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TN REGULATORY AUTHORITY
ECONOMIC ANALYSIS & MARKET
MONITORING DIVISION

Aster Adams, Chief
Economic Analysis & Market Monitoring Division
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: **Kingsport Power Company, Application for $50,000,000 Financing Program Through June 30, 2008 – Docket No. ~~03-00318~~**
03-00618

Dear Aster:

In response to your letter dated December 10, 2003, we are providing responses to your questions below.

1. **Please provide audited balance sheets for KPC for the years ending December 31, 2000, 2001 and 2002.**

   Documents attached as Appendix A.

2. **Also provide debt to equity ratios for the years ending December 31, 2000, 2001, 2002 and September 30, 2003 for KPC and American Electric Power (hereafter "AEP") and what the ratios will likely be after these funds have been placed and drawn.**

   For KPC, 2000-2003 ratios attached as Schedule 1. As there are no incremental borrowings anticipated, there will be no impact on KPC for refundings as currently contemplated. We have not provided debt and equity ratios for AEP because there is substantially no impact on AEP

3. **Provide a schedule of estimated borrowing and provide a schedule showing how these long-term debt placements will affect the balance sheet of KPC alone and also how this will affect the balance sheet of AEP.**

   KPC is anticipating refunding and reissuing the $20,000,000 maturity in February 2004 and depending on the term will reissue a $20,000,000 note. No other long term fundings are currently contemplated, resulting in no anticipated impacts on the balance sheet. Similarly, there is no impact on AEP. However, KPC may issue up to $10,000,000 in new debt for capital expenditures and other general corporate purposes through June 30, 2008. If KPC chooses to issue $10,000,000 of new debt the balance sheet impact would be to increase long term debt by $10,000,000. AEP's long term debt may not increase by the same $10,000,000 to the extent that KPC borrows the funds from AEP because of consolidation accounting.

4. **Provide an estimate of the interest saved for the retirement of any short or long term debt currently on the balance sheet of KPC that would be retired if the petition is approved and debt is retired.**

   Attached as Schedule 2. Interest savings are based on an estimated average three year treasury rate of 4.0% plus an all-in credit spread of 1.0%, resulting in an average rate of 5.0% over the five year order period. KPC believes this estimate to be conservative, but refunding rates are subject to market forces and demand. Actual results may be different than estimated.

5. **Please explain why KPC elected financing using a third party. Could APC borrow money at a more favorable rate?**

   No definitive agreement has been reached with any lender. KPC is requesting the flexibility to choose between private, public and affiliate funding sources for its funding. The Public Utility Holding Company Act of 1935 prohibits an affiliate utility company such as APC from borrowing on behalf of KPC and then lending funds to KPC. Subject to the TRA's approval, however, AEP may borrow money and lend it to KPC. AEP funding may be used to lower the upfront or overall cost of funding KPC's debt capital.

6. **Provide an estimate of when the debt is going to be drawn and how it is going to be used in more details. For instance, is it going to be used for debt retirement, new construction, operating expense, or any other purpose?**

   The existing $20,000,000 debt is scheduled to mature in February 2004 and KPC plans to issue a new debt instrument to retire the existing debt at that time. KPC may issue additional debt instruments from time to time as necessary to pay for refunding the intended offering, with up to $10,000,000 in new debt for capital expenditures and other general corporate purposes through June 30, 2008.

7. **Will any of KPC's assets be collateralized?**

   There are currently no plans to collateralize any of KPC's assets at this time.

8. **What responsibility will AEP bear in this transaction, both in securing the debt placement and in use of these funds?**

   AEP Service Corporation will utilize its corporate finance staff to investigate, source, place and document any transactions on behalf of KPC under this order. In addition, AEP Service Corporation will be responsible for all activities involving the use of those funds on behalf of KPC.

9. **Please explain in detail why the term of five years was chosen instead of the customary two year term.**

   It is KPC's understanding that the TRA has previously issued orders for a term of five years for other utilities (Entergy). KPC believes that extending the term of the financing order at this time to five years from 2 years will give KPC an opportunity to source funding at rates that are attractive relative to where funding was realized under the previous order. As indicated in the Application, the $50,000,000 limit and five year term of this order will allow KPC to issue up to $20,000,000 in maturing debt and refund it once during the order term. In addition, extending the order term to five years will allow KPC to more effectively perform long term financial planning. Although KPC will be able to issue debt instruments with maturities of up to ten years during the term of this order, such a decision would only allow one issuance for the purpose of refunding maturing debt during the five year term under the provisions of the order. Such issuance decisions will be determined based on market conditions and efficiency of execution, as well as all-in effective cost of funding (including interest rate and upfront issuance costs).

   We can send the financials to you by e-mail if you have any problems reading them.

If you should have any questions, please do not hesitate to contact us.

Sincerely yours,

HUNTER, SMITH & DAVIS, LLP

T. Arthur Scott, Jr.

Attachments

cc: Thomas G. Berkemeyer, Esq.
Kevin R. Fease, Esq.

SCHEDULE 1

(in thousands)

	9-30-2003	2002	2001	2000
Short Term Debt	$ 5,301	$ 0	$ 5,915	$24,043
Long Term Debt	$20,000	$20,000	$20,000	$10,000
Common Equity	$24,131	$24,213	$23,782	$23,119
Total Capitalization	$49,432	$44,213	$49,697	$57,162
S-T Debt/Capitalization	10.7%	0%	11.9%	42.1%
L-T Debt/Capitalization	40.5%	45.2%	40.2%	17.5%
Equity/Capitalization	48.8%	54.8%	47.9%	40.4%

SCHEDULE 2

Anticipated Refunding Amount:	$20,000,000
Current L-T Debt Rate:	6.73%
Refunded Debt Rate:	5.00% *
Savings on Refunded Debt:	1.73% per annum
Estimated Interest Savings:	$346,000 per year
Estimated Savings During Order Term:	$1,730,000

* Assumes an average rate of no more than 5.00% over the five year order period.

APENDIX "A"

2002 Annual Report

Kingsport Power Company

Audited Financial Statements

AEP AMERICAN ELECTRIC POWER

AEP: America's Energy Partner

KINGSPORT POWER COMPANY
1 Riverside Plaza, Columbus, Ohio 43215

CONTENTS

SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(in thousands)				
INCOME STATEMENTS DATA:					
Operating Revenues	$83,397	$78,832	$82,315	$80,768	$78,498
Operating Expenses	77,257	73,682	79,167	76,266	73,459
Operating Income	6,140	5,150	3,148	4,502	5,039
Nonoperating Income (Loss)	(52)	4	(26)	511	858
Interest Charges	1,628	1,748	2,336	2,178	3,717
Net Income	$ 4,460	$ 3,406	$ 786	$ 2,835	$ 2,180

	December 31,				
	2002	2001	2000	1999	1998
	(in thousands)				
BALANCE SHEETS DATA:					
Electric Utility Plant	$101,608	$98,302	$95,720	$92,559	$88,087
Accumulated Depreciation	38,104	35,175	33,069	31,872	29,800
Net Electric Utility Plant	$ 63,504	$63,127	$62,651	$60,687	$58,287
Total Assets	$ 79,401	$73,417	$82,250	$78,869	$94,523
Common Stock and Paid-in Capital	$ 17,900	$17,900	$17,900	$17,900	$17,900
Accumulated Other Comprehensive Income (Loss)	(2,067)	-	-	-	-
Retained Earnings	8,380	5,882	5,219	7,186	7,099
Total Common Shareholder's Equity	$ 24,213	$23,782	$23,119	$25,086	$24,999
Long-term Debt (a)	$ 20,000	$20,000	$10,000	$15,000	$25,000
Total Capitalization and Liabilities	$ 79,401	$73,417	$82,250	$78,869	$94,523

(a) Including portion due within one year.

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of
Directors of Kingsport Power Company:

We have audited the accompanying balance sheets of Kingsport Power Company as of December 31, 2002 and 2001, and the related statements of income, comprehensive income, retained earnings, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Kingsport Power Company as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Columbus, Ohio
February 21, 2003

STATEMENTS OF INCOME

	Year Ended December 31, 2002	2001 (in thousands)	2000
OPERATING REVENUES	$83,397	$78,832	$82,315
OPERATING EXPENSES:			
Purchased Power - Affiliated Company	58,213	54,777	59,106
Other Operation	7,397	8,106	8,154
Maintenance	2,520	2,200	1,858
Depreciation	3,372	3,262	3,105
Taxes Other Than Income Taxes	3,370	3,014	3,671
Income Taxes	2,385	2,323	3,273
TOTAL OPERATING EXPENSES	77,257	73,682	79,167
OPERATING INCOME	6,140	5,150	3,148
NONOPERATING INCOME (LOSS)	(52)	4	(26)
INTEREST CHARGES	1,628	1,748	2,336
NET INCOME	$ 4,460	$ 3,406	$ 786

STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31, 2002	2001 (in thousands)	2000
NET INCOME	$4,460	$3,406	$786
OTHER COMPREHENSIVE INCOME (LOSS) Minimum Pension Liability	(2,067)	-	-
COMPREHENSIVE INCOME	$2,393	$3,406	$786

STATEMENTS OF RETAINED EARNINGS

	Year Ended December 31, 2002	2001 (in thousands)	2000
RETAINED EARNINGS JANUARY 1	$5,882	$5,219	$7,186
NET INCOME	4,460	3,406	786
CASH DIVIDENDS DECLARED	1,962	2,743	2,753
RETAINED EARNINGS DECEMBER 31	$8,380	$5,882	$5,219

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
	(in thousands)		
OPERATING ACTIVITIES:			
Net Income	$ 4,460	$ 3,406	$ 786
Adjustments for Noncash Items:			
Depreciation	3,372	3,262	3,105
Deferred Income Taxes	1,030	530	103
Deferred Investment Tax Credit	(73)	(83)	(71)
Changes in Certain Current Assets and Liabilities:			
Accounts Receivable (net)	(705)	5,389	(3,118)
Materials and Supplies	27	8	184
Accrued Utility Revenues	(116)	4,266	(308)
Accounts Payable	9,734	(1,614)	1,836
Taxes Accrued	(1,087)	(200)	274
Revenue Refunds Accrued	-	-	(11,874)
Other (Net)	(301)	5	2,230
Net Cash Flows From (Used For) Operating Activities	16,341	14,969	(6,853)
INVESTING ACTIVITIES:			
Construction Expenditures	(4,148)	(4,055)	(5,094)
Net Cash Flows Used For Investing Activities	(4,148)	(4,055)	(5,094)
FINANCING ACTIVITIES:			
Issuance of Long-term Debt	-	20,000	-
Retirement of Long-term Debt	-	(10,000)	(5,000)
Change in Short-term Debt (net)	-	-	(4,050)
Change in Advances to/from Affiliates (net)	(10,703)	(18,128)	24,043
Dividends Paid	(1,962)	(2,743)	(2,753)
Net Cash Flows From (Used For) Financing Activities	(12,665)	(10,871)	12,240
Net Increase (Decrease) in Cash and Cash Equivalents	(472)	43	293
Cash and Cash Equivalents January 1	472	429	136
Cash and Cash Equivalents December 31	$ -	$ 472	$ 429

Supplemental Disclosure:
Cash paid for interest net of capitalized amounts was $1,527,000, $1,499,000 and $1,913,000 and for income taxes was $2,119,000, $1,875,000 and $1,721,000 in 2002, 2001 and 2000, respectively.

