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**PLEASE RESPOND TO:**  
KINGSPORT OFFICE

November 8, 2011

David Foster, Chief-Utilities Division  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

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

Dear Mr. Foster:

As you are aware, by Order dated December 22, 2008, in the above-listed Docket, the Tennessee Regulatory Authority ("TRA") approved changes in Kingsport Power Company's ("KgPCo's") Purchased Power Adjustment Rider ("PPAR"). KgPCo's current PPAR, which includes surcharges that became effective January 1, 2011, is located on sheets 2-8 to 2-10 of TRA TARIFF NUMBER 1 (EXHIBIT 1 hereto). The PPAR permits KgPCo to adjust the surcharge on its retail customers' bills when there are changes in KgPCo's non-fuel cost of purchased power from its wholesale power supplier, Appalachian Power Company ("APCo"), under FERC implemented rate schedules.

KgPCo and APCo are parties to the Amended and Restated Interconnection Agreement, dated November 13, 2008, designated as Appalachian Power Company First Revised FERC Rate Schedule No. 23 ("Revised Rate Schedule 23"), under which APCo currently supplies full requirements electric service to KgPCo. Revised Rate Schedule 23 resulted in increased generation costs charged to KgPCo by APCo in 2009, 2010, and 2011, and corresponding adjustments in the rates KgPCo charged its customers under the PPAR in those three years. In addition to generation rate increases, Revised Rate Schedule 23 provides that KgPCo will pay for Network Integration Transmission Services ("NITS") and other applicable transmission-related services as arranged by the AEP East System, in accordance with the PJM Open Access Transmission Service Tariff ("OATT"), or other applicable FERC rate schedules, as such

November 8, 2011

rate schedules, which may be revised by FERC from time to time, apply to AEP East System Companies such as KgPCo.

On October 29, 2010, the FERC approved a Settlement Agreement in FERC Docket No. ER09-1279-000. The approved Settlement Agreement provides for a phase-in of charges under a Transmission Agreement, designated as First Revised Rate Schedule No. 34 ("Revised Rate Schedule 34"), in three steps, through July 31, 2013. As a result of discussions with a group of its larger industrial customers, East Tennessee Energy Consumers ("ETEC"), KgPCo agreed to levelize the FERC-approved phase-in of transmission costs over the period January 1, 2011 through July 31, 2013.

As shown on EXHIBIT 1, Section 4 of the current PPAR provides that tariff surcharges, as calculated by use of the formula contained in Section 3, shall become effective upon the same day as any change in KgPCo's wholesale supplier's tariff is implemented by the FERC. Under the terms of KgPCo's current PPAR, the changes in KgPCo's non-fuel cost of purchased power, including transmission costs, resulting from the FERC's implementation of Revised Rate Schedules 23 and 34 would be passed to KgPCo's customers upon 30 days' notice. The revised surcharges applicable to each of KgPCo's tariffs under this approach are set forth in black-line and clean copies of the PPAR (attached as EXHIBIT 2, hereto).

In accordance with Section 5 of the PPAR, this letter is submitted so as to provide no less than 30 days' notice of those changes to the current PPAR, and include the newly-calculated surcharges to become effective January 1, 2012. The new surcharges in Section 7 of the PPAR reflect the effects of the FERC-implemented changes in the transmission portion of KgPCo's non-fuel cost of purchased power, in accordance with the provisions of Revised Rate Schedules 23 and 34, coupled with the levelization of the FERC-approved phase-in of charges in transmission costs resulting from the agreement between KgPCo and ETEC. There is no change in the generation portion of the proposed surcharges.

The surcharges shown in EXHIBIT 2 reflect the increased purchased power costs that KgPCo will incur in 2012. The surcharges would collect an additional \$2,171,832 in annual revenues beginning on January 1, 2012. Supporting documentation showing the calculations of purchased power costs to be collected by the proposed surcharges is shown on EXHIBIT 3 (attached hereto). KgPCo proposes to utilize the same allocation factors for this 2012 PPAR adjustment that were utilized in its 2011 PPAR.

KgPCo will soon have published a "NOTICE TO PUBLIC" (EXHIBIT 4, attached hereto) regarding this tariff filing, one time in the Kingsport Times-News, a newspaper of general circulation within the service territory of KgPCo. The general form of KgPCo's "NOTICE TO PUBLIC" was approved by the TRA Legal Department in 2010. After publication of its "NOTICE TO PUBLIC", KgPCo will file a copy of the original newspaper notice and an Affidavit of Publication in this Docket.

David Foster, Chief-Utilities Division

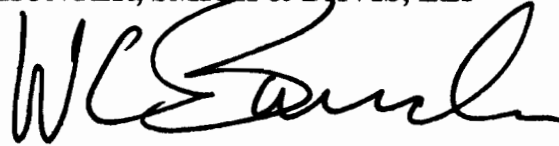
Page 3

November 8, 2011

Should there be any questions, please contact the writer.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

A handwritten signature in black ink, appearing to read 'W.C. Bovender', written over the firm name.

William C. Bovender

WCB/sel

Enclosures

c: James R. Bacha, Esq. (w/enc. via email)  
William A. Bosta (w/enc. via email)  
James F. Martin (w/enc. via email)  
Vance L. Broemel, Esq. (w/enc. via email)  
Ed Petrini, Esq. (w/enc. via email)  
Hector Garcia, Esq. (w/enc. via email)

### 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<br/>Allocation<br/>Factor<br/>%</u> | <u>Energy<br/>Allocation<br/>Factor<br/>%</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) | 1.83  | 1.55  |
| 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 Number 08-00213.

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 " $\Delta D$ " 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, "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 Regulatory Authority 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 Regulatory Authority 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

**5th Revised Sheet Number 2-10**  
**T.R.A. Tariff Number 1**  
**Cancels 4th Revised Sheet Number 2-10**

**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><br><u>(\$)/KWH</u> | <u>Demand Rate</u><br><u>(\$)/KW</u> | <u>Lamp Rate</u><br><u>(\$)/Lamp</u> |
|---------------|---------------------------------------|--------------------------------------|--------------------------------------|
| RS            | .01985                                | --                                   | --                                   |
| SGS           | .01588                                | --                                   | --                                   |
| MGS           | .01886                                | --                                   | --                                   |
| EHG           | .01843                                | --                                   | --                                   |
| CS            | .01980                                | --                                   | --                                   |
| PS            | .01666                                | --                                   | --                                   |
| LGS           | .00799                                | 3.93                                 | --                                   |
| IP            | .00643                                | 3.73                                 | --                                   |
| OL            | --                                    | --                                   | .60525                               |

Issued: November 12, 2010  
By: Charles Patton, President

Effective: January 1, 2011  
Pursuant to an Order in  
Docket Number 08-00213

**KINGSPORT POWER COMPANY**  
d/b/a AEP Appalachian Power  
Kingsport, Tennessee

1<sup>st</sup> Revised Sheet Number 2-8  
T.R.A. Tariff Number 1  
Cancels Original Sheet Number 2-8

### 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<br/>Allocation<br/>Factor</u><br>% | <u>Energy<br/>Allocation<br/>Factor</u><br>% |
|--------------------------------|--|--|
| 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) | 1.83   | 1.55   |
| 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 Number 08-00213.

