revenue allocation. The parties also agreed that the Company would provide all supporting workpapers contemporaneously with future TRP and MS filings.⁴² The parties jointly waived opening statements and cross-examination of witnesses.

THE HEARING

The Hearing on the *Petition* was held before the voting panel assigned to this docket on June 20, 2023, as noticed by the Commission on June 9, 2023. Participating in the Hearing were:

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

Consumer Advocate Unit – Mason Rush, Esq., Post Office Box 20207, Nashville,
Tennessee 37202-4015.

Mr. John A. Stevens was present on behalf of the Company and provided testimony in support of the *Petition* as amended. During the Hearing, Company witnesses Ms. Malinda L. Dielman and

⁴⁰ *Id.* at 3-4 (May 24, 2023).

⁴¹ *Letter to Chairman Herbert H. Hilliard by the Company and Consumer Advocate*, p. 1 (June 9, 2023).

⁴² *Id.* at 2.

Mr. Robert K. Cope were available telephonically to answer questions.⁴³ Mr. William H. Novak, on behalf of the Consumer Advocate, was available for questioning before the panel. The parties waived cross-examination. Members of the public were given an opportunity during the hearing to offer comments, but no one sought recognition to do so.

FINDINGS AND CONCLUSIONS

Upon review of the evidentiary record in this matter, the hearing panel found the methodologies, adjustments, and procedures related to the annual recovery under the Targeted Reliability Plan and Major Storm Rider for Kingsport Power Company during the period October 2021 through December 2022 to be consistent with prior Commission Orders and Kingsport's approved tariff. Further, the hearing panel voted unanimously to approve the revised tariff rates filed on June 1, 2023, and the Kingsport Final Exhibit No. 1 submitted on June 7th. The Kingsport Final Exhibit No. 1 demonstrated \$3,539,703 in under-recovered costs, consisting of an under-recovery of \$20,393,338 in Targeted Reliability Plan costs and an under-recovery of \$3,328,519 for Major Storm expenses, offset by collected rider surcharge revenues of \$20,047,616 and a Street Lighting customer adjustment of \$134,538.

Further, in order to facilitate a timelier review of these rider filings, the hearing panel directed the Company to submit workpapers in future rider filings which both fully support its filed exhibits and provide the specifics and details underpinning its monthly calculations. The hearing panel concluded that the mechanism continues to improve reliability to customers while allowing Kingsport Power Company to recover costs associated with the Targeted Reliability Program and Major Storm events without having to file expensive rate cases. The hearing panel

⁴³ *Order Granting Electronic Participation in Hearing*, pp. 2-4 (June 16, 2023).

also concluded that the TRP and MS Rider mechanism continues to benefit both consumers and Kingsport Power Company and remains in the public interest.

IT IS THEREFORE ORDERED THAT:

1. The *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for October 2021 – December 2022 Annual Recovery Under the Targeted Reliability Plan and Major Storm Alternative Rate Mechanisms Approved in Docket No. 17-00032* filed on March 10, 2023, by Kingsport Power Company d/b/a AEP Appalachian Power and amended by the Pre-Filed Rebuttal Testimony of Mr. John A. Stevens filed on May 24, 2023 and the Final Exhibit No. 1 filed by the Company on June 1, 2023, is approved.

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

3. 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 days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Chairman Herbert H. Hilliard,
Commissioner Robin L. Morrison,
Commissioner Kenneth C. Hill,
Commissioner David Crowell, and
Commissioner John Hie concurring.**

None dissenting.

ATTEST:

A handwritten signature in dark ink, appearing to read "Earl Taylor" with a stylized flourish at the end.

Earl R. Taylor, Executive Director