

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

October 28, 2024

IN RE:)	
)	
PETITION OF KINGSPORT POWER COMPANY)	DOCKET NO.
D/B/A AEP APPALACHIAN POWER FOR JANUARY)	24-00010
2023 THROUGH DECEMBER 2023 ANNUAL)	
RECOVERY UNDER THE TARGETED RELIABILITY)	
PLAN AND MAJOR STORM RIDER ("TRP&MS"),)	
ALTERNATIVE RATE MECHANISMS APPROVED IN)	
DOCKET NO. 17-00032)	

ORDER GRANTING PETITION AS AMENDED

This matter came before Vice Chairman John Hie, Commissioner Robin L. Morrison, Commissioner Clay R. Good, Commissioner Kenneth C. Hill, and Commissioner David Crowell, 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 August 12, 2024, to hear and consider the *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for January 2023 – December 2023 Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider ("TRP&MS")*, *Alternative Rate Mechanisms Approved in Docket No. 17-00032* ("Petition") filed on March 5, 2024 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 49,000 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. Kingsport's service area consists of 297

square miles and its distribution system includes approximately 1,570 circuit-miles of line.¹ 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 (collectively “TRP&MS Rider”).² 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.³ 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.⁴

THE *PETITION*

On March 5, 2024, the Company filed the *Petition* that sought to recover eligible TRP&MS expenses incurred during the period of January 1, 2022 – December 30, 2023. Kingsport requested approval of the recovery of \$5,917,276 of deferred actual TRP costs and MS Rider expenses that are not offset by cumulative TRP&MS Rider revenues.⁵ The net under-recovery of \$5,917,276 is comprised of \$25,136,132 cumulative TRP costs and \$5,720,159 cumulative major storm expenses,

¹ *Petition*, p. 2 (March 5, 2024).

² *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*).

³ *Kingsport Initial Rider Order*, p. 5 (November 9, 2017).

⁴ *Id.* at 11.

⁵ *Petition*, p. 4 (March 5, 2024).

offset by cumulative revenues of \$24,939,016 recorded through December 2023.⁶ Approval of the Company's proposal would result in an increase of approximately \$1.55 to the service charge component of an average residential customer's monthly bill. Kingsport sought an effective date of July 1.⁷

In support of the *Petition*, the Company submitted the pre-filed testimony of Mr. Jason E. Baker. Mr. Baker testified that the initial VMP cycle was to be completed by 2021. However, contract labor disruption attributed to the pandemic caused this timeframe to be extended to 2023. As of year-end 2023, the Company had completed approximately 99.1% of its initial vegetation management cycle and anticipates completion by early 2024.⁸ According to Mr. Baker, the Company has seen an overall improvement in its reliability performance since the implementation of the TRP.⁹

Mr. Baker testified that, due to the pandemic and its associated cost increases, the TRP budget as approved in Docket No. 17-00032 is no longer representative of the costs needed to achieve a four-year vegetation management cycle, and an increase is necessary to maintain the intended cycle of vegetation management.¹⁰ The Company proposed an increase in the annual TRP to approximately \$4.6 million for 2024 and approximately \$6.8 million for years 2025 through 2027.¹¹

Mr. J. David Spring also provided pre-filed testimony in support of the Company's TRP and MS costs incurred during the 12-month period from January 2023 through December 2023 ("review period"), as well as the cumulative under-recovery balance as of December 31, 2023. Mr. Spring identified revenues recorded from the TRP&MS Rider during the review period and provided an attestation that the revenues, costs, and expenses included in the *Petition* are complete and accurate

⁶ *Id.*

⁷ John A. Stevens, Pre-Filed Direct Testimony, p. 6 (March 5, 2024).

⁸ Jason E. Baker, Pre-Filed Direct Testimony, pp. 4-5 (March 5, 2024).

⁹ *Id.* at 8.

¹⁰ *Id.* at 13.

