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**PLEASE RESPOND TO:**  
KINGSPORT OFFICE

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KPOW.91838

July 10, 2015

*VIA EMAIL & FEDEX*

ATTN: Sharla Dillon, Dockets & Records Manager  
Herbert Hilliard, Chairman  
Tennessee Regulatory Authority  
502 Deaderick Street, 4th Floor  
Nashville, TN 37243

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

Dear Chairman Hilliard:

Enclosed with this letter are Kingsport Power Company's Responses to the Staff's Data Request No. 1, posed in Mr. Kettle's letter to me dated June 30, 2015. We are sending the original and four copies of the Responses via Federal Express for Monday delivery.

If you have any questions, please do not hesitate to contact the writer.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**

A handwritten signature in black ink, appearing to read 'W. Bovender', is written over the printed name of William C. Bovender.

William C. Bovender  
Counsel for Kingsport Power Company

Enclosures

c: Jerry Kettles (via email)  
William E. Johnson (via email)

Before the  
TENNESSEE REGULATORY AUTHORITY

In the Matter of the Application of	:	
	:	
KINGSPORT POWER COMPANY	:	Docket No. 15-00067
	:	
	:	
For Permission to Make Notes to Evidence	:	
Indebtedness Not to Exceed \$20,000,000	:	

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**RESPONSE TO STAFF DATA REQUESTS #1**

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Kingsport Power Company responds to the requests for information submitted by the Tennessee Regulatory Authority (“TRA”) staff by letter dated June 30, 2015, as follows:

1. Provide a schedule of maturities, rates and amounts of Kingsport’s existing indebtedness.

**Kingsport only has one issuance outstanding. It is an Affiliated Note issued to AEP by Kingsport on October 1, 2010 and due on October 1, 2020 with a rate of 4.52%.**

2. Provide the current capital structure and average weighted cost of capital for Kingsport and its parent company.

	Amount				Weighted
	Outstanding	Cost	Weight		Return
Long-Term Debt	\$ 20,000	4.52%	25.53%		1.15%
Short-Term Debt	\$ 27,769	0.29%	35.45%		0.10%
Preferred Equity	\$ -	0.00%	0.00%		0.00%
Common Equity	\$ 30,560	10.66%	39.01%		4.16%
<b>TOTAL</b>	<b>\$ 78,329</b>		<b>100.00%</b>		<b>5.41%</b>

\$’s in thousands as of June 30, 2015.

3. Provide capital structure and average weighted cost of capital from Kingsport’s last rate proceeding before the TRA or its predecessor.

**The last rate proceeding was in 1992 and Kingsport has been unable to locate the requested information. Search will continue.**

4. Provide a pro forma capital structure and weighted cost of capital for Kingsport assuming all requested indebtedness is issued.

	<b>Amount</b>		<b>Cost</b>	<b>Weight</b>	<b>Weighted</b>
	<b>Outstanding</b>				<b>Return</b>
Long-Term Debt	\$ 40,000		4.10%	51.07%	2.09%
Short-Term Debt	\$ 7,769		0.29%	9.92%	0.03%
Preferred Equity	\$ -		0.00%	0.00%	0.00%
Common Equity	\$ 30,560		10.66%	39.01%	4.16%
<b>TOTAL</b>	<b>\$ 78,329</b>			<b>100.00%</b>	<b>6.28%</b>

\$'s in thousands as of June 30, 2015. Assumes \$20MM issued at 3.67%

5. What are the AEP Notes? Under what conditions will AEP Notes be used for Kingsport's debt issuance relative to private placement?

**AEP Notes are Senior Notes issued by Kingsport to its parent company, AEP. The AEP Notes will be used unless a private placement investor is willing to lend money to Kingsport at a rate lower than AEP's cost of borrowing.**

6. Is there an agreement between Kingsport and an affiliate or its parent governing issuance of the AEP Notes? If so, provide a copy of the agreement.

**Kingsport's only current outstanding issuance is such an agreement. A copy of the agreement is being furnished with these responses. See, EXHIBIT A.**

7. How do other distribution affiliates of AEP issue debt? Explain the differences, if any, in how other distribution affiliates of AEP issue debt.

**AEP's other operating companies are large integrated utilities that typically issue debt to investors in either the public or private markets in issuance sizes exceeding \$250 million. One AEP affiliate, Wheeling Power Company, was a distribution affiliate similar to Kingsport and obtained its debt through affiliated notes in the same manner as Kingsport. However, earlier this year, Wheeling Power acquired a 50% share of a power plant in West Virginia and issued a \$285 million private placement to provide financing to fund that acquisition. It also accepted the transfer of a \$65 million tax-exempt bond that was associated with the plant.**

8. Provide projected savings on interest expense from the requested indebtedness.  
This issuance would not provide savings but it would allow the company to avoid using an imprudent capital structure. Kingsport currently has more than a third of its capital structure as short-term debt, which subjects the company to significant risks. It would be prudent for a portion of this capital to be replaced with long-term debt due to higher short-term debt levels creating increased interest rate risk, refinancing risk and liquidity risk. Issuing long-term debt now would mitigate these risks by locking in long-term debt rates in a lower interest rate environment and increasing Kingsport's capacity to borrow short-term debt in the future

if necessary. As shown below, a capital structure that is less reliant on short-term debt is more representative of the capital structures used by many other utilities in the region:

