

**DIRECT TESTIMONY OF  
FRANZ D. MESSNER  
ON BEHALF OF KINGSPORT POWER COMPANY  
D/B/A AEP APPALACHIAN POWER  
BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION  
DOCKET NO. 21-00107**

1    **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2    A.    My name is Franz D. Messner. My business address is 1 Riverside Plaza, Columbus, OH  
3           43215.

4    **Q.    BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5    A.    I am employed by AEPSC as Managing Director of Corporate Finance. AEPSC supplies  
6           engineering, accounting, planning, advisory, and other services to the subsidiaries of the  
7           AEP system, one of which is KgPCo.

8    **Q.    PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
9           BACKGROUND.**

10   A.    I earned a Bachelor of Science in Systems Engineering from the United States Naval  
11           Academy in 1990. I earned a Master of Business Administration from the Fisher College  
12           of Business at the Ohio State University in 1999. Prior to joining AEP, I served for seven  
13           years as a U.S. Naval officer and completed both chief engineer and submarine officer  
14           qualifications.

15           In June 1999, I was hired by AEPSC as an associate in a finance associate  
16           development program. My primary roles have been in the areas of financial analysis,  
17           budgeting, and forecasting.

1           In July 2007, I was named Manager in Corporate Planning and Budgeting and  
2           subsequently promoted to Director in November 2009. In May 2016, I assumed my  
3           current position as Managing Director of Corporate Finance.

4   **Q.   HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**  
5   **COMMISSIONS?**

6   A.   Yes. I submitted testimony before the Indiana Utility Regulatory Commission, the  
7       Michigan Public Service Commission, the Public Utilities Commission of Ohio and the  
8       Kentucky Public Service Commission.

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

10  A.   The purpose of my testimony is to sponsor KgPCo's capital structure, cost of long-term  
11       debt and overall cost of capital for use in this proceeding.

12  **Q.   ARE YOU SPONSORING ANY EXHIBITS?**

13  A.   Yes. I am sponsoring KgPCo Exhibit No. 1 (FDM), Actual Cost of Capital (as of June 30,  
14       2021).

15  **Q.   WERE THE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECTION?**

16  A.   Yes.

17  **Q.   ARE YOU SPONSORING ANY MFRs?**

18  A.   Yes. I am sponsoring MFRs 67-81.

19  **Q.   PLEASE DESCRIBE KINGSPORT'S SOURCE OF LONG-TERM DEBT.**

20  A.   KgPCo currently obtains its capital through financing provided by its parent, AEP. The  
21       long-term debt on KgPCo's balance sheet is provided through 4 senior notes (the  
22       "Intercompany Notes") that are payable to AEP in the amount of \$65 million. The  
23       weighted average cost of that long-term debt is 3.14%.

1 **Q. PLEASE DESCRIBE KINGSPORT'S SOURCE OF SHORT-TERM FUNDING.**

2 A. For short-term working capital needs, KgPCo, like AEP's other utility operating  
3 companies, is a member of AEP's utility money pool. This provides a benefit to KgPCo  
4 and its customers by allowing the Company to pool its liquidity needs with the rest of the  
5 AEP subsidiaries and have access to a more efficient and less costly source of short-term  
6 funding than KgPCo could obtain on its own. As of test year-end June 30, 2021,  
7 KgPCo's balance of AEP utility money pool borrowings was approximately \$13 million  
8 (See Exhibit FDM-1).

9 **Q. PLEASE DESCRIBE KINGSPORT'S TEST YEAR-END JUNE 30, 2021**  
10 **CAPITAL STRUCTURE AND OVERALL COST OF CAPITAL.**

11 A. As of test year-end June 30, 2021, KgPCo had \$65 million of long-term debt (42.49% of  
12 total capital), approximately \$13 million of short-term debt (8.61% of total capital) and  
13 approximately \$75 million of equity (48.90% of total capital). This gives KgPCo a debt-  
14 to-total capital ratio of 51.1% as shown in KgPCo Exhibit No. 1 (FDM). Using this  
15 capital structure, the overall cost of capital, based on the return on equity of 10.20%  
16 recommended by Company witness Castle, is 6.36%.

17 **Q. IS IT APPROPRIATE FOR AEP TO PROVIDE FINANCING TO KINGSPORT?**

18 A. Yes. AEP has a strong credit profile and significant name recognition in capital markets.  
19 These factors allow KgPCo and its customers to benefit from competitive financing terms  
20 that KgPCo may be unable to obtain on its own without additional cost from procuring a  
21 public rating. This arrangement allows KgPCo to pay the parent's lower indicative cost  
22 of long-term debt rather than having to issue external debt to third parties.

1                   Additionally, obtaining financing from the parent allows KgPCo to avoid upfront  
2                   costs normally associated with issuing external debt, which would normally be included  
3                   in the cost of debt and result in higher rates to customers. For most 10-year issuances,  
4                   the standard underwriting fee is 65 basis points in addition to legal fees, trustee fees, and  
5                   other issuance costs that can be avoided by utilizing the parent as a source of financing.

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

7   **A.     Yes, it does.**

## **Exhibit No. 1 (FDM)**

KINGSPORT POWER COMPANY  
TPUC DOCKET NO. 21-00107  
**Capital Structure and Cost of Capital**  
**June 30, 2021**

	Amount			Weighted
	Outstanding	Cost	Weight	Return
Long-Term Debt	\$ 65,000	3.14%	42.49%	1.33%
Short-Term Debt	\$ 13,173	0.45%	8.61%	0.04%
Preferred Equity	\$ -	0.00%	0.00%	0.00%
Common Equity	\$ 74,801	10.20%	48.90%	4.99%
<b>TOTAL</b>	<b>\$ 152,974</b>		<b>100.00%</b>	<b>6.36%</b>

\$ in thousands

**Cost of Long-Term Debt**

Description	Amount	Coupon	Date of	Date of	Annual Cost
			Offering	Maturity	
Senior Notes, Series A	20,000,000	3.42%	1/17/2017	2/1/2027	\$ 684,000
Senior Notes, Series B	10,000,000	3.19%	9/29/2017	9/29/2027	\$ 319,000
Senior Notes, Series C	9,000,000	3.35%	6/19/2019	6/15/2029	\$ 301,500
Senior Notes, Series D	26,000,000	2.84%	10/1/2020	10/1/2040	\$ 738,400
	<b>65,000,000</b>				<b>\$ 2,042,900</b>

**Weighted Average Cost of Debt** 3.14%