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)

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

Issued: December 19, 2008  
By: Dana Waldo, President

Effective: January 1, 2009  
Pursuant to an Order in  
Docket Number 08-00213

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

1<sup>st</sup> Revised Sheet Number 2-9  
T.R.A. Tariff Number 1  
Cancels Original Sheet Number 2-9

### 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 " $\Delta D$ " 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, "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 Regulatory Authority 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 Regulatory Authority 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 19, 2008  
By: Dana Waldo, President

Effective: January 1, 2009  
Pursuant to an Order in  
Docket Number 08-00213



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

**56th Revised Sheet Number 2-10**  
**T.R.A. Tariff Number 1**  
**Cancels 45th Revised Sheet Number 2-10**

**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><br><u>(\$)/ KWH</u> | <u>Demand Rate</u><br><u>(\$)/ KW</u> | <u>Lamp Rate</u><br><u>(\$)/ Lamp</u> |
|---------------|--|---------------------------------------|---------------------------------------|
| RS            | <u>.01985,02111</u>                    | --                                    | --                                    |
| SGS           | <u>.01588,01691</u>                    | --                                    | --                                    |
| MGS           | <u>.01886,02006</u>                    | --                                    | --                                    |
| EHG           | <u>.01843,01961</u>                    | --                                    | --                                    |
| CS            | <u>.01980,02106</u>                    | --                                    | --                                    |
| PS            | <u>.01666,01774</u>                    | --                                    | --                                    |
| LGS           | <u>.00799,00855</u>                    | <u>3.934.16</u>                       | --                                    |
| IP            | <u>.00643,00690</u>                    | <u>3.733.95</u>                       | --                                    |
| OL            | --                                     | --                                    | <u>.60525,64686</u>                   |

Issued: November 8~~12~~, 20102011  
By: Charles Patton, President

Effective: January 1, 20112012  
Pursuant to an Order in  
Docket Number 08-00213

**KINGSPORT POWER COMPANY**  
d/b/a AEP Appalachian Power  
Kingsport, Tennessee

**1<sup>st</sup> Revised Sheet Number 2-8**  
**T.R.A. Tariff Number 1**  
**Cancels Original Sheet Number 2-8**

### **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><b>Tariff</b></u>           | <u><b>Demand<br/>Allocation<br/>Factor<br/>%</b></u> | <u><b>Energy<br/>Allocation<br/>Factor<br/>%</b></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) | 1.83   | 1.55   |
| 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   |
| <b>Total</b>                   | <b>100.00</b>  | <b>100.00</b>  |

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 Number 08-00213.

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)

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

Issued: December 19, 2008  
By: Dana Waldo, President

Effective: January 1, 2009  
Pursuant to an Order in  
Docket Number 08-00213

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

**1<sup>st</sup> Revised Sheet Number 2-9**  
**T.R.A. Tariff Number 1**  
**Cancels Original Sheet Number 2-9**

**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 " $\Delta D$ " 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, "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 Regulatory Authority 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 Regulatory Authority 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 19, 2008  
By: Dana Waldo, President

Effective: January 1, 2009  
Pursuant to an Order in  
Docket Number 08-00213

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

6th Revised Sheet Number 2-10  
T.R.A. Tariff Number 1  
Cancels 5th Revised Sheet Number 2-10

**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><br><u>(\$ / KWH)</u> | <u>Demand Rate</u><br><u>(\$ / KW)</u> | <u>Lamp Rate</u><br><u>(\$ / Lamp)</u> |
|---------------|---|--|--|
| RS            | .02111                                  | --                                     | --                                     |
| SGS           | .01691                                  | --                                     | --                                     |
| MGS           | .02006                                  | --                                     | --                                     |
| EHG           | .01961                                  | --                                     | --                                     |
| CS            | .02106                                  | --                                     | --                                     |
| PS            | .01774                                  | --                                     | --                                     |
| LGS           | .00855                                  | 4.16                                   | --                                     |
| IP            | .00690                                  | 3.95                                   | --                                     |
| OL            | --                                      | --                                     | .64686                                 |

Issued: November 8, 2011  
By: Charles Patton, President

Effective: January 1, 2012  
Pursuant to an Order in  
Docket Number 08-00213

Kingsport Power Company 2012 Purchased Power Adjustment Rider Surcharge  
Using 12 Months Ended September 30, 2011 for Transmission OATT Demand and Energy Rates  
Calculated Using New AEP Transmission Agreement 12 CP methodology - Using Forecasted Year Ended October 2011  
Reflects Phase-in per Agreement With ETEC

November, 2011

PPAR Revenue Requirement

|   | A                             | B                                   | C=A x B                         | D   | E = C+D                                      | F = E / A                                     | G                                | H = E - G                         |
|---|-------------------------------|-------------------------------------|---------------------------------|---|--|---|----------------------------------|-----------------------------------|
|   | 2007 KGP Billing Determinants | 2007 Rates                          | 2007 KGP Expense (paid to APCo) | Proposed 2012 Increase / (Decrease) over 2007 | Proposed 2012 Gross PPAR Revenue Requirement | 2012 FERC Rates Per 2008 Settlement Agreement | Less: KGP Embedded 2007 Revenues | PPAR 2012 Net Revenue Requirement |
| Generation Demand (kW)                                | 4,214,944                     | 4.480                               | 18,882,949                      | 34,061,719                                    | 52,944,668                                   | 12.561  | 21,036,786                       | 31,907,883                        |
| Non-Fuel Energy (kWh)                                 | 2,233,440,877                 | 0.0044275                           | 9,888,559                       | 1,800,000                                     | 11,688,559                                   | 0.0052334                                     | 10,000,008                       | 1,688,551                         |
| Back-up Service Level A                               | 21,000                        | 0.347                               | 87,444                          | 70,827  | 158,271                                      | 0.628   | 87,444                           | 70,827                            |
| Back-up Service Level B                               | 10,000                        | 0.694                               | 83,280                          | 67,454  | 150,734                                      | 1.256   | 83,280                           | 67,454                            |
| Back-up Service Level B                               | 45,000                        | 0.694                               | 31,230                          | 0   | 0  | 0   | 0                                | 0                                 |
| Generation Total                                      |                               |                                     | 28,973,463                      | 36,000,000                                    | 64,942,233                                   |   | 31,207,518                       | 33,734,715                        |
| Transmission Demand Revenues                          | 4,214,944                     | 2.272                               | 9,576,353                       | 1,328,469 (2,674,058)                         | 10,904,822 (2,674,058)                       | (1)   | 9,576,353                        | 1,328,469 (2,674,058)             |
| 2012 Transmission Owner's Revenue Credit              |                               |                                     |                                 | 2,000,000                                     | 2,000,000                                    |   | 0                                | 2,000,000                         |
| 2012 Year 2 Phase-In Charge (Per ETEC Side Agreement) |                               |                                     |                                 | 654,411                                       | 10,230,764                                   |   | 9,576,353                        | 654,411                           |
| Total Transmission Demand Revenues                    | 4,214,944                     | Y/E 9/30/11 Energy rate 0.000638820 | 9,576,353                       | 654,411                                       | 10,230,764                                   |   | 9,576,353                        | 654,411                           |
| 2012 Transmission Energy Revenues                     | 2,233,440,877                 |                                     | N/A                             | 1,426,767                                     | 1,426,767                                    |   | 0                                | 1,426,767                         |
| Transmission Total                                    |                               |                                     | 9,576,353                       | 2,081,178                                     | 11,657,531                                   |   | 9,576,353                        | 2,081,178                         |
| Total G & T   |                               |                                     | 38,549,815                      | 38,081,178                                    | 76,599,764                                   |   | 40,783,870                       | 35,815,893                        |

Note (1)

