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Legal Department

March 29, 2024

By Hand

PUBLIC VERSION

The Honorable Bernard J. Logan, Clerk
State Corporation Commission
Document Control Center, First Floor
1300 East Main Street
Richmond, Virginia 23219

James G. Ritter
Senior Counsel - Regulatory
Services
(804) 698-5544 (P)
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jritter@aep.com

Re: *Application of Appalachian Power Company for a 2024 biennial review of its base rates, terms and conditions pursuant to § 56-585.8 of the Code of Virginia*
Case No. PUR-2024-00024

Dear Mr. Logan:

Enclosed for filing in the above-referenced case are the original and twelve copies of the Public Version of Appalachian Power Company's Application for a 2024 biennial review of its base rates, terms and conditions pursuant to § 56-585.8 of the Code of Virginia, consisting of five Volumes. Volume 5 contains Schedules 29 and 40, and pursuant to 20 VAC 5-204-10 I, only one unbound original copy of that volume is being provided for filing. The required copies of these volumes are being provided under separate cover to the appropriate members of Commission Staff.

An unbound original and fifteen bound copies of a separate Confidential Supplement, which contains all confidential information included in the Company's Application, are being filed under seal under separate cover. A Motion for Protective Ruling also is being filed under separate cover.

Sincerely,

James G. Ritter

Enclosures

cc: William H. Chambliss
James R. Bacha
C. Meade Browder, Jr.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUR-2024-00024

For a 2024 biennial review of its base rates,
terms and conditions pursuant to § 56-585.8
of the Code of Virginia

APPLICATION AND DIRECT TESTIMONY

VOLUME 1 OF 5

FILED: MARCH 29, 2024

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COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF

APPALACHIAN POWER COMPANY

Case No. PUR-2024-00024

For a 2024 biennial review of its base rates,
terms and conditions pursuant to § 56-585.8
of the Code of Virginia

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A. WAYNE ALLEN

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JASON A. CASH

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DAVID A. HODGSON

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CHAD E. NOTESTONE

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240360095

Application

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUR-2024-00024

For a 2024 biennial review of its base rates,
terms and conditions pursuant to § 56-585.8
of the Code of Virginia

APPLICATION

Pursuant to the Code of Virginia and the State Corporation Commission's ("Commission") Rules Governing Utility Rate Applications and Annual Informational Filings of Investor-Owned Electric Utilities (the "Rate Case Rules"), Appalachian Power Company ("Appalachian" or "Company") files this Application seeking the Commission's review of Appalachian's rates and terms and conditions for the provision of generation and distribution services.¹ The Code requires the Commission to issue a final order on this Application by November 20, 2024, with any revisions in rates taking effect no later than January 1, 2025.²

Among other things, this proceeding entails determinations by the Commission regarding: (i) Appalachian's cost of service and earnings during the twelve-month period ending December 31, 2023 (the "Earnings Test Period"); (ii) whether prospective changes to Appalachian's rates for generation and distribution services are necessary; and (iii) the Company's prospective fair rate of return on common equity ("ROE"). The Company's request in this Application is based strictly on the framework set forth in the Virginia Code.

¹ Va. Code § 56-585.8; 20 VAC 5-204-5 *et seq.*

² Va. § 56.585.8 B, D.

As this filing demonstrates, an increase to Appalachian's rates is necessary to ensure the Company can continue providing safe and reliable service at just and reasonable rates to its customers over the coming years. The requested rate increase is the result of numerous factors, including the following: fuel-related carrying costs; increased capital costs, including a 10.8% market cost of equity and higher interest expense; incremental capital investment; increased operating expenses, including but not limited to costs associated with major storms; and fully incorporating in rates the costs of Appalachian's Commission-approved Worst-Performing Circuits Program. As a result of these factors—as well as increases to other necessary costs that Appalachian reasonably and prudently incurs to provide safe and reliable service—the Company seeks approval to increase base rate revenues by approximately \$95.1 million, which represents a 5.1% increase in revenues.

Appalachian understands that its rate request comes at a time when economic factors are increasing the costs of living for the Company's customers. The Company is also bearing similar cost increases that impact its ability to continue to provide safe and reliable service to customers. Although an increase to Appalachian's rates is necessary in this proceeding, the Company agrees to work with the Commission and interested parties to help balance competing interests to the extent possible.