¹¹ *Id.* at 13-14.

and reflect actual amounts on the Company's books and records.¹² Mr. Spring provided an attestation that the revenue, costs, and expenses included in the *Petition* are complete and accurate for the review period.¹³

Mr. John A. Stevens filed testimony supporting the TRP&MS Rider allocations and rate calculations. Mr. Stevens testified that the TRP&MS Rider under-recovery was reduced by \$134,538 to adjust for foregone Street Lighting Customer Class revenues pursuant to Commission Order in Docket No. 23-00019.¹⁴ Mr. Stevens testified that the revenue requirement of \$5,917,276 was allocated to the customer classes as directed in the Company's last base rate case, Docket No. 21-00107 and prescribed in Commission Docket No. 17-00032.¹⁵ Mr. Stevens calculated that the average residential customers would see an increase of \$1.55 in the service charge component of their monthly bill under the Company's proposal.¹⁶

The Consumer Advocate sought intervention which was granted on March 25, 2024.¹⁷ The East Tennessee Energy Consumers ("ETEC"), a group of industrial customers of KPC, sought intervention on April 24, 2024, which was subsequently granted.¹⁸

POSITION OF THE CONSUMER ADVOCATE

On behalf of the Consumer Advocate, Mr. William H. Novak submitted pre-filed direct testimony on May 23, 2024. The Company's initial filing included deferred tax errors discovered by the Company in responding to the data requests of the Consumer Advocate. As a result of correcting adjustments made by the Company, Mr. Novak concluded that he supported a revised TRP&MS Rider revenue deficit of \$5,914,416.¹⁹ Mr. Novak further recommended use of the customer class allocation

¹² J. David Spring, Pre-Filed Direct Testimony, pp. 2-4 (March 5, 2024).

¹³ *Id.* at 7; JDS Exhibit 3.

¹⁴ John A. Stevens, Pre-Filed Direct Testimony, p. 4 (March 5, 2024).

¹⁵ *Id.* at 5.

¹⁶ *Id.* at 6.

¹⁷ *Order Granting Petition to Intervene Filed by the Consumer Advocate* (March 25, 2024).

¹⁸ *Order Granting Petition to Intervene Filed by the East Tennessee Energy Consumers* (May 21, 2024).

¹⁹ William H. Novak, Pre-Filed Direct Testimony, pp. 3-4, 14, 16-17 (May 23, 2024).

factors used in Docket No. 21-00107 to allocate the TRP&MS Rider costs. Mr. Novak also recommended the Commission approve the rate design shown in Table 9 of his testimony for the TRP&MS Rider surcharges.²⁰

Mr. Novak testified that using the System Average Interruption Duration Index (“SAIDI”) index to evaluate the TRP’s effectiveness has not shown the TRP mechanism has reduced outages compared to outages prior to the implementation of the program in 2017. In a comparison of fourteen similarly located peer electric providers, Mr. Novak found that Kingsport’s SAIDI index was 291 minutes, which is one of the highest values in the peer group comparison.²¹ Mr. Novak testified that the Company’s score for 2022 is worse than when the program was initially approved in 2017.²² Based on the Company’s SAIDI and System Average Interruption Frequency Index (“SAIFI”) reliability metrics, Mr. Novak concluded that the \$25.1 million investment in the Targeted Reliability Plan component of the TRP&MS Rider has not reduced the number or duration of customer outages, and he is “at a loss to explain the reason for these results.”²³

According to Mr. Novak, Kingsport included nearly \$15.5 million of new capital additions within the TRP component of the Rider. Mr. Novak testified that he is concerned because this amount is significantly more than previous capital additions in the Rider and since no prior notice was provided to the Commission regarding this increased level of capital additions.²⁴ Mr. Novak reviewed the Company’s proposal to increase the Operations and Maintenance (“O&M”) budget for the TRP component of the TRP&MS Rider. Mr. Novak noted that the TRP&MS Rider does not appear to have had a meaningful impact on the electric system’s reliability in the first six years of operation. As such, Mr. Novak was hesitant to make any recommendation regarding the proposed increase in

²⁰ *Id.* at 3-4.