2012 Transmission Demand Revenues - New 12 CP Transmission Agreement Method

NOTES

|   |                         |            |  |
|---|-------------------------|------------|--|
| Y/E Oct 2011 AEP Zone 1 CP Demand (kW)              | I                       | 22,135,500 | Actual through Sept '11 plus forecasted Oct. Assumes Oct peak will be lower than July peak     |
| Kingsport 12 CP% of AEP Zone-Forecasted Y/E Oct '11 | J                       | 1.717%     | Uses actual through September 2011 plus forecasted Oct. 2011                                   |
| Forecasted OATT Demand rate (\$/kW-Month)           | K                       | 2.391      | Per AEP OATT filing. To be in effect from Jan 1 to June 30, 2012 when formula rate is updated. |
| <b>Total Proposed 2011 Demand Revenues</b>          | <b>= I x J x K x 12</b> |            | <b>10,904,822 (1)</b>  |

Kingsport Power Company 2012 Purchased Power Adjustment Rider Surcharge  
Using 12 Months Ended September 30, 2011 for Transmission OATT Demand and Energy Rates  
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**Class Responsibility - 2012 PPAR with 2007 Demand and Energy Allocators**

| Generation                       | 2007<br>Demand Alloc. | Demand Revenues | 2007<br>Energy Alloc. | Non-Fuel Energy<br>Revenues | Total<br>Class<br>Responsibility |
|----------------------------------|-----------------------|-----------------|-----------------------|-----------------------------|----------------------------------|
| Residential                      | 44.76%                | 14,280,716      | 34.79%                | 587,460                     | 14,868,176                       |
| SGS                              | 1.00%                 | 317,931         | 0.99%                 | 16,634                      | 334,565                          |
| MGS                              | 5.11%                 | 1,630,124       | 4.20%                 | 70,861                      | 1,700,985                        |
| LGS                              | 11.63%                | 3,710,503       | 12.47%                | 210,633                     | 3,921,136                        |
| IP                               | 33.33%                | 10,635,402      | 43.81%                | 739,776                     | 11,375,178                       |
| EHG                              | 1.84%                 | 585,626         | 1.54%                 | 26,076                      | 611,701                          |
| CS                               | 0.61%                 | 193,841         | 0.47%                 | 7,995                       | 201,836                          |
| PS                               | 1.62%                 | 518,235         | 1.52%                 | 25,739                      | 543,974                          |
| OL                               | 0.11%                 | 35,506          | 0.20%                 | 3,377                       | 38,883                           |
| Total (Excluding Backup Service) | 100%                  | 31,907,883      | 100%                  | 1,688,551                   | 33,596,434                       |

| Transmission | 2007<br>Demand Alloc. | Demand Revenues /<br>(Credits) | 2007<br>Energy Alloc. | Energy<br>Revenues | Class<br>Responsibility /<br>(Credit) |
|--------------|-----------------------|--------------------------------|-----------------------|--------------------|---------------------------------------|
| Residential  | 44.76%                | 292,889                        | 34.79%                | 496,384            | 789,272                               |
| SGS          | 1.00%                 | 6,521                          | 0.99%                 | 14,055             | 20,576                                |
| MGS          | 5.11%                 | 33,433                         | 4.20%                 | 59,875             | 93,308                                |
| LGS          | 11.63%                | 76,100                         | 12.47%                | 177,977            | 254,077                               |
| IP           | 33.33%                | 218,125                        | 43.81%                | 625,085            | 843,211                               |
| EHG          | 1.84%                 | 12,011                         | 1.54%                 | 22,033             | 34,044                                |
| CS           | 0.61%                 | 3,976                          | 0.47%                 | 6,756              | 10,731                                |
| PS           | 1.62%                 | 10,629                         | 1.52%                 | 21,749             | 32,377                                |
| OL           | 0.11%                 | 728                            | 0.20%                 | 2,854              | 3,582                                 |
| Total        | 100%                  | 654,411                        | 100%                  | 1,426,767          | 2,081,178                             |

Kingsport Power Company 2012 Purchased Power Adjustment Rider Surcharge  
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**Class Responsibility - 2012 PPAR with 2010 Demand and Energy Allocators Compared to 2007 Allocators**

|   | With 2010 Allocators  |                         |                       |                             |                               | With 2007 Allocators          |            |
|---|-----------------------|-------------------------|-----------------------|-----------------------------|-------------------------------|-------------------------------|------------|
|   | 2010<br>Demand Alloc. | 2010<br>Demand Revenues | 2010<br>Energy Alloc. | Non-Fuel Energy<br>Revenues | Total Class<br>Responsibility | Total Class<br>Responsibility | Difference |
| <b>Generation</b>                       |                       |                         |                       |                             |                               |                               |            |
| Residential                             | 46.49%                | 14,833,980              | 35.74%                | 603,428                     | 15,437,408                    | 14,868,176                    | 569,232    |
| SGS                                     | 0.99%                 | 315,018                 | 1.06%                 | 17,882                      | 332,900                       | 334,565                       | (1,664)    |
| MGS                                     | 6.01%                 | 1,917,466               | 5.14%                 | 86,870                      | 2,004,336                     | 1,700,985                     | 303,351    |
| LGS                                     | 10.04%                | 3,205,027               | 11.38%                | 192,102                     | 3,397,129                     | 3,921,136                     | (524,008)  |
| IP                                      | 32.49%                | 10,365,377              | 43.02%                | 726,387                     | 11,091,764                    | 11,375,178                    | (283,414)  |
| EHG                                     | 1.47%                 | 469,791                 | 1.40%                 | 23,706                      | 493,497                       | 611,701                       | (118,205)  |
| CS                                      | 0.59%                 | 188,385                 | 0.49%                 | 8,305                       | 196,691                       | 201,836                       | (5,145)    |
| PS                                      | 1.72%                 | 548,741                 | 1.57%                 | 26,530                      | 575,271                       | 543,974                       | 31,297     |
| OL                                      | 0.20%                 | 64,098                  | 0.20%                 | 3,341                       | 67,439                        | 38,883                        | 28,556     |
| <b>Total (Excluding Backup Service)</b> | <b>100%</b>           | <b>31,907,883</b>       | <b>100%</b>           | <b>1,688,551</b>            | <b>33,596,434</b>             | <b>33,596,434</b>             | <b>0</b>   |
| <b>Transmission</b>                     |                       |                         |                       |                             |                               |                               |            |
| Residential                             |                       |                         |                       |                             |                               |                               |            |
| SGS                                     | 46.49%                | 304,236                 | 35.74%                | 509,876                     | 814,112                       | 789,272                       | 24,840     |
| MGS                                     | 0.99%                 | 6,461                   | 1.06%                 | 15,110                      | 21,571                        | 20,576                        | 995        |
| LGS                                     | 6.01%                 | 39,326                  | 5.14%                 | 73,402                      | 112,728                       | 93,308                        | 19,420     |
| IP                                      | 10.04%                | 65,733                  | 11.38%                | 162,319                     | 228,052                       | 254,077                       | (26,025)   |
| EHG                                     | 32.49%                | 212,587                 | 43.02%                | 613,772                     | 826,359                       | 843,211                       | (16,852)   |
| CS                                      | 1.47%                 | 9,635                   | 1.40%                 | 20,031                      | 29,666                        | 34,044                        | (4,378)    |
| PS                                      | 0.59%                 | 3,864                   | 0.49%                 | 7,018                       | 10,881                        | 10,731                        | 150        |
| OL                                      | 1.72%                 | 11,254                  | 1.57%                 | 22,417                      | 33,671                        | 32,377                        | 1,294      |
| OL                                      | 0.20%                 | 1,315                   | 0.20%                 | 2,823                       | 4,137                         | 3,582                         | 555        |
| <b>Total</b>                            | <b>100%</b>           | <b>654,411</b>          | <b>100%</b>           | <b>1,426,767</b>            | <b>2,081,178</b>              | <b>2,081,178</b>              | <b>0</b>   |

