BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

July 16, 2026

IN RE:	)	
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PETITION OF KINGSPORT POWER COMPANY D/B/A AEP APPALACHIAN POWER FOR JANUARY, 2025 – DECEMBER, 2025 ANNUAL RECOVERY UNDER THE TARGETED RELIABILITY PLAN AND MAJOR STORM RIDER ("TRP&MS"), ALTERNATIVE RATE MECHANISMS APPROVED IN DOCKET NO. 17-00032	))))))	**DOCKET NO. 26-00015**

ORDER GRANTING PETITION, AS AMENDED

This matter came before Chairman David F. Jones, Vice Chairman John A. Hie, Commissioner Herbert H. Hilliard, Commissioner Clay R. Good, and Commissioner Kenneth C. Hill ("Panel") of the Tennessee Public Utility Commission ("Commission"), assigned to this docket, during a regularly scheduled Commission Conference held on June 1, 2026.[1] The Panel convened to consider the *Petition of Kingsport Power Company d/b/a AEP Appalachian Power for January 2025 - December 2025 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 February 27, 2026, by Kingsport Power Company d/b/a AEP Appalachian Power ("Kingsport" or the "Company").

<u>PROCEDURAL BACKGROUND AND *PETITION*</u>

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 Sullivan, Washington, and Hawkins Counties, Tennessee; the City of Kingsport, Tennessee;

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[1] Commissioner Herbert H. Hilliard was absent from the June Conference and did not vote in this matter.

and the Town of Mount Carmel, Tennessee. Kingsport's service area consists of 297 square miles, and its distribution system includes approximately 1,600 circuit miles of line.[2]

In 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" or "Riders").[3] The TRP consists of the Vegetation Management Program and System Improvement Program, and the MS Rider 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 any costs in excess of what has been included in base rates, or to refund any costs recovered in excess of the amount included in base rates.[4] The annual filing requires the metrics proposed by the Consumer Advocate Division in the Office of the Tennessee Attorney General ("Consumer Advocate") and approved by the Commission in Docket No. 17-00032, and an attestation that the costs and expenses included in the alternative mechanisms are complete, accurate, and reflect actual amounts on the Company's books and records. In addition, pre-filed testimony is required to support the annual filing.[5] In Docket Nos. 18-00125, 19-00106, 20-00127, 21-00142, 23-00019, 24-00010, and 25-00022, the Commission approved similar annual TRP&MS Rider recoveries for Kingsport.

On February 27, 2026, Kingsport filed the *Petition* in accordance with Docket No. 17-00032 and the settlement agreement, approved in Docket No. 18-00125.[6] The *Petition* sought to recover

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[2] *Petition*, p. 2 (February 27, 2026).
[3] *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*).
[4] *Kingsport Initial Rider Order*, p. 5 (November 9, 2017).
[5] *Id*. at 11.
[6] *Kingsport Initial Rider Order; In re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power for Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider, Alternative Rate Mechanisms*, Docket No. 18-00125, *Order Approving Settlement and Stipulation* (August 5, 2019).

TRP&MS expenses incurred during the annual period from January 2025 through December 2025 that are not offset by TRP&MS Rider revenues. Specifically, Kingsport requested approval to recover $12,000,000 of the $15,453,123 in TRP&MS Rider costs, which exceed cumulative TRP&MS Rider revenues.[7] This net under-recovery comprises $41,420,088 in TRP costs and $11,592,535 in major storm-related expenses, partially offset by cumulative revenues of $37,559,500 collected through December 2025.[8]

In support of the *Petition*, the Company filed the pre-filed testimony of Mr. Jason E. Baker, Vice President of Distribution Operations for Appalachian Power Company ("Appalachian"),[9] who provided detailed reliability information and metrics in accordance with approved methodologies.[10] Mr. Baker testified that under the TRP, the Company completed vegetation activities on 360 miles of right-of-way during 2025, and that the Company has completed 100% of vegetation management work on targeted distribution circuits since the program's inception.[11]

Mr. Baker testified that the Company used the System Average Interruption Duration Index ("SAIDI") and the System Average Interruption Frequency Index ("SAIFI") to measure service reliability, explaining that these indices reflect the Company's effectiveness in minimizing service interruptions, with lower values indicating better performance.[12] Minor weather events are included in these indices, while major events are excluded.[13] Mr. Baker provided the SAIDI and SAIFI indices from 2018 through 2025 in his testimony and asserted that, based on his analysis, the Company's indices have shown significant improvement since 2018.[14]