Company	Short-Term Debt	Long-Term Debt	Total Equity	Total Capital	Short-Term Debt / Total Capital
Alabama Power Co.	\$ -	\$ 6,927	\$ 5,789	\$ 12,716	0.00%
Appalachian Power Co.	\$ -	\$ 3,969	\$ 3,452	\$ 7,422	0.00%
Duke Energy Carolinas	\$ 300	\$ 8,585	\$ 11,216	\$ 20,101	1.49%
Duke Energy Progress	\$ -	\$ 5,957	\$ 6,050	\$ 12,007	0.00%
Georgia Power Co.	\$ 840	\$ 9,993	\$ 10,406	\$ 21,239	3.95%
Gulf Power Co.	\$ 23	\$ 1,347	\$ 1,337	\$ 2,707	0.85%
Kentucky Power Co.	\$ 1	\$ 845	\$ 669	\$ 1,514	0.05%
Mississippi Power Co.	\$ 30	\$ 2,331	\$ 2,197	\$ 4,558	0.66%
Ohio Power Co.	\$ -	\$ 2,275	\$ 2,008	\$ 4,283	0.00%
South Carolina Electric & Gas	\$ 610	\$ 4,303	\$ 4,809	\$ 9,722	6.27%
Virginia Electric Power Co.	\$ 1,588	\$ 8,936	\$ 10,173	\$ 20,697	7.67%

\$'s in millions as of March 31, 2015

**Average 1.90%**

Source: Companies' Q1 2015 10-Q Filings

- What is the spread of interest rates between existing Kingsport indebtedness and U.S. Treasury obligations of similar maturity? At what spreads relative to U.S. Treasury obligations of similar maturity does Kingsport's parent company or finance affiliate issue indebtedness?

**Kingsport's existing issuance was issued on October 1, 2010. At that time, the 10-year US Treasury was trading at 2.51%, giving the issuance a spread of approximately 200 bps over the treasury. The rate, which is based on AEP's cost of funding, was the indicative rate for AEP at that time. An indicative rate as of July 9, 2015 is 140 bps over the treasury rate of 2.27%, implying a coupon of 3.67% for a 10-year bond.**

- Provide information demonstrating that private placement of debt is more cost effective for Kingsport relative to utilizing public markets?

**Issuing in the public market requires a minimum of two ratings from Standard & Poor's and Moody's. It also requires the company to be an SEC registrant and a more time-intensive and costly annual audit related to SEC-reported financial statements. The costs associated with these would likely exceed \$1 million. Additionally, investors require a liquidity premium in the public market for any issuance that doesn't meet the minimum threshold for index eligibility. That threshold issuance size is \$250 million. The liquidity premium is hard to estimate, but can sometimes be as large as 50-60 bps.**

KINGSPORT POWER COMPANY  
\$20,000,000 4.52% Senior Notes due October 1, 2020

Stated Maturity: October 1, 2020

Interest Rate: 4.52%

Principal Amount: \$20,000,000

Issue Date: October 1, 2010

KINGSPORT POWER COMPANY, a corporation duly organized and existing under the laws of the State of Tennessee (herein referred to as the "Company", which term includes any successor corporation thereto), for value received, hereby promises to pay to AMERICAN ELECTRIC POWER COMPANY, INC. or permitted registered assigns, the principal amount specified above (the "Principal Amount") on the stated maturity specified above (the "Stated Maturity"), and to pay interest on said Principal Amount from the original issue date specified above (the "Original Issue Date"), quarterly in arrears on January 1, April 1, July 1 and October 1 in each year, at the interest rate per annum specified above (the "Interest Rate"), until the Principal Amount shall have been paid or duly provided for. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

If any Interest Payment Date, any redemption date or the Stated Maturity is not a Business Day, then payment of the amounts due on this Note on such date will be made on the next succeeding Business Day, and no interest shall accrue on such amounts for the period from and after such Interest Payment Date, redemption date or Stated Maturity, as the case may be, with the same force and effect as if made on such date.

This Note may be prepaid at any time without penalty.

No recourse shall be had for the payment of the principal of or the interest on this Note, or for any claim based hereon, or otherwise in respect hereof, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Company or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

IN WITNESS WHEREOF, the Company has caused this Note to be executed as of the date written above.

KINGSPORT POWER COMPANY

By: 

Title: Assistant Treasurer

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(PLEASE INSERT SOCIAL SECURITY OR OTHER  
IDENTIFYING NUMBER OF ASSIGNEE)

\_\_\_\_\_

\_\_\_\_\_

(PLEASE PRINT OR TYPE NAME AND ADDRESS, INCLUDING ZIP CODE, OF

ASSIGNEE) the within Note and all rights thereunder, hereby

irrevocably constituting and appointing such person attorney to

transfer such Note on the books of the Issuer, with full

power of substitution in the premises.

Dated: \_\_\_\_\_

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within Note in every particular, without alteration or enlargement or any change whatever.