|                   | (A)<br>\$ Difference<br>Between<br>2007 and 2010<br>Allocators | (B)<br>Total 12 months<br>Ended Sept 2011<br>Revenues | C = (A) X (B)<br>% Difference in<br>Annual Total<br>Between<br>2007 and 2010<br>Allocators |
|-------------------|--|---|--|
| <b>Total PPAR</b> |  |   |  |
| Residential       | 594,072  | 57,595,190  | 1.0%   |
| SGS               | (689)  | 2,243,779   | 0.0%   |
| MGS               | 322,772  | 9,687,248   | 3.3%   |
| LGS               | (550,033)  | 18,207,583  | -3.0%  |
| IP                | (300,266)  | 52,957,049  | -0.6%  |
| EHG               | (122,583)  | 2,464,997   | -5.0%  |
| CS                | (4,995)  | 916,869   | -0.5%  |
| PS                | 32,591   | 2,324,198   | 1.4%   |
| OL                | 29,111   | 691,925   | 4.2%   |
| <b>Total</b>      | <b>(0)</b>   | <b>147,088,838</b>                                    |  |

Kingstport Power Company 2012 Purchased Power Adjustment Rider Surcharge  
Using 12 Months Ended September 30, 2011 for Transmission OATT Demand and Energy Rates  
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**Calculation of 2012 Surcharge Rates**

| Generation             |  | Non-Fuel<br>Energy<br>Revenues | Demand<br>Revenues | Total Net<br>Revenues | Prompt Payment<br>Discount 1.523%<br>Gross up | 2007<br>KWH/Lamp | Rate (\$/KWh) |
|------------------------|--|--------------------------------|--------------------|-----------------------|---|------------------|---------------|
| Residential            |  | 587,460                        | 14,280,716         | 14,868,176            | 15,084,618                                    | 752,889,720      | 0.02005       |
| SGS                    |  | 16,634                         | 317,931            | 334,565               | 339,660                                       | 21,317,858       | 0.01593       |
| MGS                    |  | 70,861                         | 1,630,124          | 1,700,985             | 1,726,891                                     | 90,815,583       | 0.01902       |
| LGS                    |  | 210,633                        | 1,855,251          | 2,065,884             | 2,097,348                                     | 270,915,641      | 0.00774       |
| IP                     |  | 739,776                        | 5,317,701          | 6,057,477             | 6,148,733                                     | 1,000,303,958    | 0.00615       |
| EHG                    |  | 26,076                         | 585,626            | 611,701               | 621,018                                       | 33,418,766       | 0.01858       |
| CS                     |  | 7,985                          | 193,841            | 201,826               | 204,910                                       | 10,246,488       | 0.02000       |
| PS                     |  | 25,739                         | 518,235            | 543,974               | 552,259                                       | 32,987,176       | 0.01674       |
| OL                     |  | 3,377                          | 35,506             | 38,883                | 39,476  | 66,648           | 0.59230       |
| Total                  |  | 1,688,351                      | 24,734,930         | 26,423,482            | 26,825,911                                    |                  |               |
| LGS and IP Demand Calc |  |                                |                    |                       |   |                  |               |
| LGS                    |  |                                | 1,855,251          | 1,855,251             | 1,883,507                                     | 461,209          | 4.08          |
| IP                     |  |                                | 5,317,701          | 5,317,701             | 5,398,689                                     | 1,393,866        | 3.87          |
| Total LGS and IP       |  |                                | 7,172,952          | 7,172,952             | 7,282,196                                     |                  |               |
| Backup Service         |  |                                | 139,281            | 139,281               | 140,387                                       |                  |               |
| TOTAL GENERATION       |  | 1,688,351                      | 32,046,164         | 33,734,715            | 34,248,495                                    |                  |               |
| Transmission           |  |                                |                    |                       |   |                  |               |
| Residential            |  | 496,384                        | 292,889            | 789,272               | 801,283                                       | 752,889,720      | 0.00106       |
| SGS                    |  | 14,055                         | 6,521              | 20,576                | 20,889  | 21,317,858       | 0.00088       |
| MGS                    |  | 59,875                         | 33,433             | 93,308                | 94,728  | 90,815,583       | 0.00104       |
| LGS                    |  | 177,877                        | 38,050             | 216,027               | 219,318                                       | 270,915,641      | 0.00081       |
| IP                     |  | 625,085                        | 109,063            | 734,148               | 745,329                                       | 1,000,303,958    | 0.00075       |
| EHG                    |  | 22,033                         | 12,011             | 34,044                | 34,562  | 33,418,766       | 0.00103       |
| CS                     |  | 6,756                          | 3,976              | 10,731                | 10,895  | 10,246,488       | 0.00106       |
| PS                     |  | 21,749                         | 10,629             | 32,377                | 32,870  | 32,987,176       | 0.00100       |
| OL                     |  | 2,854                          | 728                | 3,582                 | 3,636   | 66,648           | 0.05456       |
| Total                  |  | 1,426,767                      | 507,286            | 1,934,053             | 1,963,521                                     |                  |               |
| LGS and IP Demand Calc |  |                                |                    |                       |   |                  |               |
| LGS                    |  |                                | 38,050             | 38,050                | 38,630  | 461,209          | 0.08          |
| IP                     |  |                                | 109,063            | 109,063               | 110,724                                       | 1,393,866        | 0.08          |
| Total                  |  |                                | 147,113            | 147,113               | 148,353                                       | 1,855,076        |               |
| TOTAL TRANSMISSION     |  | 1,426,767                      | 654,411            | 2,081,178             | 2,112,875                                     | 1,855,076        |               |
| TOTAL PPAR Y&G         |  | 3,115,319                      | 32,700,574         | 35,815,893            | 36,361,369                                    | 1,855,076        |               |

**Combined 2012 PPAR Rate**

|             | Demand Rate | Energy Rate | Lamp rate |
|-------------|-------------|-------------|-----------|
| Residential |             |             | 0.02111   |
| SGS         |             |             | 0.01691   |
| MGS         |             |             | 0.02006   |
| LGS         | 4.16        |             | 0.00955   |
| IP          |             | 3.85        | 0.00690   |
| EHG         |             |             | 0.01961   |
| CS          |             |             | 0.02106   |
| PS          |             |             | 0.01774   |
| OL          |             |             | 0.00000   |
|             |             |             | 0.64686   |