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[7] Kingsport originally calculated a requested recovery for the TRP&MS Rider of $15,453,443. This amount was later reduced to $15,453,123 in response to Consumer Advocate Discovery Request 2-2 to correct for certain deferred tax errors.
[8] Pre-Filed Direct Testimony of William H. Novak, p. 6 (April 22, 2026).
[9] Appalachian and Kingsport are both subsidiaries of American Electric Power Company, Inc ("AEP").
[10] Pre-Filed Direct Testimony Jason E. Baker, p. 3 (February 27, 2026).
[11] *Id*. at 4.
[12] *Id*. at 5-6.
[13] *Id*. at 6-7.
[14] *Id*. at 7.

Mr. Baker further testified that the Company exceeded its $6.8 million Operations and Maintenance ("O&M") budget for the TRP by approximately $600,000 and that the Company intends to reduce its TRP O&M spending over the next two-year period to achieve a three-year average of $6.8 million annually.[15] He also testified that one major weather event occurred during the 2025 Reliability Profile Period: on December 18, 2025, a wind and rain event lasting 53 hours damaged cutouts, overhead conductors, poles, reclosers, and transformers, resulting in outages affecting 4,703 customers.[16] The costs associated with this storm were supported by separate testimony from Company witness Dielman.

Ms. Malinda L. Dielman, Accounting Manager for American Electric Power Service Corporation ("AEPSC"),[17] also filed pre-filed testimony and exhibits in support of the Company's *Petition*. Ms. Dielman testified that TRP costs of $41,420,408, combined with MS costs of $11,592,535, against cumulative revenues of $37,559,500, resulted in a proposed under-recovery of $15,453,443 associated with this filing.[18] She also provided a summary of the TRP&MS Rider's collected revenues.[19]

Ms. Dielman testified regarding the methodology used to calculate the return on TRP capital investments, including depreciation, accumulated deferred income taxes, net capital additions, and the application of the 7.642% pre-tax carrying charge rate approved in Docket No. 21-00107.[20] She attested that the revenues, costs, and expenses included in this *Petition* are complete and accurate and

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[15] *Id*. at 8.
[16] *Id*.
[17] AEPSC is a wholly owned subsidiary of AEP that provides managerial, administrative, supervisory, accounting, financial, legal, technical, and other services to Kingsport and other AEP public utility subsidiaries, pursuant to a service agreement. *See In Re: Petition of Kingsport Power Company d/b/a Appalachian Power for Approval of HomeWarrenty Programs*, Docket No. 15-00064, *Order Granting Petition for Approval of Home Warranty Programs* pp. 1-2 (November 3, 2015).
[18] Pre-Filed Direct Testimony Malinda L. Dielman, p 4 (February 27, 2026).
[19] *Id*. at 4-6.
[20] *Id.* at 5–6, 11.

reflect the actual amounts on the Company's books and records.[21] She further testified to and proffered an exhibit establishing the 10-year annual projected TRP capital costs, which shows that total projected TRP capital expenditures approved in Docket No. 17-00032 are $54,478,310, compared with actual life-to-date TRP capital costs of $43,090,214.[22] The exhibit also compared the actual TRP O&M expenses of $37,737,793 with the updated projected TRP O&M expense of $36,274,987.[23]

Pursuant to the Commission's directive in Docket No. 21-00142, the Company was instructed to include the Repair Allowance calculation and supporting documentation with its annual TRP filing; Ms. Dielman provided that calculation with supporting documentation.[24] She also provided a brief description of each project included in this TRP&MS filing, noting that some may not have incurred any costs to date.[25] Finally, Ms. Dielman attested that the Company used the annual pre-tax carrying charge rate of 7.642% to calculate the return on net capital investments, which is the same rate approved by the Commission in the Company's last base rate case, Docket No. 21-00107.[26]

Mr. John A. Stevens, a Regulatory Consultant Staff member with Appalachian, filed pre-filed testimony explaining the Company's proposal to base the TRP&MS Rider rates on an annual revenue requirement lower than its current under-recovery position.[27] Mr. Stevens testified that the under-recovered TRP&MS Rider program costs as of December 31, 2025, total $15,453,443,[28] which includes deferred O&M costs related to Hurricane Helene and excludes the Prompt Payment Discount.[29]

