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**PLEASE RESPOND TO:**  
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KPOW.83302

November 14, 2008  
**VIA FEDERAL EXPRESS**

Tre Hargett, Chairman  
ATTN: Sharla Dillion, Dockets & Records Manager  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Re: Notice of Kingsport Power Company d/b/a AEP  
Appalachian Power  
TRA Docket No.: 08- 08-00213

Dear Chairman Hargett:

We submit herewith the original and thirteen copies of the Notice of Kingsport Power Company d/b/a AEP Appalachian Power relative to changes in its Purchased Power Adjustment Rider.

Should there be any questions, please direct same to the writer.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**

William C. Bovender

WCB/slb

cc: Timothy C. Phillips, Assistant Attorney General  
State of TN, Office of the Attorney General

**BEFORE THE  
TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**In Re:**

**NOTICE OF KINGSPORT POWER  
COMPANY, D/B/A AEP APPALACHIAN  
POWER, RELATIVE TO CHANGES IN ITS  
PURCHASED POWER ADJUSTMENT  
RIDER**

**TRA DOCKET No. 08-\_\_\_\_**

Comes Kingsport Power Company, d/b/a AEP Appalachian Power ("Kingsport" or "KgPCo"), and, for its Notice pursuant to the provisions of its Purchased Power Adjustment Rider and the Rules of the Tennessee Regulatory Authority ("TRA" or "Authority"), would respectfully show to the TRA the following:

1. KgPCo is a public utility corporation organized and existing under the laws of the Commonwealth of Virginia whose principal place of business is located at 420 Riverport Road, Kingsport, Sullivan County, Tennessee.
2. KgPCo has no electric power generating facilities of its own. Rather, KgPCo purchases all its electric power requirements from Appalachian Power Company ("APCo") under rates and charges subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). KgPCo distributes electric power to approximately 47,000 customers in its service territory, which consists of portions of Sullivan and Hawkins Counties, Tennessee, including the City of Kingsport, Tennessee. Kingsport is subject to the jurisdiction of the TRA as to its rates and services.

3. Kingsport is supporting this Notice through the testimonies of William A. Bosta (EXHIBIT 1, hereto) and Larry C. Foust (EXHIBIT 2, hereto), and other exhibits referenced herein and attached hereto.

4. All correspondence and communications with respect to this Notice should be sent to the following:

William C. Bovender, Esq.  
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Kingsport, TN 37664  
Email: [bovender@hdsdlaw.com](mailto:bovender@hdsdlaw.com)

James R. Bacha, Esq.  
American Electric Power Service Corp.  
P. O. Box 16637  
Columbus, OH 43216  
Email: [jrbacha@aep.com](mailto:jrbacha@aep.com)

Mr. William A. Bosta  
Director, Regulatory Services VA/TN  
American Electric Power Company  
Three James Center, Suite 702  
1051 E. Cary Street  
Richmond, VA 23219-4029  
Email: [wabosta@aep.com](mailto:wabosta@aep.com)

5. APCo is a corporation organized and existing under the laws of the Commonwealth of Virginia, with its principal place of business located at Suite 1100, Chase Center, 707 Virginia Street E, Charleston, WV 25301.

6. Both KgPCo and APCo are electric operating company subsidiaries of American Electric Power Company, Inc. ("AEP") and are part of the east zone of the AEP System ("AEP-East System").

7. KgPCo and APCo are parties signatory to an Interconnection Agreement, dated November 19, 1954 (the "1954 Agreement"), under which APCo currently supplies full requirements electric service to KgPCo.

8. As explained in the testimony of Mr. Bosta (EXHIBIT 1), KgPCo's current retail base rates were established on November 3, 1992, pursuant to an Order issued on that date by the then Tennessee Public Service Commission ("TPSC"), the predecessor to the TRA, in Docket No. 92-04425. The base rates established by that Order reflected, among other things, the pass-through of an increase in purchased power expense that APCo was charging KgPCo, subject to refund, pursuant to a FERC Order in APCo's 1992 FERC wholesale rate proceeding.

9. By Order dated December 29, 1994, as affirmed by Order dated November 30, 1995, in Docket Number 94-04283, the TPSC approved KgPCo's current Purchased Power Adjustment Rider ("PPAR"), Sheet Nos. 2-8 through 2-10 of Kingsport's T.P.S.C. Tariff Number 1. (EXHIBIT 3 hereto). That PPAR permits Kingsport to apply a surcharge on its retail customers' bills when there are changes in KgPCo's non-fuel cost of purchased power from its wholesale power supplier, APCo, under FERC implemented rate schedules. In its December 29, 1994 Order approving the PPAR, the TPSC stated as follows:

In the company's last rate case (Docket No. 92-04425), the Commission directed the staff and the company to develop a tariff that would permit recovery of rate changes approved by the Federal Energy Regulatory Commission (FERC) for the company's power supplier, Appalachian Power Company. The reason for this directive was to avoid the need for the company to file a rate case with the Commission every time that the FERC approved an increase in the supplier's rates.

The purchased power adjustment rider filed in this docket will allow recovery by the company of wholesale power rate changes only, and will not have an effect on the utility's net income. The Commission has established a similar purchased gas adjustment mechanism for gas utilities that has proven to be an effective method for expeditious recovery of supply costs that are also approved by the FERC. (unnumbered page 2).

The TPSC's order approving KgPCo's current PPAR was affirmed, on appeal, by the Court of Appeals of Tennessee. Consumer Advocate Division vs. Bissell, 1996 WL 482970 (Tenn. App. 1996), Appeal No. 01-A01-9601-BC-00049, August 28, 1996, Rehearing denied September 18, 1996. Since its inclusion in the Company's T.P.S.C. Tariff No. 1, KgPCo's PPAR has been utilized three times as a result of FERC ordered changes in the rates APCo charges KgPCo for purchased power. Effective August 27, 1999, a temporary and permanent credit were included in the PPAR. The credits reflected the result of FERC's 1999 order in APCo's 1992 rate case, which reduced the rate APCo had been charging KgPCo, subject to refund since 1992, and resulted in a refund to KgPCo of amounts previously charged by APCo that were above the FERC-approved rates. Effective June 28, 2000, the temporary credit was reduced to match-up, as close as reasonably possible, the refund KgPCo received from APCo and the amount refunded to Kingsport's retail customers. Effective September 1, 2000, the temporary credit associated with the refund was eliminated from the PPAR because the refund that KgPCo had received from APCo had been passed through to Kingsport's retail customers.

10. APCo currently provides wholesale electric service to KgPCo under a full requirements agreement that originally was entered into on November 19, 1954, and that has been amended thereafter from time to time (the "1954 Agreement"). On March 28, 2008, APCo filed with the FERC, and pursuant to FERC Regulations, served upon the TRA, a new cost-based formula rate agreement ("Formula Rate Agreement") for

wholesale requirements service to Kingsport that was intended to replace and supersede, in its entirety, the 1954 Agreement. In its filing, APCo proposed that the Formula Rate Agreement be accepted for filing effective July 1, 2008. Had the rates in the Formula Rate Agreement become effective July 1, 2008, Kingsport would have been paying APCo approximately \$28 million more a year for generation services, since July 1, 2008, when compared to the rates currently being charged under the 1954 Agreement ("Current Rates"). The formula rates also would have been adjusted annually, on June 1 of each year thereafter, to recover the actual costs APCo incurred to provide wholesale service to Kingsport.

11. On May 2, 2008, the East Tennessee Energy Consumers ("ETEC"), which consists of a group of Kingsport's retail industrial customers, filed a protest at FERC challenging the justness and reasonableness of the formula rates proposed by APCo. On May 9, 2008, APCo sought to withdraw the March 28<sup>th</sup> filing to enable APCo, Kingsport, and ETEC to discuss the matters raised in ETEC's protest, and by Letter Order issued July 2, 2008, the FERC accepted APCo's withdrawal. Since that time, the parties have discussed and agreed upon the terms under which APCo would sell wholesale requirements power to Kingsport.

12. On November 13, 2008, APCo filed with the FERC, and pursuant to FERC's Regulations, served upon the Authority, an Amended and Restated 1954 Agreement ("Amended Agreement") between APCo and Kingsport, which APCo designated as Appalachian Power Company First Revised FERC Rate Schedule No. 23 ("Revised Rate Schedule 23") ((APCo's FERC Filing is attached as EXHIBIT 4). Revised Rate Schedule 23 provides for three annual step increases in APCo's

generation rates to Kingsport that were negotiated with ETEC, the only protestant in APCo's earlier cost based formula rate FERC filing.

13. When compared to Current Rates, the generation rates embodied in Revised Rate Schedule 23 will increase APCo's charges to Kingsport by \$24 million in 2009, an additional \$3 million, for a total increase of \$27 million in 2010, and an additional \$9 million, for a total increase of \$36 million in 2011. These rates would not be subject to change or be trued-up to reflect actual costs over the three year period. In addition to the generation rate increases, Kingsport will pay for Network Integration Transmission Service ("NITS") and other applicable transmission-related services (other than generation-based Ancillary Services) as arranged by the AEP East System, in accordance with the provisions of the PJM Open Access Transmission Service Tariff ("OATT"), or other applicable FERC rate schedules, as such rate schedules, which may be revised by FERC from time to time, apply to the AEP East System companies.

14. In its November 13, 2008 FERC filing, APCo proposed that Revised Rate Schedule 23 be accepted for filing effective January 1, 2009. Kingsport expects that the FERC will accept Revised Rate Schedule 23 before December 15, 2008. Consequently, the rates for 2009 contained in Revised Rate Schedule 23 will begin to be charged to KgPCo by APCo on January 1, 2009, per FERC action.

15. As shown on EXHIBIT 3, Section 4 of the PPAR provides that the tariff surcharges, as calculated in Section 3 of Kingsport's PPAR, shall be effective upon the same date as any change in Kingsport's wholesale supplier's tariffs is implemented by the FERC. Under the terms of Kingsport's current PPAR, the January 1, 2009 change in Kingsport's non-fuel cost of purchased power resulting from the FERC's

implementation of Revised Rate Schedule 23 would be passed through to Kingsport's customers upon 30-days notice. The surcharges applicable to each of Kingsport's tariffs under this approach are set forth on the red-line and clean copy of the PPAR attached as EXHIBIT 5, hereto.

16. In accordance with Section 5 of the PPAR, KgPCo is making this filing to provide no less than 30-days notice that it is proposing modifications to its current PPAR, and that it has calculated new purchased power surcharges, to be effective on January 1, 2009, which is the same date that APCo has requested that the rates contained in Revised Rate Schedule 23 be accepted for filing and implemented by the FERC. KgPCo is proposing modifications to Sections 2, 3 and 7 of its current PPAR.

The proposed changes, including the new purchased power surcharges that result from those changes, are shown on the attached red-line and clean copy of Kingsport's PPAR. (EXHIBIT 6 hereto).

17. In Section 2 of the PPAR, Kingsport is proposing to update the allocation factors set forth therein, at this time. The allocation factors currently in the PPAR are based upon 1991 load data that was submitted in KgPCo's 1992 rate case. It is Kingsport's understanding that one of the TRA's Directors recognized the importance of using more current allocation factors to allocate future changes in purchased power costs when the TRA approved a special contract between Kingsport and Weyerhaeuser Company (now Domtar), during the TRA's January 8, 2007 conference. As explained more fully in the testimony of Mr. Foust (EXHIBIT 2), Kingsport developed its proposed, updated allocation factors in the same manner as in its last rate case, but using 2007 load data – the most current information available.



18. Under current Section 3 of Kingsport's PPAR, any change in the Company's demand and energy-related purchased power expense resulting from FERC action is recovered from customers served under all tariffs (except the Outdoor Lighting ("OL") Tariff) by means of a dollar per kilowatthour (\$/kWh) surcharge or credit. As explained more fully by Mr. Foust in EXHIBIT 2, Kingsport is proposing to use a demand and energy surcharge or credit for the Large General Service ("LGS") and Industrial Power ("IP") tariffs, which currently contain demand and energy charges. While this proposed change will mitigate the variation in impacts between high and low load factor customers served under the LGS and IP Tariffs, it will not affect the allocation of purchase power costs to those or any other individual tariffs or customer classes.

19. The modifications that Kingsport is proposing to Section 7 of the PPAR reflect the effects of its proposed modifications to Sections 2 and 3 and the expected FERC-implemented changes in KgPCo's non-fuel cost of purchased power. As explained by Mr. Foust in EXHIBIT 2, the surcharges shown on EXHIBIT 6, hereto, reflect the increased purchased power costs that APCo will begin charging Kingsport on January 1, 2009. Under KgPCo's proposal, the surcharges that Kingsport is proposing to charge beginning January 1, 2009, would collect an additional \$24 million in revenues.

20. Although not required by the PPAR or the TRA's rules, Kingsport would be willing to provide notice of this filing to the public by publishing the attached notice (EXHIBIT 7, hereto) in the Kingsport Times News. The Kingsport Times News has informed Kingsport that it will need at least one-weeks advance notice to place any notice in the newspaper. Consequently, if the TRA would like the notice to appear at

least one week before its December 15, 2008 conference, then Kingsport would need to know a few days before December 5, 2008, that the TRA wanted Kingsport to publish the notice in EXHIBIT 7. As Kingsport begins to charge new PPAR surcharges, it intends to include a message on bills that notifies customers of the new PPAR surcharges.