See Notes to Financial Statements.

BALANCE SHEETS

	December 31, 2002	December 31, 2001
	(in thousands)	
ASSETS		
ELECTRIC UTILITY PLANT:		
Transmission	$ 15,182	$14,930
Distribution	79,473	77,561
General	5,980	5,064
Construction Work in Progress	973	747
Total Electric Utility Plant	101,608	98,302
Accumulated Depreciation	38,104	35,175
NET ELECTRIC UTILITY PLANT	63,504	63,127
OTHER PROPERTY AND INVESTMENTS	430	279
CURRENT ASSETS:		
Cash and Cash Equivalents	-	472
Advances to Affiliates	4,788	-
Accounts Receivable:		
Customers	1,665	606
Affiliated Companies	1,570	1,867
Miscellaneous	213	271
Allowance for Uncollectible Accounts	(2)	(3)
Materials and Supplies - at average cost	168	195
Accrued Utility Revenues	116	-
Other	1,236	1,864
TOTAL CURRENT ASSETS	9,754	5,272
REGULATORY ASSETS	5,345	4,471
DEFERRED CHARGES	368	268
TOTAL ASSETS	$ 79,401	$73,417

See Notes to Financial Statements.

	December 31, 2002	December 31, 2001
	(in thousands)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common Stock - No Par Value:		
Authorized - 500,000 Shares		
Outstanding - 410,000 Shares	$ 4,100	$ 4,100
Paid-in Capital	13,800	13,800
Accumulated Other Comprehensive Income (Loss)	(2,067)	-
Retained Earnings	8,380	5,882
Total Common Shareholder's Equity	24,213	23,782
Long-term Debt - Notes Payable to Banks	20,000	20,000
TOTAL CAPITALIZATION	44,213	43,782
OTHER NONCURRENT LIABILITIES	3,194	1,896
CURRENT LIABILITIES:		
Advances from Affiliates	-	5,915
Accounts Payable - General	178	221
Accounts Payable - Affiliated Companies	16,522	6,745
Customer Deposits	1,465	833
Taxes Accrued	339	1,426
Other	2,432	2,249
TOTAL CURRENT LIABILITIES	20,936	17,389
DEFERRED INCOME TAXES	10,117	9,463
DEFERRED INVESTMENT TAX CREDITS	642	715
DEFERRED CREDITS	299	172
COMMITMENTS AND CONTINGENCIES (Note 3)		
TOTAL CAPITALIZATION AND LIABILITIES	$79,401	$73,417

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES:

Organization

Kingsport Power Company (the Company or KGPCo) is a wholly-owned subsidiary of American Electric Power Company, Inc. (AEP), a public utility holding company. The Company is engaged in the purchase, sale, transmission and distribution of electric power serving approximately 46,000 retail customers in its service territory in Kingsport, Tennessee and the surrounding area and does business as American Electric Power (AEP). As a member of the American Electric Power System, its facilities are operated in conjunction with the facilities of certain other AEP affiliated utilities as an integrated utility system. All of the power the Company sells and distributes at retail is purchased from Appalachian Power Company (APCo), an affiliated AEP System company.

Regulation

As a subsidiary of AEP, KGPCo is subject to the regulation of the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (1935 Act). The Tennessee Regulatory Authority (TRA) regulates retail rates. The Federal Energy Regulatory Commission (FERC) regulates purchases of electricity at wholesale from APCo.

Basis of Accounting

As a cost-based rate-regulated entity, KGPCo's financial statements reflect the actions of regulators that result in the recognition of revenues and expenses in different time periods than enterprises that are not cost-based rate regulated. In accordance with Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71), regulatory assets (deferred expenses) and regulatory liabilities (future revenue reductions or refunds) are recorded to reflect the economic effects of regulation by matching expenses with recovery through regulated revenues.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America necessarily includes the use of estimates and assumptions by management. Actual results could differ from those estimates.

Utility Plant

Electric utility plant is stated at original cost. Additions, major replacements and betterments are added to the plant accounts. Retirements of plant are deducted from the electric utility plant in service account and deducted from accumulated depreciation together with associated removal costs, net of salvage. The costs of labor, materials and overheads incurred to operate and maintain utility plant are included in operating expenses.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a noncash nonoperating income item that is capitalized and recovered through depreciation over the service life of utility plant. It represents the estimated cost of borrowed and equity funds used to finance construction projects. The amounts of AFUDC for 2002, 2001 and 2000 were not significant.

Depreciation

Depreciation of electric utility plant is provided on a straight-line basis over the estimated useful lives of utility plant and is calculated largely through the use of composite rates by functional class. The annual composite depreciation rates for 2002, 2001 and 2000 are as follows:

Functional Class of Property	Annual Composite Depreciation Rates
Transmission	2.6%
Distribution	3.6%
General	3.2%

Expenditures for demolition and removal of plant are charged to the accumulated provision for depreciation and recovered through depreciation charges included in rates.

Cash and Cash Equivalents

Cash and cash equivalents include temporary cash investments with original maturities of three months or less.

Operating Revenues and Fuel Costs

Revenues are recorded when earned and include billed revenue as well as an accrual of electricity consumed but unbilled at month-end. Changes in the fuel component of purchased power are expensed as incurred and billed on a one-month lag basis as permitted by the TRA.

Income Taxes

The Company follows the liability method of accounting for income taxes as prescribed by SFAS 109, "Accounting for Income Taxes." Under the liability method, deferred income taxes are provided for all temporary differences between the book cost and tax basis of assets and liabilities which will result in a future tax consequence. Where the flow-through method of accounting for temporary differences is reflected in regulated revenues (that is, deferred taxes are not included in the cost of service for determining regulated rates for electricity), deferred income taxes are recorded and related regulatory assets and liabilities are established in accordance with SFAS 71 to match the regulated revenues and tax expense.

Investment Tax Credits

Investment tax credits have been accounted for under the flow-through method except where the TRA has required that the Company reflect investment tax credits in the rate-making process on a deferral basis. Investment tax credits that have been deferred are being amortized over the life of regulated plant investment.

Other Property and Investments

Other property and investments are stated at cost.

Comprehensive Income

Accumulated Other Comprehensive Income (Loss) is included on the balance sheet in the equity section. Other Comprehensive Income (Loss) for KGPCo for 2002 was $(2,067,000) related to a charge for minimum pension liability. There was no Other Comprehensive Income in 2001.

Accounts Receivable

AEP Credit Inc. (formerly CSW Credit) factors accounts receivable for KGPCo.

2. EFFECTS OF REGULATION:

In accordance with SFAS 71 the financial statements include regulatory assets (deferred expenses) and regulatory liabilities (deferred revenues) recorded in accordance with regulatory actions in order to match expenses and revenues from cost-based rates in the same accounting period. Regulatory assets are expected to be recovered in future periods through the rate-making process and regulatory liabilities are expected to reduce future cost recoveries. Among other things, application of SFAS 71 requires that the Company's regulated rates be cost-based and the recovery of regulatory assets be probable. Management has reviewed all the evidence currently available and concluded that the Company continues to meet the requirements to apply SFAS 71. In the event a portion of the Company's business were to no longer meet those requirements, net regulatory assets would have to be written off for that portion of the business and assets attributable to that portion of the business would have to be tested for possible impairment and if required an impairment loss recorded unless net regulatory assets and impairment losses are recoverable as a stranded cost.

Recognized regulatory assets and liabilities are comprised of the following:

	December 31, 2002	December 31, 2001
	(in thousands)	
Regulatory Assets:		
Amounts Due From Customers For Future Income Taxes	$5,116	$4,379
Other	229	92
Total Regulatory Assets	$5,345	$4,471
Regulatory Liabilities - Deferred Investment Tax Credits	$642	$715

3. COMMITMENTS AND CONTINGENCIES:

Construction and Other Commitments

Construction commitments have been made to support the Company's utility operations and are estimated to be $10.9 million for 2003-2005.

The Kingsport Service Center is leased under an operating lease for a primary term of up to 25 years ending in 2008, plus six 5-year renewal options. Rent expense was $469,000 for 2002, $469,000 for 2001 and $469,000 for 2000. Annual future minimum lease payments are:

	(in thousands)
2003	$ 469
2004	469
2005	469
2006	469
2007	469
Later Years	235
Total	$2,580

Litigation

The Company is involved in a number of legal proceedings and claims. While management is unable to predict the ultimate outcome of litigation, it is not expected that the resolution of these matters will have a material adverse effect on the results of operations, cash flows or financial condition.

