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June 20, 2002

Via Federal Express

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Kingsport Power Company's Application Requesting Findings Under 15 U.S.C.
§ 79z5a(c) and Representations Under Securities and Exchange Commission Policy
Docket No. 02-00190

Dear Mr. Waddell:

I have your letter of May 23, 2002, regarding the above-referenced application of Kingsport Power Company (KgPCo or the Company). KgPCo has asked me to provide the Tennessee Regulatory Authority (TRA) with the additional information requested in your letter by supplementing several of the statements made by the Company in its April 5, 2002 Application (Application). As you know, in part, that Application seeks certain findings from the TRA that are required before the generation facilities listed on Attachment 1 to the Application (none of which are located in Tennessee, but all of which are owned by affiliates of the Company) can be certified as exempt wholesale generators (EWGs) by the Federal Energy Regulatory Commission (FERC).¹

In numbered paragraph 10, found on page 5 of its Application, KgPCo made the following statements:

¹ Your letter acknowledges that 15 U.S.C. § 79z-5a(c) of the Public Utility Holding Company Act of 1935 (the Act) requires certain findings by the TRA, before the listed facilities can be certified as EWGs, because these generating facilities are owned by affiliates of KgPCo and the TRA regulates KgPCo's retail rates.

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10. Allowing the generating units listed on Exhibit 1 to be designated as eligible facilities for EWG purposes will benefit consumers and is in the public interest. Consumers in every state into which electric energy can be delivered from the generating units that KgPCo is requesting be found to be eligible facilities, including Tennessee, will benefit regardless of whether the retail customers in any given state have the right to choose a retail generation supplier. Introducing additional resources exempt from regulation under the Act into the competitive wholesale market will improve liquidity and help create a more robust marketplace both at the wholesale and retail levels. *** Because it will result in benefits to consumers in many states, including Tennessee, allowing the generating units listed on Exhibit 1 to be designated as eligible facilities for EWG purposes is in the public interest.

Your letter directs KgPCo to supplement these statements

with a discussion, containing detailed factual support, that focuses on how the proposed designation benefits Tennessee consumers and is in the public interest with regard to Tennessee. Specifically, Kingsport is requested to provide information regarding the effect, if any, that the proposed designation may have on retail prices for electric power and reliability in Tennessee.

At the outset, KgPCo can emphatically state that the proposed designation being sought from the TRA (i.e., that the generating facilities listed on Exhibit 1 to KgPCo's Application be designated as eligible facilities for EWG purposes) will not adversely affect KgPCo's retail rates for electric service. KgPCo is a subsidiary of American Electric Power Company, Inc. (AEP) and purchases the electricity that is consumed by its Tennessee retail customers from another AEP subsidiary, Appalachian Power Company (APCo), at rates approved by the FERC. Simply stated, the proposed designation will have no effect on either the existing power supply agreement between KgPCo and APCo, or the FERC-approved rates that APCo charges KgPCo for power.

APCo, along with four other AEP operating company subsidiaries that own generation, currently operate as an integrated system pursuant to the FERC-approved AEP Interconnection Agreement (the Pool). While there is currently pending before the FERC a proposal to modify the Pool and reduce its membership from five to three AEP companies, APCo would continue to be a member of the surviving Pool.

The purpose of the Pool is to assure a reliable, adequate and economical supply of power and energy to its members, and the customers of each of its members, including wholesale customers of APCo such as KgPCo. Each Pool member's internal and firm energy requirements (which include the energy requirements of KgPCo's retail customers) are economically met by a combination of that member's own generating resources, Pool energy and purchases from non-Pool or non-affiliated companies (i.e. wholesale purchases). Wholesale purchases of energy from non-Pool companies are made by the Pool when the cost of those purchases is less than the cost of internal generation or Pool energy. In this way

the Pool and its members, including APCo, are constantly striving to minimize the costs of power that must ultimately be borne by its customers, including KgPCo.

Because wholesale purchases are one source of reliable and economical power for the Pool and its members, including APCo, anything that helps create a more competitive and robust wholesale market will benefit the customers served by the Pool's members, including KgPCo. That is why KgPCo made the following representations about benefits to consumers and the public interest on page 5 of its Application:

- "Consumers in every state into which electric energy can be delivered from the generating units that KgPCo is requesting be found to be eligible facilities, including Tennessee, will benefit . . ."
- "Introducing additional resources exempt from regulation under the Act into the competitive wholesale market will improve liquidity and help create a more robust marketplace . . ."
- "Because it will result in benefits to consumers in many states, including Tennessee, allowing the generating units listed on Exhibit 1 to be designated as eligible facilities for EWG purposes is in the public interest."

Before closing, KgPCo would also like to clarify one matter addressed in your May 23, 2002 letter. That letter states that the TRA understands that once it makes the requested findings in this case, the findings "should be reported to the FERC." While KgPCo has no objection to the TRA reporting its findings to the FERC, pursuant to the FERC's regulations found at 18 CFR § 365.3 (b), the burden of filing all such required state regulatory commission findings is upon the applicant seeking status as an EWG, not upon the regulatory agency making the findings. If your response is by letter, we request that your findings be reported to this firm and we will forward them to AEP for inclusion with their filing.

Based upon the representations made in its April 5, 2002 Application, as supplemented by the foregoing, KgPCo hereby renews its request that the TRA:

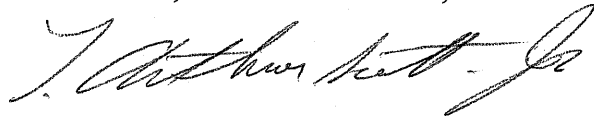
- 1) issue a finding that allowing the generating units listed in Exhibit 1 to be eligible facilities for EWG purposes will benefit consumers, is in the public interest, and does not violate Tennessee law;
- 2) advise the Securities and Exchange Commission (SEC) that the TRA is aware of AEP's request to increase its investment authority for EWG and Foreign Utility Company (FUCO) investments, and certify to the SEC that, if the SEC approves AEP's request, the TRA has the authority and jurisdiction to protect ratepayers in Tennessee and that it intends to exercise such authority;
- 3) consider these requests on an expedited basis; and
- 4) grant such other relief as is necessary under the circumstances.

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With kindest personal regards, we are

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

A handwritten signature in cursive script, appearing to read "T. Arthur Scott, Jr.", written in dark ink.

T. Arthur Scott, Jr.

cc: James R. Bacha, Esq.