NOW, THEREFORE, pursuant to the provisions of KgPCo's Purchased Power Adjustment Rider ("PPAR"), KgPCo requests that the Authority:

1. Advise KgPCo if the Authority would like Kingsport to publish the newspaper notice attached as EXHIBIT 7; and
2. Schedule this filing to be considered at the TRA's conference on December 15, 2008; and
3. At that time, adopt Kingsport's proposed changes to its PPAR, including the surcharges set forth on EXHIBIT 6, effective January 1, 2009, or alternatively, make the surcharges set out in EXHIBIT 5, which reflect the change in the Company's purchased power expense, effective on January 1, 2009, per the current provisions of the PPAR.

In support of its request, KgPCo submits the following:

1. EXHIBIT 1 - THE TESTIMONY OF WILLIAM A. BOSTA
2. EXHIBIT 2 - THE TESTIMONY OF LARRY C. FOUST
3. EXHIBIT 3 - Current Purchased Power Adjustment Rider
4. EXHIBIT 4 - Appalachian Power Company's Filing of First Revised FERC

Rate Schedule No. 23

5. EXHIBIT 5 – a redline and clean copy of Kingsport's PPAR with only new surcharges in Section 7 thereof
6. EXHIBIT 6 – a red-line and clean copy of the PPAR showing Kingsport's proposed changes to Sections 2 and 3 and the resulting surcharges in Section 7 thereof
7. EXHIBIT 7 – Proposed Newspaper Notice

Respectfully submitted,

Kingsport Power Company, d/b/a AEP  
Appalachian Power

By:



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11/13/08

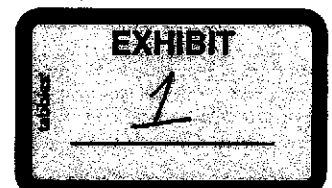
**DIRECT TESTIMONY OF  
WILLIAM A. BOSTA  
ON BEHALF OF KINGSPORT POWER COMPANY  
BEFORE THE TENNESSEE REGULATORY AUTHORITY  
IN DOCKET NO. \_\_\_\_\_**

1   **Q.   PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND PRESENT**  
2       **POSITION.**

3   A.   My name is William A. Bosta. My business address is Three James Center, 1051  
4       E. Cary Street, Suite 702, Richmond, Virginia 23219. I am employed by the  
5       American Electric Power Service Corporation (AEPSC) as Director of Regulatory  
6       Services VA/TN. AEPSC is a wholly owned subsidiary of American Electric  
7       Power Company, Inc. (AEP). AEP is the parent company of Kingsport Power  
8       Company (KgPCo or the Company) and Appalachian Power Company (APCo).  
9       Both KgPCo and APCo are electric operating company subsidiaries of AEP and  
10      part of the east zone of the AEP System (AEP-East System).

11   **Q.   PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT**  
12       **BACKGROUND.**

13   A.   I have a Bachelor's Degree in Economics from Virginia Polytechnic Institute and  
14       State University, Blacksburg, Virginia, and a Master's Degree in Industrial  
15       Management from Lynchburg College, Lynchburg, Virginia. My professional  
16       career began as an Economist with the engineering consulting firm of Hayes,  
17       Seay, Mattern & Mattern in Roanoke, Virginia. I then worked in the rates and  
18       regulatory area for two AEP subsidiaries, Appalachian Power Company in  
19       Roanoke, Virginia and Indiana Michigan Power Company in Ft. Wayne, Indiana.  
20      In 1993, I accepted a position in Regulatory Affairs at Kentucky Utilities



1 Company in Lexington, Kentucky and was subsequently promoted to Director of  
2 Regulatory Management for LG&E Energy in Louisville, Kentucky following the  
3 merger of KU Energy and LG&E Energy in 1998. In June 2001, I accepted an  
4 opportunity to join the East Kentucky Power Cooperative in Winchester,  
5 Kentucky as Pricing Manager. In May 2008, I returned to Appalachian Power  
6 Company as a Regulatory Specialist and in September, I assumed my current  
7 position as Director – Regulatory Services VA/TN.

8 **Q. WHAT ARE YOUR DUTIES AS DIRECTOR - REGULATORY**  
9 **SERVICES VA/TN?**

10 A. I am responsible for rate and regulatory matters in the states of Virginia and  
11 Tennessee, including the operational and day-to-day functions of the Regulatory  
12 Services Department. I report directly to the President and Chief Operating  
13 Officer of APCo.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. My testimony will discuss why KgPCo has made this filing before the Tennessee  
16 Regulatory Authority (TRA); provide some perspective on KgPCo and its rate  
17 history, particularly its Purchased Power Adjustment Rider, Sheet Nos. 2-8  
18 through 2-10 of KgPCo's T.P.S.C. Tariff Number 1; discuss the major  
19 components of FERC Revised Rate Schedule 23 between APCo and KgPCo,  
20 including its expected effective date; and provide a comparison between KgPCo's  
21 current electrical rates and those of its neighboring utilities.

22 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

1 A. Yes. WAB Attachment 1 is a comparison of KgPCo's residential rates to the  
2 residential rates of surrounding electric utilities.

3 **Q. PLEASE PROVIDE SOME BACKGROUND INFORMATION ABOUT**  
4 **KGPCO AND APCO.**

5 A. KgPCo is a public utility corporation organized and existing under the laws of the  
6 Commonwealth of Virginia with its principal place of business located at 420  
7 Riverport Road, Kingsport, Sullivan County, Tennessee. The service delivery  
8 area of KgPCo includes portions of Sullivan and Hawkins Counties, Tennessee,  
9 including the City of Kingsport, Tennessee. KgPCo has slightly less than 47,000  
10 total customers, including 40,965 residential, 5,626 commercial and 179 industrial  
11 customers. KgPCo has no electrical power generating facilities of its own. It  
12 purchases all of its electric power requirements from APCo under rates and  
13 charges subject to the jurisdiction of the Federal Energy Regulatory Commission  
14 (FERC).

15 APCo is a corporation organized and existing under the laws of the  
16 Commonwealth of Virginia, with its principal place of business located at Suite  
17 1100, Bank One Center, 707 Virginia Street, Charleston, WVA. APCo currently  
18 provides wholesale electric service to KgPCo under a full requirements agreement  
19 that originally was entered into on November 19, 1954 (the 1954 Agreement) and  
20 that has been amended thereafter from time to time.

21 **Q. PLEASE DESCRIBE KgPCo's RECENT RATE HISTORY.**

22 A. KgPCo's current retail base rates were established on November 3, 1992,  
23 pursuant to an Order issued on that date by the Tennessee Public Service

1 Commission (TPSC), the predecessor to the TRA, in Docket No. 92-04425. The  
2 base rates established by that Order reflected, among other things, the pass-  
3 through of an increase in purchased power expense that APCo was charging  
4 KgPCo, subject to refund, pursuant to a FERC Order in APCo's 1992 FERC  
5 wholesale rate proceeding. By Order dated December 29, 1994, as affirmed by  
6 Order dated November 30, 1995, in Docket Number 94-04283, the TPSC  
7 approved a Purchased Power Adjustment Rider (PPAR) for KgPCo. That PPAR  
8 permits KgPCo to apply a surcharge on its retail customers' bills when there are  
9 changes in KgPCo's non-fuel cost of purchased power from its wholesale power  
10 supplier, APCo, under FERC implemented rate schedules. In its December 29,  
11 1994 Order approving the PPAR, the TPSC stated as follows:

12 "In the company's last rate case (Docket No. 92-04425), the  
13 Commission directed the staff and the company to develop a tariff  
14 that would permit recovery of rate changes approved by the  
15 Federal Energy Regulatory Commission ("FERC") for the  
16 company's power supplier, Appalachian Power Company. The  
17 reason for this directive was to avoid the need for the company to  
18 file a rate case with the Commission every time that the FERC  
19 approved an increase in the supplier's rates.

20  
21 The purchased power adjustment rider filed in this docket will  
22 allow recovery by the company of wholesale power rate changes  
23 only, and will not have an effect on the utility's net income. The  
24 Commission has established a similar purchased gas adjustment  
25 mechanism for gas utilities that has proven to be an effective  
26 method for expeditious recovery of supply costs that are also  
27 approved by the FERC." (unnumbered page 2).  
28

29 The TPSC's order approving KgPCo's current PPAR was affirmed, on appeal, by  
30 the Tennessee Court of Appeals. See, Consumer Advocate Division vs. Bissell, et  
31 al, 1996 WL 482970, April 28, 1996; rehearing denied, September 18, 1996.

1 Since its inclusion in KgPCo's T.P.S.C. Tariff No. 1, KgPCo's PPAR has been  
2 utilized three times as a result of FERC-ordered changes in the rates APCo  
3 charges KgPCo for purchased power. Effective August 27, 1999, a temporary  
4 and a permanent credit were implemented through the PPAR. The credits  
5 reflected the result of FERC's 1999 Order in APCo's 1992 rate case, which  
6 reduced the rate APCo had been charging KgPCo, subject to refund since 1992,  
7 and resulted in a refund to KgPCo of amounts previously charged by APCo that  
8 were above the FERC-approved rates. Effective June 28, 2000, the temporary  
9 credit was reduced to match-up, as close as reasonably possible, the refund  
10 KgPCo received from APCo and the amount refunded to KgPCo's retail  
11 customers. Effective September 1, 2000, the temporary credit associated with the  
12 refund was eliminated from the PPAR because the refund that KgPCo had  
13 received from APCo had been passed through to KgPCo's retail customers.

14 **Q. HAS KGPCO EXPERIENCED ANY OTHER NON-FUEL RATE**  
15 **ACTIVITY SINCE THE CONCLUSION OF APCO'S 1992 FERC CASE?**

16 **A.** No. KgPCo's base rates and the PPAR have remained unchanged. The fuel  
17 clause mechanism, which is used to pass fuel costs to KgPCo's retail customers,  
18 also has not changed, although it allows for monthly fluctuations in the level of  
19 the fuel rider.

20 **Q. PLEASE DESCRIBE APCO'S MARCH 28, 2008 FERC FILING.**

21 **A.** On March 28, 2008, APCo filed with the FERC, and pursuant to FERC  
22 Regulations, served upon the TRA, a new cost-based formula rate agreement  
23 (Formula Rate Agreement) for wholesale requirements service to Kingsport that



1 was intended to replace and supersede, in its entirety, the 1954 Agreement. In its  
2 filing, APCo proposed that the Formula Rate Agreement be accepted for filing  
3 effective July 1, 2008. Had the rates in the Formula Rate Agreement become  
4 effective July 1, 2008, Kingsport would have been paying APCo approximately  
5 \$28 million more a year for generation services, since July 1, 2008, when  
6 compared to the rates currently being charged under the 1954 Agreement. The  
7 formula rates also would have been adjusted annually, on June 1 of each year  
8 thereafter, to recover the actual costs APCo incurred to provide wholesale service  
9 to Kingsport.

10 Subsequent to the filing with the FERC on March 28, 2008, but prior to  
11 any filing by KgPCo with the TRA, the East Tennessee Energy Consumers  
12 (ETEC), which consists of a group of KgPCo's retail industrial customers, filed a  
13 protest at FERC challenging the justness and reasonableness of the formula rates  
14 proposed by APCo. On May 9, 2008, APCo sought to withdraw the March 28<sup>th</sup>  
15 filing to enable APCo, KgPCo and ETEC to discuss the matters raised in ETEC's  
16 protest, and by Letter Order issued July 2, 2008, the FERC accepted APCo's  
17 withdrawal. Since that time, APCo, KgPCo and ETEC have discussed and agreed  
18 upon the terms under which APCo would sell wholesale requirements power to  
19 KgPCo. APCo filed an amended and restated 1954 Agreement (Amended  
20 Agreement) containing the agreed upon wholesale rates with FERC on November  
21 13, 2008. That Amended Agreement was designated as APCo First Revised  
22 FERC Rate Schedule No. 23 (FERC Revised Rate Schedule 23).

1 Q. WHAT ARE THE MAJOR PROVISIONS OF FERC REVISED RATE  
2 SCHEDULE 23, AS FILED WITH THE FERC?

3 A. FERC Revised Rate Schedule 23 provides for three stepped increases in APCo's  
4 generation demand, energy and back-up service charges to KgPCo. During 2009,  
5 APCo's generation charges to KgPCo would increase by \$24 million, with an  
6 additional \$3 million in 2010 and another \$9 million increase in 2011. In addition  
7 to the generation rate increases, Kingsport will pay for Network Integration  
8 Transmission Service (NITS) and other applicable transmission-related services  
9 (other than generation-based Ancillary Services) as arranged by the AEP East  
10 System, in accordance with the provisions of the PJM Open Access Transmission  
11 Service Tariff (OATT), or other applicable FERC rate schedules, as such rate  
12 schedules, which may be revised by FERC from time to time, apply to the AEP  
13 East System companies.

14 Q. HOW DO KGPCO'S CURRENT AND PROPOSED FIRST YEAR RATES  
15 COMPARE TO ITS NEIGHBORING ELECTRIC UTILITIES?

16 A. Very favorably. As WAB Attachment 1 shows, KgPCo's residential rates are  
17 substantially below its neighbors. Currently, a typical KgPCo residential  
18 customer using 1500 kWhs per month is billed \$95.74. By comparison,  
19 residential bill amounts for neighboring utilities are higher than residential bill  
20 amounts for Kingsport customers by 47% to 74%. Moreover, according to the  
21 Edison Electric Institute (EEI), of the 184 utilities it ranks in the United States,  
22 KgPCo's residential rates are the lowest in the entire country. Even with the pass  
23 through of the first year increase of \$24 million, KgPCo's residential rates would

1 still be substantially less than any of its neighbors. Comparisons of rates for  
2 commercial and industrial users would be similar.

