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**PLEASE RESPOND TO:**  
KINGSPORT OFFICE

WRITER'S DIRECT DIAL NUMBER:  
(423) 378-8858

June 24, 2015

WRITER'S E-MAIL ADDRESS:  
bovender@hsdlaw.com

*VIA EMAIL & FEDEX*

AMEP/z.91838

Mr. Herb Hilliard, Chairman  
Tennessee Regulatory Authority  
502 Deaderick Street, 4th Floor  
Nashville, TN 37243

Re: Application of Kingsport Power Company d/b/a AEP Appalachian Power  
Docket No.: 15-00067

Dear Chairman Hilliard:

Enclosed are the original and five copies of the Application by Kingsport Power Company d/b/a AEP Appalachian Power, which has been electronically filed today. Please return one "stamped" copy to our office in the enclosed self-addressed, stamped envelope.

Also enclosed is a check in the amount of \$25.00 to cover the filing fees. If you have any questions, please feel free to contact our office.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**

*William C. Bovender*

William C. Bovender

WCB/sel  
Enclosures  
c: William E. Johnson

Before the  
TENNESSEE REGULATORY AUTHORITY

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In the Matter of the Application	:	
of	:	
KINGSPORT POWER COMPANY	:	Docket No. 15-
	:	
For Permission to Make Notes to Evidence	:	
Indebtedness Not to Exceed \$20,000,000	:	

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TO THE HONORABLE TENNESSEE REGULATORY AUTHORITY:

Comes the Petitioner, Kingsport Power Company d/b/a AEP Appalachian Power (hereinafter called "Kingsport"), and presents this Application for the following purposes:

Kingsport seeks approval from this Authority to issue up to \$20,000,000 of its unsecured long-term indebtedness from time to time through June 30, 2020. The proceeds will be used to reduce the maturing long and short-term unsecured indebtedness of the Company. Short-term indebtedness of the Company was \$25,865,373 at March 31, 2015. The proposed financing will bear interest at a fixed rate, a fluctuating rate or some combination of fixed and fluctuating rates. In order to obtain a favorable rate of interest, however, it is generally necessary to be able to commit to the financing within 24 hours from the time that funds become available. Therefore, this Application seeks approval of the financing within the ranges of maturities and interest specified herein without the need for a separate hearing on the final commitment.

In support of this Application, Kingsport respectfully submits the following:

1. It is a corporation duly organized and existing under the laws of the Commonwealth of Virginia, and qualified to transact business in the State of Tennessee and with its principal office in the City of Kingsport, Tennessee.
  
2. Kingsport proposes to issue and sell from time to time through June 30, 2020 up to \$20,000,000 principal amount of its unsecured promissory note or notes (the "Notes") to one or more commercial banks, financial institutions or other institutional investors or lenders pursuant to one or more term loan agreements and/or note purchase agreements (collectively, the "Proposed

Agreement"). In addition, Kingsport proposes to issue one or more unsecured promissory notes ("AEP Notes") to its parent, American Electric Power Company, Inc. ("AEP"), provided that the aggregate amount of Notes and AEP Notes issued will not exceed \$20,000,000.

3. Kingsport is requesting an Order of this Authority approving the proposed financing in all respects such that, upon receipt of such Order, Kingsport may unconditionally, and without further Order of this Authority, enter into a definitive agreement with a bank or banks, in the form of a Proposed Agreement and subject to the conditions, restrictions and limitations specified herein.

4. A Proposed Agreement would be a definitive form of agreement with any bank and would provide that the Notes bear interest at either a fixed rate, fluctuating rate or some combination of fixed and fluctuating rates. Kingsport believes that it would be beneficial to commit itself to a long-term obligation. The actual rate of interest which each Note shall bear, and the maturity thereof, shall be subject to further negotiation between Kingsport and the lender.

Any fixed rate of interest of the Notes will not, at the time of issuance of the Notes, be greater than 300 basis points above the yield to maturity of United States Treasury obligations that mature on or about the date of maturity of the Notes.