4. RELATED-PARTY TRANSACTIONS:

The Company purchases all of its power from APCo based on a FERC approved rate.

American Electric Power Service Corporation (AEPSC) provides certain managerial and professional services to AEP System companies including the Company. The costs of the services are billed by AEPSC to its affiliated clients on a direct-charge basis whenever possible and on reasonable bases of proration of shared services. The billings for services are made at cost and include no compensation for the use of equity capital, which is furnished to AEPSC by AEP. Billings from AEPSC are capitalized or expensed depending on the nature of the services rendered. AEPSC and its billings are subject to the regulation of the SEC under the 1935 Act.

5. BENEFIT PLANS:

The Company participates in an AEP System qualified pension plan, a defined benefit plan which covers all employees. Net pension credits for the years ended December 31, 2002, 2001 and 2000 were $293,000, $377,000 and $375,000, respectively.

Postretirement benefits other than pensions are provided for retired employees for medical and death benefits under an AEP System plan. The annual expense was $524,000 in 2002, $435,000 in 2001 and $418,000 in 2000.

The investment returns and declining discount rates have changed the status of our qualified plans from over funded (plan assets in excess of projected benefit obligations) to an under funded position (plan assets are less than projected benefit obligations). Due to the qualified plans currently being under funded, we recorded a charge to other comprehensive income (OCI) of $2 million. The charge to OCI does not affect earnings or cash flow.

A defined contribution employee savings plan required that the Company record expenses totaling $144,000 in 2002, $143,000 in 2001 and $74,000 in 2000.

6. SEGMENT INFORMATION:

The Company has one reportable segment, a regulated vertically integrated energy delivery business. The Company manages its operations on an integrated basis because of the substantial impact of bundled cost based retail rates and regulatory oversight on business processes, cost structures and operating results. For the years ended December 31, 2002, 2001 and 2000, all of the Company's revenues are derived from the sale and delivery of electricity in the United States.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

The Company is subject to market risk as a result of changes in interest rates primarily due to short-term and long-term borrowings used to fund its business operations. At December 31, 2002 the debt portfolio consisted of a note payable to a bank with a fixed interest rate through February 2004. Periodically, the Company is a net borrower in the AEP System Money Pool (see Note 9), where interest rates change daily. A near term change in interest rates should not materially affect results of operations or financial position since the Company would not expect to liquidate its entire debt portfolio in a one year holding period. Also since the Company's rates are cost-based regulated, the risk of interest rate changes on short-term and long-term debt used to finance operations is mitigated.

Market Valuation

The book value of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate fair value because of the short-term maturity of these instruments.

The fair values of long-term debt approximate book value and are based on quoted market prices for the same or similar issues and the current interest rates offered for instruments of the same maturities.

8. INCOME TAXES:

The details of income taxes as reported are as follows:

	Year Ended December 31, 2002	2001	2000
	(in thousands)		
Charged to Operating Expenses (net):			
Current	$1,351	$1,799	$3,172
Deferred	1,034	524	101
Total	2,385	2,323	3,273
Charged (Credited) to Nonoperating Income (net):			
Current	19	(40)	(54)
Deferred	(4)	6	2
Deferred Investment Tax Credits	(73)	(83)	(71)
Total	(58)	(117)	(123)
Total Income Taxes as Reported	$2,327	$2,206	$3,150

The following is a reconciliation of the difference between the amount of income taxes computed by multiplying book income before income taxes by the federal statutory tax rate, and the amount of income taxes reported.

	Year Ended December 31, 2002	2001	2000
	(in thousands)		
Net Income	$4,460	$3,406	$ 786
Income Taxes	2,327	2,206	3,150
Pre-Tax Income	$6,787	$5,612	$3,936
Income Tax on Pre-Tax Income at Statutory Rate (35%)	2,375	1,964	1,378
Increase (Decrease) in Income Tax Resulting from the Following Items:			
Corporate Owned Life Insurance	36	-	1,075
Depreciation	233	223	261
Worker's Compensation	(250)	103	238
Investment Tax Credits	(72)	(83)	(72)
Removal Costs	(63)	(63)	(63)
State Income Taxes	122	151	277
Other	(54)	(89)	56
Total Income Taxes as Reported	$2,327	$2,206	$3,150
Effective Income Tax Rate	34.3%	39.3%	80.0%

The following table shows the elements of the net deferred tax liability and the significant temporary differences giving rise to such deferrals:

	December 31, 2002	2001
	(in thousands)	
Deferred Tax Assets	$ 3,608	$ 2,511
Deferred Tax Liabilities	(13,725)	(11,974)
Net Deferred Tax Liabilities	$(10,117)	$ (9,463)
Property Related Temporary Differences	$(8,364)	$(7,405)
Amounts Due From Customers For Future Federal Income Taxes	(1,151)	(1,047)
Deferred State Income Taxes	(1,828)	(1,387)
Deferred Income Taxes on Other Comprehensive Income	1,113	-
All Other (net)	113	376
Total Net Deferred Tax Liabilities	$(10,117)	$(9,463)

The Company joins in the filing of a consolidated federal income tax return with its affiliated companies in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the System companies is in accordance with SEC rules under the 1935 Act. These rules permit the allocation of the benefit of current tax losses to the System companies giving rise to them in determining their current tax expense. The tax loss of the System parent company, AEP, is allocated to its subsidiaries with taxable income. With the exception of the loss of the parent company, the method of allocation approximates a separate return result for each company in the consolidated group.

We have settled with the IRS all issues from the audits of the consolidated federal income tax returns for the years prior to 1991. We have received Revenue Agent's Reports from the IRS for the years 1991 through 1996, and have filed protests contesting certain proposed adjustments. Returns for the years 1997 through 2000 are presently being audited by the IRS. Management is not aware of any issues for open tax years that upon final resolution are expected to have a material adverse effect on results of operations.

COLI Litigation – On February 20, 2001, the U.S. District Court for the Southern District of Ohio ruled against the AEP System Companies in their suit against the United States over deductibility of interest claimed in their consolidated federal income tax return related to a corporate owned life insurance (COLI) program. The suit was filed to resolve the IRS' assertion that interest deductions for the COLI program should not be allowed. In 1998 and 1999 the Company paid the disputed taxes and interest attributable to COLI interest deductions for taxable years 1991-98 to avoid the potential assessment by the IRS of additional interest on the contested tax. The payments were included in other property and investments pending the resolution of this matter. As a result of the U.S. District Court's decision to deny the COLI interest deductions, net income was reduced by $1.8 million in 2000. The Company has filed an appeal of the U.S. District Court's decision with the U.S. Court of Appeals for the 6th Circuit.

9. LONG-TERM NOTES PAYABLE TO BANKS AND LINES OF CREDIT:

Long-term notes payable to banks were outstanding as follows:

	December 31,	
	2002	2001
	(in thousands)	
Notes Payable to Banks:		
6.73% due 2004	$20,000	$20,000

On February 16, 2001, the Company refinanced its long-term debt by issuing $20 million of notes payable due February 2004 at an interest rate of 6.73%. Interest is payable semi-annually through maturity.

Short-term debt borrowings are limited by various loan agreements and the 1935 Act to $30 million.

In June 2000 the AEP System established a Money Pool to coordinate short-term borrowings for certain subsidiaries, primarily the domestic electric utility operating companies. The operation of the Money Pool is designed to match on a daily basis the available cash and borrowing requirements of the participants, thereby minimizing the need for short-term borrowings from external sources and increasing the interest income for participants with available cash. Participants with excess cash loan funds to the Money Pool reducing the amount of external funds AEP needs to borrow to meet the short-term cash requirements of other participants whose short-term cash requirements are met through advances from the Money Pool. AEP borrows the funds on a daily basis, when necessary, to meet the net cash requirements of the Money Pool participants. A weighted average daily interest rate which is calculated based on the outstanding short-term debt borrowings made by AEP is applied to each Money Pool participant's daily outstanding investment or debt position to determine interest income or interest expense. The Money Pool participants include interest income in nonoperating income and interest expense in interest charges. As a result of becoming a Money Pool participant, KGPCo retired its short-term debt. During 2002, KGPCo became an advancer of money to the Money Pool and reports loans as Advances to Affiliates on the balance sheets. Since KGPCo became an advancer to the Money Pool late in the year, there was very minimal interest income in 2002.

KGPCo incurred interest expense for amounts borrowed from the AEP money pool for 2002 of $146,000, 2001 of $403,000 and for 2000 of $677,000.

10. CONCENTRATION OF CREDIT RISKS:

Receivables from one customer in the industrial gas industry represented 13% and 15% of the customer accounts receivable balances at December 31, 2002 and 2001, respectively. This customer provided 9% of operating revenues in 2002 and 12% of operating revenues in 2001 and 2000.

2001 Annual Report

Kingsport Power Company

Audited Financial Statements

AMERICAN ELECTRIC POWER

AEP: America's Energy Partner

KINGSPORT POWER COMPANY
1 Riverside Plaza, Columbus, Ohio 43215

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SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2001	2000	1999 (in thousands)	1998	1997
INCOME STATEMENTS DATA:					
Operating Revenues	$78,832	$82,315	$80,768	$78,498	$79,922
Operating Expenses	73,682	79,167	76,266	73,459	75,790
Operating Income	5,150	3,148	4,502	5,039	4,132
Nonoperating Income (Loss)	4	(26)	511	858	594
Interest Charges	1,748	2,336	2,178	3,717	2,711
Net Income	$ 3,406	$ 786	$ 2,835	$ 2,180	$ 2,015

	December 31,				
	2001	2000	1999 (in thousands)	1998	1997
BALANCE SHEETS DATA:					
Electric Utility Plant	$98,302	$95,720	$92,559	$88,087	$84,391
Accumulated Depreciation	35,175	33,069	31,872	29,800	27,824
Net Electric Utility Plant	$63,127	$62,651	$60,687	$58,287	$56,567
Total Assets	$73,417	$82,250	$78,869	$94,523	$75,719
Common Stock and Paid-in Capital	$17,900	$17,900	$17,900	$17,900	$14,900
Retained Earnings	5,882	5,219	7,186	7,099	7,367
Total Common Shareholder's Equity	$23,782	$23,119	$25,086	$24,999	$22,267
Long-term Debt (a)	$20,000	$10,000	$15,000	$25,000	$25,000
Total Capitalization and Liabilities	$73,417	$82,250	$78,869	$94,523	$75,719

(a) Including portion due within one year.