3 **Q. WHEN WOULD THE NEW RATES BECOME EFFECTIVE?**

4 A. In its November 13, 2008 FERC filing, APCo requested that FERC Revised Rate  
5 Schedule 23 be accepted for filing effective January 1, 2009. KgPCo expects that  
6 the FERC will accept FERC Revised Rate Schedule 23 for filing before  
7 December 15, 2008. Consequently, the rates for 2009 contained in FERC  
8 Revised Rate Schedule 23 will begin to be charged to KgPCo by APCo on  
9 January 1, 2009, per FERC action. Section 4 of the PPAR provides that the tariff  
10 surcharges, as calculated in Section 3 of KgPCo's PPAR, shall be effective upon  
11 the same date as any change in KgPCo's wholesale supplier's tariffs is  
12 implemented by the FERC. In accordance with Section 5 of the PPAR, KgPCo is  
13 making this filing to provide no less than thirty (30) days notice that it is  
14 proposing changes to its current PPAR, and that it has calculated new purchased  
15 power surcharges, to be effective on and after January 1, 2009, which is the same  
16 date as the rates contained in FERC Revised Rate Schedule 23 are expected to be  
17 accepted for filing and implemented by the FERC. Mr. Foust provides additional  
18 testimony about the Company's proposed PPAR.

19 **Q. WILL THE PASS THROUGH OF KGPCO'S INCREASED PURCHASED**  
20 **POWER COSTS TO ITS RETAIL CUSTOMERS BY MEANS OF THE**  
21 **PPAR HAVE ANY IMPACT ON KGPCO'S NET INCOME?**

22 A. No.

1    **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2    **A.    Yes.**

# Rate Comparisons

Residential Electric Rates near Kingsport, Tennessee		
Provider	1500 kWh Usage	Diff. Relative to Kingsport
Kingsport Power	\$95.74	N/A
Bristol Va. Utilities	\$166.48	74%
Bristol TN Essential Serv.	\$140.85	47%
Johnson City P.B.	\$155.37	62%
Holston Electric Co-op	\$151.10	58%

- Above Tennessee rates taken from on-line tariffs as of October 10, 2008
- On October 1, 2008 TVA announced a 20% increase primarily for fuel and purchased power.

**DIRECT TESTIMONY OF  
LARRY C. FOUST  
ON BEHALF OF KINGSPORT POWER COMPANY  
BEFORE THE TENNESSEE REGULATORY AUTHORITY  
IN DOCKET NO. \_\_\_\_\_**

1   **Q.   PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.**

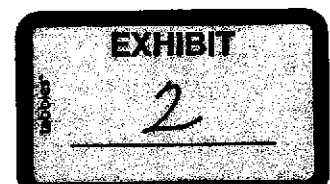
2   A.   My name is Larry C. Foust. My business address is 1 Riverside Plaza, Columbus,  
3       Ohio 43215. I currently hold the position of Manager, Regulated Pricing and  
4       Analysis, in the Regulatory Services Department of American Electric Power  
5       Service Corporation (AEPSC), a subsidiary of American Electric Power  
6       Company, Inc. (AEP).

7   **Q.   WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY AS A  
8       MANAGER IN THE REGULATED PRICING AND ANALYSIS  
9       DEPARTMENT?**

10  A.   My responsibilities are to manage pricing and costing resources for rate cases,  
11       regulatory filings and rulemakings, as well as provide cost of service and rate  
12       design services to Kingsport Power Company (KgPCo or Company) and other  
13       AEP electric utility operating companies. I am also responsible for assisting  
14       KgPCo and other AEP electric utility operating companies in the preparation of  
15       filings before this and other commissions under whose jurisdiction these  
16       companies provide electric service.

17  **Q.   PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND  
18       EMPLOYMENT HISTORY.**

19  A.   I received my Bachelor of Science in Business Administration in 1977 from The  
20       Ohio State University, majoring in Accounting. I am a Certified Public  
21       Accountant. In 1977 I began my career as a Budget Analyst in the Generation



1 Department of the Columbus and Southern Ohio Electric Company. In 1979 I  
2 became an Accountant in the Special Studies section of the Accounting  
3 Department. After the Columbus and Southern Ohio Electric Company was  
4 acquired by AEP, I transferred to AEPSC in 1982 as a Rate Case Coordinator. In  
5 1999 I became part of AEPSC's Customer Choice Implementation organization.  
6 In 2001 I became an Issues Manager in the Energy Delivery organization and in  
7 2004 I joined the Regulated Pricing and Analysis department as a Regulatory  
8 Specialist. In May 2007 I accepted my current position.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. The purpose of my testimony is to briefly describe the filing made by  
11 Appalachian Power Company (APCo) at the Federal Energy Regulatory  
12 Commission (FERC), which will result in an increase in KgPCo's non-fuel cost of  
13 purchased power from APCo, and to describe KgPCo's proposal to pass through  
14 that cost to its retail customers in Tennessee under the provision of the  
15 Company's Purchased Power Adjustment Rider, Sheet Nos. 2-8 through 2-10 of  
16 KgPCo's T.P.S.C. Tariff Number 1 (PPAR).

17 **Q. ARE YOU SPONSORING ANY SCHEDULES?**

18 A. Yes. LCF Attachment 1 provides support for the updated allocation factors used  
19 to allocate the increased non-fuel purchased power costs to KgPCo's customer  
20 classes through the PPAR. LCF Attachment 2 supports the derivation of the  
21 proposed PPAR surcharges. LCF Attachment 3 is the Company's proposed  
22 PPAR. LCF Attachment 4 is a version of the Company's PPAR that passes  
23 through the increased non-fuel purchased power costs from APCo using energy or

1 per lamp PPAR surcharges per the current PPAR. LCF Attachment 5 shows the  
2 derivation of the surcharges in LCF Attachment 4.

3 **Q. PLEASE BRIEFLY DESCRIBE THE FILING MADE BY APCO AT THE**  
4 **FERC TO REVISE THE AGREEMENT UNDER WHICH KGPCO**  
5 **PURCHASES POWER FROM APCO.**

6 A. On November 13, 2008 APCo filed at the FERC a revised agreement (FERC  
7 Revised Rate Schedule 23) between APCo and KgPCo for purchases of power by  
8 KgPCo from APCo. FERC Revised Rate Schedule 23, which is proposed to  
9 become effective January 1, 2009, incorporates new demand, energy and back-up  
10 generation rates, agreed upon by APCo, the Company and the East Tennessee  
11 Energy Consumers, a group of KgPCo's retail industrial customers consisting of  
12 Eastman Chemical Company; Domtar Paper Company, LLC; Air Products and  
13 Chemicals, Inc.; BAE Systems Ordnance Systems, Inc.; AGC Flat Glass North  
14 America; and Wellmont Health Systems, to be paid by KgPCo for power  
15 purchased from APCo. When compared to current generation rates, the agreed  
16 upon rates will increase APCo's annual non-fuel charges to KgPCo by \$24  
17 million in 2009, an additional \$3 million, for a total increase of \$27 million in  
18 2010 and an additional \$9 million, for a total increase of \$36 million in 2011. In  
19 addition, KgPCo will pay for Network Integration Transmission Service (NITS)  
20 and other applicable transmission-related services (other than generation-based  
21 Ancillary Services), as arranged by the AEP East System, in accordance with the  
22 provisions of the PJM Open Access Transmission Service Tariff (OATT), or other  
23 applicable rate FERC rate schedules, as such rate schedules, which may be  
24 revised from time to time, apply to the AEP East System companies.



1 Q. HOW DOES THE COMPANY INTEND TO PASS THE COST OF THE  
2 POWER PURCHASED UNDER FERC REVISED RATE SCHEDULE 23  
3 TO ITS TENNESSEE RETAIL CUSTOMERS?

4 A. Through this filing, the Company is providing notice of its intention to use the  
5 PPAR to pass through the increased non-fuel purchased power costs from its  
6 wholesale supplier to its retail customers. Changes in fuel costs will continue to  
7 be passed through to retail customers under KgPCo's Fuel Adjustment Clause.

8 Q. COULD YOU DESCRIBE THE PPAR?

9 A. The PPAR is a mechanism in the Company's tariffs that allows it to reflect in  
10 customers' bills differences in non-fuel purchased power expense compared to an  
11 amount included in base retail rates. Any change is allowed to become effective  
12 upon the same date as the change in the Company's wholesale supplier's tariff is  
13 implemented by the FERC, in this case January 1, 2009. The current PPAR is a  
14 tariff specific per kwh or per lamp credit applied to customers bills. The  
15 individual rates were developed by allocating to tariff classes the difference in  
16 demand related and energy related costs compared to the amounts built into base  
17 rates. The demand and energy allocation factors are the same factors as were  
18 used in the Company's last base rate case. The class specific difference in  
19 demand and energy related costs were then summed together, adjusted for the  
20 prompt payment discount and divided by the tariff class kwh, or number of lamps  
21 in the case of the OL tariff, to develop a per kwh, or per lamp credit.

22 Q. IS THE COMPANY PROPOSING ANY CHANGES TO THE PPAR?

23 A. Yes. The allocation factors currently in the PPAR used to allocate the change to  
24 tariff classes are based upon the demand and non-fuel energy-related purchased

power expense allocators included in KgPCo's last class cost of service study filed by the Company in its last rate case in 1992. That study used 1991 load data. The Company proposes to update those allocation factors using 2007 load data. The allocation factors the Company proposes to use were developed in the same manner as the allocation factors used in the Company's last rate case. The support used to develop the updated allocation factors is included in LCF Attachment 1. This modification will provide a more accurate allocation of the Company's increased purchased power costs to its customer classes based upon updated conditions. It is the Company's understanding that one of the TRA's Directors recognized the importance of using more current allocation factors to allocate future changes in purchased power costs when the TRA approved a Special Contract between KgPCo and one of its industrial customers, in Docket No. 06-00301, during the TRA's January 8, 2007 conference.

**Q. IS THE COMPANY PROPOSING ANY OTHER CHANGES?**

A. Yes. The current PPAR uses a cent per kwh charge/credit for most tariffs. The Company proposes to use a demand and energy charge/credit for those tariffs that currently contain both a demand and energy component. Currently the only two tariffs that contain both demand and energy charges are the LGS (Large General Service) and IP (Industrial Power) tariffs. The Company is proposing this change to mitigate the wide variation in impacts between high load factor and low load factor customers' bills in each of those two tariffs caused by the change in purchased power costs. Under the current energy only charge, high load factor customers would be more severely impacted than low load factor customers. However, the vast majority of the increase in purchased power cost is demand

1 related. The Company's proposal establishes a demand charge based upon half of  
2 the increased demand costs under the new contract. The other half of the  
3 increased demand costs as well as the increased energy costs would be included in  
4 the proposed energy rate. This levels the impacts of the changed costs among all  
5 customers within a tariff. Supporting documentation that shows the derivation of  
6 the charges is shown in LCF Attachment 2. The revised PPAR, including the  
7 resulting charges which would increase KgPCo's revenues by approximately 24%  
8 to cover increased purchased power costs, is provided as LCF Attachment 3.

9 **Q. HAVE YOU PREPARED AN ATTACHMENT THAT SHOWS WHAT**  
10 **THE NEW SURCHARGES WOULD BE WITH NO OTHER CHANGES**  
11 **TO THE PPAR?**

12 A. Yes. LCF Attachment 4 is a version of the PPAR that passes through the  
13 Company's increased purchased power costs to its retail customers under the  
14 current PPAR. It reflects the PPAR as it currently exists, with surcharges  
15 designed to recover the Company's increased purchased power costs, but does not  
16 reflect updated allocation factors or demand and energy rates for the LGS and IP  
17 classes. Supporting documentation that shows the calculation of the surcharges  
18 shown on LCF Attachment 4 is provided in LCF Attachment 5.

19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes it does.

