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November 7, 2016

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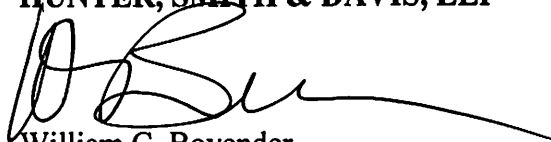
Re: Application of Kingsport Power Company-  
Financing, Docket No.: 16-00117

Dear Sharla:

We submit herewith the original and four (4) copies of the Pre-Filed Testimony of Renee V. Hawkins for Kingsport Power Company d/b/a AEP Appalachian Power. These are being forwarded by Fed Ex for Tuesday delivery.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**



William C. Bovender

cc: Monica L. Smith-Ashford, Counsel  
Jerry Kettles  
Rachelle R. Carlos  
Betsy Sekula  
Will Castle  
William E. Johnson, Esq.  
James R. Bacha, Esq.  
Renee V. Hawkins  
Brian West

Enclosures

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

IN RE:

APPLICATION OF KINGSPORT POWER  
COMPANY FOR PERMISSION FOR A LONG-  
TERM INDEBTEDNESS PROGRAM THROUGH  
DECEMBER 31, 2018

DOCKET NO. 16-00117

**PRE-FILED TESTIMONY OF RENEE V. HAWKINS**

Comes Petitioner, Kingsport Power Company d/b/a AEP Appalachian Power and submits the Pre-Filed Direct Testimony of Renee V. Hawkins in support of the Petition of Kingsport Power Company d/b/a AEP Appalachian Power in this long term debt financing matter. Said testimony is attached hereto and should be filed in the Docket.

Respectfully submitted,

**KINGSPORT POWER COMPANY d/b/a  
AEP APPALACHIAN POWER**

By: 

William C. Bovender, Esq. (BPR #000751)

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Attorney for Kingsport Power Company d/b/a  
AEP Appalachian Power

## CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and exact copy of the foregoing **PRE-FILED TESTIMONY OF RENEE V. HAWKINS** has been served upon the following by emailing a true and accurate copy on this the 7<sup>th</sup> day of November, 2016:

Monica L. Smith-Ashford, Counsel  
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Nashville, TN 37243  
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**HUNTER, SMITH & DAVIS, LLP**



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William C. Bovender

**DIRECT TESTIMONY OF  
RENEE V. HAWKINS  
ON BEHALF OF KINGSPORT POWER COMPANY  
D/B/A AEP APPALACHIAN POWER  
BEFORE THE TENNESSEE REGULATORY AUTHORITY  
DOCKET NO. 16-00117**

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

2   A.     My name is Renee V. Hawkins. My business address is 1 Riverside Plaza, Columbus,  
3           Ohio 43215. I am employed by the American Electric Power Service Corporation  
4           (AEPSC) as a Managing Director, Corporate Finance. In this capacity, I oversee the  
5           raising of capital for Kingsport and other American Electric Power Company, Inc. (AEP)  
6           utilities. AEPSC supplies engineering, financing, accounting, and planning and advisory  
7           services to the subsidiaries of the American Electric Power (AEP) System, one of which  
8           is Kingsport Power Company (KgPCo) or the Company.

9   **Q.     TELL US BRIEFLY ABOUT YOUR BACKGROUND.**

10  A.     I earned a Bachelor of Science in Business Administration in Finance and International  
11           Business from the Ohio State University in 1987. I earned a Master of Business  
12           Administration from the Simon School at the University of Rochester in 1991. I was first  
13           employed by State Teachers Retirement System of Ohio in 1987 in the Real Estate  
14           section where I was assigned to asset management. In June 1991, I was employed by  
15           General Motors as an analyst for AC Delco, which is now a subsidiary of Delphi East.  
16           This rotational program included positions in cost accounting, division finance, and  
17           capital planning. In June 1993, I was hired by Cablevision Systems.  
18           In 1996, I joined AEPSC as a Corporate Finance Senior Analyst supporting financing  
19           activity for the AEP System operating companies. In 1999, I was named Manager –

1 Corporate Finance of AEPSC. In June 2000, I was named Director – Corporate Finance  
2 of the Service Corporation, a position that was renamed Director – Regulated Finance in  
3 2001. In that capacity, I was responsible for capital markets activity for all of the  
4 regulated utilities, establishing dividend recommendations and capitalization targets,  
5 supporting the rating agency relationships to maintain credit ratings and assisting in the  
6 management of liquidity for AEP and its subsidiaries. I was promoted to Managing  
7 Director, Corporate Finance in 2003. In January 2008, my responsibilities expanded to  
8 include Assistant Treasurer of AEP and its operating companies.

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

10 A. The purpose of my testimony is to support the proposed long-term debt financing  
11 application of the Company, which, if approved by the Commission, will allow the  
12 Company to issue unsecured long-term debt up to the aggregate principal amount of  
13 \$30,000,000 from time to time through December 31, 2018.

14 **Q. FOR WHAT PURPOSES WILL THE COMPANY BE ISSUING THESE**  
15 **SECURITIES?**

16 A. The securities may be used to repay short-term debt, for construction costs and to fund  
17 working capital. KgPCo's short term debt is funded through the AEP Utility Money Pool.