I. THE APPLICANT

Appalachian is a Virginia public service corporation serving approximately 540,000 customers in Virginia and maintaining an office at 1051 East Cary Street, Suite 1100, Richmond, Virginia 23219. The Company is an incumbent electric utility as defined in the Virginia Electric

Utility Regulation Act (“Act”).³ The Commission’s last review of the Company’s rates, terms and conditions occurred in 2023, with a final order issued November 30, 2023.⁴ The contact information for Appalachian’s attorneys is stated at the end of this Application.

II. WITNESSES IN SUPPORT OF THE APPLICATION

Appalachian provides the direct testimony of the following witnesses in support of the Application:

- **Aaron D. Walker**, President and Chief Operating Officer, Appalachian. Mr. Walker provides an overview of the Company’s filing, recognizing the economic conditions that both the Company and its customers currently face, and describes how the Company has evolved since the 2023 Triennial Review. Mr. Walker also addresses Appalachian’s efforts to attract economic development to its service territory and provides examples of the Company’s efforts to contribute to the communities in which it operates.
- **William K. Castle**, Director of Regulatory Services VA/TN, Appalachian. Mr. Castle discusses the Company’s earned return during the Earnings Test Period and requested increase in rates going forward. He also supports modifications to Appalachian’s Optional Rider DRS-RTO; supports two-year amortization periods for certain regulatory assets and liabilities; supports Appalachian’s request for recovery of carrying costs associated with the Company’s projected coal inventory and deferred fuel balances; supports the Company’s request for deferral accounting for certain generation-related costs; and supports the Company’s proposal to recover through depreciation rates the remaining net book value of a static var compensator transferred to Roanoke Electric Steel.
- **A. Wayne Allen**, Accounting Senior Manager, American Electric Power Service Corporation (“AEPSC”). Mr. Allen sponsors many of the Company’s earnings test adjustments, proposed ratemaking adjustments, and filing schedules.
- **Jason A. Cash**, Director of Regulatory Accounting Services, AEPSC. Mr. Cash supports the continued use of the depreciation rates approved in Appalachian’s 2023 Triennial Review, with modifications to the depreciation rates for Clinch River Units 1 and 2 to account for a change in the units’ estimated retirement date from 2025 to

³ See *id.* § 56-576.

⁴ *Application of Appalachian Power Company, For a 2023 triennial review of its base rates, terms and conditions pursuant to § 56-585.1 of the Code of Virginia*, Case No. PUR-2023-00002, Final Order (Nov. 30, 2023).

2030. Mr. Cash also supports the appropriate accounting associated with Appalachian's transfer of a static var compensator to Roanoke Electric Steel.

- **David A. Hodgson**, Managing Director of Tax Accounting and Regulatory, AEPSC. Mr. Hodgson supports the state and federal tax information for certain filing schedules. He also sponsors Appalachian's tax-related earnings test adjustments and tax-related ratemaking adjustments.
- **Jaclyn N. Cost**, Regulatory Consultant Principal, AEPSC. Ms. Cost sponsors the jurisdictional and functional cost-of-service studies and underlying calculations. She also sponsors portions of Rate Case Schedule 40A (Earnings Test and Functional Cost-of-Service Studies) and Rate Case Schedule 40B (Per Books and Adjusted Jurisdictional and Functional Cost-of-Service Study).
- **Chad E. Notestone**, Regulatory Consultant Staff, AEPSC. Mr. Notestone sponsors Appalachian's class cost-of-service study for the Company's Virginia retail jurisdiction, as well as the underlying calculations. He also supports the rates for Appalachian's proposed Schedule Public Electric Vehicle Charging Facility Service.
- **Katharine I. Walsh**, Director, Regulatory Pricing and Analysis, AEPSC. Ms. Walsh supports certain revenue and operating expense adjustments to Schedules 40A and 40B. She also supports the Company's overall proposed rate design as well as Schedules 42 and 43.
- **Robert A. Jessee**, Vice President of Generating Assets, Appalachian. Mr. Jessee describes Appalachian's generation fleet, including changes to its composition and capabilities since the 2023 Triennial Review and the availability and performance of the Company's generation units. Mr. Jessee also discusses Appalachian's total-company non-fuel generation O&M expenses and total-company generation capital expenses during the Earnings Test Period. He also supports a proposed ratemaking adjustment to the Company's test-year non-labor generation O&M.
- **Jason E. Baker**, Vice President Distribution Operations, Appalachian. Mr. Baker describes Appalachian's distribution system in its Virginia service territory as well as the types of projects and programs used to maintain the Company's distribution infrastructure. Mr. Baker also discusses Appalachian's levels of distribution capital investment and O&M expenses and describes the project and program activities that these costs support. Finally, he provides an update on the distribution-related items approved in the 2023 Triennial Review, including Appalachian's Worst-Performing Circuits Program, ROW mileage, and inspection program.
- **Kimberly Kerber**, Director of Compensation, AEPSC. Ms. Kerber discusses the AEP system's total compensation philosophy and the necessity of short-term and long-term incentive compensation programs to retain a market-competitive workforce.