Kingsport Power Company  
 Calculation of Energy Allocation Factors  
 Purchase Power Adjustment

Energy Allocation Factors

	2007 Metered kWh	2007 Loss Factor	Loss Adjusted Load (to Transmission)	2007 Allocation Factor
Residential	752,889,720	1.05881	797,167,164	34.79%
SGS	21,317,858	1.05881	22,571,561	0.99%
MGS	90,815,583	1.05881	96,156,447	4.20%
LGS - Sec	241,176,191	1.05881	255,359,763	11.14%
LGS - Pri	29,739,450	1.02433	30,463,011	1.33%
Total LGS	270,915,641		285,822,774	12.47%
IP - Pri	145,987,350	1.02433	149,539,222	6.53%
IP - Tran	854,316,608	1.00000	854,316,608	37.28%
Total IP	1,000,303,958		1,003,855,830	43.81%
EHG	33,418,766	1.05881	35,384,124	1.54%
CS	10,246,488	1.05881	10,849,084	0.47%
PS	32,987,176	1.05881	34,927,152	1.52%
OL	4,328,393	1.05881	4,582,946	0.20%
Total	2,217,223,583		2,291,317,082	100%

Kingsport Power Company  
 Calculation of Demand Allocation Factors  
 Purchase Power Adjustment

Demand Allocation Factors

	2007 Load Research	2007 Loss Factor	Loss Adjusted Load (to Transmission)	2007 Allocation Factor
Residential	147,475	1.06266	156,716	44.76%
SGS	3,283	1.06266	3,489	1.00%
MGS	16,834	1.06266	17,889	5.11%
LGS - Sec	34,215	1.06266	36,359	10.38%
LGS - Pri	4,219	1.03337	4,360	1.25%
Total LGS	38,434		40,719	11.63%
IP - Pri	16,683	1.03337	17,240	4.92%
IP - Tran	99,473	1.00000	99,473	28.41%
Total IP	116,156		116,712	33.33%
EHG	6,048	1.06266	6,427	1.84%
CS	2,002	1.06266	2,127	0.61%
PS	5,352	1.06266	5,687	1.62%
OL	367	1.06266	390	0.11%
Total	335,950		350,155	100%

## Kingsport Class Load Research Analysis Results - All the Meter-MW

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Sum Peak KW	Average Monthly
Kingsport	1/29/07 9:00	2/6/07 8:00	3/5/07 8:00	4/9/07 8:00	5/30/07 18:00	6/27/07 17:00	7/9/07 18:00	8/6/07 17:00	9/5/07 18:00	10/30/07 8:00	11/5/07 8:00	12/18/07 8:00		
Residential	393.6	430.5	430.5	367.6	339.9	313.9	339.0	336.5	361.2	332.4	297.0	337.6	4,253.179	147,475
Electric Heat General	205.0	204.8	204.8	165.8	138.8	103.1	121.0	120.1	148.4	134.7	100.3	140.2	1,769.698	6,048
Church Services	6.8	7.8	7.8	6.1	2.5	5.9	6.5	7.8	7.2	7.0	4.5	4.3	72.6	2,002
Public Schools	1.9	2.5	2.5	1.3	1.0	2.2	2.3	2.2	3.1	2.7	1.2	1.6	24.0	6,048
Small General Service	7.0	7.0	7.0	6.4	3.7	4.0	3.7	4.3	4.8	5.8	6.0	6.0	64.2	5,352
Medium General Service	3.7	5.1	5.1	2.7	3.1	2.9	3.5	2.8	3.5	3.8	2.0	2.6	36.4	3,253
Large General Service	21.1	15.7	15.7	17.9	14.1	15.3	17.8	18.1	19.5	16.3	12.1	14.7	202.0	202,008
Industrial Power - Primary	43.6	39.8	39.8	38.5	33.8	38.5	42.1	41.7	42.1	37.5	32.4	33.6	461.2	38,434
Industrial Power - Transmission	17.5	16.7	16.7	16.7	15.9	15.7	17.9	18.2	17.3	15.5	16.1	15.2	200.2	16,683
Lighting	69.9	101.3	101.3	102.0	99.2	102.7	98.6	98.6	102.4	101.6	104.2	102.4	1,193.7	99,473
Losses & Unaccounted	0.0	1.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7	4.4	367
	17.0	28.2	28.2	12.1	27.9	23.1	21.5	21.7	12.9	7.5	17.5	16.3	221.8	221,782
													4,031.396	

Avg.  
Monthly

461,209  
38,434  
410,681  
34,215  
50,629  
4,219  
461,209

LGS Energy

241,176,191  
28,739,450  
270,915,641

Sec  
Ph

**TARIFF SUMMARY BILLED REVENUE - ALL REVENUE CLASSES**  
**12 MONTHS BILLED - MCSR0162 - FINAL**

Prepared: 01/10/2008 08:48:56 AM

December 2007 Page: 1

TARIFF	REVENUE	FUEL CLAUSE	REVENUE EXCL FUEL CLAUSE	METERED KWH	OFF PK KWH	BILLING DEMAND	# OF CUST INCL	# OF CUST EXCL	# OF LAMPS	REALIZATION			
										INCL	EXCL	FUEL	FACILITY CHARGE
011 PS-LAMH	38,185.65	755.56	37,430.09	793,848	0	255.1	36	0	0	4.87	0	4.78	0.00
015 PS	35,270,757.80	734,072.12	38,536,465.68	749,936,630	0	12,307.1	41,499	0	0	5.24	0	5.14	0.00
018 PS EMP	96,355.16	2,032.54	93,342.62	2,134,130	0	0.0	98	0	0	4.43	0	4.39	0.00
051 PSW-LAMH	1,911.87	43.55	1,868.32	45,112	0	0.0	2	0	0	4.24	0	4.14	0.00
083 OL 7000	58,808.53	0.00	58,808.53	457,894	0	0.0	0	494	534	12.84	12.84	12.84	95.40
084 9500 HPS	248,451.79	0.00	248,451.79	1,360,066	0	0.0	0	2,348	2,839	18.27	18.27	18.27	12,779.40
088 OL 20000	11,461.03	0.00	11,461.03	317,815	0	0.0	0	36	63	10.07	10.07	10.07	0.00
097 22000 HPS	89,923.78	0.00	89,923.78	534,214	0	0.0	0	294	633	14.18	14.18	14.18	10,659.79
099 OL 7000PT	31.79	0.00	31.79	192	0	0.0	0	0	0	16.56	16.56	16.56	0.00
107 22000HPSF	65,148.67	0.00	65,148.67	428,250	0	0.0	0	236	427	15.21	15.21	15.21	8,589.90
109 8000HPSF	7,978.16	0.00	7,978.16	76,095	0	0.0	0	13	38	10.49	10.49	10.49	927.15
110 17000 MH	8,686.84	0.00	8,686.84	63,727	0	0.0	0	29	54	13.63	13.63	13.63	486.01
111 9500HPSPT	47,114.13	0.00	47,114.13	149,509	0	0.0	0	69	319	31.51	31.51	31.51	4,841.75
115 9500 HPSF	32,989.33	0.00	32,989.33	56,029	0	0.0	0	81	117	23.18	23.18	23.18	604.53
116 28800 MH	108,493.94	0.00	108,493.94	968,580	0	0.0	0	340	518	11.20	11.20	11.20	13,837.70
122 16000SVPT	2,489.73	0.00	2,489.73	4,278	0	0.0	0	0	0	58.20	58.20	58.20	0.00
128 30000HPSF	3,065.66	0.00	3,065.66	11,744	0	0.0	0	4	6	36.10	36.10	36.10	132.24
208 EHG	1,591,075.26	27,341.79	1,663,733.47	27,748,307	0	132,279.6	530	0	0	6.09	6.09	6.09	0.00
209 EHG MIN	349,476.81	5,507.18	343,969.63	5,670,439	0	25,340.4	145	0	0	6.16	6.16	6.16	0.00
221 CS	662,508.30	9,676.19	652,832.11	10,246,488	0	56,770.1	184	0	0	6.47	6.47	6.47	0.00
229 MGS	39,844.23	705.07	39,139.16	687,520	0	0.0	0	0	0	5.80	5.80	5.80	0.00
231 SGS FIXED	1,491,801.87	18,436.48	1,473,365.09	18,450,532	0	18,481.2	3,358	0	0	8.09	8.09	8.09	0.00
232 SGS MEAS	189,173.40	2,644.57	186,528.83	2,652,104	0	8,135.4	245	0	0	7.11	7.11	7.11	0.00
233 SGS NMTN	18,168.61	198.58	17,970.03	206,242	0	0.0	60	0	0	8.81	8.81	8.81	0.00
235 MGS SEC	5,719,211.83	88,247.01	5,630,964.82	59,742,438	0	346,845.0	4,288	0	0	6.37	6.37	6.37	0.00
237 MGS PRI	35,890.41	399.58	35,490.83	385,625	0	2,593.0	3	0	0	5.71	5.71	5.71	0.00
240 LGS SEC	11,567,588.56	233,210.07	11,334,348.49	236,298,591	0	685,396.0	296	0	0	4.90	4.90	4.90	0.00
242 LGS M SEC	236,152.06	4,746.61	231,405.45	4,877,600	0	12,089.0	4	0	0	4.64	4.64	4.64	0.00
244 LGS PRI	1,442,055.83	31,051.95	1,411,003.88	29,739,450	0	102,585.0	9	0	0	4.95	4.95	4.95	0.00
322 JP PRI	5,215,039.06	144,299.98	5,070,729.08	145,987,350	0	222,629.2	2	0	0	3.57	3.57	3.57	0.00
324 LP TRAN	29,034,945.20	820,672.92	28,204,272.30	854,356,608	0	1,807,782.8	4	0	0	3.40	3.40	3.40	0.00
523 SL	1,372,523.87	0.00	1,372,523.87	7,403,170	0	0.0	4	0	0	17.19	17.19	17.19	0.00
640 PS	498,287.25	8,238.42	490,048.83	8,293,740	0	33,723.0	17	0	0	6.01	6.01	6.01	0.00
641 PS UNITS	59,486.58	1,205.24	57,281.34	1,234,800	0	4,355.4	1	0	0	4.73	4.73	4.73	0.00
642 PS ALL E	1,057,219.24	22,756.86	1,034,462.38	23,458,666	0	82,161.3	36	0	0	4.51	4.51	4.51	0.00
Grand Total	300,620,653.15	2,156,422.27	298,464,230.88	2,224,636,783	347,160	9,544,096.3	47,525	3,887	5,554	4.52	4.43	4.43	51,493.87

**PPAR Revenue Requirement**

	2007 Billing Determinants	Current Rates	QATT Rates (Next 2 months)	QATT Rates (Remaining Months)	2007 Revenues	Proposed Increase	Proposed Revenue Requirement	New FERC Rates	Embedded Revenues	Net Revenue Requirement
Demand	4,214,344	4.68			19,882,949	21,717,873	41,610,822	9,872	21,098,786	20,574,098
Energy	2,233,440,877	0.004276			9,688,559	1,206,000	11,084,559	0.0048848	10,000,008	1,084,551
Back-up Service Level A	21,000	0.347			87,444	36,343	124,387	0.4898000	87,444	36,943
Back-up Service Level B	10,000	0.894			89,400	34,184	118,464	0.9872000	83,280	35,184
Back-up Service Level C	48,000	0.684			32,832	0	0			
Generation Total					26,973,463	24,000,000	52,942,233		31,207,518	21,734,715
Trans - Demand Rate	378,000	2.272	1.763	1.871	9,576,363	(770,212)	8,806,141		9,576,363	(770,212)
Trans - Energy Rate		0	0.1862310	0.2016930	0	834,414	834,414		0	834,414
Transmission Total		0			8,576,353	(735,798)	8,440,555		8,576,353	(735,798)
Total					38,849,816	23,884,202	62,382,788		46,793,876	21,888,917

**Class Responsibility**

**Generation**

	Demand Alloc.	Demand Revenues	Energy Alloc.	Energy Revenues	Class Responsibility
Residential	44.78%	9,208,131	34.79%	378,716	9,586,847
SGS	1.00%	205,000	0.89%	10,729	215,729
MCS	5.11%	1,061,065	4.20%	45,882	1,096,777
LGS	11.83%	2,382,513	12.47%	135,788	2,528,301
IP	33.33%	6,857,652	43.81%	478,908	7,334,560
ENG	1.84%	377,608	1.54%	16,810	394,419
CS	0.81%	124,880	0.74%	8,154	133,034
PS	0.11%	22,884	0.50%	18,594	38,078
OL	0.11%	22,884	0.20%	2,177	25,071
Total		28,874,006		1,888,551	21,642,888

**Transmission**

	Demand Alloc.	Demand Revenues	Energy Alloc.	Energy Revenues	Class Responsibility
Residential	44.78%	(344,717)	34.79%	220,718	(123,999)
SGS	1.00%	(7,674)	0.89%	6,250	(1,425)
MCS	5.11%	(39,346)	4.20%	26,624	(12,725)
LGS	11.83%	(89,566)	12.47%	79,138	(10,428)
IP	33.33%	(266,724)	43.81%	277,945	11,221
ENG	1.84%	(14,190)	1.54%	6,797	(7,393)
CS	0.81%	(4,679)	0.74%	5,044	365
PS	0.11%	(1,877)	0.50%	8,871	6,994
OL	0.11%	(897)	0.20%	1,289	492
Total		(770,212)		634,414	(135,798)



Appalachian Power Company  
Purchases Power Rider Surcharges  
2019 Rider Rates  
Updated Allocation - Demand & Energy Rates

### Calculation of Surchance Rates

#### Generation

Energy Revenues	Add on Demand Revenue	Net Energy Revenues	Prompt Payment Discount 1.225%	RWHLamp	Rate	Revenue	Prompt Payment	Total Revenue
Residential	378,716	9,208,131	9,782,864	753,885,720	0.01283	8,724,864	146,028	8,588,841
SGS	10,723	205,000	215,723	21,317,859	0.01027	214,864	3,284	215,650
WGS	45,682	1,051,095	1,096,777	80,815,589	0.01228	1,113,388	16,701	1,096,688
LGS	135,788	1,198,256	1,332,044	270,915,641	0.00658	1,351,889	20,278	1,331,291
IP	476,808	3,428,826	3,905,219	1,000,303,958	0.00096	3,901,204	58,418	3,801,785
EHG	18,610	17,925	36,535	10,446,488	0.00015	10,446,488	158	10,446,646
CS	3,004	134,048	137,052	33,987,178	0.01079	33,952,932	5,339	33,958,271
PS	18,580	324,155	342,735	66,646	0.01079	342,735	382	342,735
OL	2,177	22,894	25,071	66,646	0.01079	25,454	382	25,072
Total	1,084,551	15,948,954	17,037,805	17,038,987		17,284,889	259,411	17,034,578

Demand Revenues	Prompt Payment Discount 1.225%	kW	Rate (\$/kW)	Revenue	Prompt Payment	Total Revenue
Residential						
SGS						
WGS						
LGS						
IP						
EHG						
CS						
PS						
OL						
Total						