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[21] *Id.* at 8.
[22] Company Exhibit No. 6 (MLD) (February 27, 2026).
[23] *Id.*
[24] Company Exhibit No. 7 (MLD) (February 27, 2026).
[25] Pre-Filed Direct Testimony Malinda L. Dielman, p 10 (February 27, 2026).
[26] *Id.* at 11.
[27] Pre-Filed Direct Testimony John A. Stevens, p. 3 (February 27, 2026).
[28] This amount was later reduced to $15,453,123 in response to Consumer Advocate Discovery Request 2-2 to correct for certain deferred tax errors. (February 27, 2026).
[29] Pre-Filed Direct Testimony John A. Stevens, p. 3 (February 27, 2026).

Mr. Stevens testified that the TRP&MS Rider under-recovery balance was higher than in previous years for three reasons. First, in Docket No. 24-00010, the Commission approved the Company's 4-year vegetation management cycle, which increased the TRP O&M budget from $4.6 million in 2024 to $6.8 million for 2025 through 2027, resulting in increased TRP O&M spending.[30] Second, in Docket No. 25-00022, the Commission approved deferral of the recovery of approximately $2.5 million in O&M costs associated with Hurricane Helene until its next TRP&MS Rider filing; the Company also recorded an additional $666,377 in previously un-invoiced O&M costs related to Hurricane Helene in 2025, which is reflected in the current under-recovery balance.[31] Third, and most consequential, the TRP&MS Rider rates approved in the 2025 filing were not implemented until September 1, 2025, meaning actual revenues collected in 2025 totaled only $7,917,749, compared with the $10,506,444 authorized for collection over 12 months.[32]

Mr. Stevens supported the Company's rate-setting methodology for allocating the revenue requirement, testifying that it is consistent with the methodology approved in the Company's last base rate case, Docket No. 21-00107, and with the Commission's directives in Docket No. 17-00032.[33] He also provided the revenue recovery allocation, rate calculations, and a typical bill comparison.[34] Further, Mr. Stevens testified that if the Company's requested $12 million recovery is approved, the average residential customer will see a monthly increase of $0.97.[35]

POSITION OF THE CONSUMER ADVOCATE

On behalf of the Consumer Advocate, Mr. William H. Novak, President of WHN Consulting, filed pre-filed testimony on April 22, 2026. Mr. Novak reviewed the Company's *Petition* filed on February 27, 2026, along with the accompanying testimony and schedules; the Company's responses

[30] *Id.* at 5-6.
[31] *Id.* at 6.
[32] *Id.* at 6-7.
[33] *Id.* at 7.
[34] *Id.* at 7-8.
[35] *Id.*at 8.

to the Consumer Advocate's data requests; and the Commission's Order in Docket No. 17-00032, which approved the TRP&MS Rider, as well as subsequent reconciliations in Docket Nos. 18-00125, 19-00106, 20-00127, 21-00142, 23-00019, 24-15 00010, and 25-00022.[36]

Mr. Novak provided a year-by-year summary of net unrecovered TRP&MS costs from 2018 through 2026. He reported that the total investment amounted to $41,420,089 for TRP and $11,592,534 for MS, for a combined total of $53,012,623.[37] Of that amount, $37,559,500 has already been recovered from customers, leaving a net unrecovered balance of $15,453,123.[38]

To assess the effectiveness of the TRP&MS Rider, Mr. Novak compared Kingsport's performance against fourteen similarly situated electric distribution utilities, a group he first identified in Docket No. 17-00032 and referred to as the "Peer Group." Based on annual SAIDI data, he found that Kingsport's 2024 average service interruption duration of 165 minutes was the lowest in the eight-year history tracked by TRP Riders.[39] More notably, 2024 marked the first year Kingsport outperformed the Peer Group average, coming in 22 minutes below it.[40] Mr. Novak testified that both the SAIDI and SAIFI results for the 2024 review period demonstrated clear improvement over prior years, with Kingsport's reliability results falling below the peer group average on both indices for the first time since the Rider was established.[41] On that basis, he recommended that the Commission authorize the Company to continue the TRP program.[42] Mr. Novak also noted that the MS component of the TRP&MS Rider has functioned effectively by allowing the Company to accumulate operating and maintenance expenses associated with storm service restoration and recover those costs in a

