

EXHIBIT 3

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

November 13, 2013

IN RE:)
)
PETITION OF KINGSPORT POWER) DOCKET NO.
COMPANY D/B/A AEP APPALACHIAN) 13-00121
POWER FOR APPROVAL OF DEFERRED)
ACCOUNTING)

ORDER GRANTING DEFERRED ACCOUNTING

This matter came before Vice Chairman Herbert H. Hilliard, Director Robin Bennett, and Director David F. Jones of the Tennessee Regulatory Authority (“Authority” or “TRA”), the voting panel assigned to this docket, at an Authority Conference held on October 21, 2013 for consideration of the *Application for Deferred Accounting* (“*Application*”) filed on September 9, 2013 by Kingsport Power Company d/b/a AEP Appalachian Power (“Kingsport” or “Company”).

APPLICATION

Kingsport is a public utility engaged in distributing electric power to approximately 47,000 retail customers in parts of Sullivan, Washington and Hawkins Counties, Tennessee, the City of Kingsport, Tennessee, and the Town of Mt. Carmel, Tennessee.¹ Its principal office is located in Kingsport, Tennessee. In its *Application*, Kingsport requests deferral of \$1,949,062 of incremental operation and maintenance expense resulting from ice storms that began on January 15, 2013.²

¹ See *Application*, p. 2 (September 9, 2013).

² *Id.* at 1.

According to Kingsport, these storms caused severe power outages in Kingsport's service area and damage to the Company's property and equipment. The Company asserts that it "incurred operating and maintenance incremental costs directly related to the restoration of power to its customers and the repair/replacement of damaged property and equipment which were not anticipated nor previously budgeted."³ Kingsport states the majority of the storm-related expense was incurred to compensate outside contractors, employee overtime, and food, transportation and lodging.⁴ According to the *Application*, "a one-time O&M Expense in the order of \$1.9 million would essentially eliminate over half of the net operating income for the entire year."⁵ Kingsport asserts that it would be unfair to require it to absorb these incremental storm costs when the excessive expenses arose because of acts of nature.⁶ Therefore, Kingsport requests that it be authorized to defer storm costs as a regulatory asset.⁷

OCTOBER 21, 2013 AUTHORITY CONFERENCE

At the Authority Conference held on October 21, 2013, the panel considered Kingsport's *Application*. Kingsport requested that the Authority authorize it to defer \$1,949,062 of incremental storm costs as a regulatory asset. This proposed regulatory treatment is defined in the Statement of Financial Accounting Standard No. 71("SFAS 71").⁸ This method will allow the Company appropriate ratemaking treatment for extraordinary storm costs in a future rate

³ *Id* at 3.

⁴ *Id*.

⁵ *See Id.* at 4. The storm expense represents \$1.9 million of the Company's total operating income of \$3.8 million for the year ended December 31, 2012, which amounts to over 51% of the total O&M expense.

⁶ *Application*, p. 4 (September 9, 2013).

⁷ On September 30, 2013, the Consumer Advocate filed a letter in the docket file stating it did not oppose Kingsport's *Application* because it is consistent with accounting rules. Further, if the storm costs had been foreseen, they would have been included in the determination of net income for the period and would have been recoverable from ratepayers to the extent they were reasonable and prudently incurred. *See Letter from the Consumer Advocate dated September 30, 2013, p. 1* (September 30, 2013).

⁸ Under Statement of Financial Accounting Standard No. 71("SFAS 71"), "Accounting for the Effects of Certain Types of Regulation", the Company can defer certain costs as regulatory asset and recover in future periods if "rate action of a regulator can provide reasonable assurance of the existence of an asset."

proceeding. Removing non-recurring costs from expenses to a deferred account will result in normalized reported regulated expense levels for the period.

The panel found that the proposed treatment of the storm costs is an accepted regulatory accounting treatment and is consistent with previous Authority rulings with respect to the deferral of certain costs.⁹ Further, the panel found that deferral accounting is proper since the Company incurred these large, infrequent and unusual expenses yet did not have a mechanism to recover these costs in current rates. The panel also advised that the deferral of these costs does not equate to a determination that the Company will be allowed to recover such costs when they are considered by the Authority. Thereafter, based on the record, the panel voted unanimously to approve Kingsport's *Application* to defer storm costs.

IT IS THEREFORE ORDERED THAT:

The *Application for Deferred Accounting* filed by Kingsport Power Company d/b/a AEP Appalachian Power is granted.

Vice Chairman Herbert H. Hilliard, Director Robin Bennett, and Director David F. Jones concur.

ATTEST:



Earl R. Taylor, Executive Director

⁹ See *In re: Petition of Lynwood Utility Corporation for Approval of a Cost Recovery Mechanism for Deferred Odor Elimination Costs*, Docket No. 08-00060, *Order Approving Settlement Agreement* (April 17, 2008). See also *In re: Petition of Kingsport Power Company d/b/a AEP Appalachian Power Company to Defer Certain Costs Associated with Winter Storms Occurring in December 2009*, Docket No. 10-00144, *Order Granting Request for Deferred Accounting* (October 5, 2010).