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of
Directors of Kingsport Power Company:

We have audited the accompanying balance sheets of Kingsport Power Company as of December 31, 2001 and 2000, and the related statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Kingsport Power Company as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Columbus, Ohio
February 22, 2002

STATEMENTS OF INCOME

	Year Ended December 31,		
	2001	2000 (in thousands)	1999
OPERATING REVENUES	$78,832	$82,315	$80,768
OPERATING EXPENSES:			
Purchased Power - Affiliated Company	54,777	59,106	56,660
Other Operation	8,106	8,154	9,033
Maintenance	2,200	1,858	2,358
Depreciation	3,262	3,105	2,876
Taxes Other Than Income Taxes	3,014	3,671	3,508
Income Taxes	2,323	3,273	1,831
TOTAL OPERATING EXPENSES	73,682	79,167	76,266
OPERATING INCOME	5,150	3,148	4,502
NONOPERATING INCOME (LOSS)	4	(26)	511
INTEREST CHARGES	1,748	2,336	2,178
NET INCOME	$ 3,406	$ 786	$ 2,835

STATEMENTS OF RETAINED EARNINGS

	Year Ended December 31,		
	2001	2000 (in thousands)	1999
RETAINED EARNINGS JANUARY 1	$5,219	$7,186	$7,099
NET INCOME	3,406	786	2,835
CASH DIVIDENDS DECLARED	2,743	2,753	2,748
RETAINED EARNINGS DECEMBER 31	$5,882	$5,219	$7,186

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2001	2000	1999
	(in thousands)		
OPERATING ACTIVITIES:			
Net Income	$ 3,406	$ 786	$ 2,835
Adjustments for Noncash Items:			
Depreciation	3,262	3,105	2,876
Deferred Income Taxes	530	103	459
Changes in Certain Current Assets and Liabilities:			
Accounts Receivable (net)	5,389	(3,118)	1,819
Materials and Supplies	8	184	(40)
Accrued Utility Revenues	4,266	(308)	(419)
Accounts Payable	(1,614)	1,836	(709)
Taxes Accrued	(200)	274	255
Rate Refund Receivable Due From Affiliated Power Supplier	-	-	15,496
Revenue Refunds Accrued	-	(11,874)	(4,416)
Change in Other Assets	(511)	1,481	242
Change in Other Liabilities	433	678	(1,805)
Net Cash Flows From (Used For) Operating Activities	14,969	(6,853)	16,593
INVESTING ACTIVITIES:			
Construction Expenditures	(4,055)	(5,094)	(5,403)
Sales of Property and Other	-	-	15
Net Cash Flows Used For Investing Activities	(4,055)	(5,094)	(5,388)
FINANCING ACTIVITIES:			
Issuance of Long-term Debt	20,000	-	-
Retirement of Long-term Debt	(10,000)	(5,000)	(10,000)
Change in Short-term Debt (net)	-	(4,050)	325
Change in Advances from Affiliates (net)	(18,128)	24,043	-
Dividends Paid	(2,743)	(2,753)	(2,748)
Net Cash Flows From (Used For) Financing Activities	(10,871)	12,240	(12,423)
Net Increase (Decrease) in Cash and Cash Equivalents	43	293	(1,218)
Cash and Cash Equivalents January 1	429	136	1,354
Cash and Cash Equivalents December 31	$ 472	$ 429	$ 136

Supplemental Disclosure:
Cash paid for interest net of capitalized amounts was $1,499,000, $1,913,000 and $2,393,000 and for income taxes was $1,875,000, $1,721,000 and $1,363,000 in 2001, 2000 and 1999, respectively.

See Notes to Financial Statements.

BALANCE SHEETS

	December 31, 2001	December 31, 2000
	(in thousands)	
ASSETS		
ELECTRIC UTILITY PLANT:		
Transmission	$14,930	$14,610
Distribution	77,561	75,020
General	5,064	4,883
Construction Work in Progress	747	1,207
Total Electric Utility Plant	98,302	95,720
Accumulated Depreciation	35,175	33,069
NET ELECTRIC UTILITY PLANT	63,127	62,651
OTHER PROPERTY AND INVESTMENTS	279	372
CURRENT ASSETS:		
Cash and Cash Equivalents	472	429
Accounts Receivable:		
Customers	606	5,863
Affiliated Companies	1,867	1,984
Miscellaneous	271	365
Allowance for Uncollectible Accounts	(3)	(82)
Materials and Supplies - at average cost	195	203
Accrued Utility Revenues	-	4,266
Prepayments	1,864	1,184
TOTAL CURRENT ASSETS	5,272	14,212
REGULATORY ASSETS	4,471	5,009
DEFERRED CHARGES	268	6
TOTAL	$73,417	$82,250

See Notes to Financial Statements.

	December 31, 2001	2000
	(in thousands)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common Stock - No Par Value:		
Authorized - 500,000 Shares		
Outstanding - 410,000 Shares	$ 4,100	$ 4,100
Paid-in Capital	13,800	13,800
Retained Earnings	5,882	5,219
Total Common Shareholder's Equity	23,782	23,119
Long-term Debt - Notes Payable to Banks	20,000	10,000
TOTAL CAPITALIZATION	43,782	33,119
OTHER NONCURRENT LIABILITIES	1,896	1,919
CURRENT LIABILITIES:		
Advances from Affiliates	5,915	24,043
Accounts Payable - General	221	170
Accounts Payable - Affiliated Companies	6,745	8,410
Customer Deposits	833	764
Taxes Accrued	1,426	1,626
Other	2,249	1,852
TOTAL CURRENT LIABILITIES	17,389	36,865
DEFERRED INCOME TAXES	9,463	9,367
DEFERRED INVESTMENT TAX CREDITS	715	798
DEFERRED CREDITS	172	182
COMMITMENTS AND CONTINGENCIES (Note 3)		
TOTAL	$73,417	$82,250

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES:

Organization

Kingsport Power Company (the Company or KGPCo) is a wholly-owned subsidiary of American Electric Power Company, Inc. (AEP Co., Inc.), a public utility holding company. The Company is engaged in the purchase, sale, transmission and distribution of electric power serving approximately 45,000 retail customers in its service territory in Kingsport, Tennessee and the surrounding area and does business as American Electric Power (AEP). As a member of the American Electric Power System, its facilities are operated in conjunction with the facilities of certain other AEP affiliated utilities as an integrated utility system. All of the power the Company sells and distributes at retail is purchased from Appalachian Power Company (APCo), an affiliated AEP System company.

Regulation

As a subsidiary of AEP Co., Inc., KGPCo is subject to the regulation of the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (1935 Act). The Tennessee Regulatory Authority (TRA) regulates retail rates. The Federal Energy Regulatory Commission (FERC) regulates purchases of electricity at wholesale from APCo.

Basis of Accounting

As a cost-based rate-regulated entity, KGPCo's financial statements reflect the actions of regulators that result in the recognition of revenues and expenses in different time periods than enterprises that are not cost-based rate regulated. In accordance with Statement of Financial Accounting Standards (SFAS) 71 "Accounting for the Effects of Certain Types of Regulation", regulatory assets (deferred expenses) and regulatory liabilities (future revenue reductions or refunds) are recorded to reflect the economic effects of regulation by matching expenses with recovery through regulated revenues.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America necessarily includes the use of estimates and assumptions by management. Actual results could differ from those estimates.

Utility Plant

Electric utility plant is stated at original cost. Additions, major replacements and betterments are added to the plant accounts. Retirements of plant are deducted from the electric utility plant in service account and deducted from accumulated depreciation together with associated removal costs, net of salvage. The costs of labor, materials and overheads incurred to operate and maintain utility plant are included in operating expenses.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a noncash nonoperating income item that is capitalized and recovered through depreciation over the service life of utility plant. It represents the estimated cost of borrowed and equity funds used to finance construction projects. The amounts of AFUDC for 2001, 2000 and 1999 were not significant.

Depreciation

Depreciation of electric utility plant is provided on a straight-line basis over the estimated useful lives of utility plant and is calculated largely through the use of composite rates by functional class. The annual composite depreciation rates for 2001, 2000 and 1999 are as follows:

Functional Class of Property	Annual Composite Depreciation Rates
Transmission	2.6%
Distribution	3.6%
General	3.2%

Expenditures for demolition and removal of plant are charged to the accumulated provision for depreciation and recovered through depreciation charges included in rates.

Cash and Cash Equivalents

Cash and cash equivalents include temporary cash investments with original maturities of three months or less.

Operating Revenues and Fuel Costs

Revenues are recorded when earned and include billed revenue as well as an accrual of electricity consumed but unbilled at month-end. Changes in the fuel component of purchased power are expensed as incurred and billed on a one-month lag basis as permitted by the TRA.

Income Taxes

The Company follows the liability method of accounting for income taxes as prescribed by SFAS 109, "Accounting for Income Taxes." Under the liability method, deferred income taxes are provided for all temporary differences between the book cost and tax basis of assets and liabilities which will result in a future tax consequence. Where the flow-through method of accounting for temporary differences is reflected in regulated revenues (that is, deferred taxes are not included in the cost of service for determining regulated rates for electricity), deferred income taxes are recorded and related regulatory assets and liabilities are established in accordance with SFAS 71 to match the regulated revenues and tax expense.

Investment Tax Credits

Investment tax credits have been accounted for under the flow-through method except where the TRA has required that the Company reflect investment tax credits in the rate-making process on a deferral basis. Investment tax credits that have been deferred are being amortized over the life of regulated plant investment.

Other Property and Investments

Other property and investments are stated at cost.