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Using 12 Months Ended September 30, 2011 for Transmission OATT Demand and Energy Rates  
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Summary of Annual Class Impacts

| Class       | Year 1 - 2009 |             |            | Year 1 - 2009 |                 |             | Year 1 - 2009 |            |       |
|-------------|---------------|-------------|------------|---------------|-----------------|-------------|---------------|------------|-------|
|             | 2007 Revenues | Adjustment  | Rider      | Y1 PP         | Y1 Transmission | Y1 Revenues | 2007 Revenues | Adjustment | Rider |
|             | Includ. Fuel  | Credit      |            |               | Revenue         |             |               |            |       |
| Residential | 39,406,210    | (1,054,096) | 9,586,841  | (126,071)     | 48,923,076      |             |               |            |       |
| SGS         | 1,699,144     | (24,300)    | 215,650    |               | 1,937,624       |             |               |            |       |
| MGS         | 5,784,946     | (104,438)   | 1,096,688  |               | 6,973,559       |             |               |            |       |
| LGS         | 13,235,766    | (290,244)   | 2,526,377  |               | 16,041,650      |             |               |            |       |
| IP          | 34,239,975    | (828,910)   | 7,334,182  |               | 42,427,295      |             |               |            |       |
| EHG         | 2,040,552     | (41,105)    | 394,351    |               | 2,471,730       |             |               |            |       |
| CS          | 662,509       | (11,988)    | 130,096    |               | 802,877         |             |               |            |       |
| PS          | 1,613,912     | (45,176)    | 350,593    |               | 2,006,757       |             |               |            |       |
| OL          | 665,084       | (696)       | 25,072     |               | 691,263         |             |               |            |       |
| Total       | 99,348,099    | (2,400,953) | 21,661,860 | (135,082)     | 123,275,831     |             |               |            |       |

| Class       | Year 2 - 2010 |             |            | Year 2 - 2010 |                 |                   | Year 2 - 2010 |            |       |
|-------------|---------------|-------------|------------|---------------|-----------------|-------------------|---------------|------------|-------|
|             | 2007 Revenues | Adjustment  | Rider      | Y2 PP         | Y2 Transmission | Y2 Revenues       | 2007 Revenues | Adjustment | Rider |
|             | Includ. Fuel  | Credit      |            |               | Revenue         | with 2007 billing |               |            |       |
|             |               |             |            |               |                 | determinants      |               |            |       |
| Residential | 39,406,210    | (1,054,096) | 10,908,883 | 1,698,256     | 53,087,444      |                   |               |            |       |
| SGS         | 1,699,144     | (24,300)    | 245,468    | 39,686        | 2,008,598       |                   |               |            |       |
| MGS         | 5,784,946     | (104,438)   | 1,247,874  | 195,903       | 7,333,162       |                   |               |            |       |
| LGS         | 13,235,766    | (290,244)   | 2,876,593  | 472,585       | 16,877,169      |                   |               |            |       |
| IP          | 34,239,975    | (828,910)   | 8,342,902  | 1,428,200     | 44,839,967      |                   |               |            |       |
| EHG         | 2,040,552     | (41,105)    | 448,665    | 70,773        | 2,601,095       |                   |               |            |       |
| CS          | 662,509       | (11,988)    | 148,081    | 23,112        | 845,671         |                   |               |            |       |
| PS          | 1,613,912     | (45,176)    | 399,066    | 64,010        | 2,122,105       |                   |               |            |       |
| OL          | 665,084       | (696)       | 29,524     | 5,241         | 699,545         |                   |               |            |       |
| Total       | 99,348,099    | (2,400,953) | 24,647,977 | 3,997,765     | 130,394,795     |                   |               |            |       |

| Class       | Year 3 - 2011 |             |            | Year 3 - 2011 |              |                   | Year 3 - 2011 |            |       |
|-------------|---------------|-------------|------------|---------------|--------------|-------------------|---------------|------------|-------|
|             | 2007 Revenues | Adjustment  | Rider      | Y3 PP         | Y3 PP        | Y3 Revenues       | 2007 Revenues | Adjustment | Rider |
|             | Includ. Fuel  | Credit      |            | Generation    | Transmission | with 2007 billing |               |            |       |
|             |               |             |            |               |              | determinants      |               |            |       |
| Residential | 39,406,210    | (1,054,096) | 14,869,007 | (148,319)     | 55,180,984   |                   |               |            |       |
| SGS         | 1,699,144     | (24,300)    | 334,500    | (1,050)       | 2,056,893    |                   |               |            |       |
| MGS         | 5,784,946     | (104,438)   | 1,701,403  | (14,313)      | 7,576,475    |                   |               |            |       |
| LGS         | 13,235,766    | (290,244)   | 3,918,942  | (14,311)      | 17,443,522   |                   |               |            |       |
| IP          | 34,239,975    | (828,910)   | 11,372,940 | 83,670        | 46,525,495   |                   |               |            |       |
| EHG         | 2,040,552     | (41,105)    | 611,607    | (4,938)       | 2,688,327    |                   |               |            |       |
| CS          | 662,509       | (11,988)    | 201,856    | (2,019)       | 874,334      |                   |               |            |       |
| PS          | 1,613,912     | (45,176)    | 543,922    | (2,599)       | 2,200,411    |                   |               |            |       |
| OL          | 665,084       | (696)       | 38,883     | 850           | 705,514      |                   |               |            |       |
| Total       | 99,348,099    | (2,400,953) | 33,593,061 | (80,148)      | 135,251,965  |                   |               |            |       |

| Class       | Year 4 - 2012 |             |            | Year 4 - 2012 |              |                   | Year 4 - 2012 |            |       |
|-------------|---------------|-------------|------------|---------------|--------------|-------------------|---------------|------------|-------|
|             | 2007 Revenues | Adjustment  | Rider      | 2012 PP       | 2012 PP      | 2012 Revenues     | 2007 Revenues | Adjustment | Rider |
|             | Includ. Fuel  | Credit      |            | Generation    | Transmission | with 2007 billing |               |            |       |
|             |               |             |            |               |              | determinants      |               |            |       |
| Residential | 39,406,210    | (1,054,096) | 14,869,007 | 786,092       | 56,115,405   |                   |               |            |       |
| SGS         | 1,699,144     | (24,300)    | 334,500    | 20,578        | 2,078,521    |                   |               |            |       |
| MGS         | 5,784,946     | (104,438)   | 1,701,403  | 93,031        | 7,683,819    |                   |               |            |       |
| LGS         | 13,235,766    | (290,244)   | 3,918,942  | 252,483       | 17,697,447   |                   |               |            |       |
| IP          | 34,239,975    | (828,910)   | 11,372,940 | 848,811       | 47,290,637   |                   |               |            |       |
| EHG         | 2,040,552     | (41,105)    | 611,607    | 33,965        | 2,727,169    |                   |               |            |       |
| CS          | 662,509       | (11,988)    | 201,856    | 10,088        | 887,051      |                   |               |            |       |
| PS          | 1,613,912     | (45,176)    | 543,922    | 32,482        | 2,235,503    |                   |               |            |       |
| OL          | 665,084       | (696)       | 38,883     | 3,562         | 706,245      |                   |               |            |       |
| Total       | 99,348,099    | (2,400,953) | 33,593,061 | 2,081,684     | 137,423,797  |                   |               |            |       |

| Actual                               | % Impact                              |
|--------------------------------------|---------------------------------------|
| Revenues - 12 Months Ended Sept 2011 | Compared to 12 Months Ended Sept 2011 |
| 57,595,190.16                        | 1.6%                                  |
| 2,243,778.20                         | 1.0%                                  |
| 8,867,246.25                         | 1.1%                                  |
| 18,207,563.04                        | 1.4%                                  |
| 52,957,046.69                        | 1.4%                                  |
| 2,464,897.26                         | 1.6%                                  |
| 916,869.02                           | 1.4%                                  |
| 2,324,196.23                         | 1.5%                                  |
| 691,924.94                           | 0.4%                                  |
| 147,088,838                          | 1.5%                                  |