#### Transmission

Energy Revenues	Add on Demand Revenue	Net Revenues	Prompt Payment Discount 1.225%	RWHLamp	Rate	Revenue	Prompt Payment	Total Revenue
Residential	220,716	(344,217)	(123,501)	753,885,720	0.000171	(127,891)	(1,920)	(128,071)
SGS	8,250	(7,871)	(479)	21,317,859	0.000071	(1,482)	(22)	(1,504)
WGS	28,524	(38,349)	(9,825)	80,815,589	0.00014	(12,714)	(191)	(12,905)
LGS	79,138	(44,763)	34,355	270,915,641	0.00015	35,218	528	34,691
IP	277,345	(128,362)	149,583	1,000,303,958	0.00015	150,046	2,251	147,795
EHG	9,797	(4,338)	5,465	33,987,178	0.00015	(4,344)	(65)	(4,279)
CS	3,004	(4,079)	(1,075)	10,246,488	0.000171	(1,742)	(28)	(1,770)
PS	8,571	(13,509)	(4,938)	32,387,178	0.00039	(23,869)	(46)	(23,915)
OL	1,238	(657)	581	66,646	0.00027	415	0	415
Total	634,414	(387,067)	247,347			34,430	816	33,614

Demand Revenues	Prompt Payment Discount 1.225%	kW	Rate (\$/kW)	Revenue	Prompt Payment	Total Revenue
Residential						
SGS						
WGS						
LGS						
IP						
EHG						
CS						
PS						
OL						
Total						

Appalachian Power Company  
Purchase Power Rider Structuring  
2007 Rate Filing  
Updated Allocation - Demand & Energy Rates

Combined Rate			
	Demand Rate	Energy Rate	Lamp Rate
Residential	0.00	0.01276	
SGS	0.00	0.01020	
MCS	0.00	0.00712	
IP	2.50	0.00512	
ENG	2.40	0.00411	
CS	0.00	0.01185	
PS	0.00	0.01272	
OL	0.00	0.01070	0.38516
	0.00	0.00600	

#### Summary of Class Impacts

	2007 Revenues	Current PP Adjustment Rider Credit	Proposed PP Adjustment Rider	Transmission Revenue	Proposed Revenue	% Change
Residential	39,402,210	(1,054,066)	9,509,941	(128,071)	49,933,076	27%
SGS	5,451,146	(104,430)	2,315,690	(1,470)	1,937,624	14%
MCS	5,764,946	(104,430)	1,066,698	(12,529)	6,973,559	21%
LCS	13,235,766	(208,244)	2,528,377	(10,730)	16,941,650	21%
IP	34,238,975	(928,910)	7,334,182	24,220	42,427,265	24%
ENG	2,040,552	(41,105)	394,351	(4,279)	2,471,790	21%
CS	682,509	(11,866)	130,086	(1,716)	862,877	21%
PS	1,613,912	(45,176)	350,593	(2,324)	2,006,797	24%
OL	685,084	(698)	25,072	412	681,263	4%
Total	93,348,069	(2,400,953)	21,681,860	(135,062)	123,275,831	24%

### PURCHASED POWER ADJUSTMENT RIDER

Kingsport Power is authorized under the terms of this rider to apply a surcharge to all customer bills rendered by the Company to allow for changes in the non-fuel cost of purchased power from the Company's wholesale power supplier under the Federal Energy Regulatory Commission implemented rate schedules, including, but not limited to, all demand charges and energy charges which are paid by the Company to its wholesale power supplier in connection with the electric service provided to the Company.

1. Calculation of Change in Non-Fuel Purchased Power Expense

The change in the Company's non-fuel purchased power expense shall be calculated according to the following formula:

$$(D_p - D_o) + (E_p - E_o)$$

where "D" is the Company's demand-related purchased power expense and "E" is the Company's non-fuel energy-related purchased power expense as calculated for a 12-month test period based on the wholesale supplier's proposed ("p") and current ("o") rates.

2. Allocation of Change in Non-Fuel Purchased Power Expense to Tariffs

The change in the Company's demand and non-fuel energy-related purchased power expense as determined under Section 1 of this rider shall be allocated to individual tariffs by application of the following allocation factors:

<u>Tariff</u>	<u>Demand Allocation Factor %</u>	<u>Energy Allocation Factor %</u>
Residential Service (RS)	45.3144.76	35.7234.79
Small General Service (SGS)	0.801.00	0.780.99
Medium General Service (MGS)	3.945.11	3.824.20
Electric Heating General (EHG)	2.171.84	1.961.54
Church Service (CS)	0.390.61	0.370.47
Public Schools (PS)	2.521.62	2.041.52
Large General Service (LGS)	13.6411.63	14.3612.47
Industrial Power (IP)	31.2133.33	40.7943.81
Outdoor Lighting (OL)	0.020.11	0.190.20
Total	100.00	100.00

The above allocation factors shall be based upon the demand and non-fuel energy-related purchased power expense allocators as contained in the most recent class cost of service study filed by the Company with the Tennessee Public Service Commission Regulatory Authority in support of the Company's other retail rates Docket Number xx-xxxxx.

3. Determination of Surcharges by Tariff

The change in demand and non-fuel energy-related purchased power expense as allocated to each tariff under the terms of Section 2 of this rider shall be recovered by means of a kilowatt-hour (KWH) surcharge calculated according to the following formula: demand energy or lamp surcharge calculated according to the following formulas:

Tariffs RS, SGS, MGS, EHG, CS, and PS: (Energy only)

$$\frac{\Delta D + \Delta E}{KWH}$$

Issued: ~~December 29, 1994~~ December xx, 2008  
By: ~~Allan R. Glassburn~~ Dana Waldo, President  
Kingsport, Tennessee

Effective: ~~December 29, 1994~~ January 1, 2009  
Pursuant to an Order in  
Docket Number 94-04283 ~~xx-xxxxx~~

**KINGSPORT POWER COMPANY**  
Kingsport, Tennessee

**Original-1<sup>st</sup> Revised Sheet Number 2-9**  
**T.P.S.C. Tariff Number 1**  
**Cancels Original Sheet Number 2-9**

**PURCHASED POWER ADJUSTMENT RIDER**

<u>Tariffs LGS and IP: (Demand and Energy)</u>	
Demand:	Energy:
$\frac{1}{2} \Delta D$	$\frac{1}{2} \Delta D + \Delta E$
KW	KWH
<u>Tariff OL (Lamp Only)</u>	
$\Delta D + \Delta E$	
Lamp months	

where " $\Delta D$ " is the change in the Company's demand-related purchased power expense allocated to each tariff, " $\Delta E$ " is the change in the Company's non-fuel energy-related purchased power expense allocated to each tariff and, "KWH" is the test-year-previous calendar year kilowatthour sales by tariff for all tariffs excluding Outdoor Lighting. The denominator used in the calculation of the surcharge for the Outdoor Lighting tariff shall be lamp months for the test year. "KW" is the previous calendar year kilowatt sales by tariff for all tariffs and lamp months is the lamp months for the previous calendar year.

4. Effective Date of Surcharge

The tariff surcharges as calculated in Section 3 of this rider shall be effective upon the same date as any change in the Company's wholesale supplier's tariffs is implemented by the Federal Energy Regulatory Commission.

5. Notification of Change in Surcharge by the Company

The Company will provide no less than a 30-day notice of the proposed effective date in any change in the purchased power surcharge to its customers. The Company will also provide the calculations and other information supporting the proposed purchased power surcharges to the Staff of the Tennessee Public Service Commission 30 days prior to the effective date of such surcharge.

6. Refund Procedure

Should the change in the Company's non-fuel related purchased power expense recovered through the application of this rider exceed the level of change in non-fuel related purchased power expense ultimately approved by the Federal Energy Regulatory Commission, then the Company shall promptly notify the Tennessee Public Service Commission of such a final Federal Energy Regulatory Commission order, recalculate the appropriate purchased power surcharges, and refund any excess non-fuel related purchased power expense recovered through this rider following the receipt of a refund from its wholesale supplier.

Issued: ~~December 29, 1994~~ December xx, 2008  
By: Allan R. Glassburn Dana Waldo, President  
Kingsport, Tennessee

Effective: ~~December 29, 1994~~ January 1, 2009  
Pursuant to an Order in  
Docket Number 94-04283-xx-xxxxx

KINGSPORT POWER COMPANY  
d/b/a AMERICAN ELECTRIC POWER  
Kingsport, Tennessee  
2-10

Page 3 of 3  
2nd-3rd Revised Sheet Number 2-10  
T.R.A. Tariff Number 1  
Cancels 1st-2nd Revised Sheet Number

### PURCHASED POWER ADJUSTMENT RIDER

7. Surcharge

Pursuant to the provisions of this Rider, a permanent Purchased Power Adjustment Rider credit surcharge will be applied to each kilowatt-hour, kilowatt or lamp as billed under the Company's filed tariffs except in the case of the Company's OL tariff which will be applied based on a per lamp equivalent basis.

The Purchased Power Adjustment Rider credit surcharge applicable to each tariff is set below:

<u>Tariff</u>	<u>Permanent</u> <u>(\$)/KWH</u>
RS	.00140
SGS	.00114
MGS	.00115
EHG	.00123
CS	.00117
PS	.00138
LGS	.00109
IP	.00083
OL	.01154

<u>Tariff</u>	<u>Energy Rate</u> <u>(\$) / KWH</u>	<u>Demand Rate</u> <u>(\$) / KW</u>	<u>Lamp Rate</u> <u>(\$) / Lamp</u>
RS	.01276		
SGS	.01020		
MGS	.01212		
EHG	.01185		
CS	.01272		
PS	.01070		
LGS	.00512	2.53	
IP	.00411	2.41	
OL			.38818

Issued: February 6, 2004 December xx, 2008  
By: R. D. Carson, Vice Dana Waldo, President

Effective: September 1, 2000 January 1, 2009  
Pursuant to an Order in  
Docket Number 99-00551-xx-xxxxx

### PURCHASED POWER ADJUSTMENT RIDER

Kingsport Power is authorized under the terms of this rider to apply a surcharge to all customer bills rendered by the Company to allow for changes in the non-fuel cost of purchased power from the Company's wholesale power supplier under the Federal Energy Regulatory Commission implemented rate schedules, including, but not limited to, all demand charges and energy charges which are paid by the Company to its wholesale power supplier in connection with the electric service provided to the Company.

1. Calculation of Change in Non-Fuel Purchased Power Expense

The change in the Company's non-fuel purchased power expense shall be calculated according to the following formula:

$$(D_p - D_c) + (E_p - E_c)$$

where "D" is the Company's demand-related purchased power expense and "E" is the Company's non-fuel energy-related purchased power expense as calculated for a 12-month test period based on the wholesale supplier's proposed ("p") and current ("c") rates.

2. Allocation of Change in Non-Fuel Purchased Power Expense to Tariffs

The change in the Company's demand and non-fuel energy-related purchased power expense as determined under Section 1 of this rider shall be allocated to individual tariffs by application of the following allocation factors:

<u>Tariff</u>	<u>Demand Allocation Factor %</u>	<u>Energy Allocation Factor %</u>
Residential Service (RS)	45.31	35.72
Small General Service (SGS)	0.80	0.78
Medium General Service (MGS)	3.94	3.82
Electric Heating General (EHG)	2.17	1.96
Church Service (CS)	0.39	0.37
Public Schools (PS)	2.52	2.01
Large General Service (LGS)	13.64	14.36
Industrial Power (IP)	31.21	40.79
Outdoor Lighting (OL)	0.02	0.19
Total	100.00	100.00

The above allocation factors shall be based upon the demand and non-fuel energy-related purchased power expense allocators as contained in the most recent class cost-of-service study filed by the Company with the Tennessee Public Service Commission in support of the Company's other retail rates.

3. Determination of Surcharges by Tariff

The change in demand and non-fuel energy-related purchased power expense as allocated to each tariff under the terms of Section 2 of this rider shall be recovered by means of a kilowatthour (KWH) surcharge calculated according to the following formula:

$$\frac{\Delta D + \Delta E}{KWH}$$

Issued: December 29, 1994  
By: Allan R. Glassburn, President  
Kingsport, Tennessee

Effective: December 29, 1994  
Pursuant to an Order in  
Docket Number 94-04283

KINGSPORT POWER COMPANY  
Kingsport, Tennessee

Original Sheet Number 2-9  
T.P.S.C. Tariff Number 1

**PURCHASED POWER ADJUSTMENT RIDER**

where " $\Delta D$ " is the change in the Company's demand-related purchased power expense allocated to each tariff, " $\Delta E$ " is the change in the Company's non-fuel energy-related purchased power expense allocated to each tariff and "KWH" is the test year kilowatthour sales by tariff for all tariffs excluding Outdoor Lighting. The denominator used in the calculation of the surcharge for the Outdoor Lighting tariff shall be lamp-months for the test year.

4. Effective Date of Surcharge

The tariff surcharges as calculated in Section 3 of this rider shall be effective upon the same date as any change in the Company's wholesale supplier's tariffs is implemented by the Federal Energy Regulatory Commission.

5. Notification of Change in Surcharge by the Company

The Company will provide no less than a 30-day notice of the proposed effective date in any change in the purchased power surcharge to its customers. The Company will also provide the calculations and other information supporting the proposed purchased power surcharges to the Staff of the Tennessee Public Service Commission 30 days prior to the effective date of such surcharge.

6. Refund Procedure

Should the change in the Company's non-fuel related purchased power expense recovered through the application of this rider exceed the level of change in non-fuel related purchased power expense ultimately approved by the Federal Energy Regulatory Commission, then the Company shall promptly notify the Tennessee Public Service Commission of such a final Federal Energy Regulatory Commission order, recalculate the appropriate purchased power surcharges, and refund any excess non-fuel related purchased power expense recovered through this rider following the receipt of a refund from its wholesale supplier.