- **Hallie L. Long**, Regulatory Consultant, VA/TN, Appalachian. Ms. Long sponsors proposed changes to the Terms and Conditions of Appalachian's tariffs and certain rate schedules. She also supports Appalachian's proposal to implement two new rate schedules, Schedule Public Electric Vehicle Charging Facility Service and Schedule Large Fleet Electric Vehicle Charging. Finally, Ms. Long sponsors Schedule 41 and Schedule 47 (Total Aggregated Revenues and Consumer Price Index).
- **Timothy A. Morris**, Regulatory Consultant, VA/TN, Appalachian. Mr. Morris supports Appalachian's request for a new rider, designated as Rider National REC, that will be available to all customers served under the Company's standard tariff. He also supports Appalachian's proposal to alter certain existing reporting requirements. Finally, Mr. Morris describes potential issues associated with funneling a low-income customer charge waiver through PIPP.
- **Brian T. Lysiak**, Senior Manager, Corporate Accounting, AEPSC. Mr. Lysiak supports the appropriateness of the affiliate costs incurred by Appalachian for services provided by AEPSC.
- **Patrick L. Baryenbruch**, President, Baryenbruch & Company, LLC. Mr. Baryenbruch presents and explains the necessity and reasonableness of AEPSC's services and charges to Appalachian.
- **Kimberly K. Chilcote**, Coal Procurement Manager, AEPSC. Ms. Chilcote supports the calculation of coal inventory levels to be reflected in prospective rates. Ms. Chilcote also supports the reasonableness of Appalachian's coal purchasing decisions and inventory levels during the Earnings Test Period.
- **Alex E. Vaughan**, Managing Director of Renewables and Fuel Strategy, AEPSC. Mr. Vaughan supports the reasonableness of the costs Appalachian incurs under the Ohio Valley Electric Cooperative Inter-Company Power Agreement and provides the market analysis required by the Commission in Case No. PUE-2011-00058.⁵
- **Franz D. Messner**, Managing Director of Corporate Finance, AEPSC. Mr. Messner sponsors the Company's capital structure and cost of capital for ratemaking purposes, excluding the cost of common equity.
- **Adrien M. McKenzie**, President, Financial Concepts and Applications, Inc. Mr. McKenzie supports the Company's requested ROE of 10.8% and the reasonableness of the Company's capital structure.

⁵ *Application of Appalachian Power Company, For consent to and approval of an extension and modification of an existing Amended and Restated Inter-Company Power Agreement with Ohio Valley Electric Corporation and other affiliates pursuant to Chapter 4 of Title 56 of the Code of Virginia, Case No. PUE-2011-00058, Order Granting Approval (Aug. 3, 2011).*

III. APPLICABLE STATUTORY AUTHORITY

Appalachian files this Application under Virginia Code § 56-585.8, a new law enacted in 2023 that reinstated biennial reviews for Appalachian. The statute requires Appalachian to file its first biennial review in 2024, and states that in this initial review proceeding, the Commission must utilize “a twelve-month test period beginning January 1, 2023 and ending December 31, 2023” to determine any excess or deficiency in the Company’s earnings.⁶ Accordingly, in this case, the Commission must review Appalachian’s earnings in 2023 only.

The statute includes parameters for the Commission’s review of Appalachian’s earnings in a biennial review case. Under § 56-585.8 G, if the Commission finds that Appalachian earned more than 100 basis points above its authorized fair rate of return, the Commission “shall direct that 100 percent of the amount of such earnings that were more than 100 basis points above such fair combined rate of return for the test period under review ... be credited to customers’ bills.”⁷ Additionally, if Appalachian’s earned return was no more than 100 basis points above or below its authorized return, then the earned return “shall not be considered either excessive or insufficient, respectively.”⁸

Section 56-585.8 G also requires the Commission to authorize deferred recovery of two specific categories of costs: (1) actual costs associated with severe weather events; and (2) actual costs associated with natural disasters. According to the statute, the Commission “shall

⁶ 2023 Va. Acts ch. 749, cl. 2.