In the event a bank or financial institution arranges for a borrowing from a third party, such institution may charge Kingsport a placement fee, not to exceed 1% of the principal amount of such borrowing.

Kingsport believes, given its size and the size of the requested indebtedness, that obtaining this financing through private sources is more cost effective than the public markets.

The Proposed Agreement may specify that, in the event a Note bearing interest at a fixed rate is paid prior to maturity in whole or in part and the fixed rate at that time exceeds the yields to maturity of United States Treasury Notes maturing on or close to the Note, Kingsport shall pay to

the lender an amount based on the present value of such prepaid amounts discounted at such treasury yield.

The Proposed Agreement may contain restrictive covenants which would prohibit Kingsport from, among other things, (i) creating, incurring, assuming or suffering to exist any liens on its property, with certain stated exceptions; (ii) creating or incurring any indebtedness for borrowed money, except as specified therein; (iii) failing to maintain a specified level of capitalization; (iv) entering into certain mergers, consolidations and dispositions of assets; and (v) permitting certain events to occur in connection with its pension plans.

A borrowing by Kingsport from a bank under the Proposed Agreement may be evidenced by one or more Notes of Kingsport. The Proposed Agreement and such Notes thereunder would be for a term of not less than nine months nor more than ten years from the date of borrowing.

5. The interest rates and maturity dates of any AEP Notes would be designed to reflect prevailing market rates. In addition, the interest rate and maturity parameters governing the Notes would apply to the AEP Notes.

6. Kingsport proposes to apply all of the proceeds of the financing for general corporate purposes relating to Kingsport's utility business. These purposes include redeeming or repurchasing outstanding short or long-term debt, funding its construction program and replenishing working capital. Kingsport's long and short term debt totals \$45,865,373 as of March 31, 2015. The amount requested of \$20,000,000 will permit Kingsport to refinance the total debt within the requested approval period, and to cover costs of issuance of up to \$1 million for a minimum of \$19 million in new money.

7. Balance sheets of Kingsport as of December 31, 2014 and the related statements of income and retained earnings of Kingsport for the year then ended are annexed hereto as Exhibit 1.

8. Kingsport requests authority to enter into, perform, purchase and sell financial instruments intended to reduce or manage the volatility of interest rates, including but not limited to interest rate swaps, caps, floors, collars and forward agreements or any other similar agreements. Hedges may also include issuance of structured notes (i.e., a debt instrument in which the principal and/or interest payments are indirectly linked to the value of an underlying asset or index), or transactions involving the purchase or sale, including short sales, of U.S. Treasury or Agency (e.g., FNMA) obligations or LIBOR based swap instruments (collectively referred to as "Hedge Instruments"). The transactions would be for fixed periods and stated notional amounts. Kingsport would employ interest rate derivatives as a means of prudently managing the risk associated with any of its outstanding debt issued pursuant to this authorization or an applicable exemption by, in effect, synthetically (i) converting variable rate debt to fixed rate debt; (ii) converting fixed rate debt to variable rate debt; and (iii) limiting the impact of changes in interest rates resulting from variable rate debt. In no case will the notional principal amount of any interest rate swap exceed the greater of the value of the underlying debt instrument or the present market value of the underlying debt instrument and related interest rate exposure. Transactions will be entered into for a fixed or determinable period. Thus, Kingsport will not engage in speculative transactions unassociated with its financing needs and activities. Kingsport will only enter into agreements with counterparties ("Approved Counter-parties") whose senior debt ratings, as published by a national recognized rating agency are greater than or equal to "BBB", or an equivalent rating.