Issued: December 29, 1994  
By: Allan R. Glassburn, President  
Kingsport, Tennessee

Effective: December 29, 1994  
Pursuant to an Order in  
Docket Number 94-04283

KINGSPORT POWER COMPANY  
d/b/a AMERICAN ELECTRIC POWER  
Kingsport, Tennessee

~~2nd~~ 3rd Revised Sheet Number 2-10  
T.R.A. Tariff Number 1  
Cancels ~~1st~~ 2nd Revised Sheet Number 2-10

### PURCHASED POWER ADJUSTMENT RIDER

#### 7. Surcharge

Pursuant to the provisions of this Rider, a permanent Purchased Power Adjustment Rider ~~credit~~ surcharge will be applied to each kilowatt-hour as billed under the Company's filed tariffs except in the case of the Company's OL tariff which will be applied based on a per lamp equivalent basis.

The Purchased Power Adjustment Rider ~~credit~~ surcharge applicable to each tariff is set below:

<u>Tariff</u>	<u>Permanent</u> <u>(\$)/KWH</u>
RS	.0014001292
SGS	.0011400818
MGS	.0011500946
EHG	.0012301408
CS	.0011700828
PS	.0013801643
LGS	.0010901105
IP	.0008300699
OL	.0115411019

Issued: ~~February 6, 2004~~ December xx, 2008  
- By: R. D. Carson, Vice Dana Waldo, President

Effective: ~~September 1, 2000~~ January 1, 2009  
Pursuant to an Order in  
Docket Number 99-00554-xx-xxxxx



Appalachian Power Company  
Purchase Power Rider Surcharge  
2007 Billing Determinants  
Current Allocation - Energy Only

**PPAR Revenue Requirement**

2007 Billing Determinants	Current Rates	OATT Rates (First 2 months)	OATT Rates (Remaining Months)	2007 Revenues	Proposed Increase	Proposed Revenue Requirement	New FERC Rates	Embedded Revenues	Net Revenue Requirement
Demand	4,214,844	4,489		18,882,949	22,727,873	41,610,822	9,872	21,008,796	20,574,036
Energy	2,233,448,177	0.004375		9,888,559	1,200,000	11,088,559	0.0048646	10,000,000	1,088,559
Back-up Service Level A	21,000	0.247		87,444	36,943	124,387	0.4038000	87,444	36,943
Back-up Service Level B	10,000	0.684		83,280	33,184	116,464	0.9572000	83,280	33,184
Back-up Service Level C	45,000	0.884		31,230	0				
Generation Total				28,971,403	24,000,000	52,942,233		31,207,518	21,734,715
Train - Demand Rate	275,000	2.272	1.783	9,376,353	(770,213)	8,606,141		8,576,353	(770,213)
Train - Energy Rate	0	0	0.294850	0	634,414	634,414		0	634,414
Transmission Total	0	0		9,376,353	(135,799)	9,440,555		9,376,353	(135,799)
Total				38,548,815	21,844,202	62,352,748		40,743,170	21,598,517

**Class Responsibility**

Generation	Demand Alloc.	Demand Revenues	Energy Alloc.	Energy Revenues	Class Responsibility
Residential	45.31%	8,322,098	35.72%	346,831	9,710,926
SGS	0.80%	167,582	0.79%	8,491	173,083
MGS	3.84%	810,617	3.82%	41,583	852,200
LGS	13.64%	2,805,299	14.38%	155,316	2,962,615
IP	31.21%	6,421,157	40.78%	404,020	6,825,177
ENG	1.71%	353,525	0.37%	3,622	357,147
PS	0.39%	80,298	0.27%	2,622	82,920
PS	2.52%	518,468	2.01%	21,880	540,346
OL	0.02%	4,115	0.19%	2,058	6,173
		26,574,036		1,484,551	21,852,588
Transmission					
Residential	45.31%	(348,883)	35.72%	228,613	(122,370)
SGS	0.80%	(8,162)	0.79%	4,948	(1,213)
MGS	3.84%	(30,246)	3.82%	24,235	(6,012)
LGS	13.64%	(105,057)	14.38%	91,102	(13,955)
IP	31.21%	(260,383)	40.78%	253,775	(6,608)
ENG	1.71%	(10,310)	0.37%	12,435	(4,279)
PS	0.39%	(3,004)	0.27%	2,347	(666)
PS	2.52%	(19,400)	2.01%	12,782	(6,618)
OL	0.02%	(154)	0.19%	1,205	1,051
		(770,213)		634,414	(135,799)

Appalachian Power Company  
Purchase Power Rider Surcharges  
2007 Billing Determinants  
Current Allocation - Energy Only

### Calculation of Surcharge Rates

#### Generation

Energy Revenues	Add on Demand Revenue	Net Energy Revenues	Prompt Payment Discount 1.223%	KWH/Lamp	Rate	Revenue	Prompt Payment	Total Revenue
Residential								
SCS	368,831	9,320,045	9,688,824	752,889,720	0.01306	9,855,328	147,830	9,707,497
SCS	4,846	124,585	129,431	21,317,858	0.00624	175,659	2,635	173,024
SCS	41,263	810,617	851,879	80,815,583	0.00933	885,473	12,882	862,480
SCS	153,316	2,800,289	3,007,735	270,915,641	0.01110	3,007,164	45,107	2,962,056
SCS	444,020	6,421,157	6,865,177	1,000,303,968	0.00687	6,872,119	102,522	6,669,597
SCS	21,338	448,457	474,917	32,418,486	0.01451	685,185	7,123	668,062
SCS	4,028	80,239	84,267	32,418,486	0.00953	85,558	1,283	84,275
SCS	27,063	517,665	544,728	32,418,486	0.01683	544,577	8,229	540,348
SCS	2,068	4,115	6,183	66,686	0.09418	6,277	94	6,183
Total	1,848,851	20,574,035	21,422,888			21,381,833	329,845	21,481,147

#### Revenue Proof

Revenue	Prompt Payment	Total Revenue
Revenue	Prompt Payment	Total Revenue

#### Transmission

Energy Revenues	Add on Demand Revenue	Net Revenues	Prompt Payment Discount 1.223%	KW	Rate (\$/KW)	Revenue	Prompt Payment	Total Revenue
Residential								
SCS	0	0	0.00	0.00		0	0	0
SCS	0	0	0.00	0.00		0	0	0
SCS	0	0	0.00	0.00		0	0	0
SCS	0	0	0.00	0.00		0	0	0
SCS	0	0	0.00	0.00		0	0	0
SCS	0	0	0.00	0.00		0	0	0
Total	0	0	0.00	0.00		0	0	0

#### Transmission

Energy Revenues	Add on Demand Revenue	Net Revenues	Prompt Payment Discount 1.223%	KW	Rate (\$/KW)	Revenue	Prompt Payment	Total Revenue
Residential								
SCS	228,613	(548,983)	(320,370)	(122,370)	(0.00017)	(127,981)	(1,820)	(126,071)
SCS	4,846	(6,162)	(1,316)	(1,316)	(0.00006)	(1,279)	(19)	(1,298)
SCS	51,403	(105,807)	(54,404)	(54,404)	(0.00007)	(6,357)	(86)	(6,443)
SCS	258,778	(240,383)	18,395	(13,955)	(0.00007)	(13,548)	(203)	(13,751)
SCS	12,435	(46,714)	(34,279)	(4,279)	(0.00002)	20,006	300	19,706
SCS	2,347	(3,004)	(667)	(667)	(0.00013)	(4,344)	(63)	(4,407)
SCS	12,752	(19,409)	(6,657)	(6,657)	(0.00007)	(7,171)	(83)	(7,254)
SCS	1,205	(154)	1,051	(6,658)	(0.00007)	(6,537)	(83)	(6,620)
Total	834,414	(770,213)	(64,801)	(137,848)	0.01601	(1,087)	18	1,069

#### Revenue Proof

Revenue	Prompt Payment	Total Revenue
Revenue	Prompt Payment	Total Revenue

#### Transmission

Energy Revenues	Add on Demand Revenue	Net Revenues	Prompt Payment Discount 1.223%	KW	Rate (\$/KW)	Revenue	Prompt Payment	Total Revenue
Residential								
SCS	0	0	0.00	0.00		0	0	0
SCS	0	0	0.00	0.00		0	0	0
SCS	0	0	0.00	0.00		0	0	0
SCS	0	0	0.00	0.00		0	0	0
SCS	0	0	0.00	0.00		0	0	0
SCS	0	0	0.00	0.00		0	0	0
Total	0	0	0.00	0.00		0	0	0

Appalachian Power Company  
Purchase Power Rider Surcharge  
2007 Billing Determinants  
Current Allocators - Energy Only

**Combined Rate**

	Demand Rate	Energy Rate	Lamp Rate
Residential			
SGS	0.00	0.07252	
MCS	0.00	0.00818	
LCS	0.00	0.00848	
BP	0.00	0.00850	
EHG	0.00	0.01408	
CS	0.00	0.00829	
PS	0.00	0.01643	0.11019
OL	0.00	0.00000	

**Summary of Class Impacts**

	2007 Revenue	Current PP Adjustment Rider Credit	Proposed PP Adjustment Rider	Transmission Revenue	Proposed Revenue	% Change
Residential	35,406,210	(1,054,098)	9,707,487	(128,071)	50,041,731	27%
SGS	1,899,144	(24,300)	173,024	(1,380)	1,892,308	12%
MCS	5,794,548	(104,439)	852,480	(6,262)	6,735,613	16%
LCS	13,235,766	(290,244)	2,952,056	(13,343)	16,474,724	24%
BP	34,239,975	(828,910)	9,867,537	12,706	41,355,126	23%
EHG	2,040,552	(41,105)	487,757	(4,279)	2,545,190	25%
CS	652,508	(11,988)	84,275	(706)	756,065	14%
PS	1,613,912	(46,170)	540,248	(6,458)	2,192,538	36%
OL	665,084	(696)	6,183	1,051	673,014	1%
Total	90,348,095	(2,400,953)	21,991,167	(137,983)	123,272,957	24%

**PURCHASED POWER ADJUSTMENT RIDER**

Kingsport Power is authorized under the terms of this rider to apply a surcharge to all customer bills rendered by the Company to allow for changes in the non-fuel cost of purchased power from the Company's wholesale power supplier under the Federal Energy Regulatory Commission implemented rate schedules, including, but not limited to, all demand charges and energy charges which are paid by the Company to its wholesale power supplier in connection with the electric service provided to the Company.

1. Calculation of Change in Non-Fuel Purchased Power Expense

The change in the Company's non-fuel purchased power expense shall be calculated according to the following formula:

$$(D_p - D_o) + (E_p - E_o)$$

where "D" is the Company's demand-related purchased power expense and "E" is the Company's non-fuel energy-related purchased power expense as calculated for a 12-month test period based on the wholesale supplier's proposed ("p") and current ("o") rates.

2. Allocation of Change in Non-Fuel Purchased Power Expense to Tariffs

The change in the Company's demand and non-fuel energy-related purchased power expense as determined under Section 1 of this rider shall be allocated to individual tariffs by application of the following allocation factors:

<u>Tariff</u>	<u>Demand Allocation Factor</u> %	<u>Energy Allocation Factor</u> %
Residential Service (RS)	45.31	35.72
Small General Service (SGS)	0.80	0.78
Medium General Service (MGS)	3.94	3.82
Electric Heating General (EHG)	2.17	1.96
Church Service (CS)	0.39	0.37
Public Schools (PS)	2.52	2.01
Large General Service (LGS)	13.64	14.36
Industrial Power (IP)	31.21	40.79
Outdoor Lighting (OL)	0.02	0.19
Total	100.00	100.00

The above allocation factors shall be based upon the demand and non-fuel energy-related purchased power expense allocators as contained in the most recent class cost-of-service study filed by the Company with the Tennessee Public Service Commission in support of the Company's other retail rates.

3. Determination of Surcharges by Tariff

The change in demand and non-fuel energy-related purchased power expense as allocated to each tariff under the terms of Section 2 of this rider shall be recovered by means of a kilowatthour (KWH) surcharge calculated according to the following formula:

$$\frac{\Delta D + \Delta E}{\text{KWH}}$$

**PURCHASED POWER ADJUSTMENT RIDER**

where "Δ D" is the change in the Company's demand-related purchased power expense allocated to each tariff, "Δ E" is the change in the Company's non-fuel energy-related purchased power expense allocated to each tariff and "KWH" is the test year kilowatthour sales by tariff for all tariffs excluding Outdoor Lighting. The denominator used in the calculation of the surcharge for the Outdoor Lighting tariff shall be lamp-months for the test year.

4. Effective Date of Surcharge

The tariff surcharges as calculated in Section 3 of this rider shall be effective upon the same date as any change in the Company's wholesale supplier's tariffs is implemented by the Federal Energy Regulatory Commission.

5. Notification of Change in Surcharge by the Company

The Company will provide no less than a 30-day notice of the proposed effective date in any change in the purchased power surcharge to its customers. The Company will also provide the calculations and other information supporting the proposed purchased power surcharges to the Staff of the Tennessee Public Service Commission 30 days prior to the effective date of such surcharge.

6. Refund Procedure

Should the change in the Company's non-fuel related purchased power expense recovered through the application of this rider exceed the level of change in non-fuel related purchased power expense ultimately approved by the Federal Energy Regulatory Commission, then the Company shall promptly notify the Tennessee Public Service Commission of such a final Federal Energy Regulatory Commission order, recalculate the appropriate purchased power surcharges, and refund any excess non-fuel related purchased power expense recovered through this rider following the receipt of a refund from its wholesale supplier.