**2012 Purchased Power Adjustment Rider  
Kingsport Power Company  
Transmission Demand and Energy Rate Computation**

|   | Billing Month<br>Cost Based Upon | Year 1-2009          |                      |      | Year 2-2010          |  | Year 3-2011          |  | Year 4-2012          |  |
|---|----------------------------------|----------------------|----------------------|------|----------------------|--|----------------------|--|----------------------|--|
|   |                                  | Jan & Feb            | Mar - Dec            | 2007 | Jan - Dec            |  | Jan-Dec              |  | Jan-Dec              |  |
|   |                                  |                      |                      |      | TME Sept 2009        |  | TME Sept 2010        |  | TME Sept 2011        |  |
| PJM Administration Service Fees                 |                                  | 701,724              | 701,724              |      | 753,735              |  | 592,879              |  | 654,425              |  |
| Point-to-Point Transmission Revenues            |                                  | (240,632)            | (240,632)            |      | (319,751)            |  | (247,080)            |  | (162,162)            |  |
| PJM Transmission Enhancement Charges            |                                  | 5,026                | 5,026                |      | 257,784              |  | 456,815              |  | 711,673              |  |
| RTO Formation Charges                           |                                  | 40,189               | 40,189               |      | 45,930               |  | 31,766               |  | (5,251)              |  |
| <b>Total</b>                                    |                                  | <b>506,306</b>       | <b>506,306</b>       |      | <b>737,699</b>       |  | <b>834,381</b>       |  | <b>1,198,685</b>     |  |
| <b>KWH</b>                                      |                                  | <b>2,233,440,877</b> | <b>2,233,440,877</b> |      | <b>2,237,120,399</b> |  | <b>2,201,508,325</b> |  | <b>2,191,273,432</b> |  |
| Composite Energy Rate                           |                                  | 0.000226693          | 0.000226693          |      | 0.000329754          |  | 0.000379004          |  | 0.000547026          |  |
| Schedule 1a                                     |                                  | 0.000068600          | 0.000055000          |      | 0.000071100          |  | 0.000101900          |  | 0.000091794          |  |
| <b>Total Energy Rate (\$/kWh)</b>               |                                  | <b>0.000295293</b>   | <b>0.000281693</b>   |      | <b>0.000400854</b>   |  | <b>0.000480904</b>   |  | <b>0.000638820</b>   |  |
| Network Integration Transmission Service (NITS) |                                  | 1.757400000          | 1.971000000          |      | 2.112000000          |  | 1.965670000          |  | 2.385392900          |  |
| Expansion Cost Recovery Charge (ECRC)           |                                  | 0.005200000          | 0.005200000          |      | 0.005200000          |  | 0.005250000          |  | 0.005270000          |  |
| <b>Total Demand Rate (\$/kW)</b>                |                                  | <b>1.762600000</b>   | <b>1.976200000</b>   |      | <b>2.117200000</b>   |  | <b>1.970920000</b>   |  | <b>2.390662900</b>   |  |

**Kingsport Power Company  
2012 Purchased Power Adjustment Rider Adjustment  
Calculation of Kingsport's Allocation of Transmission Expense  
Twelve Months Ended September 30, 2011**

| <u>Line No.</u> | <u>(A)<br/>Description</u>                         | <u>(B)<br/>AEP System<br/>Transmission Expense</u> | <u>(C)<br/>KgPCo<br/>12CP</u> | <u>(D)<br/>Allocator<br/>Description</u> | <u>(E)<br/>(B) * (C)<br/>Kingsport's<br/>Transmission<br/>Expense</u> |
|-----------------|--|--|-------------------------------|--|---|
| 1               | Point to Point Transmission Service Credits        | (\$9,443,223.22)                                   | 1.717%                        | Demand                                   | (\$162,162.31)  |
| 2               | PJM Transmission Enhancement Charges (Schedule 12) | \$41,442,973.06                                    | 1.717%                        | Demand                                   | \$711,673.11  |
| 3               | PJM Administrative Charges                         |  |                               |  |   |
| 4               | PJM Admin - SSC & DS - Internal                    | \$16,935,987.42                                    | 1.717%                        | Demand                                   | \$290,830.65  |
| 5               | PJM Admin - RP & SDS - Internal                    | \$3,752,775.44                                     | 1.717%                        | Demand                                   | \$64,443.96   |
| 6               | PJM Admin - MAM & SC - Internal                    | \$17,420,480.38                                    | 1.717%                        | Demand                                   | \$299,150.53  |
| 7               | PJM Admin - Defaults LSE                           | \$0.00   | 1.717%                        | Demand                                   | \$0.00  |
| 8               | PJM Administrative Charges (Line 4 - 7)            | \$38,109,243.24                                    |                               |  | \$654,425.15  |
| 9               | AEP RTO Formation Cost Recovery Charges            | (\$305,806.72)                                     | 1.717%                        | Demand                                   | (\$5,251.42)  |
| 10              | Demand Response Program Cost Recovery              | \$0.00   | 1.717%                        | Demand                                   | \$0.00  |
| 11              | Total (Line 1 + 2 + 8 - 10)                        | \$69,803,186.36                                    |                               |  | \$1,198,684.54  |

AEP East System  
PJM Administrative Charges  
12 Months Ended 9/30/11

| Line No. | Schedule                                | Notes | Oct          | Nov          | Dec          | Jan            | Feb           | Mar          | Apr            | May          | Jun          | Jul            | Aug            | Sep          | Total          |
|----------|---|-------|--------------|--------------|--------------|----------------|---------------|--------------|----------------|--------------|--------------|----------------|----------------|--------------|----------------|
| 1        | Point to Point Transmission Revenue     |       | \$ (353,399) | \$ (128,274) | \$ (810,922) | \$ (1,904,940) | \$ (1,18,798) | \$ (611,183) | \$ (1,444,055) | \$ (667,256) | \$ (698,113) | \$ (1,000,112) | \$ (1,011,015) | \$ (295,156) | \$ (9,443,223) |
| 2        | PJM Enhancement Charges                 |       | \$ 3,410,060 | \$ 3,269,191 | \$ 2,529,560 | \$ 3,513,546   | \$ 3,451,211  | \$ 3,453,206 | \$ 3,433,575   | \$ 3,412,884 | \$ 3,478,494 | \$ 2,646,011   | \$ 3,457,383   | \$ 1,672,651 | \$ 37,727,773  |
| 3        | PJM Admin - SSC & DS - Internal         | (A)   | \$ 1,474,216 | \$ 1,048,742 | \$ 1,331,967 | \$ 1,282,277   | \$ 1,372,457  | \$ 1,055,880 | \$ 1,006,326   | \$ 1,558,196 | \$ 2,010,899 | \$ 1,693,713   | \$ 1,673,293   | \$ 1,328,020 | \$ 16,935,987  |
| 4        | PJM Admin - RP & SDS - Internal         | (B)   | \$ 294,500   | \$ 243,128   | \$ 288,438   | \$ 475,444     | \$ 352,946    | \$ 280,695   | \$ 280,681     | \$ 257,672   | \$ 329,147   | \$ 340,782     | \$ 330,289     | \$ 279,004   | \$ 3,752,775   |
| 5        | PJM Admin - MAM & SC - Internal         | (C)   | \$ 1,495,376 | \$ 1,161,025 | \$ 1,365,205 | \$ 1,504,365   | \$ 1,374,402  | \$ 1,278,499 | \$ 1,302,448   | \$ 1,436,437 | \$ 1,734,269 | \$ 1,617,037   | \$ 1,721,239   | \$ 1,426,176 | \$ 17,420,480  |
| 6        | PJM Admin - Default LSE                 |       |              |              |              |                |               |              |                |              |              |                |                |              |                |
| 7        | AEP RTO Formation Cost Recovery Charges |       | \$ (22,190)  | \$ (46,115)  | \$ (4,518)   | \$ (36,416)    | \$ (10,479)   | \$ (21,266)  | \$ (22,112)    | \$ (31,631)  | \$ (23,977)  | \$ (31,300)    | \$ (26,984)    | \$ (28,820)  | \$ (305,807)   |
| 8        | PJM Transmission Enhancement Cost       | (D)   |              |              | \$ 681,985   | \$ 329,248     | \$ 325,774    | \$ 326,335   | \$ 324,283     | \$ 322,648   | \$ 321,557   | \$ 293,968     | \$ 293,542     | \$ 366,535   | \$ 3,585,776   |
| 9        | PJM Transmission Enhancement Expense    | (E)   |              |              | \$ 35,327    | \$ 20,376      | \$ 19,883     | \$ 19,861    | \$ 18,777      | \$ 18,084    | \$ 17,800    | \$ 17,120      | \$ 17,172      | \$ (54,975)  | \$ 129,424     |
| 10       | PJM Administrative Charges (Line 1 - 9) |       | \$ 6,302,563 | \$ 5,547,696 | \$ 5,517,093 | \$ 5,183,802   | \$ 6,767,395  | \$ 5,582,027 | \$ 4,899,923   | \$ 6,307,035 | \$ 6,970,077 | \$ 5,577,120   | \$ 6,454,919   | \$ 4,893,436 | \$ 69,803,186  |