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[36] Pre-Filed Direct Testimony William H. Novak, pp. 1-3 (April 22, 2026).
[37] *Id.* at 11.
[38] *Id.*
[39] *Id.* at 8.
[40] *Id.*
[41] *Id*. at 9.
[42] *Id*.

timely manner through the Rider, rather than through separate Commission petitions as was previously required.[43]

Based upon his review, Mr. Novak submitted five recommendations:

1. **Recommendation: The Commission approve the Company's corrected revenue request of $15,453,123.**

Mr. Novak noted that the Company initially calculated a requested recovery for the TRP&MS Rider recovery at $15,453,443; that figure was subsequently reduced to $15,453,123 following Consumer Advocate Discovery Request 2-2, which identified and corrected certain deferred tax errors.[44]

2. **Recommendation: The Commission approve the Company's proposal to recover only $12,000,000 in this docket while deferring the remaining $3,453,123 to a future proceeding to mitigate rate impacts on customers**.

Mr. Novak provided a year-by-year summary of net unrecovered TRP and MS costs from 2018 through 2026 and observed that while the TRP did not appear to meaningfully reduce power outages in the Company's service area during its first six years (2017-2022), the Company demonstrated improvement in 2023 and 2024.[45] Mr. Novak agreed that limiting current recovery to $12,000,000 and deferring the remaining $3,453,123 to a future period was appropriate and would help cushion the immediate impact on customer rates.[46] He supported applying the $12 million recovery using the historic billing determinants from the Company's last rate case and included tables showing the percentage and dollar allocations to each customer class, as well as the resulting surcharge rates by class, which he recommended the Commission adopt.[47]

3. **Recommendation: The Commission adopt the customer class allocation factors used in the Company's last rate case, Commission Docket No. 21-00107.**

[43] *Id*. at 10.
[44] *Id.* at 11.
[45] *Id.* at 7.
[46] *Id.* at 12.
[47] *Id.* at 14-15.

Mr. Novak testified that, pursuant to the terms of the TRP&MS Rider, net Rider costs are to be allocated among customer rate classes in the same manner used in the Company's last rate case, Docket No. 21-00107.[48] He further noted that the resulting surcharges could be structured as energy, demand, or bill surcharges, depending on which approach best fits each customer class.[49]

4. Recommendation: The adoption of Kingsport's proposed rate design for the TRP&MS surcharges.

Consistent with his third recommendation, Mr. Novak testified that the net Rider costs should be allocated among customer rate classes using the same methodology established in the Commission's Order in Docket No. 21-00107, and that the rate design which flowed from that allocation should be approved as proposed.[50]

5. Recommendation: The Commission required the Company, in future filings, to include a rate-of-return calculation with its annual reports.[51]

Mr. Novak testified that when he requested the Company's overall return and return on equity calculations for 2025, the Company objected and declined to provide them.[52] Although he ultimately obtained the information through other means, he noted that the additional effort should not have been necessary, particularly given that all other utilities under the Commission's jurisdiction routinely include rate-of-return calculations in their annual reports.[53] He therefore recommended that the Commission require the Company to do the same going forward.[54]

<u>REBUTTAL TESTIMONY OF THE COMPANY</u>

Mr. Stevens filed pre-filed rebuttal testimony on May 7, 2026, which responded to Mr. Novak's five recommendations. Mr. Stevens stated that the Company agrees with the updated

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[48] *Id.* at 14.
[49] *Id.* at 15.
[50] *Id.* at 15.
[51] *Id.*
[52] *Id.* at 13.
[53] *Id.*
[54] *Id.*

TRP&MS Rider recovery amount of $15,453,123 and supports limiting the current recovery to $12,000,000, while deferring the remaining $3,453,123 to a future docket.[55] He also testified that the Company agreed with the use of the customer class allocation factors previously approved in Docket No. 21-00107.[56] Additionally, Mr. Stevens stated that the Company agreed with the rate design proposed in Mr. Novak's direct testimony.[57] Lastly, Mr. Stevens confirmed that the Company is willing to provide a rate of return calculation with its annual reports, but took the position that the overall rate of return is not relevant to future TRP&MS Rider recovery proceedings, and that the agreement to provide this information does not indicate acceptance of its relevance in future proceedings.[58]