Comprehensive Income

There were no material differences between net income and comprehensive income.

Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation. Such reclassifications had no impact on previously reported net income.

Accounts Receivable

AEP Credit Inc. (formerly CSW Credit) factors accounts receivable for KGPCo.

2. <u>EFFECTS OF REGULATION</u>:

In accordance with SFAS 71 the financial statements include regulatory assets (deferred expenses) and regulatory liabilities (deferred revenues) recorded in accordance with regulatory actions in order to match expenses and revenues from cost-based rates in the same accounting period. Regulatory assets are expected to be recovered in future periods through the rate-making process and regulatory liabilities are expected to reduce future cost recoveries. Among other things, application of SFAS 71 requires that the Company's regulated rates be cost-based and the recovery of regulatory assets be probable. Management has reviewed all the evidence currently available and concluded that the Company continues to meet the requirements to apply SFAS 71. In the event a portion of the Company's business were to no longer meet those requirements, net regulatory assets would have to be written off for that portion of the business and assets attributable to that portion of the business would have to be tested for possible impairment and if required an impairment loss recorded unless net regulatory assets and impairment losses are recoverable as a stranded cost.

Recognized regulatory assets and liabilities are comprised of the following:

	December 31, 2001	December 31, 2000
	(in thousands)	
Regulatory Assets:		
Amounts Due From Customers For Future Income Taxes	$4,379	$4,814
Other	92	195
Total Regulatory Assets	$4,471	$5,009
Regulatory Liabilities - Deferred Investment Tax Credits	$715	$798

3. COMMITMENTS AND CONTINGENCIES:

Construction and Other Commitments

Construction commitments have been made to support the Company's utility operations and are estimated to be $15.9 million for 2002-2004.

The Kingsport Service Center is leased under an operating lease for a primary term of up to 25 years ending in 2008, plus six 5-year renewal options. Rentals were $469,000 for 2001, $469,000 for 2000 and $469,000 for 1999. Annual future minimum lease payments are:

	(in thousands)
2002	$ 469
2003	469
2004	469
2005	469
2006	469
Later Years	704
Total	$3,049

Litigation

The Company is involved in a number of legal proceedings and claims. While management is unable to predict the ultimate outcome of litigation, it is not expected that the resolution of these matters will have a material adverse effect on the results of operations, cash flows or financial condition.

4. RELATED-PARTY TRANSACTIONS:

The Company purchases all of its power from APCo based on a FERC approved rate.

American Electric Power Service Corporation (AEPSC) provides certain managerial and professional services to AEP System companies including the Company. The costs of the services are billed by AEPSC to its affiliated clients on a direct-charge basis whenever possible and on reasonable bases of proration of shared services. The billings for services are made at cost and include no compensation for the use of equity capital, which is furnished to AEPSC by AEP Co., Inc. Billings from AEPSC are capitalized or expensed depending on the nature of the services rendered. AEPSC and its billings are subject to the regulation of the SEC under the 1935 Act.

5. BENEFIT PLANS:

The Company participates in an AEP System qualified pension plan, a defined benefit plan which covers all employees. Net pension credits for the years ended December 31, 2001, 2000 and 1999 were $377,000, $375,000 and $157,000, respectively.

Postretirement benefits other than pensions are provided for retired employees for medical and death benefits under an AEP System plan. The annual accrued costs were $435,000 in 2001, $418,000 in 2000 and $355,000 in 1999.

A defined contribution employee savings plan required that the Company make contributions to this plan totaling $143,000 in 2001, $74,000 in 2000, and $81,000 in 1999.

6. SEGMENT INFORMATION:

The Company has one reportable segment, a regulated vertically integrated energy delivery business. The Company manages its operations on an integrated basis because of the substantial impact of bundled cost based retail rates and regulatory oversight on business processes, cost structures and operating results. For the years ended December 31, 2001, 2000 and 1999, all of the Company's revenues are derived from the sale and delivery of electricity in the United States.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

The Company is subject to market risk as a result of changes in interest rates primarily due to short-term and long-term borrowings used to fund its business operations. At December 31, 2001 the debt portfolio has fixed and variable interest rates with terms from one day to three years. A near term change in interest rates should not materially affect results of operations or financial position since the Company would not expect to liquidate its entire debt portfolio in a one year holding period. Also since the Company's rates are cost-based regulated, the risk of interest rate changes on short-term and long-term debt used to finance operations is mitigated.

Market Valuation

The book value of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate fair value because of the short-term maturity of these instruments.

The fair values of long-term debt approximate book value and are based on quoted market prices for the same or similar issues and the current interest rates offered for instruments of the same maturities.

8. INCOME TAXES:

The details of income taxes as reported are as follows:

	Year Ended December 31,		
	2001	2000	1999
		(in thousands)	
Charged to Operating Expenses (net):			
Current	$1,799	$3,172	$1,372
Deferred	524	101	459
Total	2,323	3,273	1,831
Charged (Credited) to Nonoperating Income (net):			
Current	(40)	(53)	234
Deferred	6	2	-
Deferred Investment Tax Credits	(83)	(72)	(73)
Total	(117)	(123)	161
Total Income Taxes as Reported	$2,206	$3,150	$1,992

The following is a reconciliation of the difference between the amount of income taxes computed by multiplying book income before income taxes by the federal statutory tax rate, and the amount of income taxes reported.

	Year Ended December 31, 2001	2000	1999
	(in thousands)		
Net Income	$3,406	$ 786	$2,835
Income Taxes	2,206	3,150	1,992
Pre-Tax Income	$5,612	$3,936	$4,827
Income Tax on Pre-Tax Income at Statutory Rate (35%)	1,964	1,378	1,690
Increase (Decrease) in Income Tax Resulting from the Following Items:			
Corporate Owned Life Insurance	-	1,075	55
Depreciation	223	261	254
Investment Tax Credits	(83)	(72)	(73)
Removal Costs	(63)	(63)	(80)
State Income Taxes	151	277	140
Other	14	294	6
Total Income Taxes as Reported	2,206	3,150	1,992
Effective Income Tax Rate	39.3%	80.0%	41.3%

The following table shows the elements of the net deferred tax liability and the significant temporary differences giving rise to such deferrals:

	December 31, 2001	2000
	(in thousands)	
Deferred Tax Assets	$ 2,511	$ 2,606
Deferred Tax Liabilities	(11,974)	(11,973)
Net Deferred Tax Liabilities	$ (9,463)	$ (9,367)
Property Related Temporary Differences	$(7,405)	$(7,048)
Amounts Due From Customers For Future Federal Income Taxes	(1,047)	(1,147)
Deferred State Income Taxes	(1,387)	(1,536)
All Other (net)	376	364
Total Net Deferred Tax Liabilities	$(9,463)	$(9,367)

The Company joins in the filing of a consolidated federal income tax return with its affiliated companies in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the System companies is in accordance with SEC rules under the 1935 Act. These rules permit the allocation of the benefit of current tax losses to the System companies giving rise to them in determining their current tax expense. The tax loss of the System parent company, AEP Co., Inc., is allocated to its subsidiaries with taxable income. With the exception of the loss of the parent company, the method of allocation approximates a separate return result for each company in the consolidated group.

We have settled with the IRS all issues from the audits of the consolidated federal income tax returns for the years prior to 1991. We have received Revenue Agent's Reports from the IRS for the years 1991 through 1996, and have filed protests contesting certain proposed adjustments. Returns for the years 1997 through 2000 are presently being audited by the IRS. Management is not aware of any issues for open tax years that upon final resolution are expected to have a material adverse effect on results of operations.

COLI Litigation – On February 20, 2001, the U.S. District Court for the Southern District of Ohio ruled against the AEP System Companies in their suit against the United States over deductibility of interest claimed in their consolidated federal income tax return related to a corporate owned life insurance (COLI) program. The suit was filed to resolve the IRS' assertion that interest deductions for the COLI program should not be allowed. In 1998 and 1999 the Company paid the disputed taxes and interest attributable to COLI interest deductions for taxable years 1991-98 to avoid the potential assessment by the IRS of additional interest on the contested tax. The payments were included in other property and investments pending the resolution of this matter. As a result of the U.S. District Court's decision to deny the COLI interest deductions, net income was reduced by $1.8 million in 2000. The Company has filed an appeal of the U.S. District Court's decision with the U.S. Court of Appeals for the 6th Circuit.

9. LONG-TERM NOTES PAYABLE TO BANKS AND LINES OF CREDIT:

Long-term notes payable to banks were outstanding as follows:

	December 31, 2001	2000
	(in thousands)	
Notes Payable to Banks:		
6.73% due 2004	$20,000	$ -
6.75% due 2001	-	10,000
Total	$20,000	$10,000

On February 16, 2001, the Company refinanced its long-term debt by issuing $20 million of notes payable due 2004 at an interest rate of 6.73%.

Short-term debt borrowings are limited by various loan agreements and the 1935 Act to $30 million.

In June 2000 the AEP System established a Money Pool to coordinate short-term borrowings for certain subsidiaries, primarily the domestic electric utility operating companies. The operation of the Money Pool is designed to match on a daily basis the available cash and borrowing requirements of the participants, thereby minimizing the need for short-term borrowings from external sources and increasing the interest income for participants with available cash. Participants with excess cash loan funds to the Money Pool reducing the amount of external funds AEP needs to borrow to meet the short-term cash requirements of other participants whose short-term cash requirements are met through advances from the Money Pool. AEP borrows the funds on a daily basis, when necessary, to meet the net cash requirements of the Money Pool participants. A weighted average daily interest rate which is calculated based on the outstanding short-term debt borrowings made by AEP is applied to each Money Pool participant's daily outstanding investment or debt position to determine interest income or interest expense. The Money Pool participants include interest income in nonoperating income and interest expense in interest charges. As a result of becoming a Money Pool participant, KGPCo retired its short-term debt. At December 31, 2001 KGPCo is a net borrower from the Money Pool and reports its debt position as Advances from Affiliates on the balance sheet.