KINGSPORT POWER COMPANY  
d/b/a AMERICAN ELECTRIC POWER  
Kingsport, Tennessee

2nd Revised Sheet Number 2-10  
T.R.A. Tariff Number 1  
Cancels 1st Revised Sheet Number 2-10

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**PURCHASED POWER ADJUSTMENT RIDER**

7. Credits

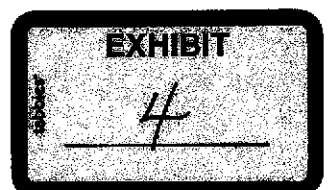
Pursuant to the provisions of this Rider, a permanent Purchased Power Adjustment Rider credit will be applied to each kilowatt-hour as billed under the Company's filed tariffs, except in the case of the Company's OL tariff which will be applied based on a per lamp equivalent basis.

The Purchased Power Adjustment Rider credit applicable to each tariff is set below:

<u>Tariff</u>	<u>Permanent</u> <u>(\$/KWH)</u>
RS	.00140
SGS	.00114
MGS	.00115
EHG	.00123
CS	.00117
PS	.00138
LGS	.00109
IP	.00083
OL	.01154

Appalachian Power Company's Filing of First  
Revised FERC Rate Schedule No. 23 to be supplied.

(Exhibit 4)



### PURCHASED POWER ADJUSTMENT RIDER

Kingsport Power is authorized under the terms of this rider to apply a surcharge to all customer bills rendered by the Company to allow for changes in the non-fuel cost of purchased power from the Company's wholesale power supplier under the Federal Energy Regulatory Commission implemented rate schedules, including, but not limited to, all demand charges and energy charges which are paid by the Company to its wholesale power supplier in connection with the electric service provided to the Company

1 Calculation of Change in Non-Fuel Purchased Power Expense

The change in the Company's non-fuel purchased power expense shall be calculated according to the following formula:

$$(D_p - D_c) + (E_p - E_c)$$

where "D" is the Company's demand-related purchased power expense and "E" is the Company's non-fuel energy-related purchased power expense as calculated for a 12-month test period based on the wholesale supplier's proposed ("p") and current ("c") rates.

2 Allocation of Change in Non-Fuel Purchased Power Expense to Tariffs

The change in the Company's demand and non-fuel energy-related purchased power expense as determined under Section 1 of this rider shall be allocated to individual tariffs by application of the following allocation factors:

<u>Tariff</u>	<u>Demand Allocation Factor</u> %	<u>Energy Allocation Factor</u> %
Residential Service (RS)	45.31	35.72
Small General Service (SGS)	0.80	0.78
Medium General Service (MGS)	3.94	3.82
Electric Heating General (EHG)	2.17	1.96
Church Service (CS)	0.39	0.37
Public Schools (PS)	2.52	2.01
Large General Service (LGS)	13.64	14.36
Industrial Power (IP)	31.21	40.79
Outdoor Lighting (OL)	0.02	0.19
Total	100.00	100.00

The above allocation factors shall be based upon the demand and non-fuel energy-related purchased power expense allocators as contained in the most recent class cost-of-service study filed by the Company with the Tennessee Public Service Commission in support of the Company's other retail rates.

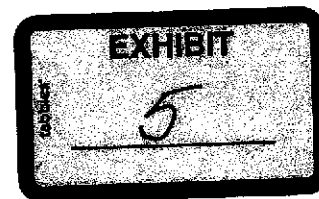
3. Determination of Surcharges by Tariff

The change in demand and non-fuel energy-related purchased power expense as allocated to each tariff under the terms of Section 2 of this rider shall be recovered by means of a kilowatt-hour (KWH) surcharge calculated according to the following formula:

$$\frac{\Delta D + \Delta E}{\text{KWH}}$$

Issued: December 29, 1994  
By: Allan R. Glassburn, President  
Kingsport, Tennessee

Effective: December 29, 1994  
Pursuant to an Order in  
Docket Number 94-04283





**KINGSPORT POWER COMPANY**  
Kingsport, Tennessee

**Original Sheet Number 2-9**  
**T.P.S.C. Tariff Number 1**

**PURCHASED POWER ADJUSTMENT RIDER**

where " $\Delta D$ " is the change in the Company's demand-related purchased power expense allocated to each tariff, " $\Delta E$ " is the change in the Company's non-fuel energy-related purchased power expense allocated to each tariff and "KWH" is the test year kilowatthour sales by tariff for all tariffs excluding Outdoor Lighting. The denominator used in the calculation of the surcharge for the Outdoor Lighting tariff shall be lamp-months for the test year.

4. Effective Date of Surcharge

The tariff surcharges as calculated in Section 3 of this rider shall be effective upon the same date as any change in the Company's wholesale supplier's tariffs is implemented by the Federal Energy Regulatory Commission

5. Notification of Change in Surcharge by the Company

The Company will provide no less than a 30-day notice of the proposed effective date in any change in the purchased power surcharge to its customers. The Company will also provide the calculations and other information supporting the proposed purchased power surcharges to the Staff of the Tennessee Public Service Commission 30 days prior to the effective date of such surcharge.

6. Refund Procedure

Should the change in the Company's non-fuel related purchased power expense recovered through the application of this rider exceed the level of change in non-fuel related purchased power expense ultimately approved by the Federal Energy Regulatory Commission, then the Company shall promptly notify the Tennessee Public Service Commission of such a final Federal Energy Regulatory Commission order, recalculate the appropriate purchased power surcharges, and refund any excess non-fuel related purchased power expense recovered through this rider following the receipt of a refund from its wholesale supplier.

Issued: December 29, 1994  
By: Allan R. Glassburn, President  
Kingsport, Tennessee

Effective: December 29, 1994  
Pursuant to an Order in  
Docket Number 94-04283

KINGSPORT POWER COMPANY  
d/b/a AMERICAN ELECTRIC POWER  
Kingsport, Tennessee

Page 3 of 6  
2nd-3rd Revised Sheet Number 2-10  
T.R.A. Tariff Number 1  
Cancels 1st-2nd Revised Sheet Number 2-10

### PURCHASED POWER ADJUSTMENT RIDER

7 Surcharge

Pursuant to the provisions of this Rider, a permanent Purchased Power Adjustment Rider ~~credit-surcharge~~ will be applied to each kilowatt-hour as billed under the Company's filed tariffs except in the case of the Company's OL tariff which will be applied based on a per lamp equivalent basis.

The Purchased Power Adjustment Rider ~~credit-surcharge~~ applicable to each tariff is set below:

<u>Tariff</u>	<u>Permanent</u> <u>(\$)/KWH</u>
RS	0014001292
SGS	001400818
MGS	0014500946
EHG	0012301408
CS	0014700828
PS	0013801643
LGS	0010901105
IP	0008300699
OL	0115411012

Issued: ~~February 6, 2001~~ December xx, 2008  
- By: ~~R. D. Carson, Vice~~ Dana Waldo, President

Effective: ~~September 1, 2000~~ January 1, 2009  
Pursuant to an Order in  
Docket Number 99-00551-xx-xxxxx

### PURCHASED POWER ADJUSTMENT RIDER

Kingsport Power is authorized under the terms of this rider to apply a surcharge to all customer bills rendered by the Company to allow for changes in the non-fuel cost of purchased power from the Company's wholesale power supplier under the Federal Energy Regulatory Commission implemented rate schedules, including, but not limited to, all demand charges and energy charges which are paid by the Company to its wholesale power supplier in connection with the electric service provided to the Company

1. Calculation of Change in Non-Fuel Purchased Power Expense

The change in the Company's non-fuel purchased power expense shall be calculated according to the following formula:

$$(D_p - D_c) + (E_p - E_c)$$

where "D" is the Company's demand-related purchased power expense and "E" is the Company's non-fuel energy-related purchased power expense as calculated for a 12-month test period based on the wholesale supplier's proposed ("p") and current ("c") rates

2. Allocation of Change in Non-Fuel Purchased Power Expense to Tariffs

The change in the Company's demand and non-fuel energy-related purchased power expense as determined under Section 1 of this rider shall be allocated to individual tariffs by application of the following allocation factors:

<u>Tariff</u>	<u>Demand Allocation Factor %</u>	<u>Energy Allocation Factor %</u>
Residential Service (RS)	45.31	35.72
Small General Service (SGS)	0.80	0.78
Medium General Service (MGS)	3.94	3.82
Electric Heating General (EHG)	2.17	1.96
Church Service (CS)	0.39	0.37
Public Schools (PS)	2.52	2.01
Large General Service (LGS)	13.64	14.36
Industrial Power (IP)	31.21	40.79
Outdoor Lighting (OL)	0.02	0.19
Total	100.00	100.00

The above allocation factors shall be based upon the demand and non-fuel energy-related purchased power expense allocators as contained in the most recent class cost-of-service study filed by the Company with the Tennessee Public Service Commission in support of the Company's other retail rates.

3. Determination of Surcharges by Tariff

The change in demand and non-fuel energy-related purchased power expense as allocated to each tariff under the terms of Section 2 of this rider shall be recovered by means of a kilowatthour (KWH) surcharge calculated according to the following formula:

$$\frac{\Delta D + \Delta E}{KWH}$$

KINGSPORT POWER COMPANY  
Kingsport, Tennessee

Original Sheet Number 2-9  
T.P.S.C. Tariff Number 1

### PURCHASED POWER ADJUSTMENT RIDER

where " $\Delta D$ " is the change in the Company's demand-related purchased power expense allocated to each tariff, " $\Delta E$ " is the change in the Company's non-fuel energy-related purchased power expense allocated to each tariff and "KWH" is the test year kilowatthour sales by tariff for all tariffs excluding Outdoor Lighting. The denominator used in the calculation of the surcharge for the Outdoor Lighting tariff shall be lamp-months for the test year.

4. Effective Date of Surcharge

The tariff surcharges as calculated in Section 3 of this rider shall be effective upon the same date as any change in the Company's wholesale supplier's tariffs is implemented by the Federal Energy Regulatory Commission.

5. Notification of Change in Surcharge by the Company

The Company will provide no less than a 30-day notice of the proposed effective date in any change in the purchased power surcharge to its customers. The Company will also provide the calculations and other information supporting the proposed purchased power surcharges to the Staff of the Tennessee Public Service Commission 30 days prior to the effective date of such surcharge.

6. Refund Procedure

Should the change in the Company's non-fuel related purchased power expense recovered through the application of this rider exceed the level of change in non-fuel related purchased power expense ultimately approved by the Federal Energy Regulatory Commission, then the Company shall promptly notify the Tennessee Public Service Commission of such a final Federal Energy Regulatory Commission order, recalculate the appropriate purchased power surcharges, and refund any excess non-fuel related purchased power expense recovered through this rider following the receipt of a refund from its wholesale supplier.

Issued: December 29, 1994  
By: Allan R. Glassburn, President  
Kingsport, Tennessee

Effective: December 29, 1994  
Pursuant to an Order in  
Docket Number 94-04283

KINGSPORT POWER COMPANY  
d/b/a AMERICAN ELECTRIC POWER  
Kingsport, Tennessee

3rd Revised Sheet Number 2-10  
T.R.A. Tariff Number 1  
Cancels 2nd Revised Sheet Number 2-10

### PURCHASED POWER ADJUSTMENT RIDER

7 Surcharge

Pursuant to the provisions of this Rider, a permanent Purchased Power Adjustment Rider surcharge will be applied to each kilowatt-hour as billed under the Company's filed tariffs except in the case of the Company's OL tariff which will be applied based on a per lamp equivalent basis.

The Purchased Power Adjustment Rider surcharge applicable to each tariff is set below:

<u>Tariff</u>	<u>Permanent</u> <u>(\$)/KWH</u>
RS	.01292
SGS	.00818
MGS	.00946
EHG	.01408
CS	.00828
PS	.01643
LGS	.01105
IP	.00699
OL	11019

Issued: December xx, 2008  
By: Dana Waldo, President

Effective: January 1, 2009  
Pursuant to an Order in  
Docket Number xx-xxxxx

### PURCHASED POWER ADJUSTMENT RIDER

Kingsport Power is authorized under the terms of this rider to apply a surcharge to all customer bills rendered by the Company to allow for changes in the non-fuel cost of purchased power from the Company's wholesale power supplier under the Federal Energy Regulatory Commission implemented rate schedules, including, but not limited to, all demand charges and energy charges which are paid by the Company to its wholesale power supplier in connection with the electric service provided to the Company

1 Calculation of Change in Non-Fuel Purchased Power Expense

The change in the Company's non-fuel purchased power expense shall be calculated according to the following formula:

$$(D_p - D_c) + (E_p - E_c)$$

where "D" is the Company's demand-related purchased power expense and "E" is the Company's non-fuel energy-related purchased power expense as calculated for a 12-month test period based on the wholesale supplier's proposed ("p") and current ("c") rates

2. Allocation of Change in Non-Fuel Purchased Power Expense to Tariffs

The change in the Company's demand and non-fuel energy-related purchased power expense as determined under Section 1 of this rider shall be allocated to individual tariffs by application of the following allocation factors:

<u>Tariff</u>	<u>Demand Allocation Factor %</u>	<u>Energy Allocation Factor %</u>
Residential Service (RS)	45.3144.76	35.7234.79
Small General Service (SGS)	0.801.00	0.780.99
Medium General Service (MGS)	3.045.11	3.824.20
Electric Heating General (EHG)	2.171.84	1.961.54
Church Service (CS)	0.390.61	0.370.47
Public Schools (PS)	2.521.62	2.011.52
Large General Service (LGS)	13.6411.63	14.3612.47
Industrial Power (IP)	31.2433.33	40.7943.81
Outdoor Lighting (OL)	0.020.11	0.190.20
Total	100 00	100 00

The above allocation factors shall be based upon the demand and non-fuel energy-related purchased power expense allocators as contained in the most recent class cost of service study filed by the Company with the Tennessee Public Service Commission Regulatory Authority in support of the Company's other retail rates Docket Number xx-xxxxx.