Notes

- (A) PJM Administrative Service Fees for Scheduling, System Control and Dispatching Services  
 (B) PJM Administrative Service Fees for Reliability Planning and Standards Development Services  
 (C) PJM Administrative Service Fees for Market Administration, Monitoring and Compliance Services  
 (D) Affiliated PJM Transmission Enhancement Cost (RTEP)  
 (E) Affiliated PJM Transmission Enhancement Expense (RTEP)

Source File: SEPT REVISED Transmission Costs Query 2012 data v1.xls

**AEP East Zone  
Transmission load by State  
Forecasted Through October 2011**

|                       | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual  | Actual  | Actual | Actual  | Actual | Forecast | 12 CP Average            | Transmission Load (State Totals) |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|---------|---------|--------|---------|--------|----------|--------------------------|----------------------------------|
|                       | Nov 10 | Dec 10 | Jan 11 | Feb 11 | Mar 11 | Apr 11 | May 11 | June 11 | July 11 | Aug 11 | Sept 11 | Oct 11 |          |                          |                                  |
| <b>Company</b>        |        |        |        |        |        |        |        |         |         |        |         |        |          |                          | 12 CP Avg. Share                 |
| APCo Virginia         | 2,800  | 3,465  | 3,117  | 3,424  | 2,578  | 2,482  | 2,748  | 2,808   | 2,954   | 2,846  | 2,495   | 2,009  | 2,810    | APCo Virginia            | 2,810                            |
| APCo West Virginia    | 2,511  | 3,087  | 2,953  | 2,927  | 2,427  | 2,235  | 2,498  | 2,398   | 2,595   | 2,569  | 2,581   | 1,987  | 2,587    | APCo West Virginia       | 2,587                            |
| Kingsport             | 322    | 417    | 354    | 406    | 287    | 266    | 329    | 334     | 317     | 336    | 267     | 331    | 331      | Kingsport                | 331                              |
| I&M Indiana (70/30)   | 2,277  | 2,595  | 2,595  | 2,489  | 2,439  | 2,187  | 2,609  | 2,938   | 3,250   | 3,093  | 3,066   | 2,433  | 2,652    | I&M Indiana (70/30)      | 2,652                            |
| I&M Michigan (70/30)  | 429    | 478    | 462    | 452    | 413    | 383    | 456    | 464     | 594     | 545    | 429     | 862    | 472      | I&M Michigan (70/30)     | 472                              |
| SPCo                  | 1,188  | 1,405  | 1,259  | 1,497  | 1,129  | 1,094  | 1,173  | 1,151   | 1,110   | 1,208  | 1,070   | 862    | 1,179    | KPCo                     | 1,179                            |
| CSP                   | 2,767  | 3,576  | 3,305  | 3,342  | 2,985  | 2,716  | 4,255  | 4,291   | 4,651   | 4,181  | 4,423   | 3,510  | 3,667    | CSP                      | 3,667                            |
| OPCo                  | 3,653  | 4,225  | 4,308  | 4,207  | 3,923  | 3,655  | 4,726  | 4,699   | 5,141   | 4,598  | 4,652   | 4,287  | 4,287    | OPCo                     | 4,287                            |
| WPCo                  | 321    | 323    | 307    | 302    | 312    | 272    | 309    | 355     | 335     | 296    | 325     | 258    | 310      | WPCo                     | 310                              |
| Sub-Total Company LSE | 16,269 | 19,561 | 18,649 | 19,327 | 16,360 | 15,289 | 19,103 | 19,416  | 20,946  | 19,686 | 19,482  | 15,447 | 18,295   | Total 12 CP Formula Rate | 18,295                           |
| I&M WS Tariff         | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0       | 0       | 0      | 0       | 0      | 0        | Formula Rate             | 973                              |
| Total Company LSE     | 16,269 | 19,561 | 18,649 | 19,327 | 16,360 | 15,289 | 19,103 | 19,416  | 20,946  | 19,686 | 19,482  | 15,447 | 18,295   | Total Retail + FR        | 19,268                           |
|                       |        |        |        |        |        |        |        |         |         |        |         |        |          | Kingsport 12 CP Share    | 1,719%                           |

11/07/11

**Kingsport Power Company**  
**Changes in Typical Monthly Bills**  
**Bill Impacts -With Fuel Rates Issued Sept 1, 2011 and Proposed 2012 Purchased Power Adjustment Rider**

| <b>RESIDENTIAL</b>       |              |              |              |              |              |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
|                          | 100<br>kWh   | 250<br>kWh   | 500<br>kWh   | 750<br>kWh   | 1,000<br>kWh |
| Change in Typical Bill   | \$0.12       | \$0.32       | \$0.62       | \$0.93       | \$1.24       |
| % Change in Typical Bill | 0.80%        | 1.20%        | 1.35%        | 1.42%        | 1.46%        |
|                          |              |              |              |              |              |
|                          | 1,500<br>kWh | 2,000<br>kWh | 3,000<br>kWh | 5,000<br>kWh | 7,500<br>kWh |
| Change in Typical Bill   | \$1.86       | \$2.49       | \$3.73       | \$6.21       | \$9.33       |
| % Change in Typical Bill | 1.50%        | 1.53%        | 1.55%        | 1.57%        | 1.58%        |

| <b>SMALL GENERAL SERVICE</b> |           |          |            |          |            |
|------------------------------|-----------|----------|------------|----------|------------|
|                              | kW<br>kWh | 3<br>375 | 3<br>1,000 | 6<br>750 | 6<br>2,000 |
| Change in Typical Bill       |           | \$0.37   | \$1.01     | \$0.75   | \$2.04     |
| % Change in Typical Bill     |           | 0.85%    | 1.04%      | 0.98%    | 1.14%      |

| <b>MEDIUM GENERAL SERVICE - Sec</b> |           |               |               |              |              |              |
|-------------------------------------|-----------|---------------|---------------|--------------|--------------|--------------|
|                                     | kW<br>kWh | 12<br>1,500   | 12<br>4,000   | 30<br>6,000  | 30<br>10,000 | 40<br>10,000 |
| Change in Typical Bill              |           | \$1.77        | \$4.74        | \$7.11       | \$11.84      | \$11.84      |
| % Change in Typical Bill            |           | 1.02%         | 1.29%         | 1.13%        | 1.33%        | 1.23%        |
|                                     |           |               |               |              |              |              |
|                                     | kW<br>kWh | 50<br>12,500  | 50<br>18,000  | 75<br>15,000 | 75<br>30,000 | 75<br>50,000 |
| Change in Typical Bill              |           | \$14.80       | \$21.32       | \$17.77      | \$35.53      | \$59.22      |
| % Change in Typical Bill            |           | 1.24%         | 1.37%         | 1.15%        | 1.41%        | 1.55%        |
|                                     |           |               |               |              |              |              |
|                                     | kW<br>kWh | 100<br>30,000 | 100<br>36,000 |              |              |              |
| Change in Typical Bill              |           | \$35.53       | \$42.64       |              |              |              |
| % Change in Typical Bill            |           | 1.32%         | 1.38%         |              |              |              |