KGPCo incurred interest expense for amounts borrowed from the AEP money pool for 2001 of \$403,000 and for 2000 of \$677,000. There was no interest expense regarding the AEP money pool for 1999.

10. CONCENTRATION OF CREDIT RISKS:

Receivables from one customer in the industrial gas industry represented 15% and 14% of the customer accounts receivable balances at December 31, 2001 and 2000, respectively. This customer provided 12% of operating revenues in 2001, 2000 and 1999.

2000 Annual Report

Kingsport Power Company

Audited Financial Statements

AEP AMERICAN ELECTRIC POWER

AEP: America's Energy Partner

KINGSPORT POWER COMPANY
422 Broad Street, Kingsport, Tennessee 37660

CONTENTS

SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2000	1999	1998 (in thousands)	1997	1996
INCOME STATEMENTS DATA:					
Operating Revenues	$82,315	$80,768	$78,498	$79,922	$84,873
Operating Expenses	79,167	76,266	73,459	75,790	79,924
Operating Income	3,148	4,502	5,039	4,132	4,949
Nonoperating Income (Loss)	(26)	511	858	594	252
Income Before Interest Charges	3,122	5,013	5,897	4,726	5,201
Interest Charges	2,336	2,178	3,717	2,711	2,574
Net Income	$ 786	$ 2,835	$ 2,180	$ 2,015	$ 2,627

	December 31,				
	2000	1999	1998 (in thousands)	1997	1996
BALANCE SHEETS DATA:					
Electric Utility Plant	$95,720	$92,559	$88,087	$84,391	$79,996
Accumulated Depreciation	33,069	31,872	29,800	27,824	26,418
Net Electric Utility Plant	$62,651	$60,687	$58,287	$56,567	$53,578
Total Assets	$82,250	$78,869	$94,523	$75,719	$72,520
Common Stock and Paid-in Capital	$17,900	$17,900	$17,900	$14,900	$12,900
Retained Earnings	5,219	7,186	7,099	7,367	7,607
Total Common Shareholder's Equity	$23,119	$25,086	$24,999	$22,267	$20,507
Long-Term Debt (a)	$10,000	$15,000	$25,000	$25,000	$25,000
Total Capitalization and Liabilities	$82,250	$78,869	$94,523	$75,719	$72,520

(a) Including portion due within one year.

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of
Directors of Kingsport Power Company:

We have audited the accompanying balance sheets of Kingsport Power Company as of December 31, 2000 and 1999, and the related statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Kingsport Power Company as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Columbus, Ohio
February 26, 2001

STATEMENTS OF INCOME

	Year Ended December 31,		
	2000	1999	1998
		(in thousands)	
OPERATING REVENUES	$82,315	$80,768	$78,498
OPERATING EXPENSES:			
Purchased Power - Affiliated Company	59,106	56,660	54,619
Other Operation	8,154	9,033	8,933
Maintenance	1,858	2,358	2,913
Depreciation	3,105	2,876	2,764
Taxes Other Than Federal Income Taxes	4,098	3,725	3,594
Federal Income Taxes	2,846	1,614	636
TOTAL OPERATING EXPENSES	79,167	76,266	73,459
OPERATING INCOME	3,148	4,502	5,039
NONOPERATING INCOME (LOSS)	(26)	511	858
INCOME BEFORE INTEREST CHARGES	3,122	5,013	5,897
INTEREST CHARGES	2,336	2,178	3,717
NET INCOME	$ 786	2,835	$ 2,180

STATEMENTS OF RETAINED EARNINGS

	Year Ended December 31,		
	2000	1999	1998
		(in thousands)	
RETAINED EARNINGS JANUARY 1	$7,186	$7,099	$7,367
NET INCOME	786	2,835	2,180
CASH DIVIDENDS DECLARED	2,753	2,748	2,448
RETAINED EARNINGS DECEMBER 31	$5,219	$7,186	$7,099

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2000	1999	1998
	(in thousands)		
OPERATING ACTIVITIES:			
Net Income	$ 786	$ 2,835	$ 2,180
Adjustments for Noncash Items:			
Depreciation	3,105	2,876	2,764
Deferred Federal Income Taxes	103	459	749
Changes in Certain Current Assets and Liabilities:			
Accounts Receivable (net)	(3,118)	1,819	271
Materials and Supplies	184	(40)	200
Accrued Utility Revenues	(308)	(419)	254
Accounts Payable	1,836	(709)	631
Taxes Accrued	274	255	(118)
Rate Refund Receivable Due From Affiliated Power Supplier	-	15,496	(15,496)
Revenue Refunds Accrued	(11,874)	(4,416)	16,290
Other (net)	2,159	(1,563)	(1,418)
Net Cash Flows From (Used For) Operating Activities	(6,853)	16,593	6,307
INVESTING ACTIVITIES:			
Construction Expenditures	(5,094)	(5,403)	(4,395)
Sales of Property and Other	-	15	2
Net Cash Flows Used For Investing Activities	(5,094)	(5,388)	(4,393)
FINANCING ACTIVITIES:			
Capital Contributions from Parent Company	-	-	3,000
Retirement of Long-term Debt	(5,000)	(10,000)	-
Change in Short-term Debt (net)	(4,050)	325	(1,875)
Change in Advances from Affiliates (net)	24,043	-	-
Dividends Paid	(2,753)	(2,748)	(2,448)
Net Cash Flows From (Used For) Financing Activities	12,240	(12,423)	(1,323)
Net Increase (Decrease) in Cash and Cash Equivalents	293	(1,218)	591
Cash and Cash Equivalents January 1	136	1,354	763
Cash and Cash Equivalents December 31	$ 429	$ 136	$ 1,354

Supplemental Disclosure:
Cash paid for interest net of capitalized amounts was $1,913,000, $2,393,000 and $3,703,000 and for income taxes was $1,721,000, $1,363,000 and $617,000 in 2000, 1999 and 1998, respectively.

See Notes to Financial Statements.

BALANCE SHEETS

	December 31, 2000	December 31, 1999
	(in thousands)	
ASSETS		
ELECTRIC UTILITY PLANT:		
Transmission	$14,610	$14,055
Distribution	75,020	72,058
General	4,883	5,116
Construction Work in Progress	1,207	1,330
Total Electric Utility Plant	95,720	92,559
Accumulated Depreciation	33,069	31,872
NET ELECTRIC UTILITY PLANT	62,651	60,687
OTHER PROPERTY AND INVESTMENTS	372	1,895
CURRENT ASSETS:		
Cash and Cash Equivalents	429	136
Accounts Receivable:		
Customers	5,863	3,515
Affiliated Companies	1,984	1,280
Miscellaneous	365	284
Allowance for Uncollectible Accounts	(82)	(67)
Materials and Supplies - at average cost	203	387
Accrued Utility Revenues	4,266	3,958
Prepayments	1,184	1,069
TOTAL CURRENT ASSETS	14,212	10,562
REGULATORY ASSETS	5,009	5,639
DEFERRED CHARGES	6	86
TOTAL	$82,250	$78,869

See Notes to Financial Statements.

	December 31, 2000	1999
	(in thousands)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common Stock - No Par Value:		
Authorized - 500,000 Shares		
Outstanding - 410,000 Shares	$ 4,100	$ 4,100
Paid-in Capital	13,800	13,800
Retained Earnings	5,219	7,186
Total Common Shareholder's Equity	23,119	25,086
Long-term Debt - Notes Payable to Banks	10,000	10,000
TOTAL CAPITALIZATION	33,119	35,086
OTHER NONCURRENT LIABILITIES	1,919	1,399
CURRENT LIABILITIES:		
Long-term Debt Due Within One Year	-	5,000
Short-term Debt - Notes Payable	-	4,050
Advances from Affiliates	24,043	-
Accounts Payable - General	170	604
Accounts Payable - Affiliated Companies	8,410	6,140
Customer Deposits	764	847
Taxes Accrued	1,626	1,352
Revenue Refunds Accrued	-	11,874
Other	1,852	1,576
TOTAL CURRENT LIABILITIES	36,865	31,443
DEFERRED INCOME TAXES	9,367	9,855
DEFERRED INVESTMENT TAX CREDITS	798	869
DEFERRED CREDITS	182	217
COMMITMENTS AND CONTINGENCIES (Note 4)		
TOTAL	$82,250	$78,869

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES:

Organization

Kingsport Power Company (the Company or KGPCo) is a wholly-owned subsidiary of American Electric Power Company, Inc. (AEP Co., Inc.), a public utility holding company. The Company is engaged in the purchase, sale, transmission and distribution of electric power serving approximately 45,000 retail customers in its service territory in Kingsport, Tennessee and the surrounding area and does business as American Electric Power (AEP). As a member of the American Electric Power System, its facilities are operated in conjunction with the facilities of certain other AEP affiliated utilities as an integrated utility system. All of the power the Company sells and distributes at retail is purchased from Appalachian Power Company (APCo), an affiliated AEP System company.

Regulation

As a subsidiary of AEP Co., Inc., KGPCo is subject to the regulation of the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (1935 Act). The Tennessee Regulatory Authority (TRA) regulates retail rates. The Federal Energy Regulatory Commission (FERC) regulates purchases of electricity at wholesale from APCo.

Basis of Accounting

As a cost-based rate-regulated entity, KGPCo's financial statements reflect the actions of regulators that result in the recognition of revenues and expenses in different time periods than enterprises that are not cost-based rate regulated. In accordance with Statement of Financial Accounting Standards (SFAS) 71 "Accounting for the Effects of Certain Types of Regulation," regulatory assets (deferred expenses) and regulatory liabilities (deferred income) are recorded to reflect the economic effects of regulation and to match expenses with regulated revenues.

Use of Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires in certain instances the use of estimates. Actual results could differ from those estimates.