PRE-HEARING FILING BY THE COMPANY AND THE CONSUMER ADVOCATE

On May 11, 2026, the Company and the Consumer Advocate (collectively, the "Parties") jointly filed a notice informing the Commission that no outstanding procedural matters requiring resolution by the Hearing Officer remained regarding the *Petition*. The Parties agreed to a revenue requirement of $15,453,123, with rates adjusted to recover only $12,000,000 at this time and to defer recovery of the remaining $3,453,123 to a future period, consistent with the Consumer Advocate's revenue allocation and rate design.[59] In addition, as recommended by Consumer Advocate Witness William H. Novak, the Parties agreed that the Company will include a rate-of-return calculation in its annual report filed with the Commission pursuant to Tenn. Rules & Regs. 1220-04-04-.06.[60]

Finally, it was the joint position of the Parties that this matter was ripe for consideration on the merits, and that there were no remaining disputes between the Parties with respect to this docket,

[55] John A. Stevens, Pre-Filed Rebuttal Testimony, p.2 (May 7, 2026).
[56] *Id.* at 2.
[57] *Id.*
[58] *Id.* at 2-3.
[59] *Letter to Chairman David F. Jones by the Company and Consumer Advocate*, p. 1 (May 11, 2026).
[60] *Id.*

as clarified by discovery, the pre-filed testimony, and subsequent discussions. The Parties waived opening statements and cross-examination of witnesses.

THE HEARING

The hearing on the *Petition* was held before the Panel on June 1, 2026, as noticed by the Commission on May 22, 2026. 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 37664-3146.
>
> Consumer Advocate Division – Ryan McGehee, Esq., Post Office Box 20207, Nashville, Tennessee 37202-4015.

During the hearing, Mr. John A. Stevens testified telephonically on behalf of the Company. Mr. Jason E. Baker and Ms. Malinda L. Dielman were available for questioning before the Panel. Mr. William H. Novak, on behalf of the Consumer Advocate, was also available for questioning before the Panel. The Parties waived cross-examination. Members of the public were given an opportunity to offer comments, but no one sought recognition to speak.

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 Riders for Kingsport Power Company for the period January 2025 through December 2025 were consistent with prior Commission Orders and Kingsport's approved tariff. As a result, the Panel voted unanimously to authorize the Kingsport Power Company to recover, through surcharges to its customers, a revenue requirement of the agreed-upon $15,453,123 in net under-recovered costs, consisting of $41,420,088 in Targeted Reliability Plan costs and $11,592,535 for major storm-related expenses, partially offset by collected Rider surcharge revenues of $37,559,500, as proposed in the Letter of Agreement filed on May 11, 2026.

Next, the Panel voted unanimously to limit the agreed-upon recovery in this filing to $12,000,000, with the remaining $3,453,123 in Rider-related costs to be recovered in a future docket. The Panel also voted unanimously to approve the rate design, as reflected in the Parties' Exhibit No. 1, as filed with this docket on May 11, 2026, including the Letter of Agreement and revised Rider surcharges. The Panel directed the Kingsport Power Company to file revised tariff sheets consistent with its decision. Additionally, the Panel directed the Kingsport Power Company to include an overall rate-of-return calculation in each of its forthcoming annual reports filed with the Commission.

The Panel acknowledged that the mechanism has improved service reliability for customers while allowing Kingsport Power Company to recover legitimate costs associated with its Targeted Reliability Plan and major storm recovery, without the need for costly rate cases. Given its benefits to both consumers and the Kingsport Power 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 2025 - December 2025 Annual Recovery Under the Targeted Reliability Plan and Major Storm Rider ("TRP&MS"), Alternative Rate Mechanisms Approved in Docket No. 17-00032*, filed on February 27, 2026, 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 April 22, 2026; the Pre-Filed Rebuttal Testimony of Mr. John A. Stevens, filed on May 7, 2026; and JAS Exhibit No. 1, filed by the Company on May 11, 2026, as modified per Kingsport Power Company's June 11, 2026 filing, is approved.

2. Kingsport Power Company d/b/a AEP Appalachian Power shall, going forward, provide an overall rate of return calculation in all annual reports filed with the Commission.

3. Any person(s) aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within 15 days of the date of this Order.

4. 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 60 days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

Chairman David F. Jones,
Vice Chairman John A. Hie,
Commissioner Clay R. Good, and
Commissioner Kenneth C. Hill concurred.

None dissented.

ATTESTED:

Earl R. Taylor, Executive Director