3 Determination of Surcharges by Tariff

The change in demand and non-fuel energy-related purchased power expense as allocated to each tariff under the terms of Section 2 of this rider shall be recovered by means of a kilowatt-hour (KWH) surcharge calculated according to the following formula: demand energy or lamp surcharge calculated according to the following formulas:

Tariffs RS, SGS, MGS, EHG, CS, and PS: (Energy only)

$$\frac{\Delta D + \Delta E}{KWH}$$

KINGSPORT POWER COMPANY  
Kingsport, Tennessee

Original-1<sup>st</sup> Revised Sheet Number 2-9  
T.P.S.C. Tariff Number 1  
Cancels Original Sheet Number 2-9

### PURCHASED POWER ADJUSTMENT RIDER

Tariffs LGS and IP: (Demand and Energy)	
Demand:	Energy:
$\frac{1}{2} \Delta D$	$\frac{1}{2} \Delta D + \Delta E$
KW	KWH
Tariff OL (Lamp Only)	
$\Delta D + \Delta E$	
Lamp months	

where "Δ D" is the change in the Company's demand-related purchased power expense allocated to each tariff, "Δ E" is the change in the Company's non-fuel energy-related purchased power expense allocated to each tariff and, "KWH" is the test-year previous calendar year kilowatt-hour sales by tariff for all tariffs excluding Outdoor Lighting. The denominator used in the calculation of the surcharge for the Outdoor Lighting tariff shall be lamp-months for the test-year. "KW" is the previous calendar year kilowatt sales by tariff for all tariffs and lamp-months is the lamp-months for the previous calendar year.

#### 4 Effective Date of Surcharge

The tariff surcharges as calculated in Section 3 of this rider shall be effective upon the same date as any change in the Company's wholesale supplier's tariffs is implemented by the Federal Energy Regulatory Commission

#### 5 Notification of Change in Surcharge by the Company

The Company will provide no less than a 30-day notice of the proposed effective date in any change in the purchased power surcharge to its customers. The Company will also provide the calculations and other information supporting the proposed purchased power surcharges to the Staff of the Tennessee Public Service Commission 30 days prior to the effective date of such surcharge

#### 6 Refund Procedure

Should the change in the Company's non-fuel related purchased power expense recovered through the application of this rider exceed the level of change in non-fuel related purchased power expense ultimately approved by the Federal Energy Regulatory Commission, then the Company shall promptly notify the Tennessee Public Service Commission of such a final Federal Energy Regulatory Commission order, recalculate the appropriate purchased power surcharges, and refund any excess non-fuel related purchased power expense recovered through this rider following the receipt of a refund from its wholesale supplier

Issued: ~~December 29, 1994~~ December xx, 2008  
By: ~~Allan R. Glassburn~~ Dana Waldo, President  
Kingsport, Tennessee

Effective: ~~December 29, 1994~~ January 1, 2009  
Pursuant to an Order in  
Docket Number 94-04283xx-xxxxx

PURCHASED POWER ADJUSTMENT RIDER

7. Surcharge

Pursuant to the provisions of this Rider, a permanent Purchased Power Adjustment Rider ~~credit-surcharge~~ will be applied to each kilowatt-hour, kilowatt or lamp as billed under the Company's filed tariffs except in the case of the Company's OL tariff which will be applied based on a per lamp equivalent basis

The Purchased Power Adjustment Rider ~~credit-surcharge~~ applicable to each tariff is set below:

<u>Tariff</u>	<u>Permanent</u> <u>(\$)/KWH</u>
RS	.00140
SGS	.00114
MGS	.00115
EHG	.00123
CS	.00117
PS	.00138
LGS	.00109
IP	.00083
OL	.01154

<u>Tariff</u>	<u>Energy Rate</u> <u>(\$)/KWH</u>	<u>Demand Rate</u> <u>(\$)/KW</u>	<u>Lamp Rate</u> <u>(\$)/Lamp</u>
RS	.01276		
SGS	.01020		
MGS	.01212		
EHG	.01185		
CS	.01272		
PS	.01070		
LGS	.00512	2.53	
IP	.00411	2.41	
OL			.38818

Issued: ~~February 6, 2001~~ December xx, 2008  
By: R. D. Carson, Vice ~~Dana Waldo~~, President

Effective: ~~September 1, 2000~~ January 1, 2009  
Pursuant to an Order in  
Docket Number 99-00551-xx-xxxxx



### PURCHASED POWER ADJUSTMENT RIDER

Kingsport Power is authorized under the terms of this rider to apply a surcharge to all customer bills rendered by the Company to allow for changes in the non-fuel cost of purchased power from the Company's wholesale power supplier under the Federal Energy Regulatory Commission implemented rate schedules, including, but not limited to, all demand charges and energy charges which are paid by the Company to its wholesale power supplier in connection with the electric service provided to the Company

1 Calculation of Change in Non-Fuel Purchased Power Expense

The change in the Company's non-fuel purchased power expense shall be calculated according to the following formula:

$$(D_p - D_c) + (E_p - E_c)$$

where "D" is the Company's demand-related purchased power expense and "E" is the Company's non-fuel energy-related purchased power expense as calculated for a 12-month test period based on the wholesale supplier's proposed ("p") and current ("c") rates

2 Allocation of Change in Non-Fuel Purchased Power Expense to Tariffs

The change in the Company's demand and non-fuel energy-related purchased power expense as determined under Section 1 of this rider shall be allocated to individual tariffs by application of the following allocation factors:

<u>Tariff</u>	<u>Demand Allocation Factor</u> %	<u>Energy Allocation Factor</u> %
Residential Service (RS)	44.76	34.79
Small General Service (SGS)	1.00	0.99
Medium General Service (MGS)	5.11	4.20
Electric Heating General (EHG)	1.84	1.54
Church Service (CS)	0.61	0.47
Public Schools (PS)	1.62	1.52
Large General Service (LGS)	11.63	12.47
Industrial Power (IP)	33.33	43.81
Outdoor Lighting (OL)	0.11	0.20
Total	100.00	100.00

The above allocation factors are based on the demand and non-fuel energy-related purchased power expense allocators filed by the Company with the Tennessee Regulatory Authority in Docket No. xx-xxxxx

3 Determination of Surcharges by Tariff

The change in demand and non-fuel energy-related purchased power expense as allocated to each tariff under the terms of Section 2 of this rider shall be recovered by means of a demand, energy or lamp surcharge calculated according to the following formulas:

Tariffs RS, SGS, MGS, EHG, CS, and PS: (Energy only)

$$\frac{\Delta D + \Delta E}{\text{KWH}}$$

**PURCHASED POWER ADJUSTMENT RIDER**

Tariffs LGS and IP: (Demand and Energy)

Demand:

$$\frac{1/2 \Delta D}{KW}$$

Energy:

$$\frac{1/2 \Delta D + \Delta E}{KWH}$$

Tariff OL (Lamp Only)

$$\frac{\Delta D + \Delta E}{\text{Lamp months}}$$

where "Δ D" is the change in the Company's demand-related purchased power expense allocated to each tariff, "Δ E" is the change in the Company's non-fuel energy-related purchased power expense allocated to each tariff, "KWH" is the previous calendar year kilowatthour sales by tariff for all tariffs, "KW" is the previous calendar year kilowatt sales by tariff for all tariffs and lamp months is the lamp-months for the previous calendar year.

4. Effective Date of Surcharge

The tariff surcharges as calculated in Section 3 of this rider shall be effective upon the same date as any change in the Company's wholesale supplier's tariffs is implemented by the Federal Energy Regulatory Commission

5. Notification of Change in Surcharge by the Company

The Company will provide no less than a 30-day notice of the proposed effective date in any change in the purchased power surcharge to its customers. The Company will also provide the calculations and other information supporting the proposed purchased power surcharges to the Staff of the Tennessee Public Service Commission 30 days prior to the effective date of such surcharge

6. Refund Procedure

Should the change in the Company's non-fuel related purchased power expense recovered through the application of this rider exceed the level of change in non-fuel related purchased power expense ultimately approved by the Federal Energy Regulatory Commission, then the Company shall promptly notify the Tennessee Public Service Commission of such a final Federal Energy Regulatory Commission order, recalculate the appropriate purchased power surcharges, and refund any excess non-fuel related purchased power expense recovered through this rider following the receipt of a refund from its wholesale supplier

**PURCHASED POWER ADJUSTMENT RIDER**

7 Surcharge

Pursuant to the provisions of this Rider, a Purchased Power Adjustment Rider surcharge will be applied to each kilowatt-hour, kilowatt or lamp as billed under the Company's filed tariffs

The Purchased Power Adjustment Rider surcharge applicable to each tariff is set below:

<u>Tariff</u>	<u>Energy Rate</u> <u>(\$)/KWH</u>	<u>Demand Rate</u> <u>(\$)/KW</u>	<u>Lamp Rate</u> <u>(\$)/Lamp</u>
RS	.01276		
SGS	01020		
MGS	01212		
EHG	01185		
CS	01272		
PS	01070		
LGS	00512	2.53	
IP	00411	2.41	
OL			38818

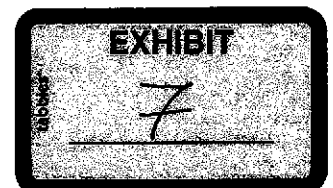
Issued: December xx, 2008  
By: Dana Waldo, President

Effective: January 1, 2009  
Pursuant to an Order in  
Docket Number xx-xxxxx

**KINGSPORT POWER COMPANY  
NOTICE TO PUBLIC**

Pursuant to a directive of the Tennessee Regulatory Authority ("TRA"), Kingsport Power Company, d/b/a AEP Appalachian Power ("Kingsport"), hereby gives notice that on November 14, 2008, it filed a notice with the TRA relative to changes in Kingsport's Purchased Power Adjustment Rider ("PPAR"). The PPAR authorizes Kingsport, upon no less than 30-days notice, to apply a surcharge to all customer bills rendered by it to allow for changes in the non-fuel cost of purchased power from Kingsport's wholesale power supplier, under rate schedules implemented by the Federal Energy Regulatory Commission ("FERC"). Changes in fuel costs associated with power from Kingsport's wholesale supplier would continue to be reflected in Kingsport's fuel adjustment clause. Kingsport's current tariffs, and its filing regarding changes to its PPAR, are on file with the TRA at 460 James Robertson Parkway, Nashville, Tennessee, and in the office of Kingsport Power Company, 420 Riverport Road, Kingsport, Tennessee, and are available for public inspection.

On November 13, 2008, Kingsport's wholesale supplier, Appalachian Power Company ("APCo"), filed with the FERC, an Amended and Restated Interconnection Agreement ("Agreement") between APCo and Kingsport, which APCo designated as Appalachian Power Company First Revised FERC Rate Schedule No. 23 ("Revised Rate Schedule 23"). Revised Rate Schedule 23 provides for three annual step increases in APCo's generation rates to Kingsport that were negotiated with the only protestant in APCo's earlier FERC filing, which proposed to implement cost-based formula rates for Kingsport effective July 1, 2008. In its November 13, 2008 FERC filing, APCo proposes that Revised Rate Schedule 23, including the rates contained therein, be accepted for filing by FERC, effective January 1, 2009. Kingsport expects that Revised Rate Schedule 23 will be accepted for filing by FERC, and that the first year rates contained therein will begin to be charged to Kingsport by APCo on January 1, 2009.



If the change in Kingsport's non-fuel cost of purchased power resulting from the FERC's implementation of APCo's Revised Rate Schedule 23 were passed through to Kingsport's customers per the current PPAR, then the surcharges to be applied to customer bills during calendar year 2009 would result in class average increases ranging from 1% to 34%, as shown in Column 2 of the table below. While the TRA could decide it is required to pass the wholesale rate change through Kingsport's current PPAR, in its November 14, 2008 Notice to the TRA, Kingsport proposed to update the allocation factors contained in its PPAR, and to modify the calculation of PPAR surcharges applicable to Tariffs Large General Service ("LGS") and Industrial Power ("IP"). The proposed modifications to the calculation of PPAR surcharges for the LGS and IP Tariffs would mitigate the variation in impacts among customers served under those tariffs. If Kingsport's PPAR proposals are adopted by the TRA, then the surcharges to be applied to customer bills during calendar year 2009 would result in class average increases ranging from 4% to 25%, as shown in Column 3 of the table below.

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>
<b>CUSTOMER CLASS</b>	<b>Electric Bill Percentage Increase from New Surcharges Under Current PPAR</b>	<b>Electric Bill Percentage Increase from New Surcharges Under Modified PPAR</b>
Residential Services	26%	25%
Small General Service (SGS)	11%	14%
Medium General Service (MGS)	16%	20%
Electric Heating General (EHG)	24%	20%
Church Service (CS)	14%	20%
Public Schools (PS)	34%	23%
Outdoor Lighting (OL)	1%	4%
Large General Service (LGS)	23%	20%
Industrial Power (IP)	21%	22%

The TRA could also adopt Kingsport's proposed allocation factors, but decline to adopt the Company's proposed modifications to the calculation of the surcharges applicable to the LGS and IP customer classes. In that event, the percentage increases shown for these

customer classes in Column 3, above, would remain the same, but LGS and IP customers with higher usage relative to their demands would receive more of an increase than customers with lower usage relative to their demands.

The TRA will consider Kingsport's filing regarding its PPAR at the TRA's December 15, 2008 conference, to be held at the TRA's offices at 460 James Robertson Parkway, Nashville, Tennessee.