Utility Plant

Electric utility plant is stated at original cost. Additions, major replacements and betterments are added to the plant accounts. Retirements of plant are deducted from the electric utility plant in service account and deducted from accumulated depreciation together with associated removal costs, net of salvage. The costs of labor, materials and overheads incurred to operate and maintain utility plant are included in operating expenses.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a noncash nonoperating income item that is capitalized and recovered through depreciation over the service life of utility plant. It represents the estimated cost of borrowed and equity funds used to finance construction projects. The amounts of AFUDC for 2000, 1999 and 1998 were not significant.

Depreciation

Depreciation of electric utility plant is provided on a straight-line basis over the estimated useful lives of utility plant and is calculated largely through the use of composite rates by functional class. The annual composite depreciation rates for 2000, 1999 and 1998 are as follows:

Functional Class of Property	Annual Composite Depreciation Rates
Transmission	2.6%
Distribution	3.6%
General	3.2%

Expenditures for demolition and removal of plant are charged to the accumulated provision for depreciation and recovered through depreciation charges included in rates.

Cash and Cash Equivalents

Cash and cash equivalents include temporary cash investments with original maturities of three months or less.

Operating Revenues and Fuel Costs

Revenues include billed revenue as well as an accrual of electricity consumed but unbilled at month-end. Changes in the fuel component of purchased power are expensed as incurred and billed on a one-month lag basis as permitted by the TRA.

Income Taxes

The Company follows the liability method of accounting for income taxes as prescribed by SFAS 109, "Accounting for Income Taxes." Under the liability method, deferred income taxes are provided for all temporary differences between the book cost and tax basis of assets and liabilities which will result in a future tax consequence. Where the flow-through method of accounting for temporary differences is reflected in rates (that is, deferred taxes are not included in the cost of service for determining regulated rates for electricity), deferred income taxes are recorded and related regulatory assets and liabilities are established in accordance with SFAS 71.

Investment Tax Credits

Investment tax credits have been accounted for under the flow-through method except where the TRA has required that the Company reflect investment tax credits in the rate-making process on a deferral basis. Investment tax credits that have been deferred are being amortized over the life of regulated plant investment.

Other Property and Investments

Other property and investments are stated at cost.

Comprehensive Income

There were no material differences between net income and comprehensive income.

2. RATE MATTERS:

Appalachian Power Company (APCo), the Company's affiliated wholesale electric power supplier, filed with the Federal Energy Regulatory Commission (FERC) in 1992 to increase rates charged to the Company by $3.9 million annually. The FERC authorized APCo to implement the increase effective September 1992, subject to refund. The Company was allowed to collect the increased purchased power expense from its customers pending a FERC order to APCo. In June 1998 the FERC granted APCo an annual rate increase of $2.1 million and required a refund including interest of amounts collected in excess of the approved rates. As a result of APCo requesting a rehearing of the FERC's order, the implementation of new rates and the refund of any overcollections were delayed pending a FERC ruling on the rehearing request. In April 1999 the FERC denied the rehearing request. APCo reduced its wholesale rates June 1, 1999 and completed the FERC ordered refund to the Company in July 1999. The TRA permitted the Company to reduce its rates effective August 27, 1999 to reflect the reduction in purchased power costs and to implement a temporary negative surcharge effective August 27, 1999 and continuing for approximately twelve months to credit to retail customers the refund of purchased power expense and the overcollection of purchased power costs from June 1 to August 26, 1999. The refund was completed in 2000 and there was no refund obligation remaining at December 31, 2000.

3. EFFECTS OF REGULATION:

In accordance with SFAS 71 the financial statements include regulatory assets (deferred expenses) and regulatory liabilities (deferred income) recorded in accordance with regulatory actions in order to match expenses and revenues from cost-based rates in the same accounting period. Regulatory assets are expected to be recovered in future periods through the rate-making process and regulatory liabilities are expected to reduce future cost recoveries. Among other things, application of SFAS 71 requires that the Company's regulated rates be cost-based and the recovery of regulatory assets must be probable. Management has reviewed all the evidence currently available and concluded that the Company continues to meet the requirements to apply SFAS 71. In the event a portion of the Company's business were to no longer meet those requirements, net regulatory assets would have to be written off for that portion of the business and assets attributable to that portion of the business would have to be tested for possible impairment and if required an impairment loss recorded unless net regulatory assets and impairment losses are recoverable as a stranded cost.

Recognized regulatory assets and liabilities are comprised of the following:

	December 31, 2000	December 31, 1999
	(in thousands)	
Regulatory Assets:		
Amounts Due From Customers For Future Income Taxes	$4,814	$5,403
Other	195	236
Total Regulatory Assets	$5,009	$5,639
Regulatory Liabilities - Deferred Investment Tax Credits	$798	$869

4. COMMITMENTS AND CONTINGENCIES:

Construction and Other Commitments

Construction commitments have been made to support the Company's utility operations and are estimated to be $10.8 million for 2001-2003.

The Kingsport Service Center is leased under an operating lease for a primary term of up to 25 years ending in 2008, plus six 5-year renewal options. Rentals were $469,000 for 2000, $469,000 for 1999 and $414,000 for 1998. Annual future minimum lease payments are:

	(in thousands)
2001	$ 469
2002	469
2003	469
2004	469
2005	469
Later Years	1,173
Total	$3,518

Litigation

COLI

On February 20, 2001, the U.S. District Court for the Southern District of Ohio ruled against the AEP System Companies in their suit against the United States over deductibility of interest claimed in their consolidated federal income tax return related to a corporate owned life insurance (COLI) program. The suit was filed to resolve the Internal Revenue Service (IRS) assertion that interest deductions for the COLI program should not be allowed. In 1998 and 1999 the Company paid the disputed taxes and interest attributable to COLI interest deductions for taxable years 1991-98 to avoid the potential assessment by the IRS of additional interest on the contested tax. The payments were included in other property and investments pending the resolution of this matter. As a result of the U.S. District Court's decision to deny the COLI interest deductions, net income was reduced by $1.8 million in 2000. The appeal of this decision is planned.

Other

The Company is involved in a number of other legal proceedings and claims. While management is unable to predict the ultimate outcome of litigation, it is not expected that the resolution of these matters will have a material adverse effect on the results of operations, cash flows or financial condition.

5. RELATED-PARTY TRANSACTIONS:

The Company purchases all of its power from APCo based on a FERC approved rate.

American Electric Power Service Corporation (AEPSC) provides certain managerial and professional services to AEP System companies including the Company. The costs of the services are billed by AEPSC to its affiliated clients on a direct-charge basis whenever possible and on reasonable bases of proration of shared services. The billings for services are made at cost and include no compensation for the use of equity capital, which is furnished to AEPSC by AEP Co., Inc. Billings from AEPSC are capitalized or expensed depending on the nature of the services rendered. AEPSC and its billings are subject to the regulation of the SEC under the 1935 Act.

6. BENEFIT PLANS:

The Company participates in an AEP System qualified pension plan, a defined benefit plan which covers all employees. Net pension credits for the years ended December 31, 2000, 1999 and 1998 were $375,000, $157,000 and $21,000, respectively.

Postretirement benefits other than pensions are provided for retired employees for medical and death benefits under an AEP System plan. The annual accrued costs were $418,000 in 2000, $355,000 in 1999 and $339,000 in 1998.

A defined contribution employee savings plan required that the Company make contributions to this plan totaling $74,000 in 2000, $81,000 in 1999, and $86,000 in 1998.

7. SEGMENT INFORMATION:

The Company has one reportable segment, a regulated vertically integrated energy delivery business. The Company manages its operations on an integrated basis because of the substantial impact of bundled cost based retail rates and regulatory oversight on business processes, cost structures and operating results. For the years ended December 31, 2000, 1999 and 1998, all of the Company's revenues are derived from the sale and delivery of electricity in the United States.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

The Company is subject to market risk as a result of changes in interest rates primarily due to short-term and long-term borrowings used to fund its business operations. At December 31, 2000 the debt portfolio has fixed and variable interest rates with terms from one day to three years. A near term change in interest rates should not materially affect results of operations or financial position since the Company would not expect to liquidate its entire debt portfolio in a one year holding period. Also since the Company's rates are cost-based regulated, the risk of interest rate changes on short-term and long-term debt used to finance operations is mitigated.

Market Valuation

The book value of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate fair value because of the short-term maturity of these instruments.

The fair values of long-term debt approximate book value and are based on quoted market prices for the same or similar issues and the current interest rates offered for instruments of the same maturities.

9. INCOME TAXES:

The details of income taxes as reported are as follows:

	Year Ended December 31, 2000	1999 (in thousands)	1998
Charged (Credited) to Operating Expenses (net):			
Current	$3,172	$1,372	$(113)
Deferred	101	459	749
Total	3,273	1,831	636
Charged (Credited) to Nonoperating Income (net):			
Current	(53)	234	414
Deferred	2	-	-
Deferred Investment Tax Credits	(72)	(73)	(85)
Total	(123)	161	329
Total Income Taxes as Reported	$3,150	$1,992	$ 965

The following is a reconciliation of the difference between the amount of income taxes computed by multiplying book income before income taxes by the federal statutory tax rate, and the amount of income taxes reported.

	Year Ended December 31, 2000	1999 (in thousands)	1998
Net Income	786	2,835	2,180
Income Taxes	3,150	1,992	965
Pre-Tax Income	3,936	4,827	3,145
Income Tax on Pre-Tax Income at Statutory Rate (35%)	1,378	1,690	1,101
Increase (Decrease) in Income Tax Resulting from the Following Items:			
Corporate Owned Life Insurance	1,075	55	(177)
Depreciation	261	254	231
Investment Tax Credits	(72)	(73)	(85)
Removal Costs	(63)	(80)	(80)
State Income Taxes	277	140	-
Other	294	6	(25)
Total Income Taxes as Reported	3,150	1,992	965
Effective Income Tax Rate	80.0%	41.3%	30.7%

The following tables show the elements of the net deferred tax liability and the significant temporary differences giving rise to such deferrals:

	December 31, 2000	1999 (in thousands)
Deferred Tax Assets	$ 2,606	$ 2,299
Deferred Tax Liabilities	(11,973)	(12,154)
Net Deferred Tax Liabilities	$ (9,367)	$ (9,855)
Property Related Temporary Differences	$(7,048)	$(7,037)
Amounts Due From Customers For Future Federal Income Taxes	(1,147)	(1,390)
Deferred State Income Taxes	(1,536)	(1,433)
All Other (net)	364	5
Total Net Deferred Tax Liabilities	$(9,367)	$(9,855)

The Company joins in the filing of a consolidated federal income tax return with its affiliated companies in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the System companies is in accordance with SEC rules under the 1935 Act. These rules permit the allocation of the benefit of current tax losses to the System companies giving rise to them in determining their current tax expense. The tax loss of the System parent company, AEP Co., Inc., is allocated to its subsidiaries with taxable income. With the exception of the loss of the parent company, the method of allocation approximates a separate return result for each company in the consolidated group.