11/07/11

**Kingsport Power Company**  
**Changes in Typical Monthly Bills**  
**Bill Impacts -With Fuel Rates Issued Sept 1, 2011 and Proposed 2012 Purchased Power Adjustment Rider**

|                                    |     |          |          |          |          |          |
|------------------------------------|-----|----------|----------|----------|----------|----------|
| <b>LARGE GENERAL SERVICE - Sec</b> | kVA | 118      | 118      | 176      | 176      | 176      |
|                                    | kW  | 100      | 100      | 150      | 150      | 150      |
|                                    | kWh | 30,000   | 36,000   | 30,000   | 60,000   | 100,000  |
| Change in Typical Bill             |     | \$39.28  | \$42.60  | \$50.63  | \$67.22  | \$89.32  |
| % Change in Typical Bill           |     | 1.52%    | 1.46%    | 1.69%    | 1.44%    | 1.29%    |
|                                    |     |          |          |          |          |          |
|                                    | kVA | 353      | 353      | 353      | 353      | 353      |
|                                    | kW  | 300      | 300      | 300      | 300      | 300      |
|                                    | kWh | 60,000   | 90,000   | 120,000  | 150,000  | 200,000  |
| Change in Typical Bill             |     | \$101.27 | \$117.84 | \$134.42 | \$151.00 | \$178.65 |
| % Change in Typical Bill           |     | 1.71%    | 1.55%    | 1.45%    | 1.38%    | 1.30%    |
|                                    |     |          |          |          |          |          |
|                                    | kVA | 588      | 588      | 588      | 588      | 588      |
|                                    | kW  | 500      | 500      | 500      | 500      | 500      |
|                                    | kWh | 100,000  | 150,000  | 180,000  | 200,000  | 325,000  |
| Change in Typical Bill             |     | \$168.77 | \$196.40 | \$212.99 | \$224.04 | \$293.14 |
| % Change in Typical Bill           |     | 1.72%    | 1.56%    | 1.49%    | 1.45%    | 1.31%    |

|                                    |     |          |          |          |          |          |
|------------------------------------|-----|----------|----------|----------|----------|----------|
| <b>LARGE GENERAL SERVICE - Pri</b> | kVA | 1,176    | 1,176    | 1,176    | 1,176    | 1,176    |
|                                    | kW  | 1,000    | 1,000    | 1,000    | 1,000    | 1,000    |
|                                    | kWh | 200,000  | 300,000  | 360,000  | 400,000  | 650,000  |
| Change in Typical Bill             |     | \$337.54 | \$392.81 | \$425.97 | \$448.09 | \$586.26 |
| % Change in Typical Bill           |     | 1.82%    | 1.65%    | 1.59%    | 1.55%    | 1.40%    |

|                               |          |            |            |             |            |            |            |
|-------------------------------|----------|------------|------------|-------------|------------|------------|------------|
| <b>INDUSTRIAL POWER - Pri</b> | Ex. kVAR | 599        | 599        | 599         | 1,197      | 1,197      | 1,197      |
|                               | kW       | 5,000      | 5,000      | 5,000       | 10,000     | 10,000     | 10,000     |
|                               | kWh      | 1,500,000  | 2,500,000  | 3,250,000   | 3,000,000  | 5,000,000  | 6,500,000  |
| Change in Typical Bill        |          | \$1,781.48 | \$2,245.35 | \$2,593.26  | \$3,562.96 | \$4,490.71 | \$5,186.53 |
| % Change in Typical Bill      |          | 1.48%      | 1.41%      | 1.37%       | 1.48%      | 1.41%      | 1.37%      |
|                               |          |            |            |             |            |            |            |
|                               | Ex. kVAR | 2,395      | 2,395      | 2,395       |            |            |            |
|                               | kW       | 20,000     | 20,000     | 20,000      |            |            |            |
|                               | kWh      | 6,000,000  | 10,000,000 | 13,000,000  |            |            |            |
| Change in Typical Bill        |          | \$7,125.92 | \$8,981.42 | \$10,373.06 |            |            |            |
| % Change in Typical Bill      |          | 1.48%      | 1.41%      | 1.37%       |            |            |            |

|                                |          |             |             |             |  |  |
|--------------------------------|----------|-------------|-------------|-------------|--|--|
| <b>INDUSTRIAL POWER - Tran</b> | Ex. kVAR | 5,987       | 5,987       | 5,987       |  |  |
|                                | kW       | 50,000      | 50,000      | 50,000      |  |  |
|                                | kWh      | 15,000,000  | 25,000,000  | 32,500,000  |  |  |
| Change in Typical Bill         |          | \$17,814.81 | \$22,453.57 | \$25,932.64 |  |  |
| % Change in Typical Bill       |          | 1.56%       | 1.47%       | 1.43%       |  |  |

## KINGSPORT POWER COMPANY

## NOTICE TO PUBLIC

Kingsport Power Company, d/b/a AEP Appalachian Power ("Kingsport"), hereby gives notice that on November 8, 2011, it made a tariff filing with the Tennessee Regulatory Authority ("TRA") relative to changes in Kingsport's Purchased Power Adjustment Rider ("PPAR") surcharges. 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 surcharges, are on file with the TRA at 460 James Robertson Parkway, Nashville, Tennessee, and are available for public inspection.

On December 2, 2008, the FERC accepted for filing, effective January 1, 2009, an Amended and Restated Interconnection Agreement ("Agreement") between Appalachian Power Company ("APCo") and Kingsport, which APCo designated as Appalachian Power Company First Revised Rate Schedule 23 ("Revised Rate Schedule 23"). Among other things, Revised Rate Schedule 23 provides for changes in the transmission portion of non-fuel purchased power costs to be billed to KgPCo by APCo. Following a public hearing on December 15, 2008, the TRA approved changes to Kingsport's PPAR which permitted future increases in PPAR rates to reflect increases in Kingsport's non-fuel purchased power charges, including transmission costs, which had been approved by the FERC. Thereafter, Kingsport made filings in November, 2009 and 2010, which were reviewed by the TRA's Staff, and found to be compliant with the TRA's rules and its December 15, 2008 Order.

Pursuant to Revised Rate Schedule 23, Kingsport will incur increased purchased power costs related to transmission in 2012. In its November 8, 2011 tariff filing with the TRA, Kingsport provided new PPAR surcharges, calculated in accordance with the provisions of its PPAR, to recover those increased costs. The surcharges, to be applied to customer bills beginning January 1, 2012, would result in average increases of about 1.6% for Kingsport residential customers, and 1.4% for large general service and industrial customers.