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October 25, 2016

Sharla Dillon, Dockets & Records Manager
Tennessee Regulatory Authority
502 Deaderick St., 4th Floor
Nashville, TN 37243

Re: Application of Kingsport Power Company-
Financing, Docket No.: 16-00117

Dear Sharla:

We submit herewith the attached responses to the Staff Data Request #1 submitted to Kingsport Power Company d/b/a AEP Appalachian Power by letter of Mr. Kettles dated 10/18/16. Also included is an attachment: Agreement Between Kingsport Power Company and American Electric Power Company.

The original of this letter and its responses, plus four copies, are being forwarded by Fed Ex for Wednesday delivery.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP



William C. Bovender

cc: Mr. Jerry Kettles
Mr. David Foster
William E. Johnson, Esq.
Rachelle R. Carlos

Enclosures

BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

Re: Docket 16-00117: Application Of Kingsport Power Company d/b/a AEP Appalachian Power For Approval Of A Long-Term Indebtedness Program Through December 31, 2018

RESPONSE OF KINGSPORT POWER COMPANY TO STAFF DATA REQUEST #1

Comes Kingsport Power Company d/b/a AEP Appalachian Power and responds to Staff Data Request #1 as follows:

1. Provide a pro forma capital structure and average weighted cost of capital for Kingsport assuming all requested indebtedness is issued. Please make explicit all assumptions used to create the pro forma capital structure including the level of short-term debt.

KINGSPORT POWER COMPANY
Weighted Average Cost of Capital
Adjusted capital structure as of June 30, 2016

ACTUAL CAPITAL STRUCTURE								
	<i>Balance</i>	<i>Cost</i>	<i>Weight</i>	PROFORMA		<i>Balance</i>	<i>Cost</i>	<i>Weight</i>
<i>Long-Term Debt</i>	\$ 20,000	4.52%	26.3%	\$ 30,000	\$ 50,000	3.60%	58.1%	
<i>Short-Term Debt</i>	\$ 20,000	0.84%	26.3%	\$ (20,000)	\$ -	0.84%	0.0%	
<i>Preferred Equity</i>	\$ -	0.00%	0.0%	\$ -	\$ -	0.00%	0.0%	
<i>Common Equity</i>	\$ 36,080	9.75%	47.4%	\$ -	\$ 36,080	9.75%	41.9%	
TOTAL	\$ 76,080		100.0%	\$ 10,000	\$ 86,080		100.0%	

WACC 6.03%



WACC 6.18%

This application requests authority for 2-years authority while the current plan is to immediately issue \$20 million in long-term debt to repay short-term debt. The remaining authority could be utilized in the following year.

2. 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.

In addition, AEP Notes enables Kingsport to avoid upfront costs normally associated with issuing debt through private placement. Upfront costs are normally included in the cost of debt therefore resulting in higher cost to the company. For most 10-year issuances, the standard underwriting fee is 65 bps (.65%) in addition to legal fees, trustee fees, and other issuance costs that can be avoided by utilizing the Parent as a source of financing.

3. 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. (See EXHIBIT A).

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

4. 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 \$150 million.

5. Provide projected savings on interest expense from the requested indebtedness.

This issuance will not provide savings but it would allow the company to avoid using a capital structure over-weighted to short-term debt. Kingsport currently has more than a quarter of its capital structure as short-term debt, which subjects the company to significant risks. This application allows this capital to be replaced with fixed rate long-term debt. Higher short-term debt levels have increased interest rate risk, refinancing risk and liquidity risk. Issuing long-term debt now would mitigate these risks by locking in low long-term debt rates.

The recently approved rate case assumed that a \$20 million long-term debt issuance would occur.

Respectfully Submitted:
Kingsport Power Company
d/b/a Appalachian Power,
October 25, 2016

By:



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



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.