In addition, Kingsport requests authorization to enter into interest rate hedging transactions with respect to anticipated debt offerings (the "Anticipatory Hedges"), subject to certain limitations and restrictions. Such Anticipatory Hedges would only be entered into with Approved Counterparties, and would be utilized to fix and/or limit the interest rate risk associated with any new issuance through (i) a forward sale of exchange-traded Hedge Instruments (each a "Forward

Sale"); (ii) the purchase of put options on Hedge Instruments (a "Put Options Purchase"); (iii) a Put Options Purchase in combination with the sale of call options on Hedge Instruments (a "Zero Cost Collar"); (iv) transactions involving the purchase or sale, including short sales, of Hedge Instruments; or (v) some combination of a Forward Sale, Put Options Purchase, Zero Cost Collar and/or other derivative or cash transactions, including, but not limited to structured notes, caps and collars, appropriate for the Anticipatory Hedges. Anticipatory Hedges may be executed on-exchange ("On-Exchange Trades") with brokers through the opening of futures and/or options positions traded on the Chicago Board of Trade ("CBOT"), the opening of over-the-counter positions with one or more counterparties ("Off-Exchange Trades"), or a combination of On-Exchange Trades and Off-Exchange Trades. Kingsport will determine the optimal structure of each Anticipatory Hedge transaction at the time of execution. Kingsport may decide to lock in interest rates and/or limit its exposure to interest rate increases.

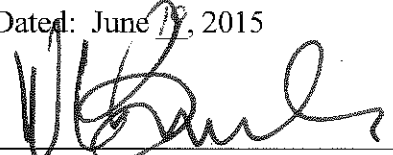
Kingsport has complied with Statement of Financial Accounting standards ("SFAS") 80 ("Accounting for Futures Contracts"), SFAS 133 ("Accounting for Derivatives Instruments and Hedging Activities"), and will comply with such other standards relating to accounting for derivative transactions as are adopted and implemented by the Financial Accounting Standards Board ("FASB").

WHEREFORE, Kingsport respectfully prays that an Order be entered (1) authorizing Kingsport from time to time through June 30, 2020 to borrow up to \$20,000,000 pursuant to the Proposed Agreement and to execute a note or notes, substantially in the form of the Notes or AEP Notes in an amount not to exceed \$20,000,000 to evidence the borrowings to be made pursuant to the Proposed Agreement and (2) granting to Kingsport such other, further or general relief as, in your judgment, Kingsport may be entitled to have upon the facts hereinabove set forth.

KINGSPORT POWER COMPANY

By:   
Assistant Treasurer

Dated: June 19, 2015

  
William C. Bovender Esq.  
Hunter, Smith & Davis LLP  
P.O. Box 3740  
Kingsport, Tennessee 37664  
Attorney for Petitioner

# Kingsport Power Company

2014 Annual Report

Audited Financial Statements





**KINGSPORT POWER COMPANY**  
**BALANCE SHEETS**  
**ASSETS**  
**December 31, 2014 and 2013**  
**(in thousands)**

	December 31,	
	2014	2013
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 77	\$ 88
Accounts Receivable:		
Customers	1,596	1,627
Affiliated Companies	1,522	2,227
Accrued Unbilled Revenues	470	1,224
Miscellaneous	293	294
Total Accounts Receivable	<u>3,881</u>	<u>5,372</u>
Materials and Supplies	277	338
Deferred Income Tax Benefits	115	460
Accrued Tax Benefits	359	192
Prepayments	2,255	2,086
Other Current Assets	6	152
<b>TOTAL CURRENT ASSETS</b>	<u>6,970</u>	<u>8,688</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric:		
Transmission	29,328	27,171
Distribution	131,002	125,212
Other Property, Plant and Equipment	5,629	3,775
Construction Work in Progress	3,222	1,537
<b>Total Property, Plant and Equipment</b>	<u>169,181</u>	<u>157,695</u>
Accumulated Depreciation and Amortization	63,260	59,364
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>	<u>105,921</u>	<u>98,331</u>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory Assets	14,224	13,500
Deferred Charges and Other Noncurrent Assets	1,378	1,368
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<u>15,602</u>	<u>14,868</u>
<b>TOTAL ASSETS</b>	<u>\$ 128,493</u>	<u>\$ 121,887</u>