⁷ Va. Code § 56-585.8 G.

⁸ *Id.*

allow the utility to amortize and recover such deferred costs over future periods as determined by the Commission.”⁹

Finally, § 56-585.8 F outlines the circumstances under which the Commission must order revisions to Appalachian’s rates. If the Commission determines that Appalachian’s existing rates will, on a going-forward basis, produce revenues above or below the Company’s authorized rate of return, then the Commission “shall order any reductions or increases, as applicable and necessary, to such rates ... that it deems appropriate to ensure the resulting rates for generation and distribution services (a) are just and reasonable and (b) provide the utility an opportunity to recover its costs of providing services” over the next biennial period and earn a fair rate of return as authorized by the Commission.¹⁰

IV. EARNINGS TEST RESULTS AND REQUESTED REVENUE REQUIREMENT

A. Earnings Test Results

For purposes of the earnings test in this case, Appalachian’s authorized ROE is the 9.5% that the Commission approved in the Company’s 2023 Triennial Review. As Company witness Allen explains, Appalachian earned a return of 2.26% on its common equity during 2023, which is the equivalent of more than \$149.2 million in pre-tax earnings below the authorized return of 9.5%.

B. Requested Revenue Requirement

Appalachian requests approval to implement retail base generation and distribution rates that are designed to increase the Company’s revenues by approximately \$95.1 million, which

⁹ *Id.*

¹⁰ *Id.* § 56-585.8 F.

represents a 5.1% increase to overall revenues. As Company witness Walsh explains, the requested increase includes a \$32.8 million increase to the generation function and a \$62.3 million increase to the distribution function.

V. RATEMAKING ADJUSTMENTS

The ratemaking adjustments, based on 2023 as the test year and using 2025 as the rate year, and their respective sponsors are listed in the testimony of Company witness Allen. In general, and as appropriate, the Company complied with the Commission's directives in prior biennial or triennial reviews regarding going-forward adjustments.

VI. REQUEST FOR CONFIDENTIAL TREATMENT

The Application contains confidential information, and Appalachian anticipates that it will receive requests to produce additional confidential information during discovery. Accordingly, the Company is separately filing a Motion for Protective Order, including a proposed Protective Order, pursuant to Rule 10 F of the Rate Case Rules and Rules 110 and 170 of the Commission's Rules of Practice and Procedure.¹¹

VII. COMPLIANCE WITH RATE CASE RULES

Appalachian's filing follows the applicable requirements of the Rate Case Rules, subject to the waiver request that the Commission granted in its March 7, 2024, Order Granting Waiver. In that order, the Commission granted Appalachian's request for a waiver of the requirement in Rule 90 to file individual outage information as part of Schedule 33. As a result, Appalachian prepared Schedule 33 in accordance with the protocol developed by the Company and Staff in

¹¹ See 20 VAC 5-204-10 F; 5 VAC 5-20-110, 5 VAC 5-20-170.

Case No. PUE-2009-00030. Otherwise, the Company has prepared the prescribed schedules as specified in the Rate Case Rules.

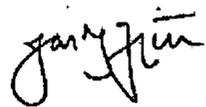
In accordance with Rule 10 J of the Rate Case Rules, within five business days of the issuance of the Commission's procedural order, Appalachian will serve a copy of the information required in Rule 10 J 2 upon the attorney and chairman of the board of supervisors of each county and upon the mayor or manager and the attorney of every city and town in its service territory, accompanied by a statement that a copy of the complete application may be obtained at no cost by making a request orally or in writing to William K. Castle, Director of Regulatory Services VA/TN, Appalachian Power Company, Three James Center, Suite 1100, 1051 East Cary Street, Richmond, Virginia 23219, pursuant to 20 VAC 5-204-10 J. Appalachian also will serve a copy of the complete public version of the Application upon the Division of Consumer Counsel of the Office of the Attorney General of Virginia.

VIII. CONCLUSION

WHEREFORE, Appalachian Power Company respectfully requests that the State Corporation Commission docket this matter and schedule the proceeding for hearing, and approve: (1) the revenue requirement requested in and supported by this Application, including a return on common equity of 10.8 percent; (2) the Company's proposed changes to the Terms and Conditions and other provisions of its tariffs; (3) the Company's proposed ratemaking adjustments; and (4) all other proposals set forth in this Application and any other relief that the Commission finds appropriate.