The AEP System has settled with the IRS all issues from the audits of the consolidated federal income tax returns for the years prior to 1991. Returns for the years 1991 through 1999 are presently being audited by the IRS. Management is not aware of any issues for open tax years that upon final resolution are expected to have a material adverse effect on results of operations.

10. LONG-TERM NOTES PAYABLE TO BANKS AND LINES OF CREDIT:

Long-term notes payable to banks were outstanding as follows:

	December 31, 2000	1999 (in thousands)
Notes Payable to Banks:		
6.73% due 2000	$ -	$ 5,000
6.75% due 2001	10,000	10,000
	10,000	15,000
Less: Portion Due Within One Year	-	5,000
Total	$10,000	$10,000

On February 16, 2001, the Company refinanced its long-term debt by issuing $20 million of notes payable due 2004 at an interest rate of 6.73%.

Short-term debt borrowings are limited by various loan agreements and the 1935 Act to $30 million.

In June 2000 the AEP System established a Money Pool to coordinate short-term borrowings for certain subsidiaries, primarily the domestic electric utility operating companies. The operation of the Money Pool is designed to match on a daily basis the available cash and borrowing requirements of the participants, thereby minimizing the need for short-term borrowings from external sources and increasing the interest income for participants with available cash. Participants with excess cash loan funds to the Money Pool reducing the amount of external funds AEP needs to borrow to meet the short-term cash requirements of other participants whose short-term cash requirements are met through advances from the Money Pool. AEP borrows the funds on a daily basis, when necessary, to meet the net cash requirements of the Money Pool participants. A weighted average daily interest rate which is calculated based on the outstanding short-term debt borrowings made by AEP is applied to each Money Pool participant's daily outstanding investment or debt position to determine interest income or interest expense. The Money Pool participants include interest income in nonoperating income and interest expense in interest charges. As a result of becoming a Money Pool participant, Kingsport Power Company retired its short-term debt. At December 31, 2000 Kingsport Power Company is a net borrower from the Money Pool and reports its debt position as Advances from Affiliates on the balance sheet.

KGPCo incurred interest expense for amounts borrowed from the AEP money pool for 2000 of $677,000. There was no interest expense regarding the AEP money pool for 1999 and 1998.

11. CONCENTRATION OF CREDIT RISKS:

Receivables from one customer in the industrial gas industry represented 14% and 16% of the customer accounts receivable balances at December 31, 2000 and 1999, respectively. This customer provided 12% of operating revenues in 2000, 1999 and 1998.

KINGSPORT POWER COMPANY
STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
	(in thousands)			
OPERATING REVENUES	$21,829	$21,593	$64,808	$61,681
OPERATING EXPENSES:				
Purchased Power - Affiliated Company	15,137	14,998	45,838	43,253
Other Operation	1,818	2,082	5,487	5,661
Maintenance	674	733	2,079	1,843
Depreciation and Amortization	911	845	2,707	2,520
Taxes Other Than Income Taxes	895	895	2,682	2,604
Income Taxes	798	654	1,990	1,752
TOTAL OPERATING EXPENSES	20,233	20,207	60,783	57,633
OPERATING INCOME	1,596	1,386	4,025	4,048
NONOPERATING INCOME	4	17	38	25
INCOME BEFORE INTEREST CHARGES	1,600	1,403	4,063	4,073
INTEREST CHARGES	384	410	1,145	1,193
NET INCOME	$ 1,216	$ 993	$ 2,918	$ 2,880

STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
	(in thousands)			
NET INCOME	$ 1,216	$ 993	$2,918	$2,880
OTHER COMPREHENSIVE INCOME	-	-	-	-
COMPREHENSIVE INCOME	$ 1,216	$ 993	$2,918	$2,880

STATEMENTS OF RETAINED EARNINGS
(UNAUDITED)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
	(in thousands)			
BALANCE AT BEGINNING OF PERIOD	$ 8,082	$6,461	$8,380	$5,882
NET INCOME	1,216	993	2,918	2,880
DEDUCTIONS:				
Cash Dividends Declared: Common Stock	1,000	654	3,000	1,962
BALANCE AT END OF PERIOD	$ 8,298	$6,800	$8,298	$6,800

The common stock of Kingsport Power Company is wholly-owned by American Electric Power Company, Inc.

See Notes to Financial Statements.

KINGSPORT POWER COMPANY
BALANCE SHEETS
(UNAUDITED)

	September 30, 2003	December 31, 2002
	(in thousands)	
ASSETS		
ELECTRIC UTILITY PLANT:		
Transmission	$16,083	$15,182
Distribution	80,678	79,473
General	5,918	5,980
Construction Work in Progress	715	973
Total Electric Utility Plant	103,394	101,608
Accumulated Depreciation	39,751	38,104
NET ELECTRIC UTILITY PLANT	63,643	63,504
OTHER PROPERTY AND INVESTMENTS	325	430
CURRENT ASSETS:		
Cash and Cash Equivalents	203	-
Advances to Affiliates	-	4,788
Accounts Receivable:		
Customers	1,638	1,665
Affiliated Companies	300	1,570
Miscellaneous	519	213
Allownace for Uncollectible Accounts	(6)	(2)
Materials and Supplies - at average cost	134	168
Accrued Utility Revenues	-	116
Prepayments	1,642	1,055
Other	181	181
TOTAL CURRENT ASSETS	4,611	9,754
REGULATORY ASSETS	5,435	5,345
DEFERRED CHARGES	756	368
TOTAL ASSETS	$74,770	$79,401

See Notes to Financial Statements.

KINGSPORT POWER COMPANY
BALANCE SHEETS
(UNAUDITED)

	September 30, 2003	December 31, 2002
	(in thousands)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common Stock - No Par Value:		
Authorized - 500,000 Shares		
Outstanding - 410,000 Shares	$ 4,100	$ 4,100
Paid-in Capital	13,800	13,800
Accumulated Other Comprehensive Income (Loss)	(2,067)	(2,067)
Retained Earnings	8,298	8,380
Total Common Shareholder's Equity	24,131	24,213
Long-term Debt - Notes Payable to Banks	-	20,000
TOTAL CAPITALIZATION	24,131	44,213
OTHER NONCURRENT LIABILITIES	3,016	3,194
CURRENT LIABILITIES:		
Long-term Debt Due Within One Year	20,000	-
Advances from Affiliates	5,301	-
Accounts Payable - General	120	178
Accounts Payable – Affiliated Companies	5,552	16,522
Customer Deposits	1,655	1,465
Taxes Accrued	1,235	339
Interest Accrued	559	862
Other	1,906	1,570
TOTAL CURRENT LIABILITIES	36,328	20,936
DEFERRED INCOME TAXES	10,492	10,117
DEFERRED INVESTMENT TAX CREDITS	599	642
DEFERRED CREDITS	204	299
COMMITMENTS AND CONTINGENCIES (Note 2)		
TOTAL CAPITALIZATION AND LIABILITIES	$74,770	$79,401

See Notes to Financial Statements.

KINGSPORT POWER COMPANY
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30, 2003	2002
	(in thousands)	
OPERATING ACTIVITIES:		
Net Income	$ 2,918	$ 2,880
Adjustments for Noncash Items:		
Depreciation	2,707	2,520
Deferred Income Taxes	436	566
Deferred Investment Tax Credits	(43)	(45)
Operating Reserves	59	(751)
Amortization of Deferred Property Taxes	(252)	(238)
Changes in Certain Current Assets and Liabilities:		
Accounts Receivable, net	995	(4,139)
Materials and Supplies	34	44
Accrued Utility Revenues	116	(71)
Prepayments and Other	(587)	(691)
Accounts Payable, net	(11,028)	(112)
Customer Deposits	190	515
Taxes Accrued	896	237
Interest Accrued	(303)	(316)
Other, net	493	(102)
Net Cash Flows From (Used For) Operating Activities	(3,369)	297
INVESTING ACTIVITIES:		
Construction Expenditures	(3,517)	(2,230)
Sales of Property	-	154
Net Cash Flows Used For Investing Activities	(3,517)	(2,076)
FINANCING ACTIVITIES:		
Change in Advances to/from Affiliates, net	10,089	3,751
Dividends Paid	(3,000)	(1,962)
Net Cash Flows From Financing Activities	7,089	1,789
Net Increase in Cash and Cash Equivalents	203	10
Cash and Cash Equivalents at Beginning of Period	-	472
Cash and Cash Equivalents at End of Period	$ 203	$ 482

Supplemental Disclosure:
Cash paid for interest, net of capitalized amounts, was $1,422,000 and $1,484,000 and for income taxes was $805,000 and $557,000 in 2003 and 2002, respectively.

See Notes to Financial Statements.

KINGSPORT POWER COMPANY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003
(UNAUDITED)

1. GENERAL

The accompanying unaudited financial statements should be read in conjunction with Kingsport Power Company's 2002 Annual Report. Certain prior-period amounts have been reclassified to conform to current-period presentation. In the opinion of management, the financial statements reflect all adjustments, consisting of only normal recurring accruals, which are necessary for a fair presentation of the results of operations and financial position for interim periods.

2. COMMITMENTS AND CONTINGENCIES

Kingsport Power Company continues to be involved in certain matters discussed in its 2002 Annual Report.