*See Notes to Financial Statements beginning on page 9.*

**KINGSPORT POWER COMPANY**  
**BALANCE SHEETS**  
**LIABILITIES AND COMMON SHAREHOLDER'S EQUITY**  
**December 31, 2014 and 2013**

	December 31,	
	2014	2013
	(in thousands)	
<b>CURRENT LIABILITIES</b>		
Advances from Affiliates	\$ 22,039	\$ 19,083
Accounts Payable:		
General	1,348	507
Affiliated Companies	13,608	13,661
Customer Deposits	4,085	3,888
Accrued Taxes	1,229	1,384
Accrued Interest	1,213	1,105
Other Current Liabilities	2,381	2,334
<b>TOTAL CURRENT LIABILITIES</b>	<u>45,903</u>	<u>41,962</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term Debt – Affiliated	20,000	20,000
Deferred Income Taxes	28,084	26,744
Regulatory Liabilities and Deferred Investment Tax Credits	698	676
Employee Benefits and Pension Obligations	2,044	1,251
Deferred Credits and Other Noncurrent Liabilities	487	173
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>51,313</u>	<u>48,844</u>
<b>TOTAL LIABILITIES</b>	<u>97,216</u>	<u>90,806</u>
Rate Matters (Note 4)		
Commitments and Contingencies (Note 6)		
<b>COMMON SHAREHOLDER'S EQUITY</b>		
Common Stock – No Par Value:		
Authorized – 500,000 Shares		
Outstanding – 410,000 Shares	4,100	4,100
Paid-in Capital	13,800	13,800
Retained Earnings	13,377	13,178
Accumulated Other Comprehensive Income (Loss)	—	3
<b>TOTAL COMMON SHAREHOLDER'S EQUITY</b>	<u>31,277</u>	<u>31,081</u>
<b>TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY</b>	<u>\$ 128,493</u>	<u>\$ 121,887</u>

*See Notes to Financial Statements beginning on page 9.*

**KINGSPORT POWER COMPANY**  
**STATEMENTS OF INCOME**  
**For the Years Ended December 31, 2014 and 2013**  
(in thousands)

	<b>Years Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>REVENUES</b>		
Electricity, Transmission and Distribution	\$ 161,485	\$ 153,760
Sales to AEP Affiliates	2,654	2,095
Other Revenues	269	267
<b>TOTAL REVENUES</b>	<b>164,408</b>	<b>156,122</b>
<b>EXPENSES</b>		
Purchased Electricity from AEP Affiliates	141,721	129,015
Other Operation	5,234	5,671
Maintenance	3,373	4,280
Depreciation and Amortization	5,752	4,904
Taxes Other Than Income Taxes	6,129	6,012
<b>TOTAL EXPENSES</b>	<b>162,209</b>	<b>149,882</b>
<b>OPERATING INCOME</b>	<b>2,199</b>	<b>6,240</b>
Interest Expense	(1,309)	(1,304)
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>890</b>	<b>4,936</b>
Income Tax Expense	291	1,813
<b>NET INCOME</b>	<b>\$ 599</b>	<b>\$ 3,123</b>

*The common stock of KGPCo is wholly-owned by AEP.*

*See Notes to Financial Statements beginning on page 9.*

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Docket No.

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I, Jeffrey D. Cross, am authorized to represent Kingsport Power Company and to make this verification on its behalf. The statements in the Application of Kingsport Power Company filed in this docket today are true and of my own knowledge, except as to matters which are stated therein on information and belief, and as to those matters, I believe them to be true. Kingsport Power Company will comply with all applicable laws with respect to its issuance of securities to the public. I declare under penalty of perjury that the foregoing is true and correct.

By Jeffrey D. Cunn  
Assistant Secretary

STATE OF OHIO :  
 :  
 : SS:  
COUNTY OF FRANKLIN :

Subscribed and sworn to me this 19<sup>th</sup> day of June, 2015.



**MOLLY A. BEHRE**  
**NOTARY PUBLIC**

STATE OF OHIO

Molly A Behre  
Notary Public

My Commission expires:

**My Comm. Expires January 19, 2010**