18 **Q. PLEASE FURTHER DESCRIBE THE UNSECURED LONG-TERM DEBT THAT**  
19 **MAY BE ISSUED.**

20 A. Kingsport proposes to issue and sell from time to time unsecured promissory note or  
21 notes (the "Notes") to one or more commercial banks, financial institutions or other  
22 institutional investors or lenders pursuant to one or more term loan agreements and/or

1 note purchase agreements (collectively, the "Proposed Agreement"). In addition,  
2 Kingsport proposes to issue one or more unsecured promissory notes ("AEP Notes") to its  
3 parent, American Electric Power Company, Inc. ("AEP"), provided that the aggregate  
4 amount of Notes and AEP Notes issued will not exceed \$30,000,000.

5 **Q. WILL THE LONG-TERM DEBT BE SECURED?**

6 **A.** No.

7 **Q. PLEASE DESCRIBE THE PROPOSED AGREEMENT FOR NOTES ISSUED TO**  
8 **THIRD PARTIES?**

9 **A.** A definitive notes purchase agreement would be entered between KgPCo and a bank or  
10 qualified investors. The terms of the agreement would include fixed or variable interest  
11 rates, term, financial covenants and any redemption provisions. The actual interest rate  
12 and maturity would be subject to negotiation between KgPCo and the lender. To the  
13 extent the notes are fixed rate, they cannot be at a rate higher than 300 basis points (3%)  
14 above the comparable US Treasury yield-to-maturity and any placement fee or arranging  
15 fee cannot exceed 1% of the principal amount of the borrowing.

16 **Q. WHAT ARE AEP NOTES AND HOW DOES THE COMPANY DETERMINE**  
17 **THE COST OF THE AEP NOTES?**

18 **A.** An AEP Note is an affiliate borrowing, in this case, between KgPCo and AEP. A  
19 determination will be made on the current interest rates for a bond issued by AEP. The  
20 interest rate is determined by averaging multiple quotes presented to us by investment or  
21 commercial banks estimating the cost of issuing new notes at AEP. An example of setting  
22 the rate on a 10-year affiliate note is as follows:

10-year Treasury Rate:	1.75%
Credit Spread Bank 1:	1.25%
Credit Spread Bank 2:	1.20%
Credit Spread Bank 3:	<u>1.35%</u>
+ Average Spread:	1.27%
AEP Notes Rate:	3.02%

**Q. WHY WOULD UTILIZATION OF AEP NOTES BE BENEFICIAL TO KINGSFORT CUSTOMERS?**

A. AEP is a utility holding company with senior unsecured credit ratings of Baa1(stable) and BBB (positive), respectively from Moody's Investor Service and Standard & Poor's and fixed income investors are familiar with the company. As such, the credit spreads achievable by AEP are very competitive. In comparison, KgPCo has only a \$20 million note outstanding which does not require a credit rating. As a result, investors would require a greater level of diligence prior to making an investment in a KgPCo security. Additionally, by utilizing AEP Notes, KgPCo is able to avoid typical issuance costs such as legal fees, accounting fees, underwriting costs and trustee fees. The fixed costs associated with an external offering would not vary even though the size of a KgPCo issuance may be \$20 million or \$30 million. Additionally, there is a placing agent fee that is typically a percentage of the notional amount raised. For a larger transaction that fee may be only 0.4%, while for a smaller transaction, one that would be typical for Kingsport, that fee may be 0.75% or more.

**Q. WHAT INTEREST RATE WOULD YOU ANTICIPATE FOR AN AEP NOTE?**

A. As previously discussed in the question above, the anticipated rate for an AEP Note based upon recent comparable transactions and current interest rates is approximately 3.02% for

1 a 10-year note issuance. I note that interest rates have been volatile this year and the  
2 overall rate will depend on current interest rates at the time the agreement is executed.

3 **Q. IS THIS APPLICATION CONSISTENT WITH THE ADJUSTMENTS MADE IN**  
4 **THE 2016 KGPCO RATE CASE?**

5 A. Yes, the 2016 Kingsport rate case assumed a \$20 million issuance consistent with the  
6 terms included in this application.

7 **Q. IN CONNECTION WITH THE SALE OF ANY UNSECURED NOTES, WILL**  
8 **KGPCO AGREE TO ANY RESTRICTIVE COVENANTS?**

9 A. Yes. The Company may agree to restrictive covenants which would prohibit it from,  
10 among other things: (i) creating or allowing to exist any liens on its property, with certain  
11 stated exceptions; (ii) creating indebtedness except as specified therein; (iii) failing to  
12 maintain a specified financial condition; (iv) entering into certain mergers, consolidations  
13 and dispositions of asset; and (v) permitting certain event as to occur in connection with  
14 pension plans. Also, KgPCo may permit the holder of the Notes to require KgPCo to  
15 prepay them after certain specified events, including an ownership change.

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 A. Yes, it does.



\_\_\_\_\_  
RENEE V. HAWKINS

STATE OF OHIO

COUNTY OF \_\_\_\_\_

Personally appeared before me, \_\_\_\_\_, a Notary Public in and for the State and County aforesaid, RENEE V. HAWKINS, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who acknowledged that she executed the foregoing instrument for the purposes therein contained.

WITNESS my hand and official seal this \_\_\_\_\_ day of November, 2016.

\_\_\_\_\_  
Notary Public

My Commission Expires:

\_\_\_\_\_

  
RENEE V. HAWKINS

STATE OF OHIO

COUNTY OF FRANKLIN

Personally appeared before me, David C. House, a Notary Public in and for the State and County aforesaid, RENEE V. HAWKINS, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who acknowledged that she executed the foregoing instrument for the purposes therein contained.

WITNESS my hand and official seal this 2<sup>nd</sup> day of November, 2016.

My Commission Expires:

  
Notary Public



David C. House, Attorney At Law  
NOTARY PUBLIC - STATE OF OHIO  
My commission has no expiration date  
Sec. 147.03 R.C.