²¹ *Id.* at 8.

²² *Id.* at 9.

²³ *Id.* at 10-11.

²⁴ *Id.* at 16-17.

the O&M budget.²⁵

REBUTTAL TESTIMONY OF THE COMPANY

On behalf of the Company, Mr. Jason E. Baker filed pre-filed rebuttal testimony. Mr. Baker asserted that due to improvements made to the distribution system through the VMP and SIP initiatives, there has been a decrease in the number of Major Event Days (“MEDs”). Storms that previously would have been MEDs and excluded from reliability metrics are now considered non-MEDs and are included in the reliability metrics and calculations, therefore increasing the metrics.²⁶ In response to Mr. Novak’s assessment that Kingsport’s 2022 SAIDI and SAIFI values are worse than when the TRP&MS Rider began in 2017, Mr. Baker points to a significant increase in other weather events compared to previous years. Events that qualify as “Other weather events” but do not meet the criteria of a major storm event, can be destructive and cause outages. As such, excluding such events skews the results of reliability indices.²⁷ Mr. Baker testified that Mr. Novak provided no additional information other than geographical proximity to Kingsport Power, to support the peer group Mr. Novak relied upon in his analysis.²⁸

Mr. John A. Stevens also filed rebuttal testimony on behalf of the Company. Mr. Stevens testified that the Company agreed with the Consumer Advocate’s proposed revenue requirement of \$5,914,416 and also agreed with Mr. Novak’s class allocation factors and rate design recommendations for the purposes of this case.²⁹ With respect to Mr. Novak’s recommendation that the Commission require the Company to provide notice of the cost of future anticipated capital projects, the Company filed KPC’s 2023 Capital Expenditure Forecast on April 4, 2023. As such, the Company deemed Mr. Novak’s recommendation unnecessary.³⁰

²⁵ *Id.* at 20.

²⁶ Jason E. Baker, Pre-Filed Rebuttal Testimony, pp. 1-2 (June 13, 2024).

²⁷ *Id.* at 2.

²⁸ *Id.* at 6-7.

²⁹ John A. Stevens, Pre-Filed Rebuttal Testimony, p. 2 (June 13, 2024).

³⁰ *Id.* at 3.

The Company proposed to increase the annual TRP budget to approximately \$4.6 million for 2024 and approximately \$6.8 million for years 2025 through 2027. According to Mr. Stevens, this will allow the Company to transition to a four -year vegetation management cycle, as originally approved in Docket No. 17-00032. The Company continued to support a four-year vegetation management cycle. According to Mr. Stevens, in the alternative, if the Company’s requested increase is not authorized, the Company will only be able to accomplish a six-year vegetation management cycle.³¹

PRE-HEARING FILING BY THE COMPANY AND THE CONSUMER ADVOCATE

On July 19, 2024, the Company and the Consumer Advocate jointly filed a notice informing the Commission that there were no longer any outstanding or contested issues with respect nearly all issues related to the *Petition*. The Company and the Consumer Advocate jointly agreed to a revenue requirement of \$5,914,416, which reflects the Consumer Advocate’s proposed revenue requirement as corrected by Mr. Steven’s pre-filed rebuttal testimony.³² The Company and the Consumer Advocate further agreed to utilize the Consumer Advocate’s proposed rate design and revenue allocation. In future filings, the Company also agreed to provide all supporting workpapers concurrently with its TRP&MS filings.

Finally, the Company and the Consumer Advocate informed the Commission that one issue remained to be resolved by the Commission. There was no agreement as to whether the VMP should continue on a four-year cycle as approved in Commission Docket No. 17-00032 or whether VMP should be extended to a six-year cycle.³³ In addition, the “parties” jointly waived opening statements and cross-examination of witnesses. Although ETEC was not specifically named in the letter, it filed no objection and did not present any pre-filed testimony during the course of the docket.