Respectfully submitted,

APPALACHIAN POWER COMPANY



By: _____
Counsel

March 29, 2024

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CERTIFICATE OF SERVICE

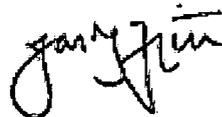
I certify that on March 29, 2024, a copy of this filing was delivered by hand or electronic mail to the following:

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Glossary

Glossary of Terms - Case No. PUR-2024-00024

2014 Biennial Review	Case No. PUE-2014-00026
2014 Final Order	2014 S.C.C. Ann. Rep. 392 (Nov. 26, 2014)
2014 Order on Reconsideration	2015 S.C.C. Ann. Rep. 207 (Feb. 3, 2015)
2020 Triennial Review	Case No. PUR-2020-00015
2020 Final Order	2020 S.C.C. Ann. Rep. 421 (Nov. 24, 2020)
2020 Reconsideration Order	2020 S.C.C. Ann. Rep. 435 (Dec. 15, 2020)
2022 IRP	Case No. PUR-2022-00051
2022 Supreme Court Decision	Opinion, <i>Appalachian Power Company v. State Corporation Commission</i> , 301 Va. 257 (2022)
Initial Remand Order	Order Initiating Remand Proceeding, Case No. PUR-2020-00015 (Aug. 22, 2022)
Final Remand Order	Order on Remand, Case No. PUR-2020-00015 (Dec. 21, 2022)
2023 Triennial Review	Case No. PUR-2023-00002
2022 E-RAC	Commission Case No. PUR-2022-00001 (Final Order dated Nov. 21, 2022)
A.5 RPS RAC	RAC to collect costs associated with RPS Program
A.5 PCAP RAC	RAC to collect capacity costs associated with PPAs
A.6 RPS RAC	RAC to collect capacity and energy costs associated with owned generation and energy storage
AEP	American Electric Power Company, Inc.
AEPSC	American Electric Power Service Corporation
AFSI	Adjusted Financial Statement Income
AMI	Advanced Metering Infrastructure
APCo or Company	Appalachian Power Company
B&O	Business & Occupation
CCOS	Class Cost of Service Study
Code	Code of Virginia
Commission or SCC	Virginia State Corporation Commission
Earnings Test Period or 2023 Test Year	The 12-month period from January 1, 2023 through December 31, 2023
EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FRR	Fixed Resource Requirement
FOAD	Fixed Resource Requirement Open Access Distribution
G-RAC	Generation Rate Adjustment Clause (Dresden Generating Plant)
I&M	Indiana Michigan Power Company
ICPA	Inter-Company Power Agreement between OVEC and utilities
KgPCo	Kingsport Power Company
KPCo	Kentucky Power Company
kW	Kilowatt

kWh	Kilowatt-hour
LFEVC	Large Fleet Electric Vehicle Charging (Schedule LFEVC)
MW	Megawatt
MWh	Megawatt-hour
NBV	Net Book Value
Net CONE	Net Cost of New Entry
NO _x	Nitrogen Oxide
NREC	Rider National REC
O&M	Operations and Maintenance
OAD	Open Access Distribution
OATT	Open Access Transmission Tariff
OPCo	Ohio Power Company
OPEB	Other Postretirement Employee Benefits
OVEC	Ohio Valley Electric Corporation
PIPP	Percentage of Income Payment Program
PJM	PJM Interconnection, LLC
PEVCFS	Public Electric Vehicle Charging Facility Pilot Schedule
PURPA	Public Utility Regulatory Policies Act of 1978
PSO	Public Service Company of Oklahoma
RAC	Rate Adjustment Clause
Rate Case Rules	Rules Governing Utility Rate Applications and Annual Informational Filings, 20 VAC 5-204-10 <i>et seq.</i>
Rate Year	The 2025 Rate Year Period from January 1, 2025 to December 31, 2025
REC	Renewable Energy Certificate
ROE	Return on Equity
ROW	Right of Way
SCR	Selective Catalytic Reduction
SO ₂	Sulfur Dioxide
Staff	State Corporation Commission Staff
SVC	Static Var Compensator
SWEPCO	Southwestern Electric Power Company
T&Cs	Terms and Conditions
TCJA	Tax Cuts and Jobs Act
TRR	Tax Rate Reduction Rider
T-RAC	Transmission Rate Adjustment Clause
VCEA	Virginia Clean Economy Act
VEDP	Virginia Economic Development Partnership
WPCo	Wheeling Power Company
WVPSC	Public Service Commission of West Virginia