³¹ *Id.* at 4.

³² *Letter to Chairman David F. Jones by the Company and Consumer Advocate*, p. 1 (July 19, 2024).

³³ *Id.* at 2.

THE HEARING

The hearing on the *Petition* was held before the voting panel assigned to this docket on August 12, 2024, as noticed by the Commission on August 2, 2024. 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 Division – Shilina Brown, Esq., Post Office Box 20207, Nashville, Tennessee 37202-4015.

East Tennessee Energy Consumers – Michael J. Quinan, Esq., Thompson McMullan, P.C., 100 Shockoe Slip, Third Floor, Richmond, Virginia, 23219.

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. Dielman³⁴ and Jason E. Baker, also provided testimony in support of the *Petition*, as amended.³⁵ Mr. William H. Novak testified on behalf of the Consumer Advocate. 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 panel found that the methodologies, adjustments, and procedures related to the annual recovery under the Targeted Reliability Plan and Major Storm for Kingsport Power Company for the period January 2023 through December 2023, to be consistent with prior Commission Orders and Kingsport's approved tariff. The panel voted unanimously to approve the parties' proposed \$5,914,416 in under-recovered costs consisting of \$25,133,272 in Targeted Reliability Plan costs and \$5,720,159 for Major Storm expenses, offset by

³⁴ Ms. Malinda L. Dielman testified in place of Mr. J. David Spring. *See Order Granting Motion to Allow Malinda L. Dielman to Present Testimony of J. David Spring* (August 8, 2024).

³⁵ *Order Granting Electronic Participation in Hearing*, pp. 2-4 (August 8, 2024).

collected Rider surcharge revenues of \$24,939,016. The panel also voted unanimously to approve the rate design, as reflected in the Company's revised Exhibit JAS No. 1 filed on July 19, 2024, and in tables 8 and 9 of Mr. Novak's pre-filed direct testimony. The panel directed the Company to file revised tariff sheets consistent with its decision.

Next, the panel voted unanimously to allow the Company to proceed with a four-year vegetation management cycle as part of its overall Targeted Reliability Plan. A four-year cycle was intended when this Rider was first approved in Docket No. 17-00032. As originally approved, all related costs and expenses necessary for a four-year cycle should be evaluated in light of their corresponding benefits to customers. Finally, the panel concluded that the mechanism continues to improve reliability to customers while allowing Kingsport Power Company to recover legitimate costs associated with its Targeted Reliability Plan and Major Storm events without having to file expensive rate cases. As it benefits both consumers and the Company, the panel concluded that the Rider remains in the public interest.

IT IS THEREFORE ORDERED THAT:

1. The *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for January 2023 – December 2023 Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider ("TRP&MS"), Alternative Rate Mechanisms Approved in Docket No. 17-00032* filed on March 5, 2024, by Kingsport Power Company d/b/a AEP Appalachian Power and amended by the Pre-Filed Direct Testimony of Mr. William H. Novak filed on May 23, 2024, and the Pre-Filed Rebuttal Testimony of Mr. John A. Stevens filed on June 13, 2023, and the JAS Exhibit No. 1 filed by the Company on July 19, 2024, is approved.

2. Any person(s) 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.

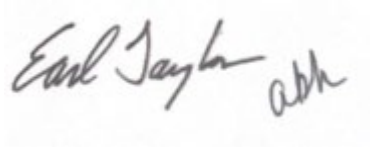
3. Any person(s) aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Vice Chairman John Hie,
Commissioner Robin L. Morrison,
Commissioner Clay R. Good,
Commissioner Kenneth C. Hill, and
Commissioner David Crowell, concurring.**

None dissenting.

ATTEST:

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

Earl R. Taylor, Executive Director